INCOME TAX

LAW AND PRACTICE

(Assessment Year 2021-22)

Dr. Preeti Rani Mittal

Dr. Anshika Bansal

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Income Tax
Law & Practice

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Preface

To the Third Edition

We have great pleasure to presenting the **Third Edition** of the book I**ncome Tax Law and Practice**. From time to time attempts are being made to simplify the Income Tax Act, 1961. Most of the people are afraid of this subject whereas this topic is most commonly used in the business and daily life of the people.

This 3rd edition provides an overview of core concepts of Income Tax Law and Practices. Some of the distinctive features of the book are as follows:

- All chapters thoroughly revised as per the Finance Act 2020.
- New topics has been inserted such as Alternative Tax Rates Slab for Individuals and HUF, Deemed Resident, Faceless Assessment, Taxability of dividend, Deduction in respect of certain inter-corporate dividends and Certificate for deduction at lower rate etc.
- Each chapter begins with an exordium, which aims to provide students with a preliminary understanding of that chapter.
- Each chapter contains complete explanation of the topic with suitable examples followed by graded illustrations and questions for practice.
- Develop familiarity with the analytical techniques helpful in computing tax liability of assessee.
- Effective tax planning and management.

This book is primarily intended for B.com, B.com (Hons.), BBA, BCA, M.com, M.B.A and CA(Intermediate) students. The book has been written to cater the needs of students appearing in such examination. We trust the book would meet the requirements of both teachers as well as students.

The book contains 21 well defined chapters. The illustrations and questions have been modified in accordance with the provision applicable in the Assessment Year 2021-22. The efforts have been done to make the book self-explanatory and more meaningful rather than bulky.

We express our thanks to our parents, family members and our loving **Dipesh Mittal** and **Pranika Bansal**. In this connection, **Mr Vikas Mittal** and **Ayush Bansal** have contributed immensely in editing the contents of Income Tax Law and deserve a special mention.

We acknowledge our deepest indebtedness to **Mr. Gangadhar Chaudhary** because of the trust he has shown in us and he has always supported us in moving forward.

We offer our gratitude to our publisher **Sultan Chand &Sons** for doing excellent job in bringing out this edition.

New Amendments of Finance Act 2021 have been incorporated at appropriate places in this book and Leading cases have been mention in the Book. We believe that there is always a scope for improvement in the book, suggestions and comments for the further improvement of the book are welcome.

Brief Contents

Contents

Salient Feature of Finance Act, 2021

1. **Rates of Income Tax for the Assessment Year 2022-23:** There is no change in the Rates of Income Tax for the Assessment Year 2022-23.The rates of income tax for Assessment Year 2022-23.are as follows:

   (i) **Individuals, HUF, AOP, BOI, Artificial Judicial Person:**

   (a) For every individual (other than those mentioned in b and c below) or Hindu Undivided Family ("HUF"), every association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in Section 2(31)(vii) of the Act:

Income	*Tax Rate*
Up to ₹ 2,50,000	Nil
₹ 2,50,000 to ₹ 5,00,000	5%
₹ 5,00,000 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

   (b) For individual resident senior citizen (who is 60 years or more at any time during the previous year but less than 80 years on the last day of the previous year)

Income	*Tax Rate*
Up to ₹ 3,00,000	Nil
₹ 3,00,000 to ₹ 5,00,000	5%
₹ 5,00,000 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

   (c) For individual resident super senior citizen (who is 80 years or more at any time during the previous year)

Income	*Tax Rate*
Up to ₹ 5,00,000	Nil
₹ 5,00,000 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

   (d) For every individual or HUF exercising the option u/s 115BAC for opting concessional tax rates (subject to conditions provided therein):

Income	*Tax Rate*
Upto ₹ 2,50,000	NIL
₹ 250,001 to ₹ 5,00,000	5%
₹ 5,00,001 to ₹ 7,50,000	10%
₹ 7,50,001 to ₹ 10,00,000	15%
₹ 10,00,001 to ₹ 12,50,000	20%
₹ 12,50,001 to ₹ 15,00,000	25%
Above ₹15,00,000	30%

(ii) **Companies:**

(a) **Domestic Companies:** There has been no change in tax rates in case of domestic companies.

(b) **Foreign Companies:** There has been no change in tax rate of foreign company. The rates of income- tax in case of foreign companies for A.Y. 2022-23 shall be of 40%.

(iii) **Firm and Local Authority:** There has been no change in tax rate of Firm and Local Authority. The rates of income-tax in case of firm and local Authority for A.Y. 2022-23 shall be of 30%.

2. **Income Tax Relaxation for Senior Citizens of 75 Years Age and Above:** Senior citizens of 75 Years age and above, who only have pension and interest as a source of income, will be exempted from filing their income tax return (ITR). These senior citizens have not been exempted from paying tax but are exempted from filing an ITR if they fulfill certain conditions. They will be exempted from filing ITR only in the case where the interest income is earned in the same bank where the pension is deposited.

3. **Amendment in Section 2(11):** Finance Bill 2021 amends the definition of "intangible asset" to exclude goodwill of a business or profession from the purview of "block of assets". The aforesaid amendment will take effect from 1.4.2022 and will, accordingly, apply in relation to AY 2022-23 and subsequent Assessment year.

4. **Liable to Tax [Section 2(29A)]:** New Section 2(29A) is inserted to define the term "liable to tax" to mean that there is an income-tax liability on such person under the law of that country for the time being in force and shall include a person who has subsequently been exempted from such liability under the law of that country.

5. **Exemption of LTC Cash Scheme [Section 10(5)]:** The amendment provides that for AY 2021-22, the value in lieu of LTC received by, or due to, an individual shall also be exempt under Section 10(5) subject to fulfilment of conditions to be prescribed. The conditions for this purpose include the following:

- The employee exercises an option for the deemed LTC fare in lieu of the applicable LTC in the Block year 2018-21.
- The amount of exemption shall not exceed INR 36,000 per person or one-third of 'specified expenditure', whichever is less. Specified expenditure means expenditure incurred by an individual or a member of his family during the period October 12, 2020 to March 31, 2021

on goods or services which are liable to GST at an aggregate rate of 12% or above under various GST laws and goods are purchased or services procured from GST registered vendors/service providers.

- In case a higher amount is received by an individual from his employer in relation to himself and his family, the exemption under proposed amendment would be restricted as aforesaid.

6. T**axation of Proceeds of High Premium Unit Linked Insurance Policy (ULIP) Amendment in Section 10(10D):** The following provisos have been inserted to Section 10(10D) of the Act:

   - Exemption will not be available in respect of ULIP issued on or after February 1, 2021 if the premium payable for any previous year during the term of the policy exceeds ₹ 2.50 lakhs.
   - where there are more than one ULIP, exemption under section 10(10D) of the Act shall apply to only those ULIPs where the aggregate amount of premium does not exceed ₹ 2.50 lakhs in any previous year during the term of any ULIPs.
   - The sum received under ULIP on death of a person will be exempt under section 10(10D) of the Act without any restrictions.
   - Empower CBDT (with the approval of Central Government) to issue guidelines for the purpose of removing difficulty. Also, such guidelines will have to be laid before both the House of Parliament and it will be binding on both the tax authorities and the assessee.

   Further, Explanation 3 has been inserted to define ULIP to mean a life insurance policy which has components of both investment and insurance and is linked to a unit defined in IRDA (ULIP) Regulations, 2019.

7. **Amendments in Provisions of Tax Audit [Section 44AB]:** The threshold of ₹ 5 crores has been increased to ₹ 10 crores for the purpose of audit u/s 44AB in case of assessees carrying on business and where the aggregate cash receipts/payments made during the year do not exceed 5% of total receipts/ payments.

8. **Amendment in Presumptive Taxation for Professionals under Section 44ADA:** The said Section is applicable to an assessee, being an individual or a partnership firm other than a limited liability partnership as defined under clause (n) of sub-Section (1) of Section 2 of the Limited Liability Partnership Act, 2008, who is a resident in India as against the existing provision which provided that the section applies to any assessee being a resident in India.

9. **Relief from Taxation in Income from Retirement Benefit Account Maintained in a Notified Country [Section 89A]:** This section provides that income accrued in specified account shall be taxable in such manner and in such year as may be prescribed. The section is inserted w.e.f. April 1, 2022 (i.e., AY 2022-23). The new provision will apply to such accounts maintained in notified countries only.

10. **Amendments in Section 143:** The following amendments has been made under section 143 of the Act,

- Amend section 143(1)(a)(iv) of the Act, to allow for the adjustment on account of increase in income indicated in the audit report but not taken into account in computing the total income.
- Amend section 143(1)(a)(v) of the Act, so as to provide that any deduction admissible under section 10AA or under any of the provisions of Chapter-VIA under the heading "C-Deductions in respect of certain incomes" shall be allowed, if the return of income is furnished on or before the due date specified under section 139(1) of the Act.
- Amend provisions of section 143 to reduce the time limit for sending intimation under sub section (1) of section 143 of the Act from one year to nine months from the end of the FY in which the return was furnished.
- Amend provisions of sub-section (2) of section 143 of the Act by reducing the time limit for issue of notice from six months to three months from the end of FY in which the return is furnished.

11. **Time Limit for Completion of Assessment [Section 153]:** Amended Section 153 reduce time limit for passing assessment order relating to AY 2021-22 within nine months from the end of the AY in which the income was first assessable earlier the time of nine months was twenty one months.
12. **Deduction of tax in case of Specified Senior Citizen [Section 194P]:** A new Section 194P, is inserted in the Act making certain specified banks liable to deduct TDS at the rates in force, on the total income of specified senior citizens.
13. **TDS on Payment for Purchase of Goods Proposed Amendments [Section 194Q]:** New Section194Q is inserted provide for TDS in case of purchase of goods exceeding ₹ 50 lakhs by certain buyers. According to this Section, a "buyer" whose total sales, gross receipts or turnover from the business carried on by him exceeds ₹ 10 crores during the financial year immediately preceding the financial year in which the purchase of goods is carried out shall be liable to deduct TDS at the rate of 0.1% on any sum paid/payable to a "seller", who is a resident, in a previous year in excess of ₹ 50 lakhs. The TDS would be deducted at the time of crediting the amount payable by the buyer or at the time of payment of such amount by the said buyer, by any mode, whichever is earlier.
14. **Special Provision for Deduction of Tax at Source for Non-Filers of Income-Tax Return [Section 206AB]:** A new Section 206AB is inserted in the Act making certain specified persons, who have not filed their returns of income, liable to TDS at a rate higher of the following:
    - twice the rates specified under the Act, or
    - twice the rate or rates in force, or
    - five percent

    The provisions of this section shall not apply where TDS is required to be deducted under sections 192, 192A, 194B, 194BB, 194LBC or 194N of the Act.
15. **Pre-filled ITR forms:** ITR form will now have pre-filled information on dividend, interest and capital gains to ease compliance for individual taxpayers. Details of capital gains from

listed securities, dividend income, and interest from banks, post office, etc. will also come pre-filled. Details of salary income, tax payments, TDS, etc will also be there in ITR forms.

16. **Reduction in Time for Income Tax Proceedings:** Except in cases of serious tax evasion, assessment proceedings in the rest of the cases shall be reopened only up to three years, against the earlier time limit of six years.

17. **Employees' Provident Fund (EPF) Contribution:** Interest on employee's share of contribution to Employees' Provident Fund (EPF) on or after April 1, 2021, will be taxable at the stage of withdrawal if it exceeds ₹ 2.5 lakh in any year. This will lead to additional tax liability, especially for High Net worth Individuals (HNIs) who make higher contributions and will also discourage voluntary provident fund (VPF) contributions. This along with taxation of aggregate employer's contributions in excess of ₹ 7.5 lakh to EPF, NPS and superannuation fund and interest thereon introduced last year may make EPF an even less attractive retirement scheme.

18. **REIT or InvIT Exemption:** The government has proposed to make dividend payment to Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) exempt from TDS. The government has proposed that advance tax liability on dividend income shall arise only after the declaration/payment of dividend as the amount of dividend income cannot be estimated correctly by the shareholders for paying advance tax. The government had abolished dividend distribution tax to incentivize investment and dividend was made taxable in the hands of shareholders in the budget last year.

19. **Provisional Attachment in Case of Fake Invoices Cases [Section 281B]:** The penalty proceedings initiated for fake invoice/sham transactions of more than ₹ 2 Crore shall also be eligible for provisional attachment of assets.

About the Book

- This book has been written with the twin goals of educating the students about the nuances of Income Tax so that they can compute income from various heads as well as making the students aware about the compliance required for smooth functioning of Income Tax scheme. The book also discusses the practical aspects that an auditor should focus on while computing tax liability and where tax-payers need to be more careful and cautious.
- Dedicated chapters on analysis of income, giving itemized compliance requirement by the tax-payers as well as complete steps required for filing returns are presented in this book in a very effective manner.
- New amendments of Finance Act 2021 have been incorporated at appropriate places in this book.
- This book is a comprehensive text on the subject of Income Tax Law and Practice to meet the vulnerable need of B.Com., BBA, M.Com., MBA and similar professional courses in Commerce and Management offered by various Universities across the country.
- The book aims to provide an understanding of Income Tax: Law and Practices and prepare students for their future assignments in the direct tax field.

Dr. Preeti Rani Mittal, did her M.Com, M.A. (Economics) and Ph.D. from C.C.S. University, Meerut (U.P.). She has got her Ph.D. degree with the topic, "Impact of Human Resource Management in Life Insurance Corporation of India". Presently, she is Associate Professor and Head of the Commerce Department in Dr. P.D.B.H. Govt. (P.G.) College, Kotdwar, Uttarakhand. She has an academic experience of 24+ years in the field of Commerce and, Management at higher education. She has published 26 research papers in leading journals and presented papers in National and International seminars. Dr. Mittal is an author of the two books:

- Income Tax Law and Practice
- Auditing and Corporate Governance

Dr Mittal, was awarded 'Tejaswini National Award for best teaching'. She was conferred a 'Saraswatibai Dadasahab Phalke Women Iconic International' Award for her contribution to Education in March 2021. She has co-guided two Ph.D. students. She is associated with the Institute of Chartered Accountants of India (ICAI), C.C.S. University, S.D.S. University, H.G.U. and H.N.B. Garhwal University, etc. Her areas of interest include taxation, human resource management, accounting, corporate governance, etc. Apart from being passionate about reading and writing she is also an acclaimed speaker.

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