

Chapter – 32

Direct Taxes

I. Choose the Correct Answer

Question 1.

Income Tax is

- (a) a business tax
- (b) a direct tax
- (c) an indirect tax
- (d) none of these

Answer:

- (b) a direct tax

Question 2.

Period of assessment year is

- (a) 1st April to 31st March
- (b) 1st March to 28st Feb
- (c) 1st July to 30st June
- (d) 1st Jan to 31st Dec

Answer:

- (a) 1st April to 31st March

Question 3.

The year in which income is earned is known as

- (a) Assessment Year
- (b) Previous Year
- (c) Light Year
- (d) Calendar Year

Answer:

- (b) Previous Year

Question 4.

The aggregate income under five heads is termed as

- (a) Gross Total Income
- (b) Total Income
- (c) Salary Income
- (d) Business Income

Answer:

- (b) Total Income

Question 5.

Agricultural income earned in India is

- (a) Fully Taxable
- (b) Fully Exempted
- (c) Not Considered for Income
- (d) None of the above

Answer:

- (b) Fully Exempted

II. Very Short Answer Questions

Question 1.

What is Income tax?

Answer:

Income tax is a direct tax under which tax is calculated on the income, gains or profits earned by a person such as individuals and other artificial entities.

Question 2.

What is meant by the previous year?

Answer:

The year in which income is earned is called the previous year. It is also normally consisting of a period of 12 months commencing on 1st April every year and ending on 31st March of the following year. It is also called a financial year immediately following the assessment year.

Question 3.

Define the term person?

Answer:

According to the Income Tax 1961, the term Person includes, “individual, Hindu Undivided Family, Firm, Company, local authority, Association of person or Body of Individual or any other artificial juridical persons.

Question 4.

Define the term assessee?

Answer:

Assessee means a person by whom any tax or any other sum of money is payable under this Act. It includes every person in respect of whom any proceeding has been taken for the assessment of his income or assessment of fringe benefits.

Question 5.

What is an assessment year?

Answer:

The term has been defined under section 2(9). The year in which tax is paid is called the assessment year. It normally consisting of a period of 12 months commencing on 1st April every year and ending on 31st March of the following year.

III. Short Answer Questions

Question 1.

What is Gross Total Income?

Answer:

Income from the five heads, namely – Salaries, House Property, Profits and Gains of Business or Profession, Capital Gains, and Other Sources – is computed separately according to the provisions given in the Act. Income computed under these heads shall be aggregated after adjusting past and present losses and the total so arrived at is known as ‘Gross Total Income’.

Question 2.

List out the five heads of income.

Answer:

1. Income from Salaries
2. Income from House Property
3. Income from Business or Profession
4. Income from Capital Gain
5. Income from Other Sources

Question 3.

Write a note on Agricultural Income.

Answer:

Any rent or revenue derived from land which is situated in India and is used for agriculture purposes. Agricultural income is fully exempted from tax u/s 10(1) and as such does not form part of total income.

Question 4.

What do you mean by Total Income?

Answer:

According to Section 2 (45) of the Income Tax Act 1961, the income which is earned out of the Gross Total Income, after allowing the deductions under section 80 is known as total income.

Question 5.

Write short notes on:

1. Direct Tax
2. Indirect Tax

Answer:

1. Direct Tax:

If a tax levied on the income or wealth of a person and is paid by that person (or his office) directly to the Government, it is called a direct tax, for example, Income – Tax, Wealth Tax, Capital Gains Tax, Securities Transaction Tax, Fringe Benefits Tax (from 2005), Banking Cash Transaction Tax (for

Rs,50,000 and above – from 2005), etc. In India, all direct taxes are levied and administered by the Central Board of Direct Taxes.

2. Indirect Tax:

If tax is levied on the goods or services of a person (seller). It is collected from, the buyers and is paid by the seller to the Government. It is called indirect tax example GST.

IV. Long Answer Questions

Question 1.

Elucidate any five features of Income Tax.

Answer:

Meaning: Income tax is a direct tax under which tax is calculated on the income, gains or profits earned by a person such as individuals and other artificial entitled.

Levied as Per the Constitution:

Income tax is levied in India by virtue of entry No. 82 of list 1 (Union List) of Seventh Schedule to Article 246 of the Constitution of India.

Levied by Central Government:

Income tax is charged by the Central Government on all incomes other than agricultural income. However, the power to charge income tax on agricultural income has been vested with the State Government as per entry 46 of List II, i.e., State List.

Direct Tax:

Income tax is a direct tax. It is because the liability to deposit and ultimate burden are on the same person. The person earning income is liable to pay income tax out of his own pocket and cannot pass on the burden of tax to another person.

Annual Tax:

Income tax is an annual tax because it is the income of a particular year which is chargeable to tax.

Tax on Person:

It is a tax on income earned by a person. The term 'person' has been defined under the Income-tax Act. It includes individual, Hindu Undivided Family, Firm, Company, local authority, Association of person or Body of Individual or any other artificial juridical persons.

Question 2.

Define Tax. Explain the term direct tax and indirect tax with an example.

Answer:

Tax is a compulsory contribution to state revenue by the Government. It is levied on the income or profits from business of individuals and institutions. It may be added to the price of goods, services or transactions. Tax is the basic source of revenue to the Government. This revenue is utilised for the expenses of civil administration, internal and external security, building infrastructure, etc.

There are two types of taxes – direct taxes and indirect, taxes.

1. Direct Tax:

If a tax levied on the income or wealth of a person and is paid by that person (or his office) directly to the Government, it is called direct tax, e.g., Income – Tax, Wealth Tax, Capital Gains Tax, Securities Transaction Tax, Fringe Benefits Tax (from 2005), Banking Cash Transaction Tax (for Rs.50,000 and above – from 2005), etc. In India all direct taxes are levied and administered by Central Board of Direct Taxes.

2. Indirect Tax:

If tax is levied on the goods or services of a person (seller). It is collected from the buyers and is paid by seller to the Government. It is called indirect tax. example GST.

Question 3.

List out any ten kinds of incomes chargeable under the head income tax.

Answer:

According to section 2(24) of the Income Tax Act, Income includes the following:

- Profits and gains of business or profession.
- Dividend
- Export incentives, like duty drawback, cash compensatory support, sale of licenses, etc.,
- Interest, salary, bonus, commission or remuneration earned by a partner of a firm from such firm.
- Capital gains chargeable u/s 45. viii. Profits and gains from the business of banking carried on by a co-operative society with its members.
- Winnings from lotteries, crossword puzzles, races including horse races, card games, and other games of any sort or from gambling or betting of any form or nature whatsoever.
- Deemed income u/s 41 or 59.
- Amount received under key man. insurance policy including bonus thereon.
- Benefit or perquisite received from a company, by a director or a person holding substantial interest or a relative of the director or such person.
- Gift as defined u/s 56 (2) (vi) and others.

Question 4.

Discuss the various kinds of assessments.

Answer:

Assessee means a person by whom any tax or any other sum of money is payable under this Act. It includes every person in respect of whom any proceeding has been taken for the assessment of his income or assessment of fringe benefits. The term 'person' includes the following:

1. an individual
2. a Hindu Undivided Family (HUE)
3. a company
4. a firm
5. an Association of Persons or a Body Of Individual, whether incorporated or not
6. a local authority, and
7. every artificial juridical person example an idol or deity.