
e-Book PDF
INCOME TAX
MANAGEMENT
TAX READY RECKONER
2025-26 & 2026-27
TAX PLANNING-TAX AVOIDANCE-TAX EVASION
By
Sanjay Satapathy
Useful For ...
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Introduction

Here is an introduction about the e-Book (PDF) authored by **Sanjay Satapathy**, published under SWAYAM EDUCATION and featured on the website **www.incometaxmanagement.in**, with the title **"Income Tax Management - Tax Ready Reckoner"** for the Assessment Years 2025-26 & 2026-27.

"Income Tax Management - Tax Ready Reckoner" by Sanjay Satapathy is a digital guide designed to simplify the complexities of Indian income tax laws and practices for the assessment years 2025-26 and 2026-27. Released under the academic and professional banner of SWAYAM EDUCATION, and curated for accessibility on **www.incometaxmanagement.in**, this e-Book (PDF format) serves as an essential reference for students, professionals, taxpayers, and educators alike.

Key Highlights

Comprehensive Coverage: The book provides a detailed overview of the latest income tax provisions, rules, and amendments relevant for AY 2025-26 and 2026-27. It addresses both theoretical concepts and practical applications in tax planning and compliance.

User-Friendly Format: Presented in a ready reckoner style, it enables users to quickly access important sections such as tax rates, deductions, exemptions, and computation methods suitable for various categories of taxpayers.

Target Audience: Suitable for students preparing for competitive exams, tax practitioners, salaried individuals, businesspersons, and those interested in self-learning or updating their knowledge about India's income tax system.

Practical Insights: The e-Book emphasizes real-world scenarios, tax saving strategies, compliance requirements, and step-by-step instructions for filing income tax returns, making it highly useful for direct reference.

Up-to-Date Information: All content is updated as per the latest Finance Act, circulars, and notifications of the Government of India for the respective assessment years.

Purpose

The e-Book aims to demystify tax management, making taxation concepts clear, practical, and implementable. It empowers readers not only to comply with tax laws efficiently but also to plan and manage taxes wisely, avoiding common pitfalls and seizing available benefits.

Whether you are a student, a professional, or a taxpayer in India, "Income Tax Management - Tax Ready Reckoner" by Sanjay Satapathy stands as a reliable companion for your tax-related needs in AY 2025-26 & 2026-27.

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Foreword

These books are self-supporting and are written in easy to follow language and have been blended with large number of examples. The material is provided in a pleasing-to-eye format so as to retain and enhance the interest of the learners. We are sure the learners would find these texts by useful.

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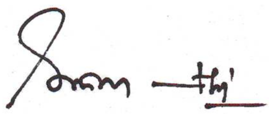

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Amendments brought in the Income-Tax Act by The Finance Bill, 2025

Here is a detailed breakdown of the key amendments introduced in the Income-Tax Act, 1961 by the Finance Bill, 2025.

1.1. Amendments Related to Investment Funds and IFSCs

1) **Section 9A (Investment Fund Participation Rules):**
   - Indirect investments by Indian residents in offshore funds are now excluded from the 5% limit, reducing compliance burdens .
   - The Central Government can relax conditions for eligible investment funds/fund managers in International Financial Services Centres (IFSCs) .
2) **Section 10(4D) (Tax Exemptions for Specified Funds):**
   - Retail Schemes and Exchange-Traded Funds (ETFs) regulated under IFSCA (Fund Management) Regulations now qualify for tax exemptions .
   - Funds must comply with IFSCA regulations instead of additional CBDT-prescribed conditions .
3) **Section 47(viiad) (Tax-Neutral Relocation of Funds):**
   - Expands the definition of "resultant fund" to include Retail Schemes and ETFs, allowing tax-free relocation to IFSCs without meeting Section 10(4D) conditions .
4) **Section 10(4E) (Exemptions for Non-Residents in IFSCs):**
   - Extends tax exemptions to non-residents trading in offshore derivative instruments and OTC derivatives with Foreign Portfolio Investors (FPIs) in IFSCs .
5) **Section 10(10D) (Life Insurance Policies in IFSCs):**
   - Corrects the reference from "IFSC insurance intermediary offices" to "IFSC insurance offices" for tax-exempt life insurance policies .

1.2. Presumptive Taxation for Non-Residents

New Section 44BBD:

Section 44BBD, introduced by the Finance Act 2025, is a **presumptive taxation scheme** designed to attract foreign expertise into India's electronics manufacturing sector by simplifying tax compliance for non-residents.

Who It Applies To

Non-resident entities that:

- Provide **services or technology** to a **resident Indian company**
- That company must be **setting up or operating an electronics manufacturing facility** under a scheme notified by the **Ministry of Electronics and Information Technology (MeitY)**

Key Features

- **Presumptive Income**: 25% of the total receipts from such services will be deemed as taxable business income.
- **No Deductions Allowed**: No further deductions for expenses, depreciation, or losses under Sections 32 or 72.
- **Overrides Normal Provisions**: Operates *notwithstanding* Sections 28 to 43A, meaning it bypasses standard profit computation rules.
- **Effective Date**: Applies from **Assessment Year 2026–27** (i.e., from 1 April 2026

1.3. Block Assessment and Undisclosed Income

Chapter XIV-B (Sections 158BA, 158BB, 158BE):

- Replaces "total income" assessment with **"undisclosed income" assessment** in search/seizure cases .
- **Undisclosed income**

  includes:

  - Income declared in block returns.
  - Income determined by the Assessing Officer (AO) based on search evidence .

  Excludes income already assessed under regular provisions (e.g., Sections 143, 147) .

- **Time limit for block assessments:**
  - 12 months (extendable to 13 months if extended under Section 158BC) .
- **Tax rate:** Undisclosed income taxed at **60%** .

1.4. Income Tax Slabs for FY 2025-26 (AY 2026-27)

The Budget 2025 proposed new tax slab rates under section 115BAC i.e., the New Tax Regime or the Default Tax Regime. This was to ensure that individuals save more and increase their spending capacity. These revised tax slab rates will be applicable for income earned in FY 2025-26 onwards.

INCOME RANGE (₹)	TAX RATE
Up to 4,00,000	0%
4,00,001 – 8,00,000	5%
8,00,001 – 12,00,000	10%
12,00,001 – 16,00,000	15%
16,00,001 – 20,00,000	20%
20,00,001 – 24,00,000	25%
Above 24,00,000	30%

Key Features of the New Regime:

1. **Increased Rebate (Section 87A)**:
    - Rebate raised to **₹60,000** (from ₹25,000), making incomes up to **₹12 lakh tax-free** .
    - For salaried individuals, the effective tax-free limit is **₹12.75 lakh** (including ₹75,000 standard deduction) .
2. **Higher Basic Exemption**:
    - Increased from ₹3 lakh to **₹4 lakh** .
3. **No Major Deductions**:
    - Only **standard deduction (₹75,000)** and **employer's NPS contribution (14% of basic salary)** are allowed .
4. **Surcharge**:
    - Capped at **25%** for incomes above ₹2 crore (vs. 37% in the old regime) .

Old Tax Regime Slabs (FY 2025-26)

No changes were made to the old regime slabs, which remain age-dependent :

For Individuals Below 60 Years:

INCOME RANGE (₹)	TAX RATE
Up to 2,50,000	0%
2,50,001 – 5,00,000	5%
5,00,001 – 10,00,000	20%
Above 10,00,000	30%

For Senior Citizens (60–80 Years):

- **₹3 lakh** basic exemption (0% tax).
- **5%** for ₹3–5 lakh, **20%** for ₹5–10 lakh, **30%** above ₹10 lakh .

For Super Seniors (80+ Years):

- **₹5 lakh** basic exemption (0% tax).
- **20%** for ₹5–10 lakh, **30%** above ₹10 lakh .

Key Changes in FY 2025-26

1. **Rebate Expansion**:
   - Tax-free income limit raised to ₹12 lakh (new regime) .
2. **TDS Thresholds Increased**:
   - Senior citizens' interest income TDS threshold raised to **₹1 lakh** (from ₹50,000) .
   - Rent TDS threshold increased to **₹50,000/month** (from ₹2.4 lakh/year) .
3. **TCS Relaxations**:
   - No TCS on education loans under LRS (Liberalized Remittance Scheme) .
   - Threshold for overseas remittance TCS raised to **₹10 lakh** (from ₹7 lakh) .

Which Regime to Choose?

- **New Regime**: Better for those with **limited investments/deductions** (e.g., salaried employees with incomes under ₹12 lakh) .
- **Old Regime**: Beneficial for those claiming **deductions (e.g., 80C, 80D, HRA)** or with incomes above ₹15 lakh

1.5. Revised TDS threshold Limits effective from April 1, 2025

Here's a consolidated table of the **revised TDS threshold limits effective from April 1, 2025**, based on the Finance Act 2025 amendments:

Key TDS Threshold Changes (FY 2025-26)

SECTION	NATURE OF PAYMENT	OLD THRESHOLD (PRE-APRIL 2025)	NEW THRESHOLD (FROM APRIL 2025)	TDS RATE
193	Interest on Securities	Nil	₹10,000	10%
194A	Interest (other than securities)	₹50,000 (senior citizens), ₹40,000 (others)	₹1,00,000 (seniors), ₹50,000 (others)	10%
194	Dividend to individual shareholders	₹5,000	₹10,000	10%
194B	Lottery/Crossword Puzzle Winnings	₹10,000 (annual aggregate)	₹10,000 **per transaction**	30%
194BB	Horse Race Winnings	₹10,000 (annual aggregate)	₹10,000 **per transaction**	30%
194D	Insurance Commission	₹15,000	₹20,000	2% (Ind/HUF), 10% (Others)
194G	Lottery Ticket Commission	₹15,000	₹20,000	2%
194H	Brokerage/Commission	₹15,000	₹20,000	2%
194I	Rent	₹2,40,000 (annual)	₹50,000 **per month**	2% (machinery), 10% (land/building)
194J	Professional/Technical Fees	₹30,000	₹50,000	10% (general), 2% (call centers/tech services)

SECTION	NATURE OF PAYMENT	OLD THRESHOLD (PRE-APRIL 2025)	NEW THRESHOLD (FROM APRIL 2025)	TDS RATE
194K	Mutual Fund Income (dividend)	₹5,000	₹10,000	10%
194LA	Compensation on Immovable Property	₹2,50,000	₹5,00,000	10%
194T	Partner's Remuneration (new section)	–	₹20,000 (annual)	10%

Key Highlights of Changes

1. **Senior Citizen Benefits**:
   - Interest income (Section 194A) threshold doubled to **₹1 lakh** for seniors.
   - No TDS if interest from FDs/RDs stays below this limit.
2. **Rent Payments (Section 194I)**:
   - Shift from **annual** (₹2.4L) to **monthly** threshold (₹50,000/month).
3. **Simplified Gaming/Winnings Tax**:
   - TDS on lottery/horse race winnings now applies **per transaction** (not annual aggregate).
4. **New Section 194T**:
   - **10% TDS** on partner remuneration exceeding ₹20,000/year in firms/LLPs.
5. **Removed Provisions**:
   - **Section 206AB** (higher TDS for non-filers) scrapped, easing compliance.

1.6. Key changes to Tax Collected at Source (TCS) effective from April 1, 2025

Here's a structured table summarizing the **key changes to Tax Collected at Source (TCS) effective from April 1, 2025**, based on the Finance Bill 2025 amendments:

TCS Changes from April 2025

SECTION	TRANSACTION TYPE	OLD THRESHOLD/RATE (PRE-APRIL 2025)	NEW THRESHOLD/RATE (FROM APRIL 2025)	KEY NOTES
206C(1G)	**Remittances under LRS**	₹7 lakh threshold	₹10 lakh threshold	No TCS below ₹10L; applies to foreign tours, gifts, investments .
	- Education (self-funded)	5% above ₹7L	5% above ₹10L	Medical treatment similarly taxed .
	- Education (via loan)	5% above ₹7L	**Exempt** (No TCS)	Applies to loans from RBI-recognized institutions .
	- Other purposes (investments, gifts)	20% above ₹7L	20% above ₹10L	Includes overseas tour packages .
206C(1H)	**Sale of goods**	0.1% on sales >₹50L	**Removed**	Eliminates overlap with TDS under Section 194Q .
206C(1F)	**Luxury goods (e.g., cars, art, watches)**	1% on sale >₹10L	**Expanded categories**	Now covers yachts, helicopters, designer bags, etc. .

SECTION	TRANSACTION TYPE	OLD THRESHOLD/RATE (PRE-APRIL 2025)	NEW THRESHOLD/RATE (FROM APRIL 2025)	KEY NOTES
206C(1)	**Forest produce (timber, etc.)**	2.5%	**Reduced to 2%**	Excludes tendu leaves (remains 5%) .
206CCA	**Higher TCS for non-filers**	Higher rates (e.g., 5% vs. 1%)	**Section omitted**	No need to verify ITR filing status of buyers .
276BB	**Prosecution for delayed TCS payment**	Strict penalties	**Exemption if paid by quarterly due date**	Relief for minor delays .

Key Takeaways :

1. **LRS Simplification**: Higher threshold (₹10L) and education loan exemption reduce compliance burden for students/medical travelers.
2. **Business Ease**: Removal of TCS on goods (Section 206C(1H)) and non-filer penalties (206CCA) streamlines transactions.
3. **Luxury Goods**: New 1% TCS on high-value items targets undisclosed income .
4. **Forest Produce**: Rate cut to 2% benefits timber traders

1.7. Extension of Time Limits for Filing Updated Tax Returns (ITR-U)

Here's a structured table summarizing the **extension of time limits for filing Updated Tax Returns (ITR-U) under the Income Tax Act, 1961**, as amended by the Finance Bill 2025:

Updated Tax Return (ITR-U) Time Limits and Additional Tax Liability

TIME PERIOD FOR FILING ITR-U	EXTENDED DEADLINE	ADDITIONAL TAX PAYABLE	KEY CONDITIONS
Within **12 months** from the end of the relevant Assessment Year (AY)	Up to 1 year from original due date (e.g., 31 July 2026 for FY 2024-25 AY 2025-26)	**25%** of (tax + interest)	Applies to missed income disclosures or errors .

TIME PERIOD FOR FILING ITR-U	EXTENDED DEADLINE	ADDITIONAL TAX PAYABLE	KEY CONDITIONS
Within **24 months** from the end of the AY	Up to 2 years from original due date	**50%** of (tax + interest)	Must disclose previously omitted income .
Within **36 months** from the end of the AY	Up to 3 years from original due date	**60%** of (tax + interest)	Excludes cases under scrutiny or audit .
Within **48 months** (new limit) from the end of the AY	Up to **4 years** from original due date (e.g., 31 March 2029 for FY 2024-25 AY 2025-26)	**70%** of (tax + interest)	Introduced to encourage voluntary disclosures .

Key Notes:

1. **Purpose**: ITR-U allows taxpayers to correct omissions/discrepancies in original returns, such as unreported income or missed deductions 8.
2. **Exclusions**: Cannot be filed if:
    - The return is already under scrutiny, audit, or reassessment.
    - To claim refunds or carry forward losses .
3. **Payment Deadline**: Additional tax must be paid before filing ITR-U to avoid penalties

1.8. Tax Exemption for Start-ups

Start-ups in India can benefit from significant tax exemptions under **Section 80-IAC** of the Income-tax Act, designed to support innovation and entrepreneurship.

Key Features of the Exemption

- **100% tax deduction** on profits for **3 consecutive years** out of the first **10 years** since incorporation.
- Available to **DPIIT-recognized start-ups** that are:
    - Incorporated as a **Private Limited Company** or **LLP**
    - Engaged in an *eligible business* (innovation, development, or scalable models with job/wealth creation potential)
    - Have a turnover of **less than ₹100 crore** in any previous year

Budget 2025 Update

The eligibility window for incorporation has been **extended to 31 March 2030**, allowing more start-ups to qualify for the tax holiday.

Additional Relief – Angel Tax Exemption (Section 56)

Recognized start-ups can also apply for exemption from **Angel Tax** under Section 56(2)(viib), provided:

- Aggregate paid-up capital and share premium after issue does not exceed ₹25 crore
- The investor and investment meet prescribed conditions

You can apply for both exemptions through the Startup India portal after obtaining DPIIT recognition.

1.9. Key Amendments related to Deduction on Remuneration paid to Partners

Here's a structured summary of the **key amendments related to deduction on remuneration paid to partners** introduced by the **Finance Bill 2025**, based on the latest updates:

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1. Increased Permissible Limits for Partner Remuneration

Amendment: The deduction limit for remuneration paid to **working partners** under **Section 40(b)** has been **doubled** from FY 2025-26 (AY 2026-27) .

BOOK PROFIT	FY 2024-25 LIMIT	FY 2025-26 LIMIT (REVISED)
First ₹3 lakh (or loss)	₹1.5 lakh or 90% of profit*	**₹3 lakh or 90% of profit***
Remaining book profit	60% of profit	**60% of profit (unchanged)**

Example:

For a book profit of ₹9 lakh:

- **FY 2024-25**: Max deduction = ₹6.3 lakh [(₹3L × 90%) + (₹6L × 60%)].
- **FY 2025-26**: Max deduction = ₹7.2 lakh [(₹6L × 90%) + (₹3L × 60%)] .

Conditions:

- Remuneration must be authorized in the **partnership deed**.
- Only applicable to **working partners** (not sleeping partners or LLPs) .

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2. Introduction of TDS on Partner Remuneration (Section 194T)

New Rule:

From **April 1, 2025**, firms must deduct **10% TDS** on:

- Salary, bonus, commission, or interest paid to partners if **annual aggregate exceeds ₹20,000** .

Key Points:

- **Covered Payments**: Remuneration, interest on capital/loans, commissions.
- **Exempt Payments**: Capital repayments or profit shares .
- **Timing**: TDS deducted at the **earlier of payment or credit to partner's account** .
- **Non-Resident Partners**: Ambiguity exists on whether Section 194T or 195 applies; CBDT clarification awaited .

Penalties for Non-Compliance:

- **1% monthly interest** for non-deduction.
- **30% disallowance** of the expense .

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3. Impact on Tax Planning

- **Firms**: Must update partnership deeds to reflect revised remuneration limits and ensure TDS compliance .
- **Partners**: Remuneration remains taxable as **"Profits from Business/Profession"**, while disallowed amounts are exempt .

Example Scenario:

If a firm pays ₹5 lakh as remuneration (within revised limits):

- **Firm**: Claims full deduction under Section 40(b).
- **Partner**: Pays tax on ₹5 lakh, minus TDS of ₹50,000 (if applicable) .

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4. Key Exclusions

- **LLPs**: Section 40(b) does not apply; remuneration rules differ .
- **Presumptive Taxation (Section 44AD/ADA)**: No deduction allowed for partner remuneration .

Summary of Changes

ASPECT	PRE-2025	POST-2025 (FINANCE BILL 2025)
Remuneration Limit	₹1.5L/₹3L + 60%	**₹3L/₹6L + 60%**
TDS on Payments	Not applicable	**10% if >₹20K annually**
Compliance	Lax	**Strict (TDS + deed updates)**

1.10. Treatment of ULIPs (Unit-Linked Insurance Plans) as Capital Gains

Here's a detailed summary of the **treatment of ULIPs (Unit-Linked Insurance Plans) as capital gains** under the **Finance Bill 2025**, including key changes, tax rates, and applicability:

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1. Key Changes in ULIP Taxation (Effective April 1, 2026)

- **Capital Asset Classification**: ULIPs with annual premiums **exceeding ₹2.5 lakh** will now be classified as **capital assets** under **Section 2(14)** of the Income Tax Act, 1961 .
- **Taxation as Capital Gains**: Redemption proceeds from non-exempt ULIPs (premiums > ₹2.5 lakh) will be taxed under **capital gains** (Section 45(1B)) instead of "Income from Other Sources" .
- **Equity-Oriented Fund Status**: Non-exempt ULIPs are included in the definition of **equity-oriented funds** under **Section 112A**, aligning their tax treatment with equity mutual funds .

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2. Tax Rates for ULIP Redemption

HOLDING PERIOD	TAX RATE	TAX TYPE
<12 months	20%	Short-Term Capital Gains (STCG)
≥12 months	12.5%	Long-Term Capital Gains (LTCG)

Note:

- For ULIPs issued **before February 1, 2021**, the ₹2.5 lakh premium rule does not apply (maturity remains tax-free) .
- **Death benefits** remain **tax-exempt** under Section 10(10D), irrespective of premium amount .

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3. Conditions for Tax Exemption

ULIP maturity proceeds are **tax-free** under **Section 10(10D)** only if:

1. **Premium Limit**: Annual premium ≤ ₹2.5 lakh (for policies issued after February 1, 2021) .
2. **Sum Assured Ratio**: Premium must be ≤10% of the sum assured (for policies issued after April 1, 2012) .
3. **Multiple ULIPs**: Aggregate premiums across all ULIPs must not exceed ₹2.5 lakh/year .

Example: If you hold 3 ULIPs with annual premiums of ₹1 lakh, ₹1 lakh, and ₹60,000, all remain tax-exempt. If one policy has a ₹3 lakh premium, its maturity proceeds will be taxable .

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4. Rationale for the Change

- **Preventing Tax Avoidance**: High-net-worth individuals were using ULIPs to invest large sums in equities tax-free. The new rules ensure parity with direct equity investments .
- **Clarity**: Earlier, non-exempt ULIPs faced ambiguity in tax treatment (e.g., whether taxed as "Other Income" or capital gains). The 2025 amendment resolves this .

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5. Impact on Investors

- **Higher Premium Policies**: Investors paying >₹2.5 lakh/year will now pay **12.5% LTCG tax** (vs. earlier slab rates up to 30%) .
- **Planning Tip**: Split investments across multiple ULIPs to stay under the ₹2.5 lakh/year threshold for tax-free maturity .

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6. Comparison with Pre-2025 Rules

ASPECT	PRE-2025	POST-2025 (FINANCE BILL 2025)
Tax Treatment	Taxed as "Other Income" (slab rates)	Taxed as capital gains (12.5% LTCG)
Premium Threshold	₹2.5 lakh/year (exemption limit)	Same, but clarity on capital gains tax
Holding Period	Not defined	12+ months for LTCG benefits

1.11. Relaxation of Deemed Let-Out Property Provision under the Finance Bill 2025.

Here's a detailed summary of the **relaxation of deemed let-out property provisions** under the **Finance Bill 2025**, including key changes, tax implications, and practical examples:

1. Key Changes in Deemed Let-Out Property Rules (Effective April 1, 2025)

- **Removal of Occupation Conditions**: Previously, taxpayers could claim **two properties as self-occupied** only if they couldn't occupy the second property due to **employment, business, or profession** elsewhere. This condition has been **removed** .
- **Simplified Declaration**: Now, taxpayers can declare **any two properties as self-occupied** (with nil annual value) **regardless of the reason for non-occupation** (e.g., vacation home, family use, or personal preference) .
- **Third Property Rule Unchanged**: Properties beyond the first two will still be **deemed let-out**, and notional rent will apply .

2. Tax Implications

SCENARIO	PRE-2025 TREATMENT	POST-2025 TREATMENT
Two Self-Occupied Properties	One tax-free; second taxed if not meeting employment/business conditions	**Both tax-free** (nil annual value)
Three or More Properties	Two tax-free (if conditions met); others deemed let-out	**Two tax-free**; third deemed let-out

Example:

- **Mr. A** owns three houses (Delhi, Mumbai, Goa).
  - **Pre-2025**: Only Delhi (self-occupied) and Mumbai (if work-related) could be tax-free. Goa deemed let-out.
  - **Post-2025**: **Delhi and Mumbai** can be declared tax-free; Goa deemed let-out .

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3. Key Benefits

1. **Reduced Compliance Burden**: No need to prove employment/business reasons for non-occupation .
2. **Boost to Real Estate**: Encourages investment in **secondary/vacation homes** by eliminating notional rent tax .
3. **Simplified Filing**: Taxpayers no longer need to calculate or report deemed rental income for two properties .

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4. Practical Impact

- **Homeowners**: Save taxes on second properties (e.g., ₹4.8 lakh notional rent no longer taxed for a ₹40K/month property) .
- **Investors**: Makes owning multiple properties more attractive, especially in **tier 2/3 cities** .
- **Professionals**: Eases tax burdens for those with properties in multiple cities (no relocation proof needed) .

1.12. Removal of Equalisation Levy under the Finance Bill 2025

Here's a detailed summary of the **removal of the Equalisation Levy (EL)** in India, including key changes, effective dates, and implications:

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1. Overview of Equalisation Levy Removal

The **Finance Bill 2025** has abolished the **6% Equalisation Levy (EL)** on digital advertising services provided by non-resident companies, effective from **April 1, 2025**. This follows the earlier removal of the **2% EL on e-commerce transactions** in **2024**.

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2. Key Changes

ASPECT	PRE-2025	POST-2025 (FINANCE BILL 2025)
6% EL on Digital Ads	Applied to B2B transactions (e.g., Google, Meta ads)	**Abolished** from April 1, 2025 .
2% EL on E-Commerce	Applied to non-resident e-commerce operators (e.g., Amazon, SaaS providers)	**Already removed in 2024**.
Compliance	Indian businesses withheld 6% on payments >₹1 lakh/year	**No EL deduction required**.
Tax Treaties	EL was outside Income Tax Act, leading to disputes	Now assessed under **Permanent Establishment (PE)** or **Royalty/FTS** rules .

[CHAPTER-2]
Important Concepts of Taxation

2.1. Definition of "Person" under Section 2(31)

Section 2(31) of the Income Tax Act, 1961 provides an inclusive definition of the term "person" for taxation purposes, which is much broader than the ordinary meaning of an individual human being. This definition is fundamental as it determines who can be assessed for income tax in India.

Comprehensive Definition

According to Section 2(31), a "person" includes:

1. **An individual** - Refers to a natural human being whether male, female, minor or major. A minor's income is generally taxable through their legal guardian
2. **A Hindu Undivided Family (HUF)** - A family arrangement recognized under Hindu law consisting of all persons lineally descended from a common ancestor including their wives and unmarried daughters. The manager is called "Karta" and members are "coparceners"
3. **A company** - A legal entity registered under the Companies Act, including Indian companies, foreign companies, and certain declared associations
4. **A firm** - An association of persons carrying on business under a partnership agreement, including Limited Liability Partnerships (LLPs) under the LLP Act, 2008
5. **An association of persons (AOP) or body of individuals (BOI)** - Whether incorporated or not
6. **A local authority** - Such as municipalities, panchayats, cantonment boards, port trusts etc.
7. **Every artificial juridical person** - Not falling within any of the preceding categories (e.g., universities, deities, idols)

Examples of Different Categories

- **Company**: Reliance Industries Ltd., Punjab National Bank
- **Artificial Juridical Person**: Calcutta University, Reserve Bank of India
- **Local Authority**: Municipal Corporation of Delhi, Village Panchayat
- **Firm**: Partnership firm with partners A, B and C
- **HUF**: Joint family consisting of Mr. A, his brother B, Mrs. A and B
- **Individual**: Any natural person like Prime Minister Narendra Modi
- **AOP**: MARKFED, Housefed

2.2. Assessment Year [Section 2(9)]

Section 2(9) of the Income Tax Act, 1961, defines **"Assessment Year" (AY)** as:

"the period of twelve months commencing on the 1st day of April every year."

Key Points:

- **Assessment Year (AY)** is the **financial year (April 1 to March 31)** in which the income earned in the **Previous Year (PY)** is assessed and taxed.
    - **Example:** Income earned in **PY 2024-25** (April 1, 2024 – March 31, 2025) is assessed in **AY 2025-26** (April 1, 2025 – March 31, 2026).
- **Relation with Previous Year (PY):**
    - **PY** = Year in which income is earned.
    - **AY** = Year in which income is taxed.
- **Exceptions (Where Income is Taxed in the Same Year, Not Next AY):**
    - Income of non-resident shipping businesses (Section 172)
    - Persons leaving India permanently (Section 174)
    - Discontinued businesses (Section 176)
- **Significance:**
    - Determines **tax return filing deadlines**.
    - Decides **applicable tax rates & deductions**.
    - Used for **income assessment, scrutiny, and refunds**.

Example:

- If you earn ₹10 lakh in **2024-25 (PY)**, you file returns and pay tax in **2025-26 (AY)**.

2.3. Previous Year [Section 3]

As per **Section 3** of the Income Tax Act, 1961:

"The year in which income is earned is termed the 'Previous Year' (PY)."

- It is the **financial year (April 1 to March 31)** immediately preceding the **Assessment Year (AY)**.
- **Example:** Income earned during **PY 2024-25** (April 1, 2024 – March 31, 2025) is taxed in **AY 2025-26**.

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1. Key Features of Previous Year

- **General Rule**: PY is always a 12-month period (April–March), except for:
    - **New businesses/professions**: PY starts from the date of commencement until March 31 of that financial year (e.g., a business started on July 1, 2024, has PY from July 1, 2024, to March 31, 2025).
    - **New income sources**: Similar to new businesses, PY begins when the income source is activated.
- **Uniformity**: Since AY 1989-90, all taxpayers must follow the April–March cycle

Example Scenarios

CASE	PREVIOUS YEAR (PY)	ASSESSMENT YEAR (AY)
Salary earned (April 2024–March 2025)	2024-25	2025-26
New business started on December 1, 2024	Dec 1, 2024 – Mar 31, 2025	2025-26
Discontinued business (closed June 2024)	April 1, 2023 – June 30, 2024	Taxed in PY 2023-24

2.4. Assessee [Section 2(7)]

1. Statutory Definition

As per **Section 2(7)** of the Income Tax Act, 1961, an **Assessee** means:

"A person by whom any tax or any other sum of money (interest, penalty, etc.) is payable under this Act."

This includes:

- Every person in respect of whom any proceeding under the Act has been taken
- A person who is deemed to be an assessee under any provision of the Act
- A person who is deemed to be an assessee in default under any provision of the Act

2. Categories of Assessees

1. **Ordinary Assessee**

   Any person against whom proceedings are taken for:

   - Assessment of income
   - Assessment of loss
   - Refund of tax

2. **Representative Assessee** [Sections 160-163]

   - Legal representatives of deceased persons
   - Guardians of minors/lunatics
   - Agents of non-residents
   - Trustees of trusts

3. **Assessee-in-Default**

   A person who fails to fulfill statutory obligations:

   - Employer not deducting TDS (Section 201)
   - Person not collecting TCS (Section 206C)

4. **Deemed Assessee**

Persons treated as assessees due to specific circumstances:

- Legal heir of deceased (Section 159)
- Successor in business (Section 170)

3. Key Concepts

- **Person vs. Assessee**:
  While all assessees are persons (as per Section 2(31)), not all persons are assessees (only those liable to pay tax)
- **Tax Liability**:
  An assessee becomes liable when:
  - Income exceeds exemption limit
  - Required to file return (even if below taxable limit)
  - Obligated to deduct/collect tax at source

4. Special Cases

SITUATION	TYPE OF ASSESSEE
Minor's income clubbed with parent's	Parent is assessee
Non-resident's Indian income	Non-resident or their agent
HUF income	Karta as representative assessee
Company in liquidation	Liquidator as assessee

5. Practical Implications

- **Return Filing**: Only assessees need to file returns
- **Tax Proceedings**: Assessments are made in the name of the assessee
- **Legal Responsibility**: Assessees must maintain proper books and documents

6. Example Scenarios

1. **Salaried Employee** earning ₹8 lakh/year → Ordinary assessee
2. **NRIs** earning rental income in India → Assessee (may appoint agent)
3. **Company** failing to deduct TDS → Assessee-in-default

2.5. Charge of Income-Tax [Section 4]

Section 4(1) of the Income Tax Act, 1961, states:

*"Income-tax shall be charged for every assessment year (AY) at the rates prescribed in the Finance Act on the **total income** of the **previous year (PY)** of every **person** (as defined under Section 2(31))."*

This means:

- **Tax is levied annually** (for each AY).
- **Rates are fixed by the Finance Act** (e.g., Budget 2024 sets rates for AY 2025-26).
- **Tax applies on "total income"** (computed per Income Tax rules).
- **Taxable entity = "Person"** (individual, HUF, company, etc., as per **Section 2(31)**).

Example :

Scenario: Mr. A (resident) earns ₹15L in PY 2024-25 (salary + rent).

- **AY**: 2025-26
- **Taxable Income**: ₹15L – ₹50K (standard deduction) = ₹14.5L
- **Tax Rate**: As per AY 2025-26 slabs (e.g., 5% on ₹2.5L–₹5L, 20% on ₹5L–₹10L, etc.).