A

PROJECT REPORT ON

“A STUDY OF FINANCIAL PLANNING OF SALARIED EMPLOYEE & STRATEGIES FOR TAX SAVING”

UNDERTAKEN AT

D.P.VORA & CO

IN PATRIAL FULLFILLMENTS OF

POST GRADUATE DIPLOMA IN FINANCE MANAGEMENT

MIT SCHOOL OF DISTANCE EDUCATION, PUNE

GUIDED BY

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CERTIFICATE

This is to certify that Mr. Brijesh Ketan Thakkar has completed the project report with us for his project report work on " **STUDY OF FINANCIAL PLANNING OF SALARIED EMPLOYEE & STRATEIGES FOR TAX SAVING** in the fulfillment for the completion his course with MITSDE on **POST GRADUATE DIPLOMA IN FINANCIAL MANAGEMENT (PDDFM)** as prescribed by **MIT School of Distance Education , Pune .**

This report is record of authentic work carried out by him with guidance by our relevant department from dated 24th -April-2024 to 24th June -2024 .

DATE :- 26-06-2024

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I want to specifically thanks the "MITSDE" institute for giving me the chance to complete this excellent project on the subject of " **A STUDY OF FINANCIAL PLANNING OF SALARIED EMPLOYEE & STRATEGIES FOR TAX SAVING** " which also enabled me to conduct extensive research and whether directly or indirectly. For their direct or indirect support, the teaching and non-teaching personnel of the “FINANCIAL MANGEMENT” faculty members deserve my sincere appreciation. I would want to take this opportunity to thank everyone who helped me with this PGDM project. I appreciate their aspirational advice, priceless constructive critique, and cordial counsel throughout the project. I genuinely appreciate them for providing their honest and insightful viewpoints on a range of project-related difficulties. I also want to express my gratitude to My Parents “**KETAN THAKKAR & DIPTI THAKKAR** And to all my friends **DINESH PRAYAG AND AMIT KANADE** who have supported me in creating this project. My parents have always been an inspiration to me, so last but not least,

THANYOU!!!!!

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Executive Summery

The project was done at D.P VORA & CO. under the guidance of Mrs Vora a chartered accountant by profession and proprietor of a D.P VORA & Co for period of 8 weeks starting from 24 April 2024 to 24th June 2024.

This project by title" A study on financial planning for salaried employee and strategies for tax savings". focuses on the following problem, taxes has been a major contributor to national income however collection of direct taxes is less when compared with collection of indirect taxes and in country of 130 crore people less than 6 crore people file income tax (according to data of AY 2018-19)

The study was conducted with objective of finding out the reason for the above stated problems and digs in to analyzing why is this problem with number of people paying income tax and why is its collection amount less when compared with indirect taxes, if there is loop holes in our tax system what are those loop holes and how can they be covered so that tax leakage can be stopped

The scope of study involves the area tax planning, tax avoidance, tax evasion, movement of back money, earning of money through illegal methods and hiding the income through this means, multiple sectors still dependent on cash based economy, changes in the rates of TDS, threshold limit of generating e-way bill for sales under GST so that the financial transactions can't be hidden and recommendation in alteration of tax slabs and taxing of sectors which are not being taxed.

The data primary data for this project was collected through questioner's method of 100 plus random individuals earning income and being worked under different sector, their income earning through different sources, who are of various age groups and living in different demographic conditions and has educational level. And secondary data is being collected from data provided by Central Board of Direct Taxes (CBDT), Official data provided by central government in its budget gazette Interviews, web articles and journals.

Analysis of the collected data (both primary and secondary data) is analysed explanatory and descriptive analysis and is being represented using percentages and graph as per requirement data representation.

Major findings of this were that very a smaller number of people pay taxes, majority of household depending on cash-based economy, generating of income from illegal and corrupted sources, few sectors not being taxed, tax avoidance and tax evasion, flow of black money, lack of proper accounting standards of income and expenses of individuals and business houses and rigid income tax payment procedure being the reason.

Suggestion of the study mainly focuses on taxing of non-tax taxed sectors, making changes in tax slabs and its rates, implementing rules and structure so that dependence on cash based income can be less and conclusion's would be that " The solution may be more people paying .

CHAPTER – 01

THEORETICAL BACKGROUND OF THE STUDY.

INTRODUCTION:

Taxes are considered to be the "cost of living in a society". Taxes are levied by the Governments to meet the common welfare expenditure of the society. There are two types of taxes - direct taxes and indirect taxes.

Direct Taxes:

If tax is levied directly on the income or wealth of a person, then, it is a direct tax. The person who pays the tax to the Government cannot recover it from somebody else i.e., the burden of a direct tax cannot be shifted. e.g., Income tax.

Indirect Taxes:

If tax is levied on the price of a good or service, then, it is an indirect tax e.g., Goods and Services Tax (GST) or Custom Duty. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.

<u>TAX STRUCTURE IN INDIA</u>

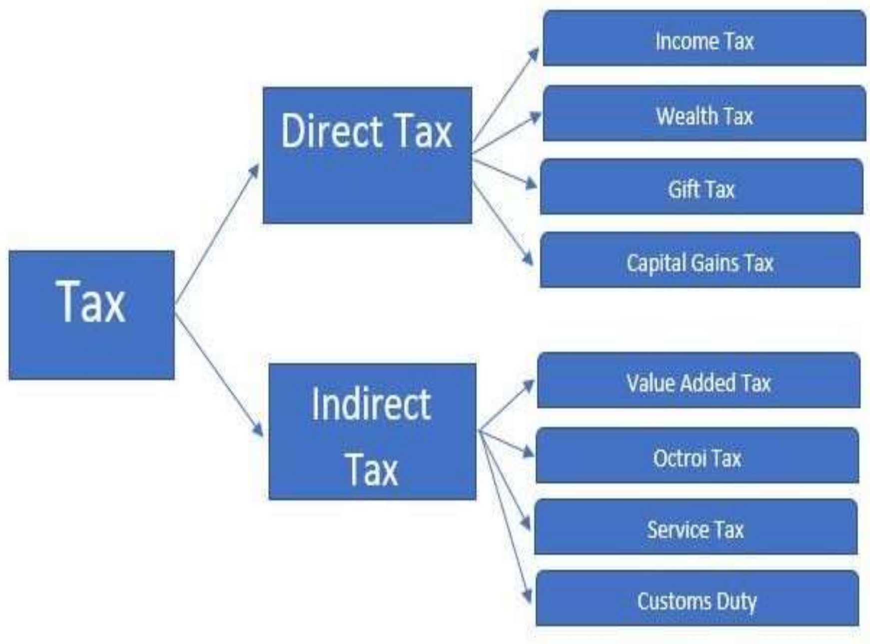


FIGURE: TAX STRUCTURE IN INDIA
GOOGLE LINK: https://apnagyaan.com/tax-structure-in-india/

DIRECT TAX:

A direct tax is one imposed upon an individual person or property (i.e., real and personal property, livestock, crops, wages, etc.) as distinct from a tax imposed upon a transaction. In this sense, indirect taxes such as a sales tax or a value added tax (VAT) are imposed only if and when a taxable transaction occurs. People have the freedom to engage in or refrain from such transactions; whereas a direct tax is imposed upon a person, typically in an unconditional manner, such as a poll-tax or head-tax, which is imposed on the basis of the person's very life or existence, or a property tax which is imposed upon the owner by virtue of ownership, rather than commercial use. Some commentators have argued that "a direct tax is one that cannot be shifted by the taxpayer to someone else".

Direct tax is supposed to be borne and paid by the same person. The person who pays the amount of direct tax does not recover all or part of the tax elsewhere. It is in this sense that direct taxation is opposed to indirect taxation. It is the notion of fiscal incidence which allows to analyse who ultimately, weights the burden of a tax, that determines whether the tax is direct or indirect. Direct taxation is generally declarative (established either by the person concerned or by a third party).

The unconditional, inexorable aspect of the direct tax was a paramount concern of people in the
18th century seeking to escape tyrannical forms of government and to safeguard individual liberty.

Definition:

A direct tax is a tax that a person or organization pays directly to the entity that imposed it. An individual taxpayer, for example, pays direct taxes to the government for various purposes, including income tax, real property tax, personal property tax, or taxes on assets.

KEY TAKEAWAYS

- A direct tax is paid by an individual or organization to the entity that levied the tax.
- Direct taxes include income taxes, property taxes, and taxes on assets.
- There are also indirect taxes, such as sales taxes, where a tax is levied on the seller but paid by the buyer.

Types of Direct Tax:

- Income tax
- Wealth tax
- Estate tax
- Corporate tax
    - Securities transaction tax
    - Dividend distribution tax
    - Fringe benefits tax
- Capital gain tax
- Gift tax

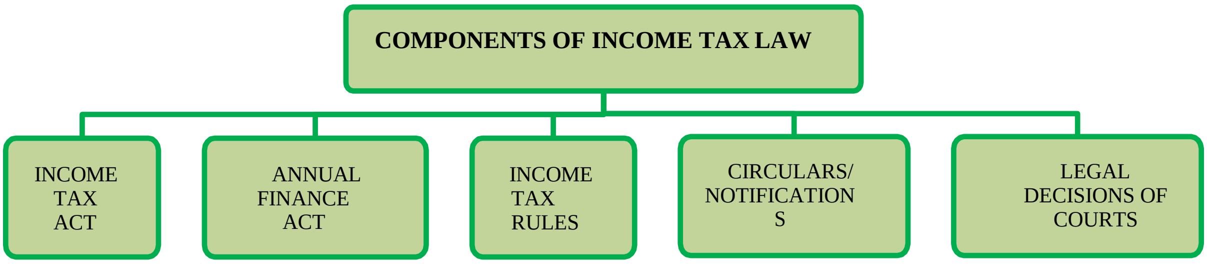
0.1 INCOME TAX:

Income tax is a direct tax that a government levies on the income of its citizens. The Income Tax Act, 1961, mandates that the central government collect this tax. The government can change the income slabs and tax rates every year in its Union Budget.

income does not only mean money earned in the form of salary. It also includes income from house property, profits from business, gains from profession (such as bonus), capital gains income, and 'income from other sources'. The government also often provides certain leeway such that various deductions are made from an individual's income before the tax to be levied is calculated.

1.1. Over view of income tax law in India:

Components of Income tax:



01. Income-tax Act, 1961:

The levy of income-tax in India is governed by the Income-tax Act, 1961. In this book we shall briefly refer to this as the Act.

- It extends to the whole of India.
- It came into force on 1st April, 1962.
- It contains sections 1 to 298 and schedules I to XIV.

❖ A section may have sub-sections or clauses and sub-clauses.

When each part of the section is independent of each other and one is not related with other, such parts are called a "Clause". "Sub section", on the other hand refers to such parts of a section where each part is related with other and all sub sections taken together completes the concept propounded in that section.

For Example,

- the clauses of section 2 define the meaning of terms used in the Income-tax Act, 1961. Clause (1A) defines “agricultural income”, clause (1B) defines “amalgamation” and so on. Each one of them is independent of other clause of the same section.
- Likewise, the clauses of section 10 contain the exemptions in respect of certain income, like clause (1) provides for exemption of agricultural income and clause (2) provides for exemption of share income of a member of a Hindu undivided family and so on.

- Section 5 defining the scope of total income has two sub- sections (1) and (2). Sub-section (1) defines the scope of total income of a resident and sub-section (2) defines the scope of total income of a non-resident. Each sub section is related with the other in the sense that only when one reads them all, one gets the complete idea related with scope of total income.

02. The Finance Act:

Every year, the Finance Minister of the Government of India introduces the Finance Bill in the Parliament’s Budget Session. When the Finance Bill is passed by both the houses of the Parliament and gets the assent of the President, it becomes the Finance Act. Amendments are made every year to the Income-tax Act, 1961 and other tax laws by the Finance Act.

The First Schedule to the Finance Act contains four parts which specify the rates of Tax :

Part I of the First Schedule to the Finance Act specifies the rates of tax applicable for the current Assessment Year. Accordingly, Part I of the First Schedule to the Finance Act, 2020 specifies the rates of tax for A.Y. 2020-21.

Part II specifies the rates at which tax is deductible at source for the current Financial Year. Accordingly, Part II of the First Schedule to the Finance Act, 2020 specifies the rates at which tax is deductible at source for F.Y. 2020-21

Part III gives the rates for calculating income-tax for deducting tax from income chargeable under the head “Salaries” and computation of advance tax.

Part IV gives the rules for computing net agricultural income.

03. Income-tax Rules, 1962:

The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT).

The CBDT is empowered to make rules for carrying out the purposes of the Act.

For the proper administration of the Income-tax Act, 1961, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962.

Rules also have sub-rules, provisos and Explanations. The proviso to a Rule/Sub-rule spells out the exception to the limits, conditions, guidelines, basis of valuation, as the case may be, spelt out in the Rule/Sub-rule. The Explanation gives clarification for the purposes of the Rule.

It is important to keep in mind that along with the Income-tax Act, 1961, these rules should also be studied.

04. Circulars and Notifications:

Circulars:

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 certain provisions of the Act. Circulars are issued for the guidance of the officers and/or assesses.

Notifications:

Notifications are issued by the Central Government to give effect to the provisions of the Act. The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications which are binding on both department and assesses.

05. Case Laws:

Case Laws refer to decision given by courts. The study of case laws is an important and unavoidable part of the study of Income-tax law. 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 assesses and the department and give decisions on various issues.

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. The decisions given by various High Courts will apply in the respective states in which such High Courts have jurisdiction.

1.2. Levy of income tax:

Income-tax is a tax levied on the total income of the previous year of every person [Section 4].

A person includes an individual, Hindu Undivided Family (HUF), Association of Persons (AOP), Body of Individuals (BOI), a firm, a company etc.

(1). Total Income and Tax Payable:

Income-tax is levied on an assesse's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961.

Let us go step by step to understand the procedure for computation of total income of an individual for the purpose of levy of income-tax -

Step-1. Determination of residential status:

The residential status of a person has to be determined to ascertain which income is to be included in computing the total income. The residential status as per the Income-tax Act, 1961 It can be classified as under:

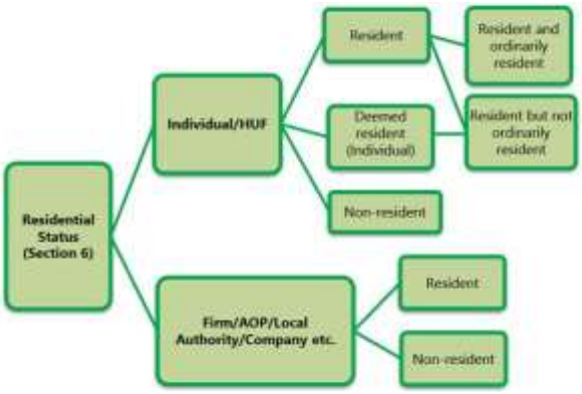


Figure: Residential Status

Google Link: https://edurev.in/studytube/Residence-Scope-of-Total-Income-Notes/a7457697-0735-45cc-a1bb-e4ab802a4122_t

In the case of an individual, the duration for which he is present in India determines his residential status. Based on the time spent by him, he may be -

(a) resident and ordinarily resident,

(b) resident but not ordinarily resident,

(c) non-resident.

The residential status of a person determines the taxability of the income. For e.g., income earned and received outside India will not be taxable in the hands of a non- resident but will be taxable in case of a resident and ordinarily resident.

The concept of deemed resident, introduced by the Finance Act, 2020, has been discussed in Chapter 2. A deemed resident is always a resident but not ordinarily resident in India.

Step-2. Classification of income under different heads:

A person may earn income from different sources. For example, a salaried person earns income by way of salary. He also gets interest from bank savings account/fixed deposit. Apart from this, if he has invested in shares, he would be getting dividend and when he sells these shares, he may earn profit on such sale. If he owns a residential property which he has let out, he would earn rental income.

Under the Income-tax Act, 1961, for computation of total income, all income of a tax payer are classified into five different heads of income. These are shown below –

Figure: Heads of Income
Google Link: https://ifda.in/ifda-courses/income-tax.php

There is a charging section under each head of income which defines the scope of income chargeable under that head. These heads of income exhaust all possible types of income that can accrue to or be received by the tax payer. Accordingly, income earned is classified as follows:

1. Salary, pension earned is taxable under the head "Salaries".
2. Rental income is taxable under the head "Income from house property".
3. Income derived from carrying on any business or profession is taxable under the head "Profits and gains from business or profession".
4. Profit from sale of a capital asset (like land) is taxable under the head "Capital Gains".
5. The fifth head of income is the residuary head. Income which is chargeable to tax but not taxable under the first four heads will be taxed under the head "Income from other sources".

The tax payer has to classify the income earned under the relevant head of income.

Step-3. Computation of income under each head:

Income is to be computed in accordance with the provisions governing a particular head of income.

Exemptions: There are certain incomes which are wholly exempt from income-tax e.g., agricultural income. These incomes have to be excluded and will not form part of Total Income.

Also, some incomes are partially exempt from income-tax e.g., House Rent Allowance, Education Allowance. These incomes are excluded only to the extent of the limits specified in the Act. The balance income over and above the prescribed exemption limits would enter computation of total income and have to be classified under the relevant head of income. For details, refer to Chapter 3: Incomes which do not form part of Total Income.

Deductions: There are deductions and allowances prescribed under each head of income. For example, while calculating income from house property, municipal taxes and interest on loan are allowed as deduction. Similarly, deductions and allowances are prescribed under other heads of income. These deductions etc. have to be considered before arriving at the net income chargeable under each head. For details, refer to Chapter 7: Deductions from Gross Total Income.

Step-4. Clubbing of income of spouse, minor child etc.:

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 Act, under which income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person who has diverted his income for the purpose of computing tax liability. For detailed discussion, refer to Chapter 5 : Income of other persons included in assessee's total income.

Step-5. Set-off or carry forward and set-off of losses:

An assessee may have different sources of income under the same head of income. He may have profit from one source and loss from the other. For instance, an assessee may have profit from his textile business and loss from his printing business. This loss can be set-off against the profits of textile business to arrive at the net income chargeable under the head "Profits and gains of business or profession".

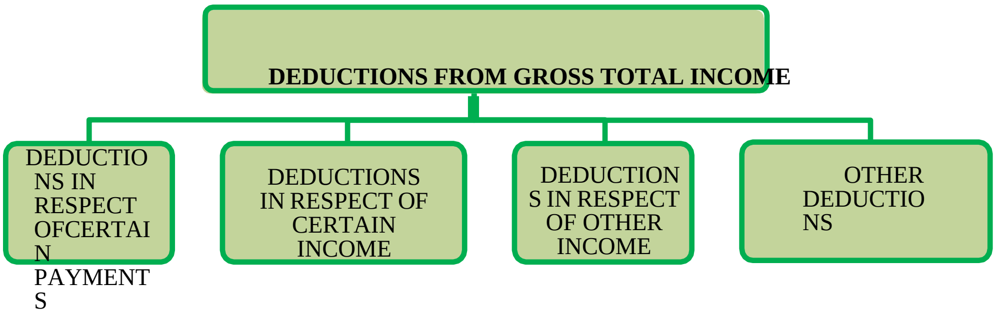
Similarly, an assessee can have loss under one head of income, say, Income from house property and profits under another heads of income, say, profits and gains of business or profession. There are provisions in the Income-tax Act, 1961 for allowing inter-head adjustment in certain cases.

However, there are also restrictions in certain cases, like business loss is not allowed to be set-off against salary income. Further, losses which cannot be set-off in the current year due to inadequacy of eligible profits can be carried forward for set-off in the subsequent years as per the provisions contained in the Act. Generally, brought forward losses under a particular head cannot be set-off against income under another head i.e., brought forward business loss cannot be set-off against income from house property of the current year. For detailed discussion, refer to Chapter 6: Aggregation of income, set-off and carry forward of losses.

Step-6. Computation of Gross Total Income: The final figures of income or loss under each head of income, after allowing the deductions, allowances, 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.

Step-7. Deductions from Gross Total Income:

There are deductions prescribed from Gross Total Income. These deductions are of three types:



<u>Deductions in respect of certain payments:</u>

1. Life Insurance Premium paid
2. Contribution to Provident Fund/ Pension Fund
3. Medical insurance premium paid
4. Payment of interest on loan taken for higher education
5. Payment of interest on loan taken for residential house
6. Payment of interest on loan taken for purchase of electric vehicle
7. Rent paid
8. Donation to certain funds, charitable institutions, etc.
9. Contributions to political parties

<u>Deductions in respect of certain income:</u>

1. Employment of new employees
2. Royalty income etc. of authors of certain books other than text books
3. Royalty on patents

<u>Deductions in respect of other income:</u>

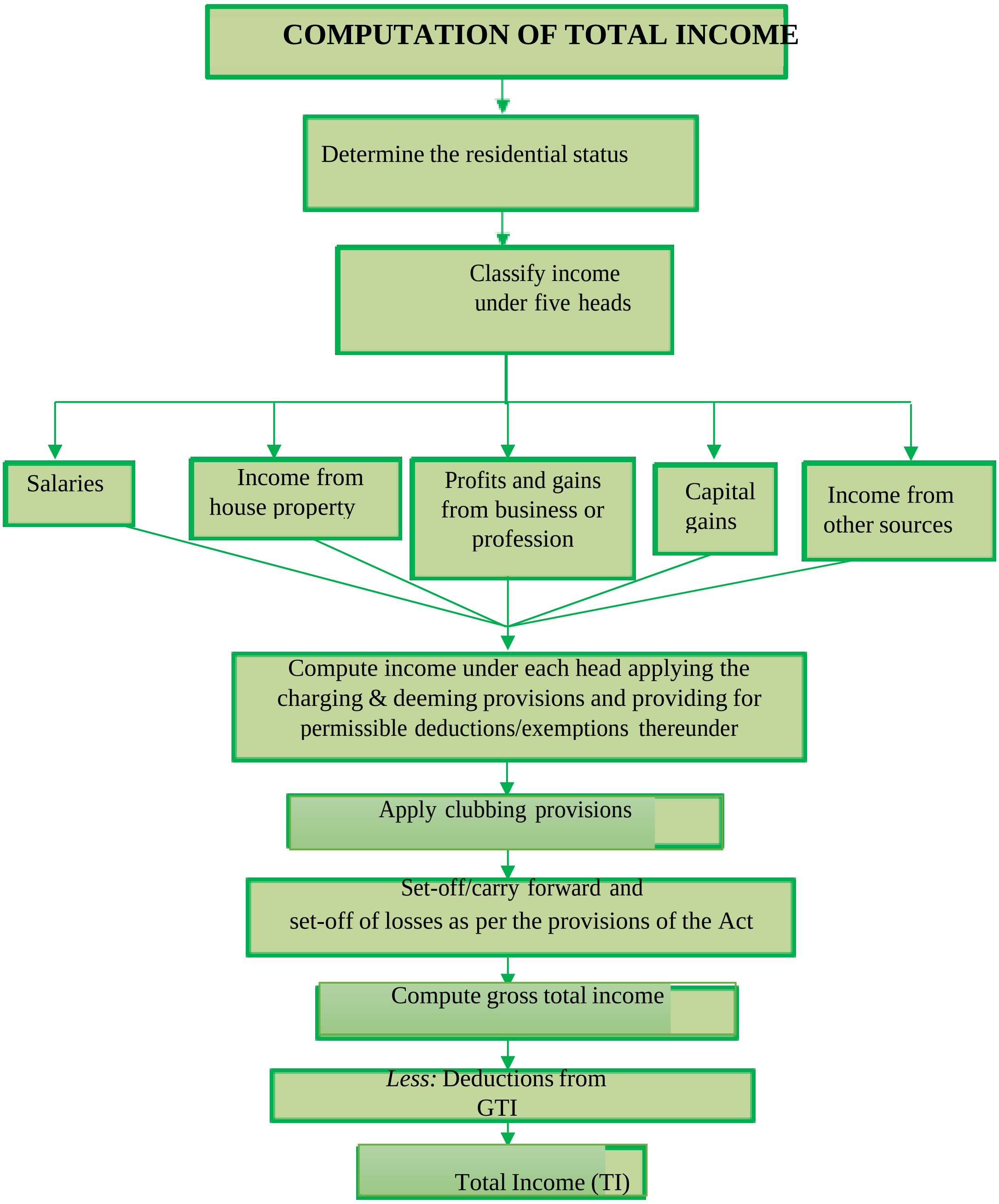
1. Interest on deposits in saving account
2. Interest on deposits in case of senior citizens

<u>Other deductions:</u>

Deduction in case of a person with disability

Step-8. Total income:

The income arrived at, after claiming the above deductions from the Gross Total Income is known as the Total Income. It should be rounded off to the nearest multiple of ` 10 as



As per section 288A. The process of computation of total income is shown hereunder –

Step-9. Application of the rates of tax on the total income:

The rates of tax for the different classes of assessees are prescribed by the Annual Finance Act.

For individuals, HUF etc., there is a slab rate and basic exemption limit. At present, the basic exemption limit is 2,50,000 for individuals. This means that no tax is payable by individuals with total income of up to 2,50,000.

Those individuals whose total income is more than 2,50,000 but less than

5,00,000 have to pay tax on their total income in excess of 2,50,000 @5%. However, resident individuals in this slab enjoy rebate of lower of 12,500 or tax payable under section 87A.

Total income between 5,00,000 and 10,00,000 attracts tax @20%. The highest rate is 30%, which is attracted in respect of income in excess of 10,00,000.

Step10. Surcharge / Rebate under section 87A:

Surcharge: Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax, where total income exceeds

50 lakhs. The rates of surcharge applicable for different slabs of total income are discussed later on in this chapter.

Rebate under section 87A: In order to provide tax relief to the individual tax payers who are in the 5% tax slab, section 87A provides a rebate from the tax payable by an assessee, being an individual resident in India, whose total income does not exceed **5,00,000**. The rebate shall be equal to the amount of income- tax payable on the total income for any assessment year or an amount of **12,500**, whichever is less.

Step-11. Health and education cess on income-tax:

The income-tax, as increased by the surcharge or as reduced by the rebate under section 87A, if applicable, is to be further increased by an additional surcharge called health and education cess on income-tax @4% of income-tax plus surcharge, if applicable.

Step-12. Advance tax and tax deducted at source:

Although the tax liability of an assessee is determined only at the end of the year, tax is required to be paid in advance in four installments on the basis of estimated income i.e., on or before 15^{th} June, 15^{th} September, 15^{th} December and 15^{th} March. However, residents opting for presumptive taxation scheme can pay advance tax in one installment on or before 15^{th} March instead of four installments. In certain cases, tax is required to be deducted at source from the income by the payer at the rates prescribed in the Income-tax Act, 1961 or the Annual Finance Act. Such deduction should be made either at the time of accrual or at the time of payment, as prescribed by the Act.

Step-13. Tax Payable/Tax Refundable:

After adjusting the advance tax and tax deducted at source, the assessee would arrive at the amount of net tax payable or refundable. Such amount should be rounded off to the nearest multiple of ` 10 as per section 288B.

The assessee has to pay the amount of tax payable (called self-assessment tax) on or before the due date of filing of the return. Similarly, if any refund is due, assessee will get the same after filing the return of income.

Return of Income

The Income-tax Act, 1961 contains provisions for filing of return of income. Return of income is the format in which the assessee furnishes information as to his total income and tax payable. The format for filing of returns by different assessees is notified by the CBDT. The particulars of income earned under different heads, gross total income, deductions from gross total income, total income and tax payable by the assessee are required to be furnished in the return of income. In short, a return of income is the declaration of income by the assessee in the prescribed format.

The Act has prescribed due dates for filing return of income in case of different assessees. Companies and firms have to mandatorily file their return of income before the due date. Other assessees are required to file a return of income subject to fulfilling of certain conditions.

2. IMPORTANT DEFINITIONS:

In order to understand the provisions of the Act, one must have a thorough knowledge of the meanings of certain key terms like ‘person’, ‘assessee’, ‘income’, etc. To understand the meanings of these terms we have to first check whether they are defined in the Act.

Terms defined in the Act: Section 2 gives definitions of the various terms and expressions used therein. If a particular definition is given in the Act itself, we have to be guided by that definition. For e.g. the term ‘perquisite’ has been defined under section 17(2) for the purpose of taxation of salaries.

Terms not defined under the Act: If a particular definition is not given in the Act, reference can be made to the General Clauses Act or dictionaries.

Students should note this point carefully because certain terms like “dividend”, “transfer”, etc. have been given a wider meaning in the Income-tax Act, 1961 then they are commonly understood. Some of the important terms defined under section 2 are given below:

2.1. Assessee [Section 2(7)]

“Assessee” means a person by whom any tax or any other sum of money is payable under this Act. In addition, it includes –

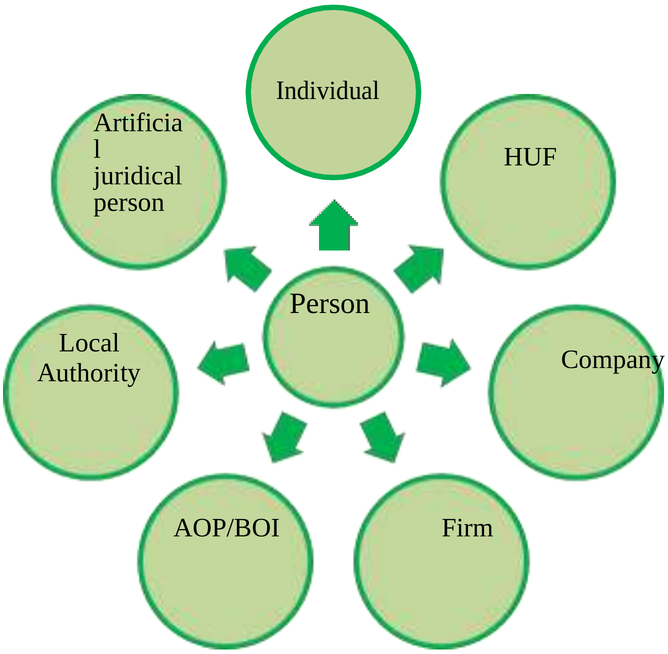
- Every person in respect of whom any proceeding under this Act has been taken for the assessment of his income; or
- The income of any other person in respect of which he is assessable; or
- The loss sustained by him or by such other person; or
- The amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of this Act.
- Every person who is deemed to be an assessee-in-default under any provision of this Act.

2.2. Assessment [Section 2(8)]

This is the procedure by which the income of an assessee is determined. It may be by way of a normal assessment or by way of reassessment of an income previously assessed. Assessment Procedure will be dealt with in detail at the Final level.

2.3. Person [Section 2(31)]

The definition of 'assessee' leads us to the definition of 'person' as the former is closely connected with the latter. The term 'person' is important from another point of view also *viz.*, the charge of income-tax is on every 'person'.



We may briefly consider some of the above seven categories of assessees each of which constitute a separate unit of assessment or a separate tax entity.

(i) Individual:

The term 'individual' means only a natural person, *i.e.*, a human being.

- It includes both males and females.
- It also includes a minor or a person of unsound mind. But the assessment in such a case may be made on the guardian or manager of the minor or lunatic who is entitled to receive his income. In the case of deceased person, assessment would be made on the legal representative.

(ii) HUF:

Under the Income-tax Act, 1961, a Hindu undivided family (HUF) is treated as a separate entity for the purpose of assessment. It is included in the definition of the term “person” under section 2(31). The levy of income-tax is on “every person”. Therefore, income-tax is payable by a HUF.

"Hindu undivided family" has not been defined under the Income-tax Act. The expression is, however, defined under the Hindu Law as a family, which consists of all males lineally descended from a common ancestor and includes their wives and daughters.

Some members of the HUF are called co-partners. They are related to each other and to the head of the family. HUF may contain many members, but members within four degrees including the head of the family (Karta) are called co-partners. A Hindu Coparcenary includes those persons who acquire an interest in joint family property by birth. Earlier, only male descendants were considered as coparceners. With effect from 6th September, 2005, daughters have also been accorded coparcenary status. It may be noted that only the coparceners have a right to partition.

A daughter of coparcener by birth shall become a coparcener in her own right in the same manner as the son. Being a coparcener, she can claim partition of assets of the family. The rights of a daughter in coparcenary property are equal to that of a son. However, other female members of the family, for example, wife or daughter- in-law of a coparcener are not eligible for such coparcenary rights.

The relation of a HUF does not arise from a contract but arises from status. There need not be more than one male member or one female co-partner i.e. 6th September, 2005 to form a HUF. The Income-tax Act, 1961 also does not indicate that a HUF as an assessable entity must consist of at least two male members or two co-partners.

(iii) Company [Section 2(17)]:

For all purposes of the Act, the term ‘Company’, has a much wider connotation than that under the Companies Act. Under the Act, the expression ‘Company’ means:

- any Indian company as defined in section 2(26); or
- anybody corporate incorporated by or under the laws of a country outside India, i.e., any foreign company; or
- any institution, association or body which is assessable or was assessed as a company for any assessment year under the Indian Income-tax Act, 1922 or for any assessment year commencing on or before 1.4.1970 under the present Act; or
- any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by a general or special order of the CBDT to be a company for such assessment years as may be specified in the CBDT’s order.

Classes of Companies:

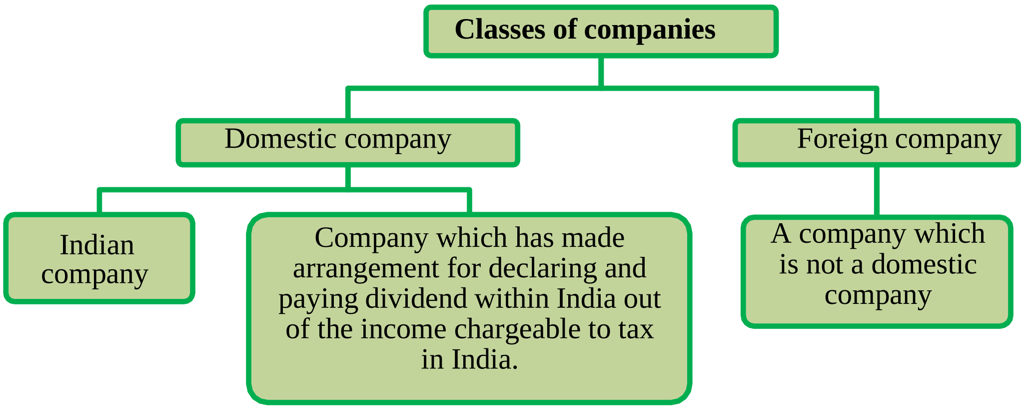
1. Domestic company [Section 2(22A)] : It means an Indian company or any other company which, in respect of its income liable to income-tax, has made the prescribed arrangements for the declaration and payment of dividends (including dividends on preference shares) within India, payable out of such income.

Indian company [Section 2(26)]: Two conditions should be satisfied so that a company can be regarded as an Indian company -

- the company should have been formed and registered under the Companies Act, 1956 and
- the registered office or the principal office of the company should be in India.

3. Foreign company [Section 2(23A)]:

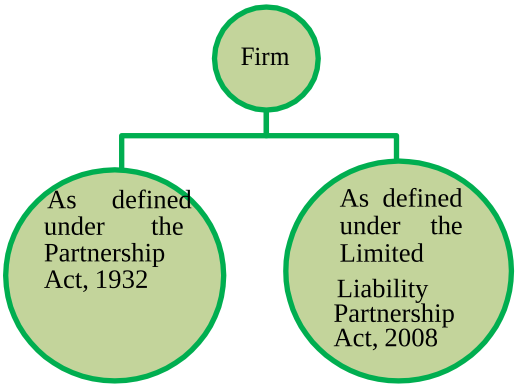
Foreign company means a company which is not a domestic company:-



(iv) Firm [Section 2(23)]:

The terms 'firm', 'partner' and 'partnership' have the same meanings as assigned to them in the Indian Partnership Act, 1932. In addition, the definitions also include the terms limited liability partnership and a partner of limited liability partnership as they have been defined in the Limited Liability Partnership Act, 2008.

However, for income-tax purposes a minor admitted to the benefits of an existing partnership would also be treated as partner.



(v) Association of Persons (AOP):

When persons combine together for promotion of joint enterprise they are assessable as an AOP, if they do not in law constitute a partnership. In order to constitute an association, persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly. Co-heirs, co-legatees or co-donees joining together for a common purpose or action would be chargeable as an AOP. For e.g., Mr. Yash, AB & Co. (Firm) and X (P) Ltd. join together to carry on construction activity otherwise than as a partnership firm, such an association will be recognized as an association of persons.

(vi) Body of Individuals (BOI):

It denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co-executors or co-trustees are assessable as a BOI as their title and interest are indivisible. Income-tax shall not be payable by an assessee in respect of the receipt of share of income by him from BOI and on which the tax has already been paid by such BOI. For e.g., mutual trade associations, members club, etc.

Section 2(31) further explains that an association of persons/body of individuals or a local authority or an artificial juridical person shall be treated as a person, whether or not it was formed with the object of deriving income, profits or gains. Accordingly, even if such entities have been formed not for earning any income/ profit still they are "person" for the purpose of the Act and are covered by the provisions of the Act.

Difference between AOP and BOI:

In case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

(vii) Local Authority:

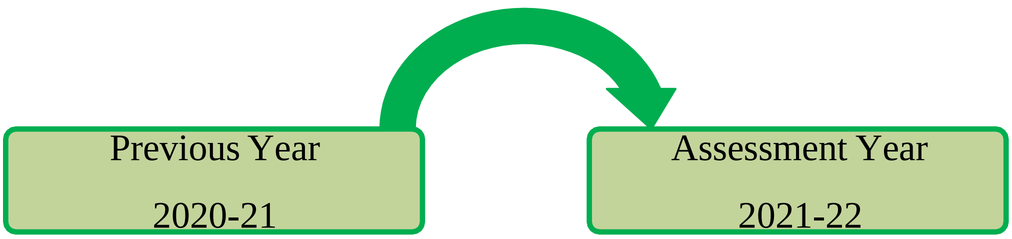
The term means a municipal committee, district board, and body of port commissioners or other authority legally entitled to or entrusted by the Government with the control or management of a municipal or local fund.

A local authority is taxable in respect of that part of its income which arises from any business carried on by it in so far as that income does not arise from the supply of a commodity or service within its own jurisdictional area. However, income arising from the supply of water and electricity even outside the local authority's own jurisdictional area is exempt from tax.

(viii) Artificial Juridical Persons:

Artificial Juridical Persons are the entities which are not natural persons but are separate entities in the eyes of law. This is a residual category could cover all artificial persons with a juristic personality not falling under any other category of persons. Deities, Bar Council, Universities are some important examples of Artificial Juridical Persons.

4. PREVIOUS YEAR AND ASSESSMENT YEAR:



3.1. Assessment year:

The term has been defined under section 2(9). This means a period of 12 months commencing on 1st April every year. The year in which income is earned is the previous year and such income is taxable in the immediately following year which is the assessment year. Income earned in the previous year 2020-21 is taxable in the assessment year 2021-22.

Assessment year always starts from 1st April and it is always a period of 12 months.

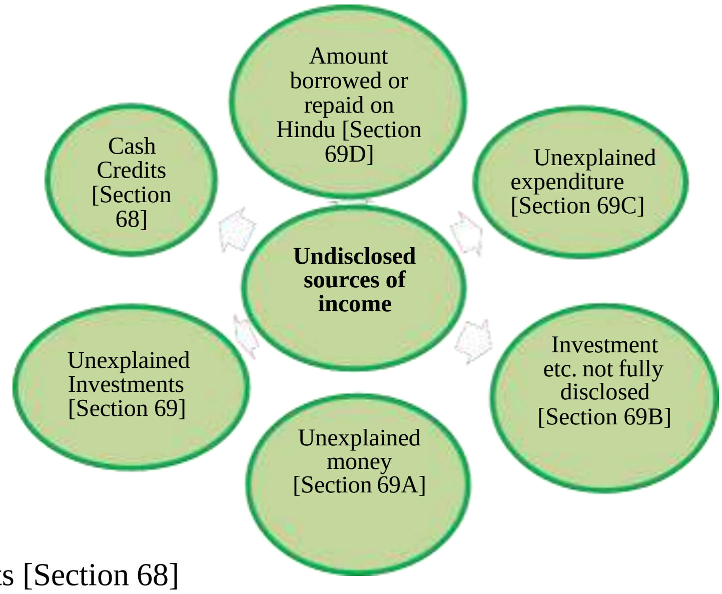
3.2. Previous year:

The term has been defined under section 3. It means the financial year immediately preceding the assessment year. As mentioned earlier, the income earned during the previous year is taxable in the assessment year.

Business or profession newly set up during the financial year - In such a case, the previous year shall be the period beginning on the date of setting up of the business or profession and ending with 31st March of the said financial year.

If a source of income comes into existence in the said financial year, then, the previous year will commence from the date on which the source of income newly comes into existence and will end with 31st March of the financial year.

3.3. Undisclosed sources of income:



(i) Cash Credits [Section 68]

Where any sum is found credited in the books of the assessee and the assesse offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the sum so credited may be charged as income of the assessee of that previous year.

(ii) Unexplained Investments [Section 69]

Where in the financial year immediately preceding the assessment year, the assessee has made investments which are not recorded in the books of account and the assessee offers no explanation about the nature and the source of investments or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the value of the investments are taxed as deemed income of the assessee of such financial year.

(iii) Unexplained money etc. [Section 69A]

Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the books of account and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the money and the value of bullion etc. may be deemed to be the income of the assessee for such financial year.

(iv) Amount of investments etc., not fully disclosed in the books of account [Section 69B]

Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewelry or other valuable article and the Assessing Officer finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the books of account maintained by the assessee and he offers no explanation for the difference or the explanation offered is unsatisfactory in the opinion of the Assessing Officer, such excess may be deemed to be the income of the assessee for such financial year.

(v) Unexplained expenditure [Section 69C]

Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory in the opinion of the Assessing Officer, Assessing Officer can treat such unexplained expenditure as the income of the assessee for such financial year. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

(vi) Amount borrowed or repaid on Hindu [Section 69D]

Where any amount is borrowed on a hindu or any amount due thereon is repaid other than through an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the previous year in which the amount was borrowed or repaid.

❖ **Section 2(24) of the Act gives a statutory definition of income. At present, the following items of receipts are specifically included in income:**

1. Profits and gains.
2. Dividends.
3. Voluntary contributions received by a trust or institution created wholly or partly for charitable or religious purposes or by certain research association or universities and other educational institutions or hospitals and other medical institutions or an electoral trust.
4. The value of any perquisite or profit in lieu of salary taxable under section 17(2)/ (3).
5. Any special allowance or benefit, other than the perquisite included above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit.
6. Any allowance granted to the assessee to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living.
7. The value of any benefit or perquisite whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company or by a relative of the director or such person and any sum paid by any such company in respect of any obligation which, but for such payment would have been payable by the director or other person aforesaid.
8. The value of any benefit or perquisite, whether convertible into money or not, which is obtained by any representative assessee or by any beneficiary and any amount paid by

the representative assessee for the benefit of the beneficiary which the beneficiary would have ordinarily been required to pay.

9. Deemed profits chargeable to tax under section 41 or section [59].
10. Profits and gains of business or profession chargeable to tax under section [28].
11. Any capital gains chargeable under section 45.
12. The profits and gains of any insurance business carried on by Mutual Insurance Company or by a cooperative society[4] or any surplus taken to be such profits and gains by virtue of the provisions contained in the First Schedule to the Act.
13. The profits and gains of any banking business (including providing credit facilities) carried on by a co-operative society with its members.
14. Any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling, or betting of any form or nature whatsoever. For this purpose.
15. "Lottery" includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called;
16. "Card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.
17. Any sum received by the assessee from his employees as contributions to any provident fund (PF) or superannuation fund or Employees State Insurance Fund (ESI) or any other fund for the welfare of such employees.
18. Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy will constitute income.
19. "Keyman insurance policy" means a life insurance policy taken by a person on the life of another person where the latter is or was an employee of former or is or was connected in any manner whatsoever with the former's business.
20. Any sum referred to in section 28(v.a). Thus, any sum, whether received or receivable in cash or kind, under an agreement for not carrying out any activity in relation to any business or profession; or not sharing any know- how, patent, copy right, trade-mark, licence, franchise, or any other business or commercial right of a similar nature, or information or technique likely to assist in the manufacture or processing of goods or provision of services, shall be chargeable to income tax under the head "profits and gains of business or profession".
21. Fair market value of inventory which is converted into, or treated as a capital asset [Section 28(iv.a)].
22. Any consideration received for issue of shares as exceeds the fair market value of the shares [Section 56(2) (vii.b)].
23. Any sum of money received as advance, if such sum is forfeited consequent to failure of negotiation for transfer of a capital asset [Section 56(2) (ix)].
24. Any sum of money or value of property received without consideration or for inadequate consideration by any person [Section 56(2) (x)].
25. Any compensation or other payment, due to or received by any person, in connection with termination of his employment or the modification of the term and conditions relating thereto [Section 56(2) (xi)].

26. Assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement, by whatever name called, by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee is included in the definition of income.

Concept of Income under the Income-tax Act, 1961

a) Regular receipt vis-a-vis casual receipt:

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, 1961, even certain casual receipts which do not arise regularly are treated as income for tax purposes e.g. Winnings from lotteries, crossword puzzles.

b) Revenue receipt vis-a-vis Capital receipt:

Income normally refers to revenue receipts. Capital receipts are generally not included within the scope of income in general parlance. However, the Income-tax Act, 1961 has specifically included certain capital receipts within the definition of income e.g., Capital gains i.e., gains on sale of a capital assets like land.

c) Net receipt vis-a-vis Gross receipt:

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 is prescribed under the Income-tax Act, 1961. Income from certain eligible businesses/ professions is also determined on presumptive basis i.e., as a certain percentage of gross receipts. [We will discuss in detail in Unit 3 of Chapter 4: Profits and gains of business or profession].

d) Due basis vis-a-vis receipt basis:

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. Some receipts are taxable only on receipt basis, like, income by way of interest received on compensation or enhanced compensation.

Concept of revenue and capital receipts:

Students should carefully study the various items of receipts included in the definition of income. Some of them like capital gains are not revenue receipts. However, since they have been included in the definition, they are chargeable as income under the Act. The concept of revenue and capital receipts is discussed hereunder:-

The Act contemplates a levy of tax on income and not on capital and hence it is very essential to distinguish between capital and revenue receipts. Capital receipts cannot be taxed, unless they fall within the scope of the definition of "income" and so the distinction between capital and revenue receipts is material for tax purposes.

Certain capital receipts which have been specifically included in the definition of income are compensation for modification or termination of services, income by way of capital gains etc.

It is not possible to lay down any single test as infallible or any single criterion as decisive, final and universal in application to determine whether a particular receipt is capital or revenue in nature. Hence, the capital or revenue nature of the receipt must be determined with reference to the facts and circumstances of each case.

Criteria for determining whether a receipt is capital or revenue in nature:

The following are some of the important criteria which may be applied to distinguish between capital and revenue receipts.

a. Fixed capital or Circulating capital:

A receipt referable to fixed capital would be a capital receipt whereas a receipt referable to circulating capital would be a revenue receipt. The former is not taxable while the latter is taxable. Tangible and intangible assets which the owner keeps in his possession for making profits are in the nature of fixed capital. The circulating capital is one which is turned over and yields income or loss in the process.

b. Income from transfer of capital asset or trading asset:

Profits arising from the sale of a capital asset are chargeable to tax as capital gains under section 45 whereas profits arising from the sale of a trading asset being of revenue nature are taxable as income from business under section 28 provided that the sale is in the regular course of assessee's business or the transaction constitutes an adventure in the nature of trade.

Capital Receipts vis-a-vis Revenue Receipts: Tests to be applied

a. Transaction entered into the course of business:

Profits arising from transactions which are entered into in the course of the business regularly carried on by the assessee, or are incidental to, or associated with the business of the assessee would be revenue receipts chargeable to tax.

b. Profit arising from sale of shares and securities:

In the case of profit arising from the sale of shares and securities, the nature of the profit has to be ascertained from the motive, intention or purpose with which they were bought. If the shares were acquired as an investor or with a view to acquiring a controlling interest or for obtaining a managing or selling agency or a directorship, the profit or loss on their sale would be of a capital nature; but if the shares were acquired in the ordinary course of business as a dealer in shares, it would constitute his stock-in-trade. If the shares were acquired with speculative motive, the profit or loss (although of a revenue nature) would have to be dealt with separately from the profit or loss of other businesses.

c. A single transaction - Can it constitute business?

Even a single transaction may constitute a business or an adventure in the nature of trade even if it is outside the normal course of the assessee's business. Repetition of such transactions is not necessary. Thus, a bulk purchase followed by a bulk sale or a series of retail sales or bulk sale followed by a series of retail purchases would constitute an adventure in the nature of trade and consequently, the income arising there from would be taxable.

d. **Liquidated damages:**

Receipt of liquidated damages directly and intimately linked with the procurement of a capital asset, which lead to delay in coming into existence of the profit-making apparatus, is a capital receipt. The amount received by the assessee towards compensation for sterilization of the profit earning source is not in the ordinary course of business. Hence, it is a capital receipt in the hands of the assessee.

e. **Compensation on termination of agency:**

Where an assessee receives compensation on termination of the agency business being the only source of income, the receipt is of capital nature, but taxable under section 28(ii) (c). However, where the assessee has a number of agencies and one of them is terminated and compensation is received therefor, the receipt would be of a revenue nature since taking up an agency and exploiting the same for earning income is in the ordinary course of business.

f. **Gifts:**

Normally, gifts constitute a capital receipt in the hands of the recipient. However, certain gifts are brought within the purview of income-tax, for example, receipt of property without consideration is brought to tax under section 56(2) (x).
For example, any sum of money or value of property received without consideration or for inadequate consideration by any person, other than a relative, is chargeable under the head "Income from Other Sources".

CHARGE OF INCOME TAX:

Section 4 of the Income-tax Act, 1961 is the charging section which provides that:

- Tax shall be charged at the rates prescribed for the year by the Annual Finance Act or the Income-tax Act, 1961 or both.
- The charge is on every person specified under section 2(31);
- Tax is chargeable on the total income earned during the previous year and not the assessment year. (There are certain exceptions provided by sections 172, 174, 174A, 175 and 176);
- Tax shall be levied in accordance with and subject to the various provisions contained in the Act.

This section is the back bone of the law of income-tax in so far as it serves as the most operative provision of the Act. The tax liability of a person springs from this section.

Rates of Tax:

- Income-tax is to be charged at the rates fixed for the year by the Annual Finance Act.
- Section 2 of the Finance Act, 2020 read with Part I of the First Schedule to the Finance Act, 2020, seeks to specify the rates at which income-tax is to be levied on income chargeable to tax for the assessment year 2020-2021.
- Part II lays down the rate at which tax is to be deducted at source during the financial year 2020-21 from income subject to such deduction under the Income- tax Act, 1961.

- Part III lays down the rates for charging income-tax in certain cases, rates for deducting income-tax from income chargeable under the head "salaries" and the rates for computing advance tax for the financial year 2020-21.
- Part III of the First Schedule to the Finance Act, 2020 will become Part I of the First Schedule to the Finance Act, 2021 and so on.

Types of Income Tax Returns:

(i) ITR-1:

Applicable to: Resident Individual having total income upto Rs. 50 Lakh and where the income includes:-

1. Salary/Pension/Family Pension (excluding claim of deduction u/s 57)

2. Income from only one House property (excluding brought forward loss or loss to be carried forward on HP)

3. Income from other sources (excluding winning from lottery & race horses and excluding claim of loss under this head)

4. Agriculture income upto Rs. 5,000/-

5. Income from another person like spouse, minor child etc to be clubbed to his income.

(ii) ITR-2:

Applicable to: An Individual or a HUF(see note):-

(A) Not having income from Business or Profession,

(B) Not eligible to file ITR-1 and whose total income includes:

I. Income from Salary/Pension;

II. Income from House Property;

III. Income from Other Sources including Winnings from Lottery and Income from Race Horses

IV. Income from Capital Gains;

V. Foreign Assets/Foreign income

VI. Agricultural income more than Rs.5,000/.-

VII. Income of another person like spouse, child, etc. to be clubbed with his income where such income falls in any of the above categories.

(iii) ITR-3:

Applicable to: An Individual or a HUF having income from business/ profession, House Property, Salary/Pension and Income from Other Sources.

(iv) ITR-4:

Applicable to a resident or a HUF or a Firm other than LLP (see note) declaring presumptive income from business or professions as stated u/s 44AD, 44ADA & 44AE of the Income Tax Act (excluding speculative business).

44AD – A resident Individual/HUF/Firm (excluding LLP) having business (excluding agency and commission / brokerage business) turnover/gross receipt not exceeding Rs. 2 crores and declaring profit @ 8% of total receipt (6% in case of digital receipt and receipt through a/c payee mode) without maintaining proper books of a/c. 44ADA – A resident assessee engaged in legal, medical, engineering, architecture, accountancy, technical consultancy, interior decorator or other notified profession having gross receipt not exceeding Rs. 50 lakh and declaring 50% or more of gross receipt as income

44AE – An assessee deriving income from business of plying, hiring or leasing goods carriage (not more than 10 goods carriage at any time during the year including carriage taken on hire purchase, lease or instalments) and declaring presumptive income of Rs. 7,500/- per month or part of a month for each of the goods carriage/vehicle.

But ITR-4 cannot be filed by:

(a) Non Resident Firm

(b) HUF which is not ordinarily Resident

(c) Residents being/having

(d) Director of a company

(e) Total income exceeding Rs.50 lakhs

(f) More than one house property

(h) Foreign income/asset signing authority in a/c outside India

(i) Brought forward loss or loss to be carried forward under any head of income

(v) ITR-5:

Applicable to: A person being a firm, LLPs, AOP, BOI, (see note) Artificial Juridical Person referred to in section 2(31)(vii), cooperative society and local authority, excluding a person who is required to file the return of income u/s 139(4A) or 139(4B) or 139(4C) or 139(4D).

(vi) ITR-6:

Applicable to: Company not claiming exemptions from income tax u/s.11 or being Charitable Institutions which are required to file in ITR-7.

(vii) ITR-7:

Applicable to: All Persons including companies who required to furnish return u/s 139 (4A) or 139 (4B) or 139 (4C) or 1 39(4D) or 139 (4E) or 139 (4F).

<u>Income tax slab for the assessment year 2020-21</u>

1) Tax slab for individual citizen for A.Y 2020-21 (Resident, Resident ordinary resident, Resident non-ordinary resident whose age is less than 60years)

Taxable Income	Tax Rate(Existing Scheme)	Tax Rate (Existing Scheme)
Up to Rs.2,50,000	NILL	NILL
Rs. 2,50,001 to Rs. 5,00,000	5%	5%
Rs.5,00,001 to Rs.7,50,000	20%	10%
Rs. 7,50,001 to Rs. 10,00,000	20%	15%
Rs.10,00,001 to Rs.12,50,000	30%	20%
Above Rs.15,00,000	30%	30%

2) Tax slab for individual for A.Y 2020-21 senior citizen(Resident, Resident ordinary resident, Resident non ordinary resident whose age is more than 60 yearsandlessthan80 years)

Taxable Income	Tax Rate(Existing Scheme)	Tax Rate(Existing Scheme)
Up to Rs.2,50,000	NILL	NILL
Rs. 2,50,001 to Rs. 3,00,0 00	NILL	5%
Rs.3,00,001 to Rs.5,00,000	5%	5%
Rs. 5,00,001 to Rs. 7,50,0	20%	10%
Rs.7,50,001 to Rs.10,00,000	20%	15%

Rs. 10,00,001 to Rs. 12,50,000	30%	20%
Rs.12,50,001 to Rs.15,00,000	30%	25%
Above Rs. 15,00,000	30%	30%

3) Tax slab for individual for A.Y 2020-21 senior citizen(Resident, Resident ordinary resident, Resident non ordinary resident whose age is more than 60 years and less than 80 years)

Taxable Income	Tax Rate(Existing scheme)	Tax Rate(Existing Scheme)
Up to Rs250000	NILL	NILL
Rs250001 to Rs 500000	NILL	5%
Rs500001 to Rs 750000	20%	10%
Rs750001 to Rs 1000000	20%	15%
Rs1000001 to Rs 1250000	30%	20
Rs1250001 to Rs 1500000	30%	25%
Above Rs 1500000	30%	30%

Surcharge:

3.4. 10% of income tax where total income exceeds Rs50 lakh
3.5. 15% of income tax where total income exceeds Rs1crore
3.6. 25% of income tax where total income exceeds Rs2crore
3.7. 37% of income tax where total income exceeds Rs5crore

Heads of Income

As per section 14 ofthe IT act 1961 income to the person can be computed under the following five heads. And they are:

1) Income from Salary
2) Income from House Property
3) Income from Business/Profession
4) Income from Capital Gains
5) Income from Other Sources

1. Income from Salaries:

An Income can be taxed under head Salaries if there is a relationship of an employer and employee between the payer and the payee. If this relationship does not exist, then the income would not be deemed to be income from salary.

If there is no element of employer-employee relationship, the income shall be not assessable under this head of income.

2. Income from House Property:

Tax on Income from House Property is the tax on rental income which is being earned from the House Property. However, in case the property is not being rented out, tax would be levied on the expected rent that would have been received if this property was rented out.

Income from House Property is perhaps the only income that is charged to tax on a notional basis. Tax under this head does not only include Income from letting out of House Property but also includes Income from letting out of Commercial Properties and all types of properties. Various Deductions like Standard Deduction, Deduction for Municipal Taxes paid and Deduction for Interest on Home Loan is also allowed under this head of income.

TDS on Rent @ 10% is also to be deducted in case the value of rent is more than a specified limit.

3. Profits and Gains from Business or Profession:

Any income earned from any trade/commerce/manufacture/profession shall be chargeable under this head of income after deducting specified expenses.

4. Income from Capital Gains:

Any profits or gains arising from the transfer of a capital asset effected in the financial year shall be chargeable to Income Tax under the head ‘Capital Gains’ and shall be deemed to be the income of the year in which the transfer took place unless such capital gain is exempt under section 54, 54B, 54D, 54EC, 54ED, 54F, 54G or 54GA.

5. Income from Other Sources:

Any Income which is not chargeable to tax under the above mentioned 4 heads of income shall be chargeable under this head of income provided that income is not exempt from the computation of total income.

CHAPTER-02

INDUSTRY PROFILE AND COMPANY PROFILE.

Industry trends:

The profession of Chartered Accountant's has been playing a pivotal role in various sectors contributing to the economic growth of the nation. From the traditional core areas of assurance to the modern avatar of a business solution provider, a Chartered Accountant plays a vital role linking different stake holders in the spectrum of the fastest growing Indian economy. Accounting and reporting; direct and indirect taxation; management consultancy are the most common areas in which Chartered Accountant's plays dominant lead roles in the policy formulation, implementation and advisory functions. All these areas are poised for drastic changes calling for re-orientation of knowledge and demanding transformation of the understanding and approach in these areas of practice. Technology is assuming a predominant role in many things the profession does and technological tools are evolving to improve the operational efficiency of the professionals.

At the macro level, one cannot fail to capture the fact that the decade ahead from now would be a promising period for India as a nation and the role of the profession would assume an altogether different magnitude and significance from what it was in the past. There would be resurgence in the overall economic activity and buoyancy in many sectors. As accounting and finance professionals, Chartered Accountants both in Industry and practice, would have a pivotal role to play in multiple capacities to promote the prosperity of the business houses and thereby facilitate the economic growth of the country.

Company promoters:

Since R.S. Bhutada & Co is a sole proprietorship, it is solely owned and managed by Mrs. Rajashri , the decision taking and management regarding the company is taken by her only.

Vision:

Grow globally by partnering with clients as key enablers in their growth by consistently delivering value.

Mission:

Excellence in service, to not just meet but exceed client expectations consistently by imbibing Teamwork, Professionalism, Personalized Service & Specialization.

Quality Policy:

R.S. Bhutada & Co has been very strict with respect to their quality of services which is given to the clients. Accuracy in work is been given the at most importance along with filling the delivery of working within the promised time, a multiple level of checking happens with regards to working before it's been submitted to clients and government authorities. Clients are being guided by domain knowledge experts when and were ever regarding the legal aspect of the client's businesses.

Organization Structure:

As many proprietorship business R.S. Bhutada & Co is one person centric with staff being in very small number it has been not difficult to take decisions and give orders with regards to the organizations day-to-day operations. And all the staff here in the organizations work according to a planned procedure.

Product/Services Profile:

R.S. Bhutada & Co is into management consultancy, tax consultancy, accounting services, statutory compliance consulting, secretarial services etc. R.S. Bhutada & Co's clients include business institutions across various sectors (including Trading, Manufacturing, Information Technology, Consulting, F&B, etc.) self-occupied professionals like doctors, engineers, lawyers etc, Builders, Societies and Resident Welfare Associations, as well as a large pool of salaried individuals, both, in India and overseas. Beside this R.S. Bhutada & Co also providing domain consulting to a large IT firm to improve and enhance capability of automated accounting solution designed specifically for resident welfare associations.

Areas of operation:

R.S. Bhutada & Co being a charted accountant firm is bound to operate with in its statutory limits and it operates in the field of legal and statutory advises, accounting and tax consultation, payroll management, advises to software and app (relating to taxes and accounting) developers, document verification with regards to purchases and contracting.

Future Growth and Prospects:

R.S. Bhutada & Co is looking for a suitable opportunity to grow its market by partnering with a firm which is similar to its kind and change from proprietorship business to partnership business. And it also looking to other expand its operations to another field like book keeping, payroll management and consultancy service.

About the Proprietor:

Mrs Rajashri Bhutada, who is the Proprietor of the Firm, is a Commerce (Hons.) graduate, who completed his CA in January 2002. Mrs Rajashri became fellow member of the ICAI in the year 2002.

She is also providing domain consulting to a IT firm to improve and enhance capability of automated accounting solution designed specifically for resident welfare associations.

Chapter-03

Research Methodology

Literature Review:

1) The Trends and Responsiveness of Personal Income Tax in India by Ankita Gupta:

In the second part of article the research explains about personal income tax and their elasticity. Income of public bodies/ national income's responsive by characterized by a good tax system, in the process of developing economy taxation policies plays an important role. The article attempts to find the responsiveness of individual income tax with regards to national income including agricultural GDP, GDP at factor cost.

Income tax in India is mainly being paid by 3 types of assessee individuals, HUF's, unregistered firms and association of persons. Income tax rates were reasonably high in the decades of 70-80's, however this was changed after economic reforms of 1991. Economic reforms impact was also in the field of tax collection, more the people earned the income more taxes were collected. The researcher concludes by stating that the impact of reforms as been positively responsive to collect of direct income taxes by reducing marginal rate of income tax, simplifying structure by reducing tax slabs, rise in number of tax payers, growth of GDP.

2) Evaluating the Indian Income Tax Performance: An Empirical Investigation By Arun Sharma and Jaspal Singh:

The research article focuses on collection of taxes post liberalization era (after 1991) for the period of next 25 years, they say that narrow base and limited flexibility in changing the structure of economy has been the main problem. The researcher mentions about independent variables such as fiscal deficit, FDI inflow, labor force participation, GDP per capita, GDP growth rate, share of agriculture in national income.

The objectives of the research were to suggest the suitable measures to increase responsiveness of revenue generated through income tax, spot the sources of income tax revenue in the country, understand the relationship between determinates and income tax revenue post 1991 reforms. The findings of research were that tax collection was increased post liberalization along with currency with the public, political stability, decline in negative growth of agricultural GDP, income proportion of people above the age of 65 years. However, the study was limited to the period of 25 years post liberalization (which is 1991-2015).

3) The India Tax System and Its Reform by sunil Mishra:

The article introducing reference of taxes in Srimad Bhagvatam, Chanakya's Artha Shastra, Manusrithi, taxation systems of Delhi Sultans, Mughal emperors, K.B Baskar's Public Finance in Ancient India and says that "Most of the taxes of Ancient India were highly productive".

Researches says that direct tax policy has been an attempt to reduce inequality of income and wealth, increase savings and investments. Post-independence development was focused through rapid industrialization owned by public sectors, so resources which were in scarcity was to be utilized to its maximum extent and there was a need was proper licensing and regulations which resulted in high rates of corporate and income taxes.

Broaden the tax minimum alternative tax was introduced, how capital gains arriving from the listing of securities in the capital markets led to introduction of Securities Transaction Tax (STT). Income Tax act of 1922 was replaced by Income Tax Act of 1961 basic structure of Income Tax has been overburden and its literature has been complex. Challenge of building a strong direct tax policy related to strengthening tax administration, it functioning & reduce limitations of taxation.

4) The Hindu Undivided family: Effects on the Indian Tax System by Anurag Sanyal:

Writer says that the main objective of taxation by government is to maintenance redistribution of wealth, financial growth and stability. The existence of Hindu Undivided Family (HUF) and its treatments complicates the assessment and collection of tax. The special limit given to the Hindu Undivided Family (HUF) in respect to the tax exemptions and their complexity of business, the ways in which they don't pay/reduce taxable liability through various means such as tax evasion and tax evidence, researcher does not discriminate between avoidance and evasion the only difference is that the degree at which it is being done.

5) The Indian Tax System as a Factor of Business Competitiveness by Susana Aldeia:

This article focuses on corporate income tax laws of India companies, researcher focuses on the fact that more out of total income tax collection 94% of those collection is being contributed by the individuals, though corporate taxes have been the major contributor of direct taxes with 67% of contribution the trend shows that there is a decline in corporate income. The reason behind it may be governments giving tax holidays for many companies in order to back their growth. He says that there has been an inequality in nations fiscal policy and how it has led to uneven wealth distribution, he says that taxations can affect positively coz, good deeds for the public and public expenditures can be realized, negative coz, influences the choices of economic agents, which weakens the growth of an economy.

Researcher say that there is inverse relationship between corporate houses and payment of taxes by them, he further says that there is negative relationship between economic growth and level of taxation. He further says that tax system has to be simplified so that tax payers will be self-assured

on application of law which is beneficial to both tax authorities and tax payers. This paper has enabled me to understand the role of taxation system to countries economic growth mainly with respect to corporate taxes.

6) Taxation on Agriculture Income under Central Income Tax by Veda P Gandhi:

The objective of the paper were as follow:

a. To list the benefits of bringing agricultural income into purview of income tax
b. To estimate the review potential of the integration of the state agricultural income and central agricultural income

c. To through light on changes to be made in existing income tax frame work, if the country decides to bring agricultural income tax into the limit of taxation

Benefits and cost of agriculture on taxation like it ensures equal tax treatment, it provides effectiveness in maintenance of taxation policy, instead of some of the agricultural income all incomes from the agricultural will be taxed so that evasion of taxes in the name of agricultural income would be checked. It also increases government's interest in spending upon agricultural sector.

Gap between tax levying-collecting authority and tax payers would be widen, the implementation and collection should be divided between state and central government so that there would be no burden for both of them. If agricultural income is bought into limitations of income tax it also poses some questions like who should be tax payers. How to define agricultural income? What should be limit of taxation? What deductions should be allowed? Should incentives and concessions be given! Should a new head be introduced or should be computed in any one of the existing head!

In theory applying of Income Tax on agricultural income may be easy but the challenge is the practical implication of it because of the following problem how often does agriculturalist keep their books of accounts? This has been a problem with even advanced counties, if records been kept how genuine those records will be, rural economy majorly depends on cash-based transactions.

7) Indian income Tax Law & Protracted Litigation – A Study by Prabhakar K S:

It starts with the reason why taxes were imposed in India in 1857 how it was revived as "License Tax" in 1867, how Income Tax Act of 1922 overcame the limitations of the previous tax. And how new independent India bought IT Act of 1961 in 1962 with 48 Definitions for key terms, 296 Sections with more than a thousand of sub-sections, clauses, sub-clauses and Fourteen Schedules.

How changes are being made periodically by "Tax Reforms Committees" "Expert Groups" "Financial Acts". Structure of dispute resolution mechanism of India's consist of Jurisdictional Assessing Officer, Commissioner of Income Tax (Appeals), Income Tax Appellate Tribunal, High Courts, the Supreme Court and as alternative dispute resolution mechanism, the Authority for Advance Rulings, Settlement Commission and a Dispute Resolution Panel.

He though he has a good opinion on India tax systems he says that he says it as "Rule book or paper" income tax department loses about 65% of its cases about 83% of its cases in high court, 88% of its cases in supreme court, its success rates in with respect to direct taxes is just 13%.

Researcher opinions that the instructions of law should be in layman's language so that the common man could understand the legal formalities. Restrictions on unnecessary adjournments has to be restricted so that the cases will be solved earliest. Amending the rules year after year is not a good to continuity of a single law every time at the end of F.Y 2016-17 we have witnessed 118 amendments, E-assessment will avoid lagging of cases so the dispute can be cleared of earliest. Though India has Double Taxation Avoidance Agreement (DTAA) it has to be checked time and again to see that everything remains good, best international practices should be adopted. He opinions that then current government has been doing good and he has been anticipating upcoming Goods and Service Tax Act (GST Act).

8) An insight into Black Money and Tax Evasion – Indian Context by Pradip Kumar Das:

This paper explains various facets and dimensions of black money, tax evasion and their critical relationship with the policy and administration in India. Liberalization has given Indian

economy a global access and it as also enabled generation of black money and its transfer inside and outside county which has been out of reach of both central and state government.

Objective of paper is to

- Study various directions of tax evasion and black money
- Study reason behind generation of black money and tax evasion
- Study how effective is tax laws in preventing tax evasion and black money
- Study present status of tax evasion and black money in the county
- To find out measures to cut down tax evasion and black money

The research was designed as follow:

<u>Discuss the concepts of tax evasion and black money</u>

Black money can be said as money generate out of legally not accepted sources or money which is being unreported/underreported to the concerned authorities.

<u>Causes and consequences of black money and evasion</u>

Black money is mainly generated through illegal activities, prevents mobilization of resources, weakens the morality of honest tax payers, flow of money in wrong hands might pose threat to economy, degrades social and moral values.

<u>Methods of generating black money and evade taxes</u>

Manipulating financial statement and deliberately hiding sources of money, micro and small level entities usually do this by showing out of book transactions in sales/receipts, expenses, capital, closing stock.

<u>Presents the measures adopted to check flow black money and tax evasion</u>

Generally, people evade tax by non-report, misreport, underreport incomes by maintaining multiple books of accounts for various purposes, doing business in the name of dummies, under invoicing transaction, over reporting of expenses, manipulating of documents, in correct valuation of goods.

Deals with the international aspects of India taxation

Sources of income coming from one country and its taxes being paid in another country has been the biggest trouble of international transactions, double taxation has been another problem.

Current status of black money in India

The problem with black money from within the country has been mainly of the following reason Magnitude of black money and unaccounted wealth is stashed abroad every year Government's response to applying this issue has not been adequate or considerably negligible

Demonetization how ever had made an attempt to check the flow of black money was unsuccessful in the future, people hiding their income through spiritual leaders and misusing the divine feeling of people has been more of problematic situation.

He concludes by saying that an economy based on cash transactions in unorganized sector as well as organized sector, lack of public awareness, ineffectiveness of whistleblower has made the systems weaker made flow of black money easy and tax evasion less complicated.

9) A Study on various Ways of Tax Avoidance and Tax Evasion in Agricultural Sector and Their effect by Dr. Ujjwal M. Mishra and Abhijit Kulkarni:

Writers' opinion that most important among all direct taxes, they say that income tax is not only the sources of required fund, but also a tool to control inflation. Indirect taxes are being paid by everyone since they are not levied on goods and services purchased/consumed but it's not the same case for direct taxes they should be paid out of payers will or should be collected by government by force of order. They say that tax evasion is illegal though and avoidance is said to be "unacceptable" but tax avoidance may also be considered unlawful is the near future both judicially and morally. But there is a very thin line between acceptable "avoidance" and inacceptable "evasion".

Income earned from agricultural operations are taxes however non-agricultural incomes are also considered as agricultural income, in order to boost and give farmers relief from their financial crisis income from agricultural activities are exempted, money launderers in order to evade taxes buy agricultural land show up as farm income slowly and in a sophisticated manner cover up their other income liability as farm income.

Large farmers have more than 45% of India's farm land and are major contributor for tax evasion in agricultural sectors and they convert black money into white money by showing it as agricultural income. In India all most agricultural transactions happen through on cash mode so it has also been one of the major drawbacks to stop the flow of black money, they conclude by saying that there is a need to enforce tax on income from agricultural operations upon certain higher limit so that large farmers and agricultural companies, transactions should be through banks so that flow black money can be tracked and checked time-in-time.

10) Personal Income Income Tax Structure In India: An Evaluation By Ashish Mishra And Brijesh Kumar Yadav:

As per Income Tax Act of 1961 every person (described by the act) as to pay taxes if the income crosses certain exemption limit which is not the voluntary fee but a compulsory duty to be full filed. The objectives of the study were to calculate personal income tax structure in India, to determine the present situation & future prospects prospect's relating to income tax, advise proper means to rationalize individual income tax scheme.

They have taken data for 10 years (2006-07 to 2016-17) released through various books on direct taxes, indirect taxes, public finance and circulars of CBDT. They conclude by saying that paying of taxes is moral obligation of every citizen be direct taxes or indirect taxes and this revenue generated by the government is used for social welfare schemes, but still high rates of taxes are burden foe tax payers bringing reform in the present tax reforms by adopting friendly tax policy is need of hour, in order to cover citizens into tax bracket tax slabs has to reduced and changes in the percentage of rates have to be made.

11) Income tax Tax Evasion: A Theoretical Analysis by Michael G Allingham and Angar Sandom:

This article talks about how incomes are under reported deliberately to evade taxes which is economical crime on the other hand it talks about how the process of tax planning happens through optimal investments in insurance and financial sectors. Writer's opinions that reporting of actual income and under reporting of income is completely left to the will of individuals. They opinions that in order to encourage more and more assessee to pay taxes tax rates have to be reduced and heavy penalty has to be imposed on those to miss paying taxes to government either directly or indirectly, there is strongly urge that there is a need of change in rules regarding taxes for those who evade taxes by under reporting of income, over reporting of expenses and tamper their books of accounts to tier will and wish, when and where ever required. They end up stating that a proper public audit has to done to check the evasion of taxes at the minimalist level also.

12) The parallel Economy in India: Causes, Impacts and Government Initiatives by Sukanta Sarkar:

This article walks us through the effect of parallel economy were in use of black money, corruption, hiding of income from government has affected our economy. It addresses parallel economy as informal economy were in there is no such legal or prescribed rule, it even as names such as unaccounted economy, illegal economy, subterranean economy, unsanctioned economy. She continues saying that most of the tax evasion happens from the income earned through this illegal economy, any money received from tampering bill is to amount of tax payable is tax evaded.

The parallel economy has political, commercial, legal, industrial, social and ethical aspects, the so-called parallel economy also existing in developed, under developed and developing counties also they show the below graph as the proof of parallel economy:

Country	Parallel Economy as % of GDP
Greece, Italy, Spain, Portugal and Belgium	24-30%
Japan, USA, Austria and Switzerland	13-23%
Guatemala, Mexico, Peru and Panama	40-60%
Chile, Costa Rica, Venezuela, Brazil, Paraguay & Colombia	25-35%
Philippines, Sri-Lanka, Malaysia & South Korea	38-50%

In 1985 National Institute of Public Finance and Policy estimated that approximately 20% of national income comes through black money. She says that higher tax rates, ineffective enforcement of tax laws, inflation, bribery and smuggling as some of the black money generating sources. Under estimation of GDP, tax evasion, accumulation of wealth in the hands of few are some of the impacts of black money.

She concludes by saying that parallel economy is threat to Indian economy and it is rapidly increasing due many factors, parallel economy is badly effecting countries growth by under estimating GDP, increasing inequality of income, increasing illegal activities etc. The government has introduced various schemes like Special Bearer Bonds, demonetizing high denomination currency notes, stringent raids and scheme of voluntary disclosures through this it is expected to reduce volume of black money.

13) A Comparitive study of Tax Structure of India with Respect to Other Countries by Mr. Nishant Ravindra Ghuge and Dr Vivek Vasantrao Katdare (Chartered Accountant):

This paper has made an attempt to compare Indian tax structure with tax structure of other developed and underdeveloped countries with respect to ease of payments, tax rates ease of doing business, Time Required for Tax Compliance, tax to GDP, Number of tax payments. Tax structure is set of rules and laws for the purpose of tax collection, its objectives is to raise revenue to for development and social welfare work, improve economic equality and conditions in the society. They opinions that High taxation rates and complex tax systems curb growth, Complex Taxation System also results in evasion of taxes and thus increase the parallel economy.

The objective of the paper was to study tax structure of India with comparison of developing and developed country, to compare tax systems on the basis of indicators like tax to GDP ratio, total percentage of tax rate, number of tax payments, time to comply. For the research purpose they had taken United States (US) and United Kingdom (UK) (as developed country) and South Africa and Mexico (as developing country) and additionally China as its demographic and geographical similarities with India.

The overview to tax structure is as follow:

India: Three level tax structure, every tax is backed by the law accompanying, taxes here is divided into direct and indirect taxes

US: It has two level tax systems where tax is imposed by both autonomous state and local government, tax is incurred on individual's income and spending, dependence on direct tax is more than income tax

UK: It has two level tax systems levied by central and state governments under different heads and local governments receive grants from central government, tax system here is simple and easy to understand with high administrative efficiency.

South Africa: Very much similar to tax system in UK, SARS acts on behalf of state government and taxes on income, goods, services are collected by central government, local government collect municipal taxes and funds from government.

Mexico: Taxes are collected under various heads like corporate tax, income tax, MAT, capital income is considered as regular income and is taxes under regular heads.

China: China's revenue largely depends upon tax for its revenue sources, there are 26 types of taxes which can be classified into 8 categories and they tax agricultural income.

Findings, conclusion and recommendations were:

India has low tax to GDP ratio, significantly higher tax rate when compared with selected sample country, higher tax compliance time when compared with developed countries and par when compared with developed countries. Indian tax structure lags behind every indicator, there is strong requirement to review and action in simplifying tax structure some of laws have to make necessary changes in its law to be more effective and improve tax collection.

14) Self-Assessment System of Taxation as a Challenge for India by Gurpreet Kaur:

There are two types of tax assessment systems, they are Official Assessment System (OAS)and Self-Assessment System (SAS), in OAS taxpayers are required to file annual return only when officials issue notice of assessment to tax payers, in SAS taxpayers are required to assess their liability and to file tax return properly many of the countries follow SAS method. In this paper writer writes about self-assessment process in with regards to Malaysia, while self- assessment was introduced in Malaysia most of the tax payers were fearful of being audited, tax payers were more concerned that what if we have to pay penalties for non-compliance.

Countries such as Indonesia, New Zealand, Australia, Sri Lanka, Pakistan and United Kingdom introduced self-assessment for various reasons including to improve and increase tax collection, to encourage tax payers to file taxes at their will, to ensure consistency in all assessment branches, reduce tax collection cost, to increase the percentage of tax payers. In the process of self-assessment tax payers have to be responsible make sure that correct information is given in income tax return form.

The problem for India with self-assessment of tax is that its complex tax filing procedure, assessing officers with rude, arrogant behavior with no assigned accountability, the objective of self-assessment has to that to see the number of tax payers has to be increased and assessee should not be in trouble of highly complicated laws pertaining to taxes. India should review the practicality of this system and the present system should be revised keeping in view the Self-Assessment System.

15) Assessment of Individual Income Tax, Tax Planning and Saving in India by Rajiv Kaushik:

This article talks about how an individual can assess their income tax liability on their own after making necessary deduction and adjustment, plan their taxes and thus save their tax payable money, India tax structure has given a separate authority to both state and central government to collect their respective taxes he opinions that in last 10-15 years of this papers publishment tax rates have been rationalized, tax laws have been simplified by which better enforcement, better compliance and ease of tax payment has been made. The objective of the paper was to study assessment, planning, saving and getting exemption from individual's income tax.

Tax structure in India:

- After independence: It was a challenging situation for tax planners, saving and investments were encouraged through different laws and incentives by the government, they needed huge amount of revenue to fund the growth of the economy of the nation, department looked for alternative taxes and tried to eliminate tax avoidance.
- Post Liberalization: During the period of late 1980's every country started changing tax reforms as per requirement and India did this in after its famous economic reforms of 1991 in way which it can be mutually easy of both Indians and outsiders, ensure obedience to the prevailing international trends which included of natural person, a person by the hold of law, minor child and lunatic as well which was made by their legal representative.

Incomes to be considered while computing total tax of a individuals:

- Income earned by individual himself: Income from salary, house property, profit or gains from business, capital gains and other income sources

- Income earned as a partner of a firm or a limited liability partnership: Salary, bonus, received by partner taxable as business income. Interest on capital and loans to the firm is taxable as business income of the partner. Share of profit in the firm is exempt in the hands of the partner.
- Income earned as a member of HUF: Share of income of HUF exempted in the hands of member. Income from self-acquired property converted into joint family property.

- Income earned as a member of AOP: Income is chargeable at maximum marginal rate share of income will not be included in his/her taxable income, where no income tax is chargeable on the income Share of income of a member will be chargeable to tax as part of his total income.
- Income of other persons included in the total income of the individual: Income of minor child mentioned in section 64(1A), Income of spouse in 64(1).

Computation of total income:

Income tax is levied on total income of assessee; total income has to be computed as per provisions contained in the Income tax act of 1961. The procedure to levy income tax are as follow:

- Determination of residential status of Individual
- Classification of income under various heads
- Exclusion of exempted income
- Computation of net income under each head
- Clubbing of incomes
- Set-off and carry forward of losses
- Computation of Gross Total Income
- Deduction from Gross Total Income
- Computation of Total Income

Conclusion: Any individual who want to assess his/her income tax and want to do tax planning and savings, first he/she has to calculate his/her total income then compute the income tax by deduction and adjustment in total income as per tax table structure. If tax is paid in access then get refund from the income tax department. Finally do the tax audit.

Research Gap:

Though many research, article and papers have been published on the topic of Income Tax Act of 1961, still there is a wide gap or uncovered areas in the field of research like usage of black money, people still stuck in physical money transaction, lack of interest in using of digital wallets, digital payments, majority of people working in unorganized sectors which makes it that they could not be counted for any of the tax and socialistic survey purpose.

Among all of those researches, article, papers what I found was that many of them was on tax evasion, tax planning, tax avoidance, trends and responsiveness, structure and economic growth, systems and its reforms, how HUF is being utilized for tax avoidance, leveing tax on agricultural income, evaluation of courts decisions in the matter of income tax, structure of income tax department and the missing part of that was lowering the income slabs and rinsing rates by which collection of taxes would not reduce, instead it would collect same amount of taxes from many people instead of few, change in TDS rates in certain payment, bring selected payments into the bracket of TDS deductions.

Statement of the Problem:

Collection of income from direct taxes in India is considerably less when compared with collection of taxes in other country and indirect taxes within the country itself. In India number of people paying income tax is very less. What is the reason for this? Are there any loop holes in our laws and rules pertaining to income tax, tax payers use various methods to avoid and evade their income taxes? Some of the provisions are being misused by tax payers.

Need For the Study:

Taxes contribute to almost 65% of total union budget, among that direct taxes alone as almost 35% of its share, but when it comes to income taxes it is just 15% of nation's total budget on an average since 2014-15 to 2018-19. Even though paying taxes to government is one of our fundamental duty there are very a smaller number of people paying tax. In September 2020 it was reported that **"Only 1.46 crores of individual taxpayers declared income above Rs5 lakh"** reported one of the sources.

Objective of the Study:

The main objective of the study is as follow:

- To study why very small number of people pay income tax and reason for it.
- To study the ways in which taxes are evaded, avoided and how can it be checked by making changes.
- To study dependence on cash as mode of payment and its effect on tracing income.

Scope of the Study:

Taxes have been a major contributor to nations income and income from income tax on an average, compresses of 14% of our annual budget (from FY 2014-15 to FY 2018-19) but the problem with income from income taxes is that only a small amount of population pay income tax.

And spread of income tax liability to majority of population has to happen and this study focuses on how can that large group of people who are not the part of income tax community can be bought into community of tax payers.

Though a financial transaction in the county happens through digitally (through medium of bank) Indian economy is based on cash for its day to day.

Sampling size:

I have taken response of 100 plus individual having income who are of various educational background, different age group, who live in different part of country, who work in various sectors of economy.

Sampling Technique:

Since the matter of income tax can be applicable to people of all age group, people working different sectors, all kind of professionals, people living across India, which does not discriminate people based on religion, caste, ethnicity or gender and my questions can be applicable to all of them, I have opted for random sampling.

Data Collection Tools:

Primary Data:

- Sources: Questionnaires
- Sample size: 105 individuals
- Sampling method: Random sampling
- Research type: Explanatory and descriptive

Secondary Data:

- Source: Data provided by Central Board of Direct Taxes
- Official data provided by central government in its budget gazette
- Interviews, web articles and journals

Statistical Data:

Primary data was collected by random individuals having income and secondary data was collected by through publication of Central Board of Direct Taxes (CBDT), official gazette of central government’s annual budget and was analyzed using percentages, ratios, explanatory and descriptive and is being represented by graphs based on requirement.

Limitations of the Study:

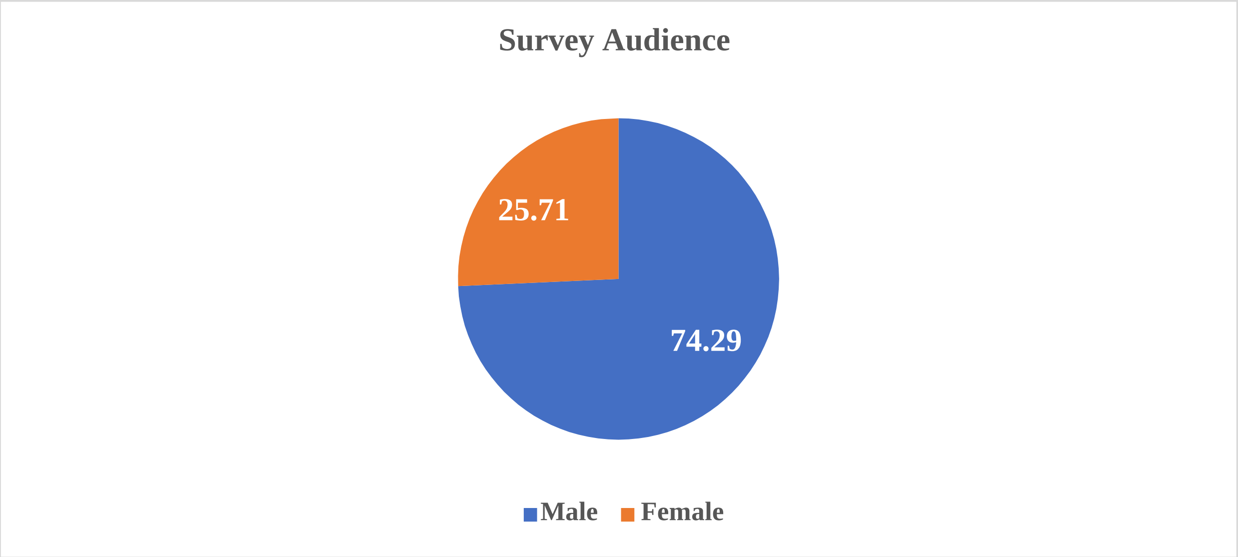
The subject of income tax and income tax act is such vast subject that it could not be studied within the time period of 8 weeks, however I have tried to do what I could do in this limited time frame, I have collected my response from questioners were the mistake of respondents not correctly understanding the questions might have been happened and response might have been differed. And I have not interpreted expected outcome of the suggestions made

CHAPTER-04

DATA ANALYSIS AND INTERPRITATION.

1) Percentage of male and female

Male	74.29%
Female	25.71%



78 out of respondents 105 are male and 27 of them are female belonging to different demographic locations, different educational background, working different sectors and having income from different sources including both filing and not filing income tax returns.

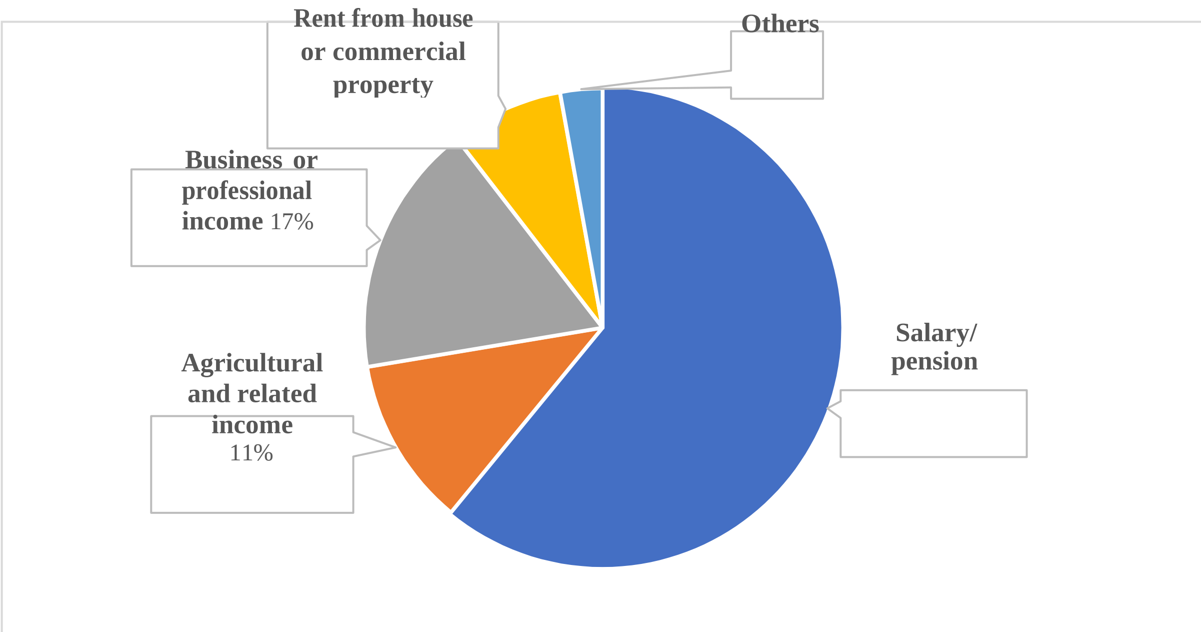
2) Place of residence

Urban	60.95%
Semi-urban	19.05%
Rural	20.00%

Out of 105 respondents 64,20,21 of them identified as leaving in urban, sub-urban, and rural areas earning income from different sources under slabs mentioned in the questioners in both organized and unorganized sectors, filing and not filing income tax returns.

3) Primary sources

Salary/ pension	60.95%
Agricultural and related income	11.43%
Business or professional income	17.14%
Rent from house or commercial property	07.62%
Others	02.86%



Out of 105 respondents mentioned 64,8,18,12,3 of them earning income from sources of salary,rent from residential/commercial property, business & professional income, agricultural and related sources and other non-mentioned sources, both earning from both organized and unorganized sectors, filing and not filing income tax returns.

4) Secondary and other sources of income

Salary/ pension	18.10%
Agricultural and related income	14.29%
Business or professional income	09.52%
Rent from house or commercial property	12.38%
Others	13.33%
No secondary income	32.38%

Out of 105 respondents mentioned 9,13,10,15,14,44 of them responded as having secondary income salary/pension, rent from house or commercial property, Business or professional income, Agricultural and related income, other sources and not having any secondary respectively earning from both organized and unorganized sectors, filing and not filing income tax returns. And only 7 out of 105 respondents said they income from more than 2 sources.

5) Tax planning and filling patterns of organized and unorganized sectors income earners

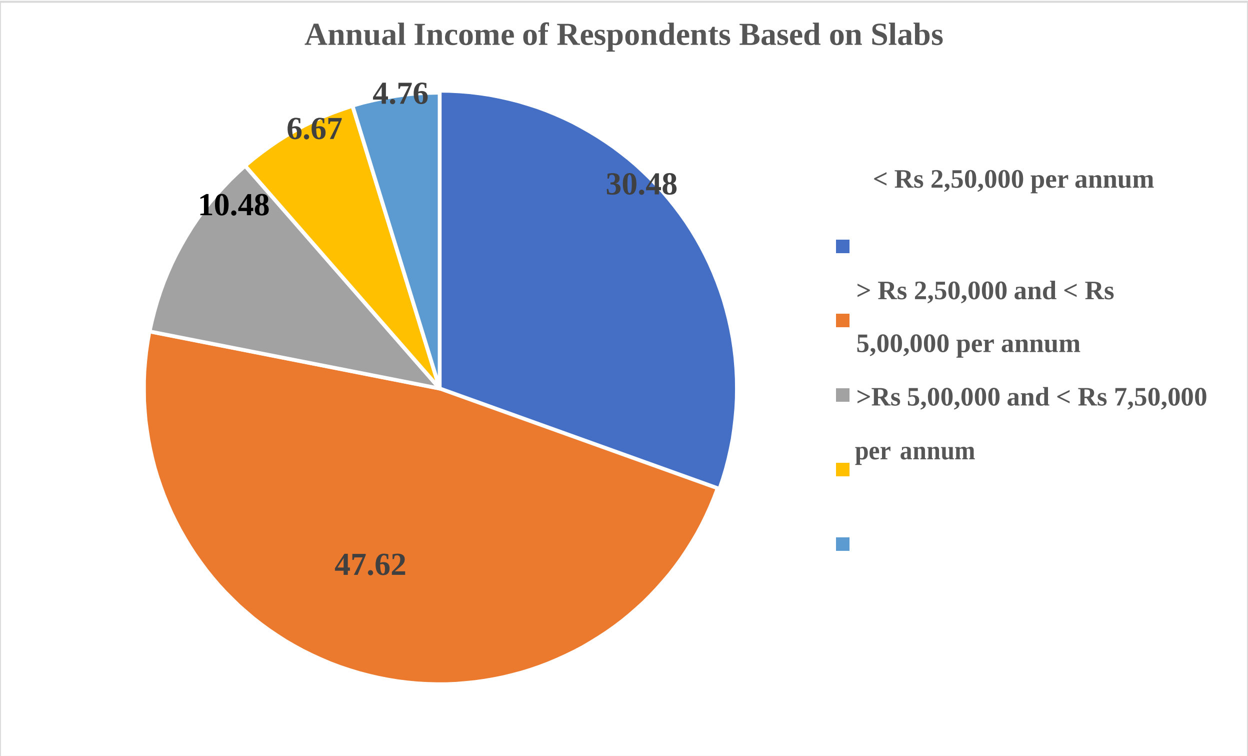
Number of people working in organized sector: 60/105
Number of people working in organized sector and planning taxes: 32/60 Number of people working in organized sector and filing taxes: 35/60

Number of people working in unorganized sector: 45/105
Number of people working in unorganized sector and planning taxes: 9/45 Number of people working in unorganized sector and filing taxes: 11/45

6) Annual income of respondents based on slabs

Less than Rs 2,50,000 per annum	30.48%
More than Rs 2,50,000 and less than Rs 5,00,000 per annum	47.62%
More than Rs 5,00,000 and less than Rs 7,50,000 per annum	10.48%
More than Rs 7,50,000 and less than Rs 10,00,000 per annum	06.67%
More than Rs 10,00,000 and above	04.76%

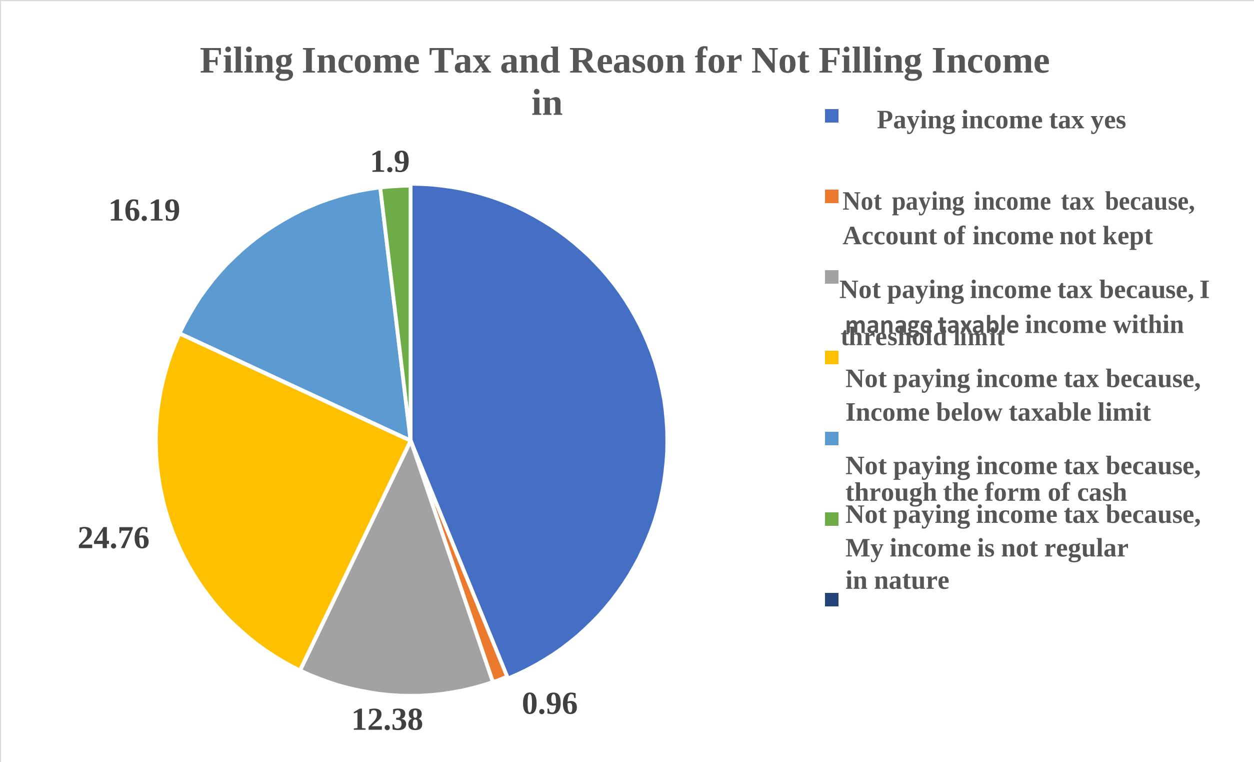
Out of 105 respondents 32,50,11,7,5 of them responded that they have income less than Rs 2,50,000 per annum, more than Rs 2,50,000 and less than Rs 5,00,000 per annum, more than Rs 5,00,000 and less than Rs 7,50,000 per annum, more than Rs 7,50,000 and less than Rs 10,00,000 per annum, more than Rs 10,00,000 and above respectively among residents of different demographic location, age group, sources of earning primary, secondary income. Working in both organized and unorganized sectors



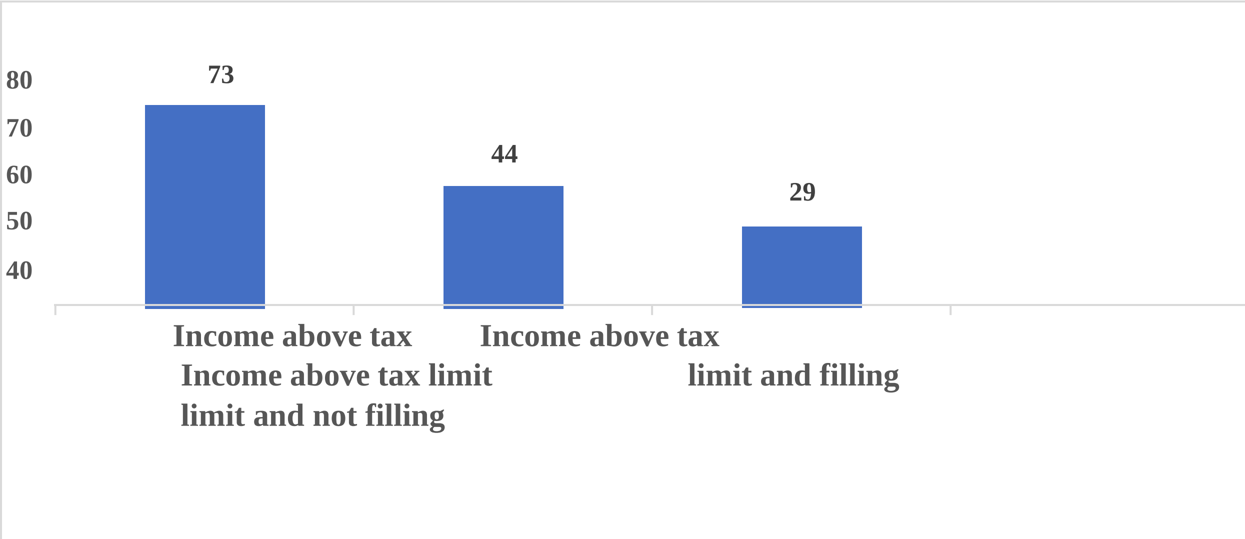
7) Number of respondents filing taxes and not filing taxes and reasons for it

Filing tax yes	43.81%
Account of income not kept	00.95%
I manage taxable income within threshold limit	12.38%
Income below taxable limit	24.76%
Most of my income is earned through the form of cash	16.19%
My income is not regular in nature	01.90%

Out of 105 respondents 46,1,13,26,17,2 of them responded as filing tax, account of income not kept, I manage taxable income within threshold limit, income below taxable limit, most of my income is earned through the form of cash, my income is not regular in nature respectively among residents of different demographic location, age group, sources of earning primary, secondary income. Working in both organized and unorganized sectors.

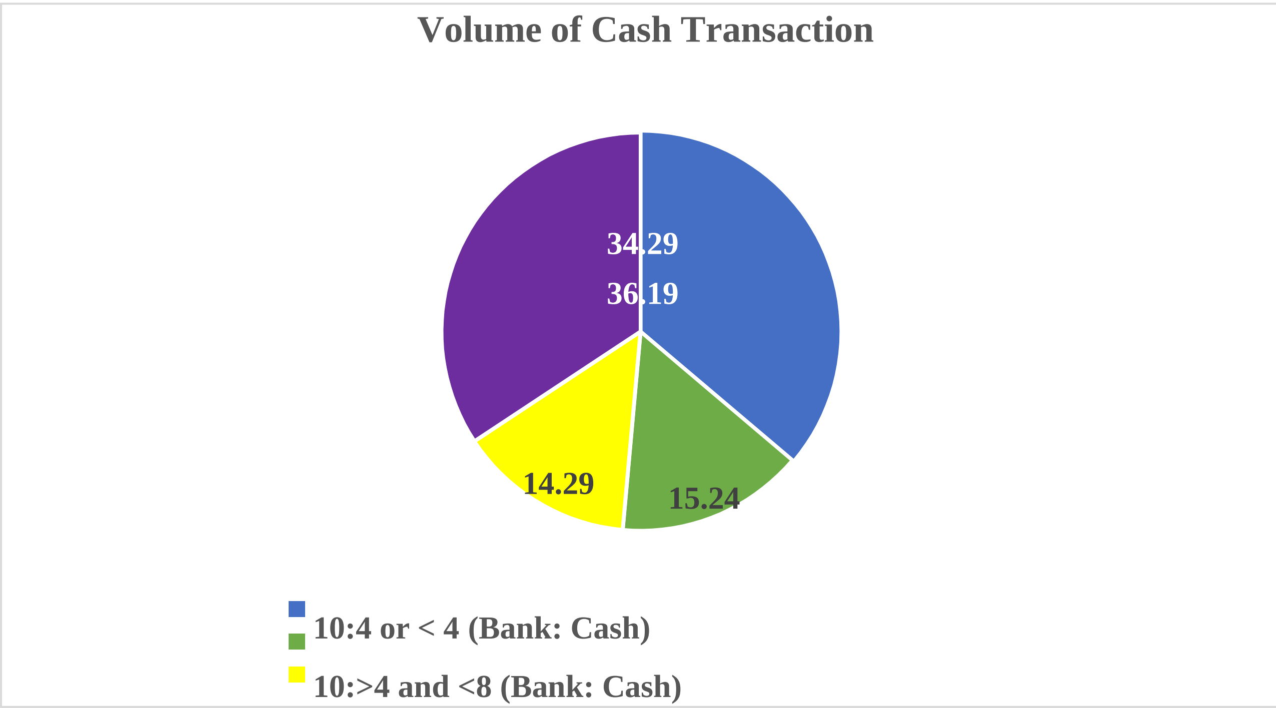


Out of 73 respondent having income above 2.5 lakh rupees per annum only 44 of them were filing income tax, which is above 60%



8) Volume of cash transaction and its dependency on place of residence

10: 4 or less than 4 (Bank: Cash)	36.19%
10: more than 4 and less than 8 (Bank: Cash)	15.24%
10: more 8 and less than 12 (Bank: Cash)	14.29%
10: 12 or more than 12 (Bank: Cash)	34.29%

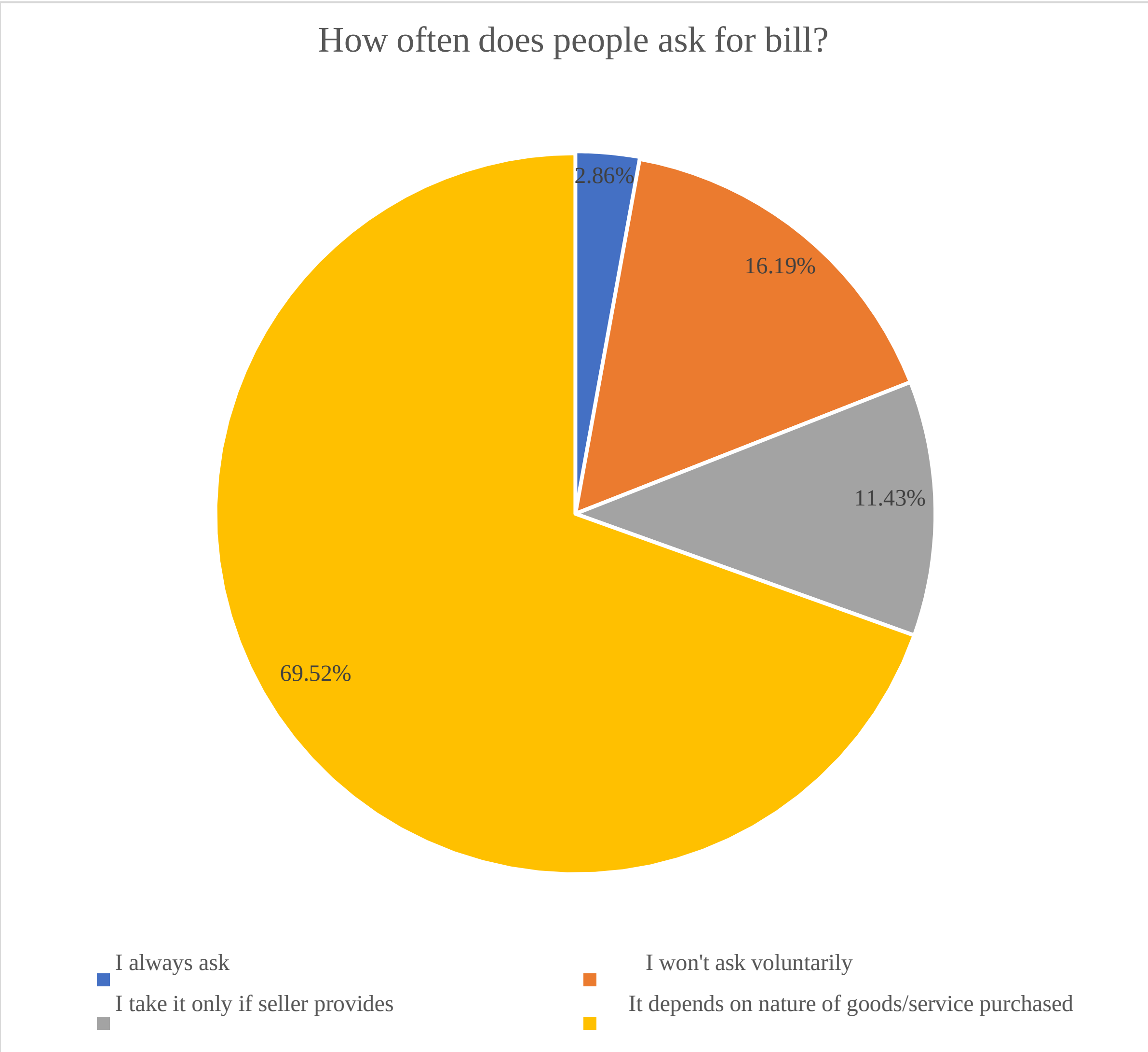


10: 12 or more than 12 (Bank: Cash) & 10: more 8 and less than 12 (Bank: Cash) in urban and semi urban: 20/41

10) How often does people ask for bill?

I always ask	02.86%
I won't ask voluntarily	16.19%
I take it only if seller provides	11.43%
It depends on nature of goods/service purchased	69.52%

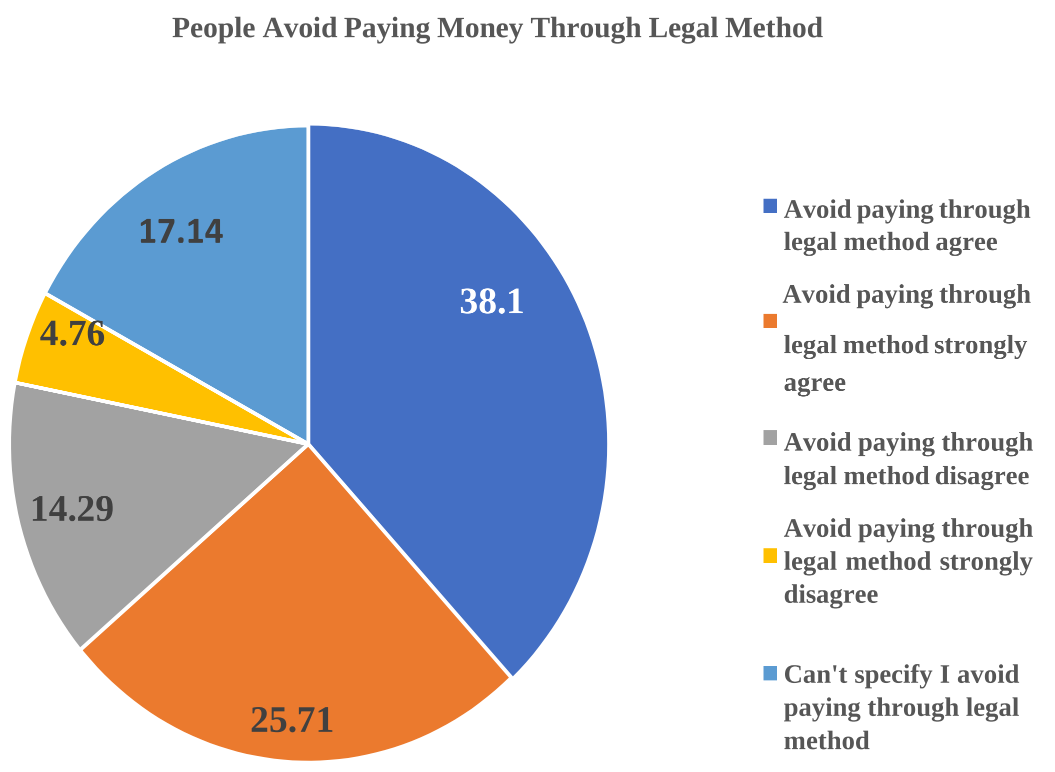
When asked about do the ask for a bill for purchase of goods and service made among 105 responders 3 of the said I always ask, 17 of them said I always ask, 12 of them said I take it only if seller provides, 73 of them responded as It depends on nature of goods/service purchased so it clear that people ask for bill depending on nature of goods/service purchased, hence it can be said that accounts and incomes can be manipulated and less income can be shown.



10) People avoid paying money through legal method

Avoid paying through legal method agree	38.10%
Avoid paying through legal method strongly agree	25.71%
Avoid paying through legal method disagree	14.29%
Avoid paying through legal method strongly disagree	04.76%
Can't specify I avoid paying through legal method	17.14%

When asked about does respondent avoid paying money through legal method 40 of them responded as they agree, 27 of them responded as they strongly agree, 15 of them responded as they disagree, 5 of them responded as they strongly disagree and 18 of them responded as couldn't specify. Irrespective of the educational background, demographic location and age group.



12) Opinion on taxation of agricultural income

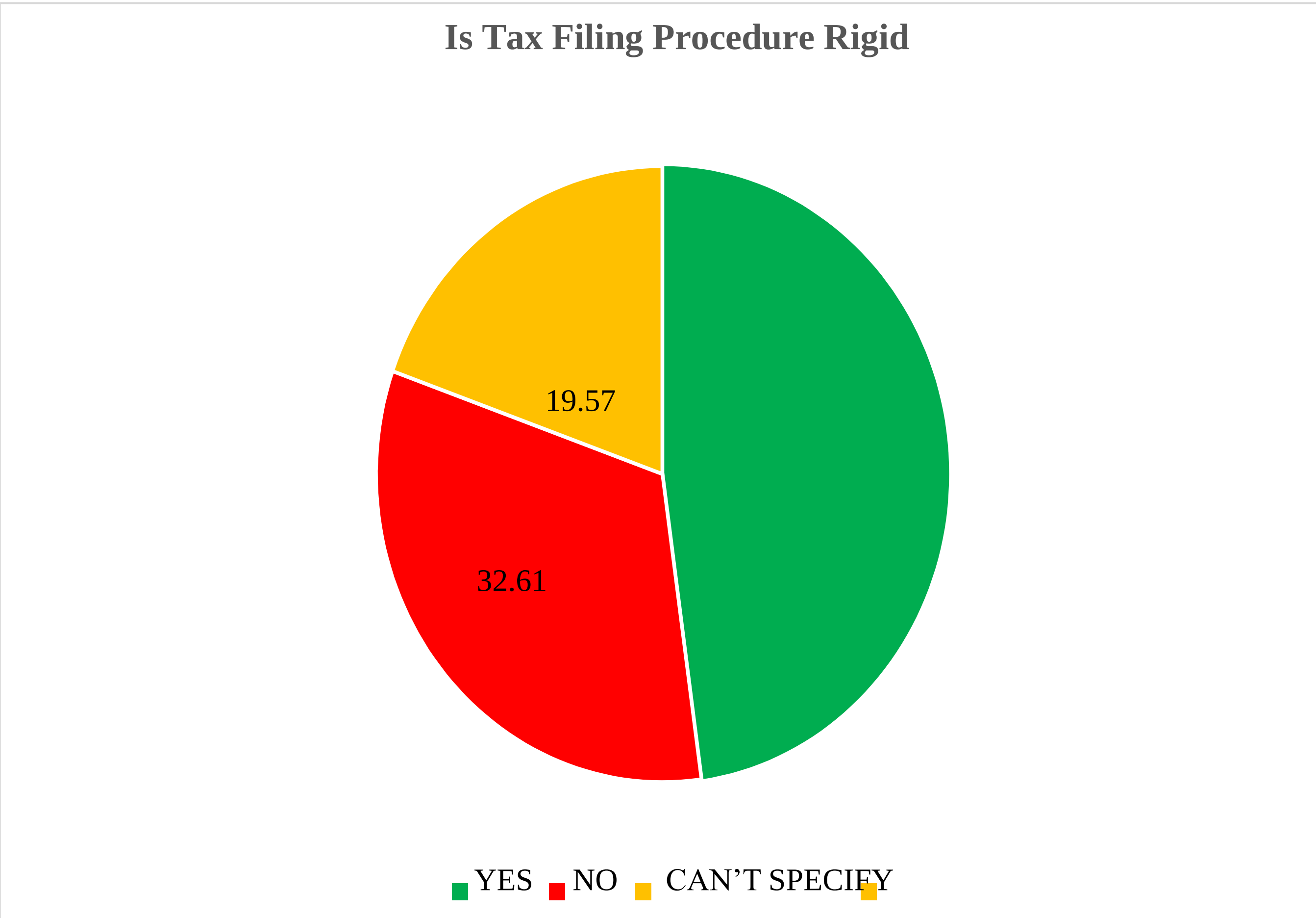
When asked that should agricultural income be taxed only 19 of them responded as yes and only one person had income from agriculture

13) Opinion on income tax filing procedure

Filing procedure rigid, yes	29.52%
Filing procedure rigid, no	15.24%
Filing procedure rigid, cannot say	55.24%

When asked about how rigid is our tax filing procedure 31 of them responded as yes, 16 of them said no and 58 of them said they could not specify

When asked among 46 responders who file taxes 22 of them said yes 15 of them said no and 9 of them said they could not specify



14) Change of TDS/TCS rates and its impact on tax filing

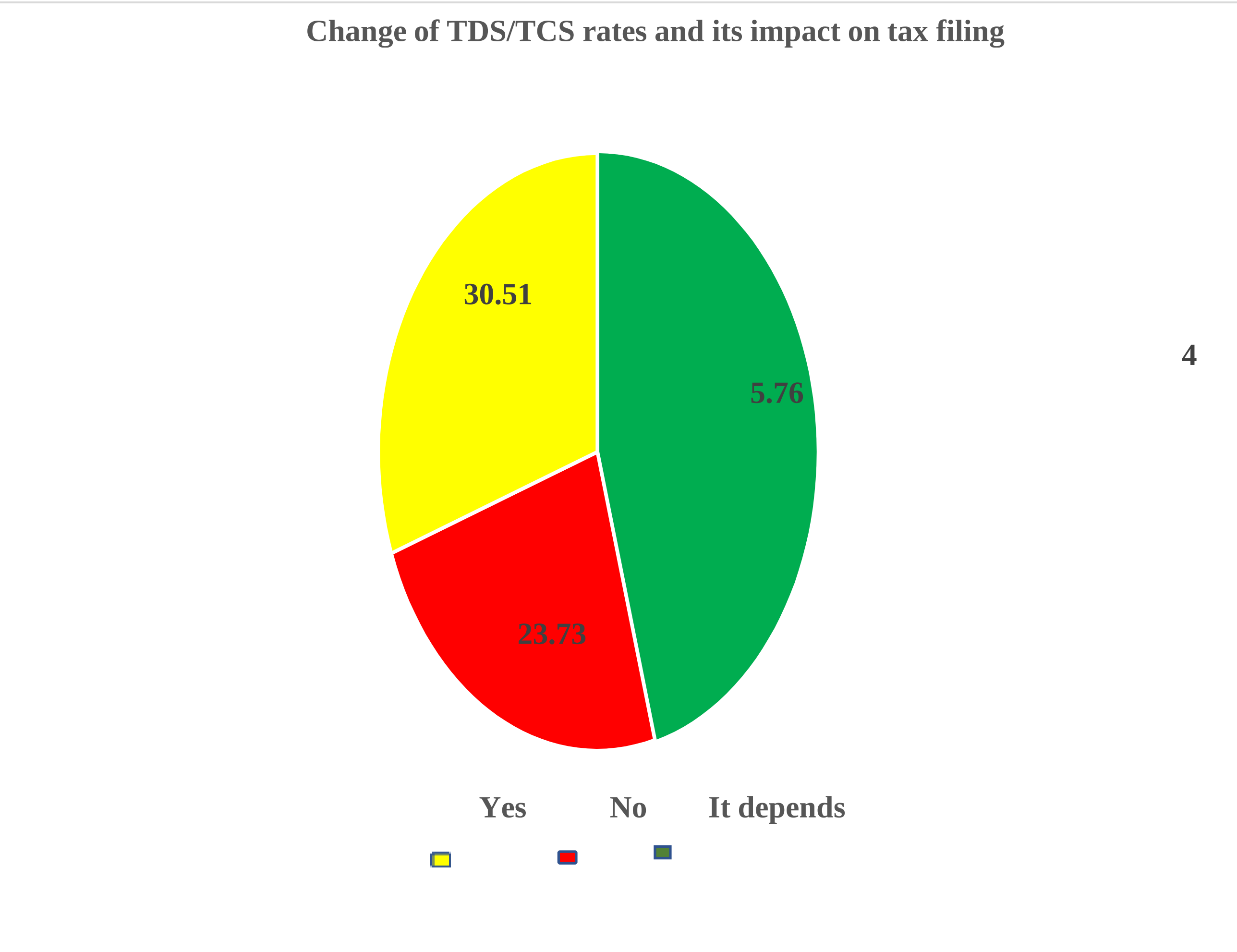
Will you file returns if tax collected/deducted, yes	63.81%
Will you file returns if tax collected/deducted, no	14.29%
Will you file returns if tax collected/deducted, it depends	21.90%

Among tax payers

When asked that will the file their income taxes in order to avail tax deducted and collected 67 of them said that they would file, 15 of them said no and 23 of them said it would depend among 105 responders

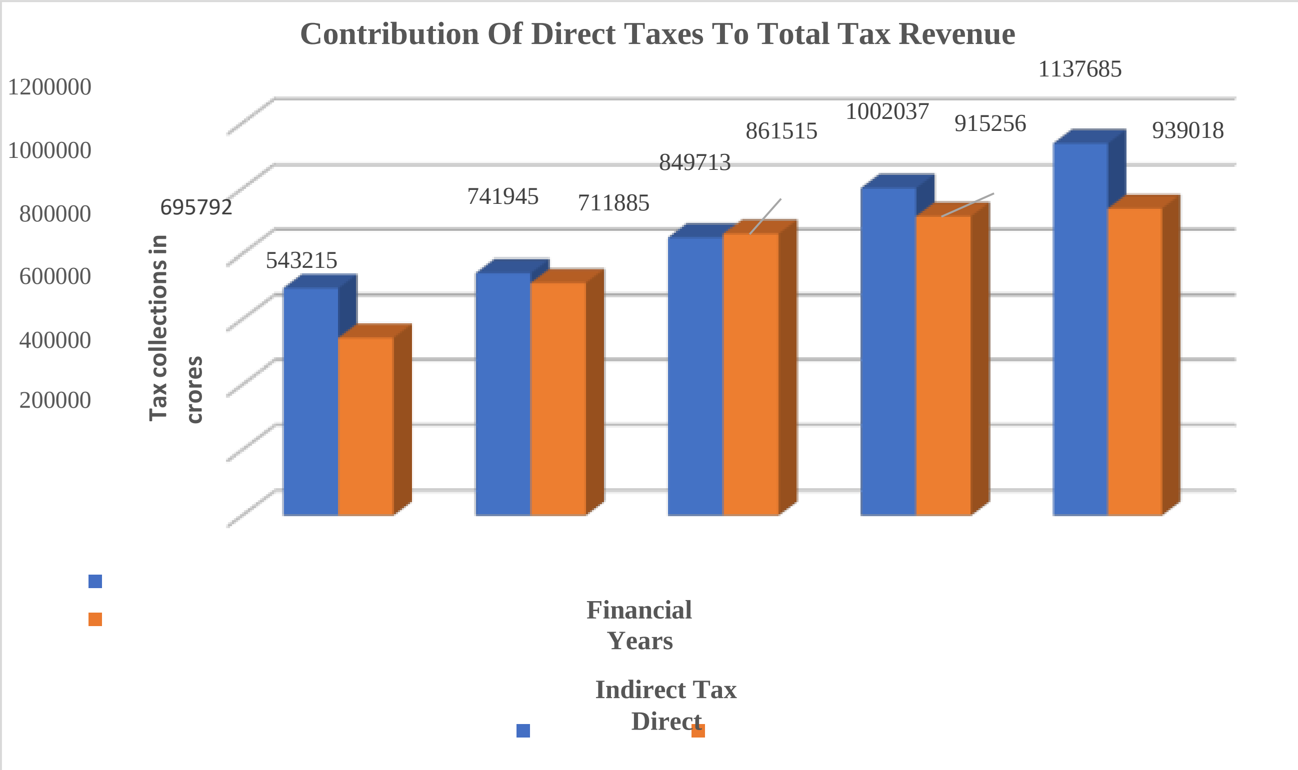
Among non-tax payers

When asked that will the file their income taxes in order to avail tax deducted and collected among 59 non-tax filers **27** of them said **yes**, 14 of them said no, 18 of them said it would depend



Analysis of data provided by central board of direct taxes with focus on Income Tax payments

1) Contribution of direct taxes in total tax collection

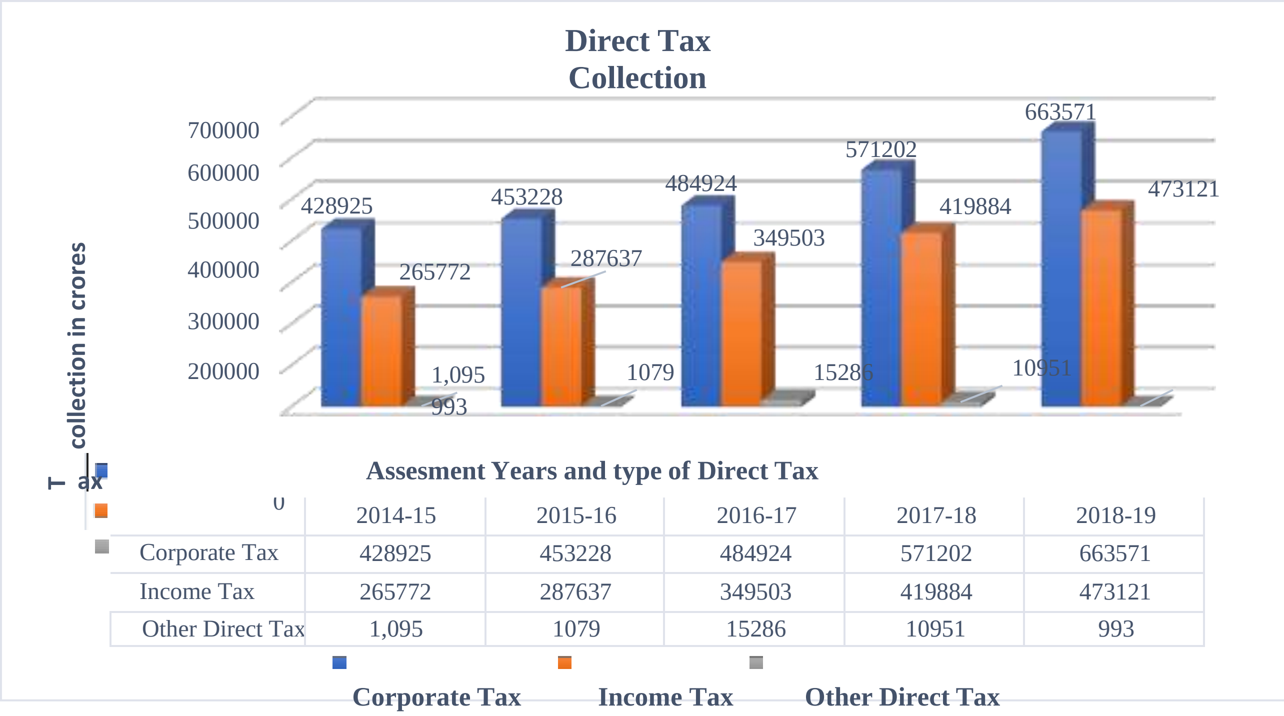


	2014-15	2015-16	2016-17	2017-18	2018-19
Indirect Tax	695792	741945	849713	1002037	1137685
Direct Tax	543215	711885	861515	915256	939018

As you can see here in the above graph indirect taxes like GST, VAT have been a major contributor to indirect taxes every year and direct taxes have taken back seat except for the year 2016-17 in category tax collection from 2014-15 to 2018-19 **43.84, 48.97, 50.34, 47.74, 45.22** percentage respectively

Conclusion: Percentage payment of indirect taxes will always be more, the reason for this is that it is imposed on tax payers indirectly on goods and services purchased or availed. On the other hand direct taxes has to be paid by the tax payers at their will, tax payers should think that it is their moral obligation to pay taxes to government.

2) Contribution of income tax in collection of direct taxes

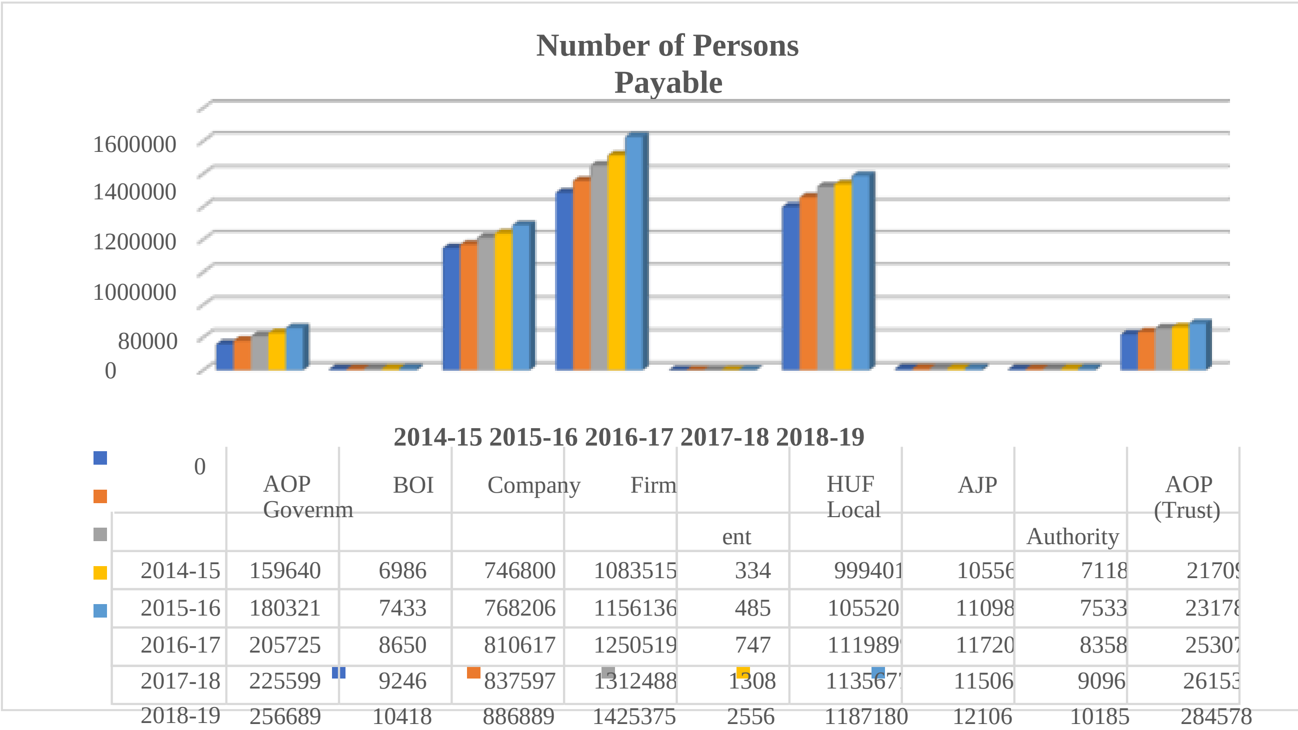


	2014-15	2015-16	2016-17	2017-18	2018-19
Corporate Tax	428925	453228	484924	571202	663571
Income Tax	265772	287637	349503	419884	473121
Other Direct Tax	1,095	1079	15286	10951	993

This graph shows collection and comparision of corporate tax, income tax and other direct taxes during the observation peroid, and it dipicts that's there is constant decline in collection of corporate taxes being collected at **61.65, 61.09, 57.07, 57, 58.33** percentage respectivly from financial year 2014-15 to 2018-19, collection of income tax is been incresed over the years with taxes collected at **38.20, 38.77, 41.13, 41.90, 41.59** percentage.

Conclusion: Decline in the collection of corporate tax can be atributed to various tax holiday schemes provided by government to corporate houses which reduces their tax burden thus improve their business. Increse in collection of income taxes can be atributed to reduction in rate tax in F.Y 2017-18 for slab upto Rs 2,50,001 to Rs 5,00,000 from 10% to 5% and people being aware for paying taxes year after year.

3) 1.9



Axis discription

Vertically: Persons in numbers Horizontally: Type of person (as per IT Act)

As the trend shows that the number AOP's, BOI's, government, AJP's are bound to pay taxes are less when compared with the number of companies, firm's and HUF's this shows that tax liabity of this person's (according to IT Act) is more when compared with AOP's, BOI's, government, AJP's

The chart below shows that percentage of tax payable person who actually paid taxes among those people who were liable to pay taxes. To elastrate the graph in percentage it is mentioned as in below table.

Financial Year▶ **Persons▼**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Average**
AOP	55.39	59.10	59.53	68.76	69.15	**62.39**
BOI	51.33	56.57	49.21	57.61	55.39	**54.03**
Company	89.84	90.17	88.23	95.47	95.60	**91.86**
Firm	83.34	85.11	84.79	92.07	92.52	**87.57**
Government	7.78	8.45	9.10	12.00	10.68	**9.60**
HUF	89.23	89.16	89.99	98.09	98.25	**92.95**

AJP	67.56	70.14	72.35	79.39	77.90	**73.47**
Local Authority	31.20	32.72	30.86	32.48	30.46	**31.54**
AOP (Trust)	75.02	82.82	75.86	85.36	85.96	**81.00**
Average	**61.19**	**63.81**	**62.21**	**69.03**	**68.44**	

Abrivations

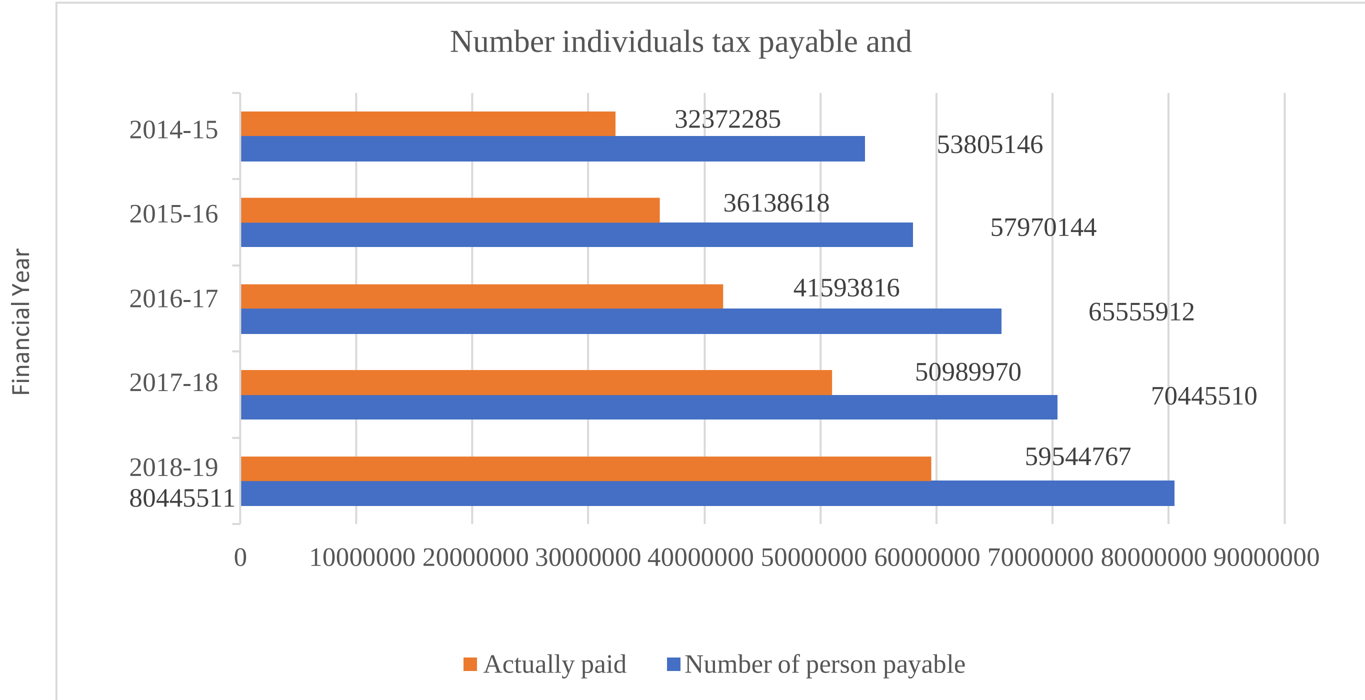
AOP: Association of Pesons

BOI: Body of Individuals

HUF: Hindu Undevided Family

AJP: Artificial Juridical Person

5) Number of individuals tax payable and actual number of individuals tax paid



The above chart represents the number of individual persons (according to IT Act) who were liable to pay taxes for the observation period w.i from F.Y 2014-15 to F.Y 2018-19 is 60.17,
62.34, 63.45, 62.38, 74.02 percentage.

This shows that there is huge gap between the amount of tax payer and amount of tax paid by the individuals, to understand the stuation it can be said that among total number of tax payers one fourth of them have not paid taxes, which show the lack of interest and continuity of tax payment from the assessees.

CONCLUSION: It is found that on overwhelming majority of the salaried employee's opinion regarding direct tax imposed is high and very high. It is concluded that the salaried employees are reducing the tax liability.

CHAPTER-05

SUMMARY OF FINDINGS, SUGGETIONS AND CONCLUSION.

Some of the tax saving methods used during tax planning are as follow:

For income under the head Salary

- It should be ensured that under the terms of employment dearness allowance and dearness pay form a part of basic salary. This will minimize tax incidence on house rent allowance, gratuity and commuted pension. Likewise, incidence of tax on the employer's contribution to a recognized provident fund will be lesser if dearness allowance forms a part of basic salary.

- As uncommuted pension is always taxable, employees should get their pension commuted. Commuted pension is fully exempted from tax in the case of government employees and partly exempted from tax in the case of non-government employees who can claim refund u/s89.

- An employee being the member of provident fund who resigns before completing five years of continuous service should ensure that he joins a company which maintains a recognized provident fund for the reason that the accumulated balance of the fund with the former employer will be exempt from tax provided same is transformed to the new employer who also maintains provident fund.

- Pension received in India by non-resident assessee from abroad is taxable in India. If however such pension is first received by or on behalf of the employee in a foreign country and later on remitted to India will be exempt from tax.

- Instead, employee receiving of allowance from employer, he/she can claim those reimbursement because of the simple reason that reimbursement is not taxable.

- Since the employer's contribution to towards a recognized provident fund is exempted from tax up to 12% of salary, employers may give extra benefit to their employees by raising their contribution to 12% of salary without increasing any liability.

- As the perquisite in respect of leave travel concession is not taxable in the hands of employees if certain conditions are satisfied, it should be ensured that the travel concession should be claimed to the maximum possible extent without attracting any incidence of tax.

- Since the term "salary" includes basic salary, bonus, commission, fees and all other taxable allowance for the purpose of valuation of perquisites in respect of rent-free house, it would be advantageous if an employee goes in for perquisites rather than for taxable allowances. This will be reduced valuation of rent-free house

- If a rent-free furnished or unfurnished accommodation is provided by the employer at concessional rent deduction under section 80GG can be claimed if certain conditions are satisfied.

House Property

- If a person has occupied more than one house for his own residence only one house of his/her choice is treated as self-occupied and all the other house are deemed to be let out. The tax exemption applies to only in the case of one self-occupied house and not in the case of deemed to be let out properties. Care should therefore be taken while selecting the house to be treated as self-occupied in order to minimize the tax liability

- As amount of municipal tax is deductible on "payment" basis not on "due" or "accrual" basis, it should be ensured that municipal tax is payable during the previous year if the assessee wants to claim deduction.

- As interest payable out of India is not deductible if tax is not deducted at source (and in respect of which there is no person who may be treated as an agent under section 163) care should be taken to deduct tax at source in order to avail exemption under section 24(b)

Capital Gains

- Since long-term capital gains bear lower tax, taxpayer should so plan as to transfer their capital assets normally only 36 months after acquisition. It is pertinent to note that if capital asset in one which becomes the property of the taxpayer in any of the manner the period for which they were held by the previous owner is also to be counted in computing 36 months.

- If a property is transferred by an individual to his/her minor son without adequate consideration it should be sold only after the son attains majority in order to avoid clubbing of income under section 65

- The assessee should take advantage of the exemption under section 54 by investing the capital gain arising from the sale of residential house property in the purchase of another house within the specified period

- In two cases, surplus arising on sale or transfer of capital asserts is chargeable to tax as short-term capital gain by virtue of section 50. These cases are When written down value of a block assets is reduced to nil, through all the assets falling in that block are not transferred, When a block of asset ceases to exist

- Taxpayers desiring to avoid tax on short-term capital gains under section 50 on sale or transfer of a capital asset, can acquire another capital asset, falling in that block of assets at any time during the previous year.

Conclusion from analysis of data collected and study done

- There is differentiation in income tax act of 1961 among male and female both, residents of different geographic demographics are treated as equal

- There a lot of individual income earners through form of salary but their income, but they are not large amount of income earners

- 4 out of every 10 members have income from two or more sources, one cannot say that there is lack of income for tax payers

- People working in a organized sectors pay would file income tax who's income is being tacked as there salary or other income have been monitored through bank transaction and PAN cards

- But the mainly problem is with people working in unorganized sectors who earn income through form of cash, there earning be small or big in numbers but its been hard to track their income

- About 78.1% of survey responded as earning income below rupees five lakh so its not fair to draw conclusion that, very a smaller number of people file taxes less the income of individuals less the number of people filing

- It when survey responses were interpreted it was founded that most of the people's income were not regular in nature, most of them earned through form of cash (which means that one could not prove their exact income), many of them earned below income tax limit, and few people did not have income regular in nature and they were not accounted properly

- Dependency on cash-based economy/volume of cash transactions is such that 48.58% of respondents responded as they used to do 8 or more than cash transaction for every 10- bank transaction

- When asked how often do the ask bill for transaction made nearly 70% of them responded as it would depend on nature of goods or service bought, hence accounts and incomes can be manipulated

- When asked about would they avoid paying money through legal method 63.81% of people openly responded as would agree for it which means to say that there is flow of black money, income generated through corruption which could not be accounted and shown

- Taxation of agricultural income has been topic of controversy and big end less debate, politics, propaganda and tax evasion

- However, when asked about taxation of agriculture and related income majority of the respondent responded as not to tax them.

- But in personal opinion agricultural income has to taxed based on the average of 3 years income were their receipts and payments have to computerized and channel of money should be bank.

Key Findings:

- Audit noticed cases where there were loopholes/deficiency in the provisions of the Act in respect of search assessments. These deficiencies mainly relate to absence of specific provisions in the Act/Rules.
- Audit noticed that the department did not centralise all cases in respect of certain groups for assessments due to which issues relating to the assessees pointed out in Appraisal Report could not be addressed.
- Audit observed cases where, AO did not assess the income of the relevant assessment year covered under search.
- Audit noticed cases where AO did not comply with the provisions such as non-referring of cases to Transfer Pricing Officer (TPO), Action on offence committed by Chartered Accountant in IT Act, Delay in action on Entry provider, Assessment without filing of IT Return, Prior approval of Joint Commissioner not taken before passing assessment order, etc. during search assessment
- Audit noticed cases where AO did not verify the source/genuineness of the transaction pointed out in Appraisal Report and did not add undisclosed income recommended in the Appraisal Report, unsecured loan/advance received from entry provider, entire undisclosed income pointed out in Appraisal Report was not assessed, expenditure was not added back to the income of the assessee for want of evidence of TDS, action was not initiated by the department despite receipt of search folders and materials. Though the department was required to coordinate with other wings of ITD Investigation wing, TDS circle etc. in these cases and resolve the issues before finalization of the assessments but the same was not done.

Recommendations:

- periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures, and communicating these to staff
- conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
- regularly monitoring compliance with relevant legislation
- promptly addressing control weaknesses brought to their attention by our audits, and other audit and review mechanisms
- Entities should ensure that reports from their values clearly explain key aspects of the valuations, and that management has a comprehensive understanding of the reports.
- To facilitate timely preparation of annual financial reports, and to minimise the additional audit costs associated with Australian Accounting Standards on revenue, income and leases (AASB 15, AASB 1058 and AASB 16), entities should complete preparations for those new standards by 30 June 2020.

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