4th International Conference on Recent Developments in Science, Humanities & Management-2019
Institution of Engineers,Chandigarh (India) (ICRDSHM-19)
17th February 2019, www.conferenceworld.in ISBN:978-93-87793-70-5

"Income Tax, its Concepts and Basic Exemptions and Deductions"

Mr. Deepak Kumar[1] Mr. Sukhmander Singh[2]

[1]*Assistant Professor(Commerce), Baba Farid College, Bathinda (Punjab)*
[2]*Assistant Professor(Commerce), Baba Farid College, Bathinda (Punjab)*

ABSTRACT

Under Income Tax Act, 1961, there are different concepts being laid down for the different concerned parties. In the following research, there are different Tax Rates for different kind of persons, has been discussed. To avoid the tax and reduce the liability of tax, the person can also make some investment. The invested money is exempted form tax. It is included under the concept of Deductions under Income Tax Act, 1961. There are also some of the incomes, which are being exempted from tax. Those incomes are covered under exempted incomes under the act. Being a part of modern world and having so much fond of technology, there is entry of technology in income tax too. The tax and returns are being filled online now days. So the research will also highlight the concept of filling the online return and the procedure of filling it.

Introduction: Income Tax

There are two types of taxes in India – direct and indirect.A direct tax is a tax you pay on your income directly to the government. Indirect tax is a tax that restaurants, theatres and e-commerce websites charge you on for goods or a service. This tax is, in turn, passed down to the government. Indirect taxes take many forms: service tax on restaurant bills and movie tickets, value added tax or VAT on goods such as clothes and electronics.Goods and services tax, which is into role since July 2017, is going to be a unified tax that has replaced all the indirect taxes that business owners have to deal with.

Everyone who earns or gets an income in India is subject to income tax. (Yes, Indians living abroad too). Also read our article on Income Tax for NRIs. Your income could be salary, pension or could be from a savings account that's quietly accumulating a 4% interest. Even, winners of 'Kaun Banega Crorepati' have to pay tax on their prize money.

For simpler classification, the Income Tax Department breaks down income into five heads:

Income from Salaries: The Income from Basic Pay and allowances and perks is covered in it.

Income from House Property: The income from letting out of property is covered in it.

Income from Business and Profession: The income of any business activity and professional activity is covered under it.

Income from Capital Gain: It covers the income from selling of Capital Assets.

Income from Other Sources: The Incomes which do not fall under any other head is covered under this head.

Objectives of the Study

Following objectives are planned in the present investigation:

1. Introduction to Income tax
2. Exemptions and Deductions under Income Tax Act, 1961.
3. To know the procedure of E-Filling of Tax Return.

INCOME TAX EXEMPTIONS

1. Agricultural Income [Section 10(1)]

As per section 10(1), agricultural income earned by the taxpayer in India is exempt from tax. Agricultural income is defined under section 2(1A) of the Income-tax Act. As per section 2(1A), agricultural income generally means:

a. Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

b. Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.

c. Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A).

Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

2. Amount received by a member of the HUF from the income of the HUF, or in case of impartible estate out of income of family estate [Section 10(2)]

As per section 10(2), amount received out of family income, or in case of impartible estate, amount received out of income of family estate by any member of such HUF is exempt from tax.

3. Share of profit received by a partner from the firm [Section 10(2A)]

As per section 10(2A), share of profit received by a partner from a firm is exempt from tax in the hands of the partner. Further, share of profit received by a partner of LLP from the LLP will be exempt from tax in the hands of such partner. This exemption is limited only to share of profit and does not apply to interest on capital and remuneration received by the partner from the firm/LLP.

4. Certain Interest to Non-Residents [Section 10(4)]

As per section 10(4)(i)**,** in the case of a non-resident any income by way of interest on certain notified securities or bonds (including income by way of premium on the redemption of such bonds) is exempt from tax.As per section 10(4)(*ii*)**,** in the case of an individual, any income by way of interest on money standing to his credit in a Non-Resident (External) Account in any bank in India in accordance with the Foreign Exchange Management Act, 1999, and the rules made thereunder is exempt from tax.Exemption under section 10(4)(ii) is available only if such individual is a person resident outside India as defined in clause (*q*) of section 2 of the said Act or is a person who has been permitted by the Reserve Bank of India to maintain the aforesaid Account.

5. Interest to Non-Resident on Non-Resident (External) Account [Section 10(4)(ii)]

Any income by way of interest on moneys standing to his credit in a Non-Resident (External) Account in any bank in India shall be exempt from tax in case of an individual who is a person resident outside India or is a person who has been permitted by the RBI to maintain the aforesaid account. The person residing outside India shall have the same meaning as defined under Foreign Exchange Regulation Act, 1973, FEMA, 1999. This exemption shall not be available on any income by way of interest paid or credited on or after 1-4-2005.

6. Interest paid to a person of Indian Origin and who is Non-Resident [Section 10(4B)]: In case of an individual, being a citizen of India or a person of Indian origin, who is nonresident, any income from interest on such savings certificates issued by the Central Government, as Government may specify in this behalf by notification in the Official Gazette, shall be fully exempt. The exemption under this section shall not be allowed on bonds or securities issued on or after 1-6-2002. This exemption shall be allowed only if the individual has subscribed to such certificates in Foreign Currency or other foreign exchange remitted from a country outside India in accordance with the provisions of the Foreign Exchange Act, 1973, FEMA, 1999 and any rules made there under.For this purpose, a person shall be deemed to be of Indian origin if he or either of parents or any of his grandparents, was born in India or in undivided India.

7. Leave Travel Concession [Section 10(5)]

An employee can claim exemption under section 10(*5*) in respect of Leave Travel Concession. Exemption under section 10(*5*) is available to all employees (*i.e.* Indian as well as foreign citizens). Exemption is available in respect of value of any travel concession or assistance received or due to the employee from

his employer (including former employer) for himself and his family members in connection with his proceeding on leave to any place in India. Other provisions to be kept in mind in this regard are as follows:

Where journey is performed by air: Amount of exemption will be lower of amount of economy class air fare of the National Carrier by the shortest route or actual amount spent.

Where journey is performed by rail: Amount of exemption will be lower of amount of airconditioned first class rail fare by the shortest route or actual amount spent. The same rule will apply where journey is performed by any other mode and the place of origin of journey and destination are connected by rail.

Where the place of origin and destination are not connected by rail and journey is performed by any mode of transport other than by air:

The exemption will be as follows:

a. If recognised public transport exists: Exemption will be lower of first class or deluxe class fare by the shortest route or actual amount spent.
b. If no recognised public transport exists: Exemption will be lower of amount of airconditioned first class rail fare by the shortest route (considering as if journey is performed by rail) or actual amount spent.

Block: Exemption is available for *2 journeys in a block of 4* years. The block applicable for current period is calendar year 2014-17. The previous block was of calendar year 2010-2013.

Carry over: If an employee has not availed of travel concession or assistance in respect of one or two permitted journeys in a particular block of 4 years, then he is entitled to carry over *one* journey to the next block. In this situation, exemption will be available for 3 journeys in the next block. However, to avail of this benefit, exemption in respect of journey should be utilised in the first calendar year of the next block. In other words, in case of carry over, exemption is available in respect of 3 journeys in a block, provided exemption in respect of at least 1 journey is claimed in the first year of the next block.

Exemption is in respect of actual expenditure on fare, hence, if no journey is performed, then no exemption is available.

Family: Family will include spouse and children of the individual, whether dependent or not and parents, brothers, sisters of the individual or any of them who are wholly or mainly dependent on him.Exemption is restricted to only 2 surviving children born after October 1, 1998 (multiple births after first single child will be considered as one child only), however, such restriction is not applicable to children born before October 1, 1998.

8. Remuneration received by an individual who is not a citizen of India [Section 10(6)]

The following incomes are exempt when received by an individual who is not a citizen of India:

(i) Remuneration [U/s 10(6)(ii)].

a. The remuneration received by an ambassador or other officials of the Embassy, High Commission or Legation of a foreign State in India.

b. The remuneration by a consular officer of a foreign State in India.

c. The remuneration received by a trade commissioner or other official representative in India of a foreign State, provided corresponding officials of the Government of India in that country are given a similar concession.

d. The remuneration received by a member of the staff of any of the officials referred to in (a), (b) and (c) above.

If the person mentioned above in (a) to (d) is a subject of the country represented, is not engaged in any business, profession or employment in India (otherwise than as a member of such staff), and the country represented gives similar concession to the members of the staff of corresponding officials of the Government of India.

(ii) Remuneration received by him as an employee of foreign enterprise [U/s 10(6)(vi)]

(e.g., technician deputed by a foreign firm to work in India), for service rendered by him during his stay in India provided the following conditions are fulfilled—(a) the foreign enterprise is not engaged in any trade or business in India *;* (b) his stay in India does not exceed in the aggregate a period of 90 days in such previous year ; and (c) such remuneration is not liable to be deducted from the income of the employer chargeable under the Act.

(iii) Employment on a foreign ship [U/s 10(6)(viii)].

Any income chargeable under the head "Salaries" received by or due to any such individual being a non-resident, as remuneration for service rendered in connection with his employment on a foreign ship where his total stay in India does not exceed in the aggregate of a period of 90 days in the previous year.

(iv) Remuneration received by an employee of foreign govt. during his stay in India for his training in India [U/s 10(6)(xi)].

Such remuneration shall be fully exempted if he is taking training in any of the following concern

a. Institution owned by govt.

b. A company wholly owned by Central or State govt. or partly owned by Central and partly by State govt.

c. A subsidiary Co. of company referred at point *(b)* above

d. Any corporation established by or under Central, State or Provincial Act

e. Any society registered under Societies Registration Act; 186Q and which is wholly financed by Central or State govt.

10. Perquisites and Allowances paid by Government to its Employees serving outside India [Section 10(7)]

All the perquisites and allowances paid by the Government to its employees for services rendered outside India, are exempt from tax. This exemption is allowed only to such employees of the Government who are citizens of India.

11. Employees of Foreign Countries working in India under Cooperative Technical Assistance Programme [Section 10(8)]

The persons who are working in India under co-operative technical assistance programmes **iii** accordance with an agreement entered into by the Central Government and the Government of a foreign State, the following incomes of such individuals shall be exempt provided the terms of agreements provide for such exemption

1. the remuneration received by him directly or indirectly from the Government of the foreign State for such duties rendered in India **;** and
2. any other income of such individual which accrues or arises outside India and is not deemed to accrue or arise in India, in respect of which individual is required to pay any income or social security tax to the Government of that foreign State.

12. Income of a Consultant [Section 10(8A)]

Any remuneration or fee received by a consultant from an international organisation who derives its fund under technical assistance grant agreement between such organisation and the Foreign Government, and any other income accruing or arising to him outside India (which is not deemed to accrue or arise in

India) and which is subject to income-tax or social security tax in foreign country, shall be fully exempted. The agreement of the service of consultant must be approved by the competent authority.

The consultant means :an individual who is (a) not a citizen of India; or *(b)* if citizen but is not ordinarily resident in India *;* orany person who is non-resident *;* and is rendering technical services in India in connection with any technical assistance programme or project.

13. Income of Employees of Consultant [Section 10(8B)]

In case of an individual who is assigned duties in India under technical assistance programme—

1. the remuneration received by him directly or indirectly from any consultant as referred u/s 10 (8A) above and
2. any other income accruing or arising to him outside India (which is not deemed to accrue or arise in India) and which is subject to income-tax or social security tax in foreign country. shall be fully exempted provided
3. such individual is not a citizen of India ; or
4. if citizen but is not ordinarily resident and
5. the contract of service is approved by the competent authority.

14. Income of any member of the family of individuals working in India under co-operative technical assistance programmes [Section 10(9)] : As per section 10(9), the income of any member of the family of any such individual as is referred to in section 10(8)/(8A)/(8B) accompanying him to India, which accrues or arises outside India and is not deemed to accrue or arise in India, in respect of which such member is required to pay any income or social security tax to the Government of that foreign State or country of origin of such member, as the case may be, is exempt from tax.

Process of filing income tax return

E-filing is the powerful tool that can deliver significant social and economic benefits. It can provide a strong support to the government for good governance and large population to pay their liabilities to the government effectively. Present study is an empirical study about the income tax payer's perceptions toward electronic filing. The study is based on primary data collection with the help of structured questionnaire being filled by 262 tax payers which were purposively and conveniently chosen by individuals, business firms and HUF. Descriptive statistics and factor analysis had been used to analyses the awareness, satisfaction level and the problems of the respondents. The results suggested that although

E-filing has given ease of use to the income tax payers yet they are facing various problems like peak rush, difficulties in operations in this process.

There are many misconceptions about filing tax. Some think that the Form 16 or Form 16A, which salaried individuals get from their employers, is actually the income tax return (ITR). Some think that since tax deducted at source (TDS) was applicable and deposited to the taxman by the employer, there is no need to file a return. But the fact is that filing ITR is mandatory if a person's (below 60 years of age) gross total income exceeds Rs.2.5 lakh. And as far as Forms 16 and 16A are concerned, these are in essence legal documentary evidence of income and tax paid. One still has to file a tax return.

The basic purpose of filing tax return is to show income accountability, and that appropriate tax has been paid. The taxman monitors high-value transactions and a show-cause notice may be served if it's noticed that a person is spending more than what she has declared her income to be.
A person having any amount of income tax refund due is required to file ITR only by way of e-filing.

Step 1: Create your e-filing account

In order to create an e-filing account, you should visit the Income Tax website https://incometaxindiaefiling.gov.in and click on 'Register Yourself' which will prompt you to fill your personal details. Once your e-filing account is created, login to your account with your user ID (ie PAN) and password.

Step 2: Download Form 26AS

Click on the 'View Form 26AS (Tax Credit)' link displayed under the Quick Link menu on the left hand side of the screen to generate Form 26AS. Form 26AS is a consolidated tax statement issued to a tax payer which summarizes the amount paid against each PAN number. It summarizes the TDS, Advance tax, Self assessment tax paid in your name. The password to open your Form 26AS is your date of birth in ddmmyyyy format.

Step 3: Download the income tax return form

Click on the 'Download ITR' link which is also displayed under the Quick Link menu on the left hand side of the screen. Thereafter download the income tax return form. ITR 1 should be downloaded by individuals earning salary income / pension; or individuals having one house property income; or individuals having income from other sources (excluding lottery income and income from race horses).

However, in case of an individual having income from more than one house property, capital gains or is an ordinary resident having assets abroad or claiming tax treaty benefit, then ITR-2 should be downloaded. After downloading the income tax return form, a zip file will be saved on your computer.

Step 4: Fill the details in the Tax return form

Extract the excel form utility from the downloaded zip file and enable the macros in the Excel form. Carefully follow the instructions and fill the following details:

•Mention the basic details which include your name, PAN, complete address, date of birth, e-mail ID, mobile number, whether the return is original or revised, and residential status.

•You can refer to your Form 16 and Form 26AS. However, you will also be required to report any other income or investment eligible for deduction which was not reported to your employer.

Enter the details of tax deducted by the employer and other deductors and self-assessment / advance tax paid, if any.

•Enter your bank details, which include your bank account number, preferred mode of receiving any refund amount (ie by cheque or direct deposit), type of bank account and IFSC code.

Step 5: Validate the details

Click on the 'Validate' button provided on all the sheets. This ensures that all the details have been captured in the return. In the case you omit anything; the sheet will automatically prompt you to fill in the missing details.

Step 6: Calculate your tax liability

Click on 'Calculate Tax' after you have filled all the details. In case the return form shows any tax payable, then you should deposit the amount and enter the challan details in the return form.

Step 7: Generate the XML file

Once all taxes have been paid, click on the 'Generate XML' tab and save the xml generated file on your computer.

Step 8: Submit the income tax return

You should go to your e-filing account on the income tax website and click on 'Upload Return'. Fill the ITR Form, Name, Assessment Year. Thereafter upload the XML file and click on 'Submit'. After this an ITR-V will be generated and sent to your e-mail ID mentioned in the tax return. ITR-V is an acknowledgement-cum-verification form.

Step 9: Send the signed ITR-V to the Income Tax Department

You should take a print of ITR-V and sign it in blue ink. Therafter you should send it by ordinary post or speed post to 'Income Tax Department - CPC, Post Bag No - 1, Electronic City Post Office, Bengaluru - 560100. The signed ITR-V should be sent within 120 days of uploading the return.

Step 10: Check the ITR-V receipt status

On receipt of the signed ITR-V, the Income Tax Department will send an e-mail acknowledging the receipt of ITR-V to the e-mail ID mentioned in the tax return. You will also receive an SMS on your mobile number acknowledging the receipt of tax return.

CONCLUSION

In the present world new technologies are introduced very fast in all fields. New technology is been gifted to tax payers for filing their income tax returns through online is e-filing. The e-filing is the new effective method of filing income tax return through online and make epayment tax. It saves time, energy and cost and also reduces our tension. So the tax – payers are requested to use e-filing and e-payment facilities. The study shows that the existing users are satisfied with the e-filing facilities but most of the individual tax payers are not awareness of the e-filing procedures so sufficient steps are required to create more awareness in the minds of tax payers regarding e-filing of income tax.