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INDIAN INCOME TAX AND IT'S VARIOUS TOOLS.

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ABSTRACT:

Tax payment is mandatory for every citizen of the country. Taxation is the instrumental tool to procure resources for the government to enable it to formulate policy schemes for the overall development of the economy. Income tax plays an important role as a source of revenue and an effective measure of removal of economic disparity. Different objectives of taxation, each one of the comprehensive and cohesive tax system which can balance the different objectives in view of its own comprehensive and cohesive tax system which can balance the different objectives in view of its own requirements and goals. The present paper is an attempt to study the present tax structure in India and the recent reforms undertaken.

Meaning of Income Tax:

Tax is the allocation towards the fund of government it is collected by the authority under the law, tax may be on income, assets, goods, etc.

HOW TO FILE AN INCOME TAX RETURN:

Mandated by the Income Tax Department of India, filing an Income tax return is a process of reporting your gross total income from all the sources, while also mentioning various tax deductions and thereby declaring your net tax liability as a taxpayer, you can file your income tax return online on the official website of the Income tax department. It's a common misconception that the e-filing of income tax on the income tax website is a tedious process.¹ If the taxpayer follows guidelines properly and fulfills all the necessary steps in the filing process, it becomes a fast and smooth procedure.² Here's how you can perform the e-filing of your income tax return accurately. First things first, keep all of the necessary documents ready and handy. These documents may include Form 16/16A which you receive from your employer, Form 26AS which can be downloaded from TRACES, proof of investment, and loan

¹ incometaxindia, <https://incometaxindia.gov.in/Pages/faqs.aspx?k=FAQs+on+filing+the+return+of+income>, (last visited Aug. 21, 2023).

² bajajfinservmarkets, <https://www.bajajfinservmarkets.in/tax-filing/what-is-the-difference-between-tax-declaration-and-tax-filing.html>, (last visited Aug. 21, 2023).

certificates received from your insurer or bank. What are Form 16 & 16A? Form 16 is a certificate provided by the employer in order to certify your annual salary, allowances, and the TDS deducted. What is Form 26AS?³ This form contains consolidated information on all taxes that have been deducted from your income by tax collectors, any advance or self-assessment taxes paid, and tax refunds, among others.

ITR 1: Resident individuals with incomes from salary or pension, one residential property, other sources, or agricultural income up to INR 5,000 can fill in this form. Total income must be less than INR 50 Lacs.⁴

ITR 2: Resident individuals with income from salary or pension, one residential property, or other sources can fill in this form. Total income must exceed INR 50 Lacs. Agricultural income must be above INR 5,000. If another individual's income is clubbed with the assessee's, this form can be used. Those who have invested in unlisted equity shares or the ones posing as individual directors of a company are eligible to file ITR 2.⁵

ITR 3: Resident Individuals with incomes from profession or business sources, one residential property, or other sources can file this return. Those who have invested in unlisted equity shares or those serving as individual directors of a company are eligible. Those who are a partner in a firm can file ITR 3. If your business turnover is beyond INR 2 Crores, file ITR 3.⁶

ITR 4: Resident individuals, Hindu Undivided Families (HUFs), and Partnership Firms other than LLP (Limited Liability Partnership) with incomes from profession or business can file this return. If you have signed up for any income schemes under Section 44AD, 44ADA, and 44AE, you can file ITR 4.⁷

³ relakhs, <https://www.relakhs.com/form-16-form-16a-form-26as-tds-itr/#:~:text=It%20is%20a%20form%20which,been%20deposited%20with%20the%20Govt.&text=The%20Form%2026AS%20contains%20details,cross%20checked%20using%20Form%2026AS.,> (last visited Aug. 21, 2023).

⁴ cleartax, <https://cleartax.in/s/itr1>, (last visited Aug. 21, 2023).

⁵ tax2win,

<https://tax2win.in/guide/itr2#:~:text=Following%20are%20required%20to%20file,or%20director%20in%20a%20company>, (last visited Aug. 21, 2023).

⁶ cleartax, *Supra* note 04, at 795.

⁷ *Ibid*, at 795.

ITR 5: Firms, Limited Liability Partnerships (LLP), Artificial Juridical Persons (AJP), Body of Individuals (BOI), and Association of Persons (AOP) are eligible to file this form. Also, business trusts, the estate of the deceased, and the estate of insolvent and investment funds can file ITR 5.⁸

ITR 6: Those companies who have not claimed a tax exemption under section 11 (income from the property based on a charity or religious establishment) have to file ITR 6.⁹

ITR 7: If persons/companies (trusts) are required to furnish ITR under either of the sections 139(4A), 139(4B), 139(4C), 139(4D), 139(4E), 139(4F), they must file ITR 7.¹⁰

Disadvantages of missing ITR filing deadline:

Apart from the penalty, there are other disadvantages of filing a belated return to a taxpayer. You lose out on interest paid on refund from the income tax department. For example, if you are eligible for a refund and have filed the return before the due date, interest on the refund is calculated from April 1 to the date when the refund is made.¹¹ If you file a belated return, interest on the refund is calculated from the day you filed the return to the day the refund was granted. You won't be able to carry forward losses if you file ITR after the due date. However, if you are showing a loss under income from house property, you can carry forward the loss even if you are filing after the deadline.¹²

How to file an ITR after the due date?:

The process of filing a belated return is similar to that of filing an ITR before or on the due date. The only difference is that while selecting the applicable ITR form, you need to select "Return filed under section 139(4)" in the drop-down menu. If there are errors in the return that you have filed after the due date, you can still rectify it by filing a revised return. Also, remember to E-verify or send your ITR V for verification to the income tax department within¹³

⁸ Ibid, at 796.

⁹ Ibid, at 796.

¹⁰ Ibid, at 796.

¹¹ businesstoday, <https://www.businesstoday.in/personal-finance/tax/story/itr-filing-fy-2022-23-heres-what-happens-if-you-miss-filing-itr-by-july-31-390675-2023-07-21>, (last visited Aug. 21, 2023).

¹² cleartax, <https://cleartax.in/s/set-off-carry-forward-losses>, (last visited Aug. 21, 2023).

¹³ Economic times, <https://economictimes.indiatimes.com/wealth/tax/what-happens-if-you-miss-tomorrows-itr-filing-deadline/articleshow/65574404.cms?from=mdr>, (last visited Aug. 21, 2023).

120 days of filing the return. Lastly, as you have learned about the repercussions of missing the deadline for ITR filing, you have stronger reasons now not to miss the extended deadline this year. If you are just a little bit careful and have all the information and documents handy, filing your IT return online is a fast, easy, and smooth process.

Purpose and Significance of Form 16A:

1. Details in Form 16/16A.¹⁴
2. Usually, this form contains the following information.
3. Name and address of the employer.
4. PAN (Permanent Account Number) and TAN of the employer.
5. PAN of the employee.
6. The Assessment Year (AY)
7. The assessment time period for which the individual was employed with the employer in the concerned Financial Year.
8. Summary of the amount paid or credited, and tax deducted at source as mentioned in respect of the employee.
9. Date of income tax deduction from the salary.
10. Date of tax deposition in the government's account.
11. Acknowledgement Number of the TDS Payment.
12. Details of tax deducted and deposited in the central government account through book adjustment and through challan.

In a similar way, Form 16A performs the same function but for TDS on Income Other than Salary. Banks issue a Form 16A when TDS is deducted by them on interest earned by you in fixed deposits. Similarly, if you are a freelancer, your client will also issue you form 16A if they've made TDS deductions on the professional fees or payments made to you. Form 16A is also issued for TDS deductions on insurance commission paid.¹⁵ This certificate also has details of the name & address of the deductor/deductee, PAN/TAN details, and details of TDS

¹⁴ incometaxindia, <https://incometaxindia.gov.in/Pages/tax-services/form-16A-download-deductor.aspx#:~:text=Form%2016%2F%2016A%20is%20the,these%20certificates%20to%20Tax%20Payers.,> (last visited Aug. 21, 2023).

¹⁵ cleartax, <https://cleartax.in/s/difference-between-form16-and-form16a>, (last visited Aug. 21, 2023).

deducted & deposited, in almost the same format as Form 16. The income on which TDS is deducted is also specified.

What is TDS?:

The income tax is a direct tax levied on your income depending on which tax bracket you fall in. As per the Indian tax system, TDS, or Tax Deducted at Source is an important taxation term and has great significance for taxpayers. According to the concept of TDS, a person (deductor) who is liable to make payment to any other person (deductee) shall deduct tax at source and remit the same amount into the account of the central government. In other words, TDS is a means of collecting income tax by the government and is convenient to the deductee as it is automatically deducted.

What is TDS in Income Tax?:

Section	Payment Type	TDS Rates (in %)
Sec 192 ¹⁶	TDS on Salary Income	No specific rate of TDS on salary
Sec 194 ¹⁷	TDS on Dividend u/s 2(22)	10%
Sec 194 A ¹⁸	TDS in Interest Income (other than that on securities)	10%
Sec 194 C ¹⁹	TDS on Payment/ credit to a resident contractor or sub-contractor	1% for HUF 2% (for others)
Sec 194 D ²⁰	TDS on Insurance Commission	5% for HUF 10% (for others)

¹⁶ The Income-tax Act, 1961, Sec. 192, No. 43, Acts of Parliament, 1961 (India)

¹⁷ The Income-tax Act, 1961, Sec. 194, No. 43, Acts of Parliament, 1961 (India)

¹⁸ The Income-tax Act, 1961, Sec. 194A, No. 43, Acts of Parliament, 1961 (India)

¹⁹ The Income-tax Act, 1961, Sec. 194C, No. 43, Acts of Parliament, 1961 (India)

²⁰ The Income-tax Act, 1961, Sec. 194D, No. 43, Acts of Parliament, 1961 (India)

Sec 194G²¹	TDS on Commission on sale of lottery tickets	10%
Sec 194H²²	TDS on Commission or Brokerage	5%
Sec 194-I²³	TDS on rent Income received	2% (from plant, machinery or equipment) 10% (from furniture or fixtures, land, and building)
Sec 194-IA²⁴	TDS on Transfer of any immovable property (other than rural land)	1%
Sec 194 J²⁵	TDS on Royalty, technical or Professional fees, or remuneration to a Director	10%
Sec 94LA²⁶	TDS on Acquisition of any specific immovable property	10%
Sec194N²⁷	TDS on Cash withdrawal	2% (exceeding Rs. 20 lakh) 5% (exceeding Rs. 1 crore)

For those who aren't aware of TDS meaning and wonder 'What is TDS', it is the income tax deducted from the amount during a specific payment. According to the Income Tax Act of India, 1961, every individual or organization is liable to pay the tax if their income is above the set limit. TDS is applicable to multiple types of payments, like salary, earned commission, rent, interest payments by banks, professional or consultant fees, etc. TDS was introduced with an aim to collect tax from the very source of income. Usually, the person receiving such income is liable to pay the income tax. The recipient receives the total amount after the TDS deduction. The gross amount is added to his/her income and the TDS is adjusted for his/her final tax

²¹ The Income-tax Act, 1961, Sec. 194G, No. 43, Acts of Parliament, 1961 (India)

²² The Income-tax Act, 1961, Sec. 194H, No. 43, Acts of Parliament, 1961 (India)

²³ The Income-tax Act, 1961, Sec. 194-I, No. 43, Acts of Parliament, 1961 (India)

²⁴ The Income-tax Act, 1961, Sec. 194-IA, No. 43, Acts of Parliament, 1961 (India)

²⁵ The Income-tax Act, 1961, Sec. 194 J, No. 43, Acts of Parliament, 1961 (India)

²⁶ The Income-tax Act, 1961, Sec. 194 LA, No. 43, Acts of Parliament, 1961 (India)

²⁷ The Income-tax Act, 1961, Sec. 194N, No. 43, Acts of Parliament, 1961 (India)

liability. The overall TDS can be claimed as a tax refund after the taxpayer files his/her Income Tax Return.

What are TDS Rates?:

Given Below Are 5 income sources that should be considered while filing taxes:

Income from investments - fixed deposits and savings bank and long-term capital gains: Interest on savings account is taxable as per Income tax slab rates applicable to the investor. Interest earned from fixed deposits is also liable to be taxed on an accrual basis at the slab rate applicable. However, deduction under section 80TTA is allowed on interest from savings accounts and fixed deposit accounts capped at Rs.10,000 in a year. This deduction is available only to individuals and HUFs. If you furnish Form 15G or Form 15H, the bank won't deduct TDS. Also, it is important to note here that senior citizens receiving interest income from FDs, savings account and recurring deposits can avail of income tax exemption of up to Rs 50,000 annually.²⁸

Income from insurance commission:

In case total commissions earned by you as an insurance agent are less than Rs60,000 from all sources, then certain ad hoc deductions are available to you which can be deducted from the commission income. This income is then taxed under the head Profits & Gains of Business & Profession. If the commission earned by you as an insurance agent exceeds Rs 60,000 from all sources, it will be treated in the same way as that of a freelancer or a professional.

Income from Rent:

Income from property is considered taxable. This could be any property – commercial, residential, or industrial, including a residential house, office building, shop, factory, hall, etc., and any land associated with the building (e.g. garden, compound, playground, car parking space, etc.). Under property, you need to pay tax not only on the actual income but also on deemed rental from the property in such cases. Since it gets a little complicated, you may miss out on recording it in ITR filing. However, the deemed rental is to be calculated based on an assessment of the potential income that a property is capable of earning.

²⁸ cleartax, <https://cleartax.in/s/other-income-sources>, (last visited Aug. 21, 2023)

Income from family pension:

Uncommuted pension or any periodical payment of pension is fully taxable as salary. Commuted pension or lump sum received may be exempt in case you were a government employee. For private employees, it would only be partially exempt. Income from fees for professional or technical services, as in the case of freelancing: If you also take side gigs or projects, it is easy to forget them during ITR filing as they may not seem as consistent as salary. However, each earning is to be accounted for while filing income tax returns. In most cases, freelance money is only deducted to the extent of profit –any expenses related to the work are to be deducted from the money or fee received.

