



Module-D Unit-1

JAIIB PAPER-3

Accounting & Financial Management for Bankers(AFM)



JAIIB Paper 3 Module D AFM Unit 1: Taxation Income Tax/TDS/Deferred Tax

Overview Of Income Tax Act

- Every person who earns or gets an income in India is subject to income tax.
- NRI are also subject to Income tax on their income earned in India.
- The levy of income tax in India is **governed by the Income Tax Act, 1961 and Income Tax Rules, 1962.**
- The finance budget, presented every year in the month of February, brings various amendments in **Income-tax Act, 1961.**
- Such amendments, if approved, become part of the income tax Act.

This Act contains detailed provisions on important topics like

- ✓ Computation of income,
- ✓ Exemptions and deductions available,
- ✓ Tax slabs,
- ✓ Calculation of tax liability,
- ✓ Formats of return forms applicable to different assessee, etc.

Tax Deducted At Source (TDS)

- As per the Income Tax Act, any company or person making a payment, is required to deduct tax at source, at the rates prescribed by the income tax department, if the payment exceeds certain threshold limits.
- The provisions of TDS apply to several payments like salary, interest, commission, brokerage, dividend payments, professional fees, royalty, etc.



It is the deductor's responsibility to deduct TDS before making the payment and deposit the same with the government

- Each deductor (except when tax is deducted under Section 194-IA) is required to obtain a Tax Deduction Account Number (TAN).
- TDS is required to be deducted irrespective of the mode of payment-cash, cheque or credit-and is linked to the TAN of the deductor and PAN of the deductee.
- There are separate rules for individuals for deducting TDS when they make rent payments or pay fees to professionals like lawyers and doctors.

- TDS is a kind of advance tax paid by the deductee.
- For the deductees, the deducted TDS is claimed as a tax paid and a refund can be claimed if the tax liability is less than the TDS.

Tax Collected At Source (TCS)

- Tax collected at source (TCS) represents the tax collected by a seller from the buyer at the time of sale.
- **Section 206C of the Income-tax act specifies the categories of goods and the %age of TCS to be collected by the seller from the buyers.**

For example

TCS on Liquor of alcoholic nature, made for consumption by humans, is 1% and on Tendu leaves it is 5%.

Exempts certain buyers from the scope of TCS.

- ✓ Public sector companies,
- ✓ Central or State Governments, Embassies etc.
- **Int of 1% in case of delay:** If the tax collector, who is responsible for collecting the tax, does not collect the tax or after collecting doesn't pay it to the government before or on the due dates, he is liable to pay **interest of 1% per month.**
- Submit quarterly TCS return (Form 27EQ) in respect of the tax collected by him in a particular quarter.
- The interest on delay in payment of TCS to the government should be paid before filing of the return.
- **Form 27 D:** The tax collector has to provide a TCS certificate to the purchaser of the goods.
- **Section 206 (1H):** Introduced in October 2020 for collecting TCS from the buyers of goods who makes a payment of more than Rs 50 lakhs towards sale consideration in the financial year.
- **206CCA:** Inserted in 2021 for collecting a higher rate of TCS for non-filers of the income tax return in the last two years.

TCS under GST

Important provisions in this regard, effective from 1st Oct 2018, are as under:

- Any dealer or traders selling goods online would get the payment from the online platform after deducting an amount tax @ 1% under IGST Act. (0.5% in CGST & 0.5% in SGST)
- The tax would have to be deposited to the government by 10th of the next month.
- All the dealers/traders are required to get registered under GST compulsorily.

Classification Of Income Tax Payers

For the purpose of income tax, the term, 'Person', as mentioned in Section 2 of IT Act, includes the following:

- **An individual:** An individual means a natural human being and also includes a person of unsound mind.
- **A Hindu undivided family:** Under Hindu Law, an HUF is a family which consists of all persons lineally descended from a common ancestor and includes their wives and unmarried daughters. Jain and Sikh families are treated as HUF under the Act, even though they are not governed by the Hindu Law.
- **A Company:** Both domestic and foreign companies are included under this classification. An individual and a company are not taxed at the same rate. Individuals are taxed on the basis of tax slabs at different rates. The income-tax paid by domestic and foreign companies, on their income in India, is corporate income tax (CIT)
- **A Firm or LLP:** Under the partnership law, a Firm is not a legal entity. However, for income tax as well as GST, it is a separate legal entity. Thus, a firm is regarded as a unit of assessment.
A limited liability partnership (LLP) is a body corporate formed and incorporated under the Limited Liability Partnership Act, 2008. It is a legally separated entity from that of its partner. **All firms and LLPs are, presently, taxed at a flat rate of 30%.**
- **An association of persons (AOP) or body of individuals (BOI), whether incorporated or not:** Here it is important to note that an AOP or BOI is deemed to be a person, whether or not, it was formed or established or incorporated **with the object of deriving income, profits or gains.**
Trust created wholly for charitable or religious purposes are allowed various benefits under the Income Tax Act, inter-alia, and exemption u/s 11.
- **A local authority:** A local authority means the Municipalities and Panchayats etc.
- **Artificial Juridical Person (AJP):** If an Assessee does not fall under any of the other categories that are included in the definition of Person then it is regarded as an Artificial Juridical Person.
These entities are not natural persons but separate entities as per law. The tax liability of a person depends upon his legal status and above mentioned categories. Different rates of tax are prescribed for different categories.

Classification Of Income Heads

For the purpose of Income Tax, the income is categorised in to five heads, as under:

Income from Salary:

- Income from salary and pension is covered under this head. The amount is arrived at after allowing standard **deduction of Rs. 50,000**, a deduction in respect of any allowance in the nature of an entertainment allowance (subject to certain conditions), and deduction of any sum paid on account of a tax on employment.

Income from House Property:

- This consists mostly of rental income. The taxes levied by any local authority in respect of the property, are allowed to be deducted.
- The amount of any interest payable on borrowed capital is also allowed to be deducted.

Profits and gains of Business or Profession:

- This is when you are self - employed, work as a freelancer or contractor, or you run a business.
- Life insurance agents, doctors, chartered accountants, and lawyers who have their own practice, tuition teachers, architects etc., Corporates, Banks, Insurance Companies and Financial Institutions are taxed under this head.

Income from Capital Gains:

- Income from sale of a capital asset such as mutual funds, shares, house property, and agricultural land is included under this head.
- Where a shareholder receives any money or other assets from the company on its liquidation, he shall be chargeable to income-tax under this head.

Income from Other Sources:

- Consists of income from savings bank account, fixed deposits, winnings from competitions etc. Gross total income is the total income earned by the assessee during any financial year.
- It is the sum total of all incomes earned by the Assessee under each of the above mentioned heads of income.

Incomes Not Included In Total Income

- ***In computing the total income of any person, any income falling within any of the clauses of Section 10 of the IT Act are not included.***
- **Some of these incomes:** Agricultural income, share of a partner in the total income of the firm, the value of any travel concession or assistance received by an individual, gratuity received, sum received on voluntary retirement or termination of service, payment from an approved superannuation fund, scholarships granted to meet the cost of education

Deductions To Be Made In Computing Total Income

Chapter VIA specifies the exemptions available for deductions from the Gross Income for the arriving at the taxable income of the Assessee to calculate the income tax liability.

These deductions are specified in **sections 80C to 80U**. **Some of these deductions are mentioned below:**

- **Section 80 C:** Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc. The aggregate amount of deductions under section 80C, section 80CCC and sub-section (1) of section 80CCD is limited to Rupees one hundred and fifty thousand.
- **Section 80D:** Deduction in respect of health insurance premia.
- **80E:** Deduction in respect of interest on loan taken for higher education.
- **80G:** Deduction in respect of donations to certain funds, charitable institutions, etc.
- **80QQB:** Deduction in respect of royalty income, etc., of authors of certain books other than text-books
- **80RRB:** Deduction in respect of royalty on patents.
- **80TTA:** Deduction in respect of interest on deposits in savings account.
- **80TTB:** Deduction in respect of interest on deposits in case of senior citizens.
- **80U:** Deduction in case of a person with disability.

New Tax Regime

- Through the **Finance Act 2020**, a **new section 115BAC** has been inserted in the **IT Act**, wherein an individual gets an option to choose between the existing tax rates and the new concessional tax rates by foregoing prescribed exemptions or deductions.
- **In 2019 - Section 115BAA**, has been inserted in the **IT Act**: benefit of a reduced corporate tax rate to domestic companies. It states that domestic companies have the option to pay tax at a rate of 22% (plus applicable surcharge and cess), from the FY 2019-20 onwards if they adhere to certain conditions specified.
- The domestic companies who do not wish to avail of this concessional rate immediately can opt for the same after the expiry of their exemptions/incentives.
- However, once a company opts for the concessional tax rate under this section, it cannot subsequently withdraw from it.

Filing IT Return

- It is mandatory to file the income tax returns for residents and NRIs whose gross total income **(before allowing any deductions under section 80C to 80U)** exceeds threshold exempt income for that assessment year.

- It is also mandatory if an income tax refund is to be claimed or a loss under a head of income is to be carried forward.
- It is also mandatory in case of a Resident individual having an asset or financial interest in an entity located outside of India.
- It is mandatory for a company or a firm irrespective of whether it has income or loss during the financial year.
- If after furnishing the return, a person finds any mistake, omission or any wrong statement, the return can be revised within prescribed time limit.
- e-Filing of return is mandatory.
- However, paper returns can be filed by those who **are above 80 years of age** and do not have any income from regular business or profession.

Applicable Form Of Income Tax Return (ITR)

- Particulars of income earned during a financial year and taxes paid on such income are provided to the IT Department.
- If the tax already paid > that payable, a refund is claimed.
- Certain losses can also be carry -forward to the next assessment year.
- Different forms of returns of income are prescribed for filing of returns depending on the status of the person and the nature of income.
- For the assessment year 2021-22 (i.e., financial year 2020-21) ITR - 1 to ITR -7 have been prescribed.

Deferred Tax

- The taxable income and accounting income may not be the same as the taxable income is calculated in accordance with tax laws while the accounting income is calculated by applying the accounting policies.
- The differences can be classified into permanent differences and timing differences.

Permanent differences

Originate in one period and do not reverse subsequently.

- For example: if the tax law does not allow an item of expenditure, the disallowed amount will result in a permanent difference.
- Timing differences originate in one period and are eligible for reversal in subsequent period/s.
- The Deferred Tax is brought into accounts to make the clear picture of current tax and future tax.

- ❑ This deferred tax results into inclusion of either the Deferred Tax Assets or the Deferred Tax Liabilities in the balance sheet.
- ❑ As per Ind AS, Deferred Tax liabilities should not be classified as current liabilities and Deferred Tax assets should not be classified as current assets.

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