Unit 1 — Fundamental Concepts of Income Tax

Tax Planning & Management | BMB FM 02 / KMB FM 02

Unit 1: Fundamental Concepts of Income Tax

Syllabus: Introduction — definition, canons of taxation; Person, Assessee, Income, Previous Year, Assessment Year; income tax important dates and forms; Residential status and tax incidence — individual; income exempted from tax.

> **YAHAN 90% STUDENTS GALTI KARTE HAIN**
>
> **Tax rates, slabs aur exemption limits har Finance Act ke saath badalte hain.** Ye notes concepts, definitions aur sections par focus karte hain — jo stable rehte hain aur jinse zyadatar marks aate hain. **Numerical rates apne current Assessment Year ke hisaab se confirm kar lena** (exam paper me aksar rates diye bhi hote hain).

Exam Blueprint (2025-26 paper)

Topic	2025-26 paper	Marks
Who is an Assessee	Section A	2
Assessment Year	Section A	2
Determination of Residential Status	Section C	7
Incomes exempted from tax	Section B	7
Canons of taxation, definitions of Person and Income	Syllabus weight	2 & 7

> **YE QUESTION BAAR-BAAR AAYA HAI**
>
> Is unit se 2025-26 me **chaar questions** aaye — Section A me do, Section B me ek aur Section C me ek. **Residential status** aur **exempted incomes** — ye do 7-markers lagbhag pakke hain.

1. Introduction to Taxation

> **DEFINITION - RATTA MAARO**
>
> A **tax** is a **compulsory financial contribution** imposed by the government on income, wealth, goods or services, for which the taxpayer receives **no direct or proportionate benefit** in return. It is the principal source of government revenue.

1.1 Objectives of Taxation

Raising **revenue** for the government; **redistribution of income and wealth** to reduce inequality; **economic stability** — controlling inflation and recession; **allocation of resources** by encouraging or discouraging particular activities; **promoting economic growth** through incentives to investment, savings and exports; and **regulating consumption** of harmful goods (tobacco, alcohol) through high duties.

1.2 Classification of Taxes

Basis	Direct Tax	Indirect Tax
Meaning	Levied on **income or wealth**; paid directly to the government	Levied on **goods and services**; collected through an intermediary
Burden (incidence)	**Cannot be shifted** — the payer bears it	**Can be shifted** to the final consumer
Examples	**Income tax**, corporate tax, capital gains tax	**GST**, customs duty, excise duty
Nature	**Progressive** — higher income, higher rate	**Regressive** — same rate for rich and poor
Evasion	Relatively easier	Difficult (invoice trail)
Administered by	**CBDT** (Central Board of Direct Taxes)	**CBIC** (Central Board of Indirect Taxes and Customs)
Effect on inequality	**Reduces** inequality	May **increase** inequality

1.3 Canons of Taxation — Adam Smith's four canons

Given by **Adam Smith** in *The Wealth of Nations* (1776). These are frequently asked.

Canon	Meaning
1. Canon of Equality (Equity)	Tax should be in proportion to the **ability to pay**. The rich should pay more than the poor — the basis of **progressive taxation**
2. Canon of Certainty	The amount, time, manner and place of payment must be **clear and certain** to the taxpayer, not arbitrary
3. Canon of Convenience	Tax should be collected at a **time and in a manner most convenient** to the taxpayer — e.g. TDS deducted when salary is paid
4. Canon of Economy	The **cost of collecting** the tax should be minimal, so that most of what is collected reaches the treasury

Additional canons (later economists — Bastable, Armitage-Smith):

- **Canon of productivity** — the tax should yield adequate revenue
- **Canon of elasticity** — revenue should rise automatically as income grows
- **Canon of simplicity** — the system should be easy to understand and comply with
- **Canon of diversity** — a variety of taxes, rather than dependence on one
- **Canon of flexibility** — rates should be adjustable to changing needs
- **Canon of neutrality** — the tax should not distort economic decisions