

Concept Book

CA/CMA INTER

(Section - A)

INCOME TAX LAWS

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Book Applicable for

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Amended as Per

FINANCE ACT 2024

Special Features Of This Book

- Cover whole institute module
- Key words highlighted in RED
- Simple explanation of Provisions
- Taken Examples Where Required



Doing CA is Not our Life, it is Just Part of Life so enjoy the Journey and achieve your
Goals with Great Happiness and Joy.

Hope You Have a Great Future

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Paper Pattern

Taxation

This Paper Divided in two Parts

- Income Tax Laws (50 Marks)
- Goods & Services Tax (50 Marks)

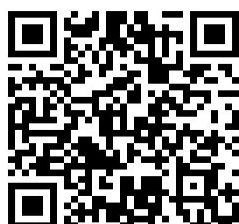
Income Tax Laws (50 Marks)

15 Marks



MCQ

YouTube

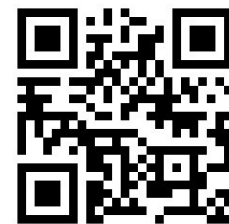


35 Marks



Descriptive Part

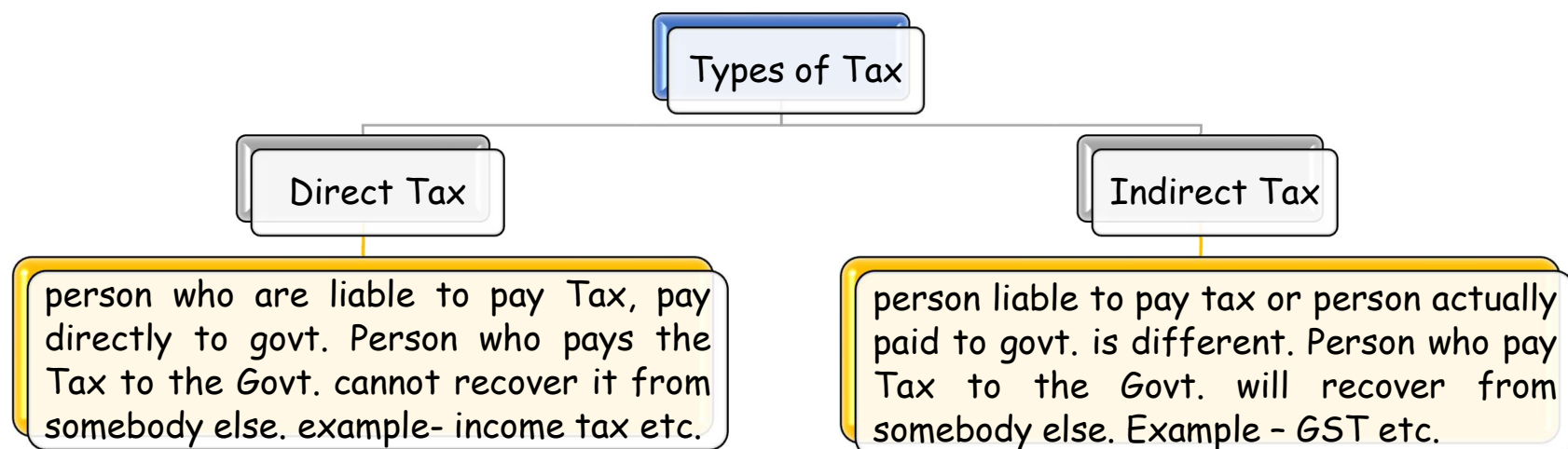
Telegram



Basic Concepts

Meaning of tax?

Taxes are considered to be the "**cost of living in a society**". Taxes are levied by the Governments to meet the common welfare expenditure of the society. (like - infrastructure, education, Health care, defence etc.)



Power to levy taxes

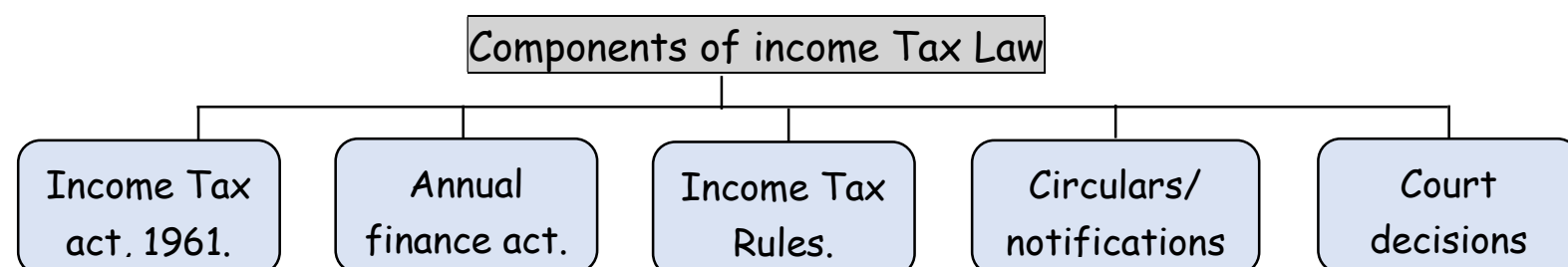
Article 265 of Constitution of India lays down that "**No tax shall be levied or collected except by authority of law.**"

Entry 82 of the List I (**Union List**) of 7th Schedule of Article 246 of Constitution of India gives Power to the CG to make laws on **Tax on Income other than Agriculture Income**.

Entry 46 of List II (**State List**) gives Power to the SG to make laws on **Agriculture Income**.

Overview of Income-tax law in India

act is the part of law.



Income Tax act, 1961

- Applicable on whole India on 1st April 1962. [**Section 1**]
- It contains section 1 to 298 and schedules I to XIV.

Section, sub-section or clause and sub-clauses.

Sections is **independent from each other**.

Example- section 4 (charging section), 5 (scope of total income).

Sub-section is part of section and **related to each other**.

Example- section 5(1) (scope of total income of a resident) and 5(2) (scope of total income of a Non-resident).

Clauses is part of section but **not related to each other**.

Example- clause (1A) of section 2, defines "agricultural income", clause (1B) defines "amalgamation".

Provisos and Explanations.

Proviso is **exception/condition** of provision contained in the respective section/sub-section/clause.

Example - Sections 80GGB and 80GGC provides deduction in respect of contributions made by companies and other persons, respectively, to political parties or an electoral trust. The **proviso** to sections 80GGB and 80GGC provide that no deduction shall be allowed in respect of any sum contributed by cash.

Explanation is a **clarification** relating to the provision contained in the respective section/sub-section/clause.

Example - for Sections 80GGB and 80GGC "political party" means a political party registered under section 29A of the Representation of the People Act, 1951.
Explanation clarifies that the political party has to be a registered political party.

Annual Finance Act

Every year, the Finance Minister introduces the Finance Bill in the Parliament's Budget Session. When the Finance Bill is passed by both the houses of the Parliament and gets the assent of the President, it becomes the Finance Act.

Income-tax Rules, 1962

The CBDT is empowered to make rules for carrying out the purposes of the Act.

For the proper administration of the Income-tax Act, 1961, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962.

Circulars and Notifications

Circulars - Circulars are **issued by the CBDT** from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.

Circulars are binding on department not on assessee.

assessee can take advantage of beneficial circulars.

Notifications - Notifications are **issued by the Central Government to give effect to the provisions of the Act**. The CBDT is also empowered to make and amend rules for the purposes of the Act **by issue of notifications** which are **binding on both department and assessee**s.

CHARGE OF INCOME TAX

Income-tax is a tax levied on the total income of the previous year **of every person** [**Section 4**].

Definition of 'Person':

As per **Section 2(31)** of the Income Tax Act, the term 'person' includes:

1. An individual
2. A Hindu Undivided Family (HUF)
3. A company
4. A firm

5. An Association of Persons (AOP) or a Body of Individuals (BOI)
6. A local authority
7. Every artificial juridical person not falling within any of the above categories

Individual

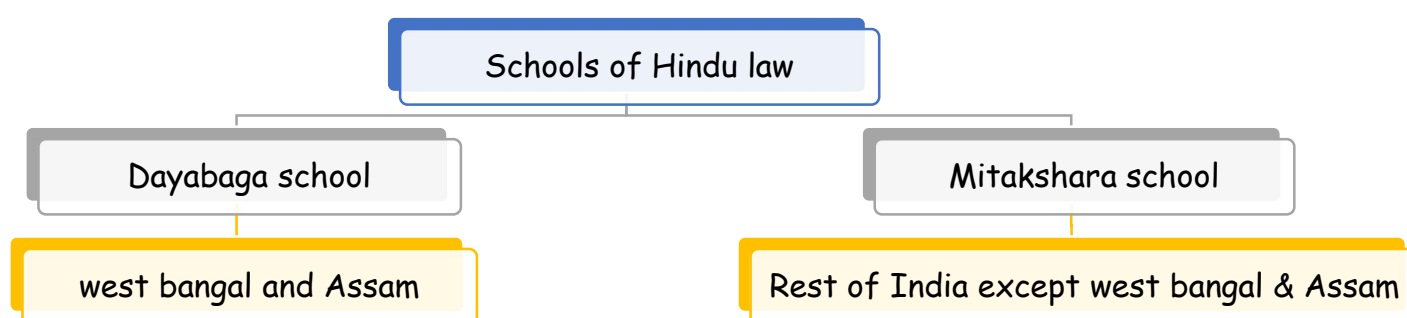
'individual' means only a **natural person**, i.e., a human being. (example - Ram, Shyam, Mohan etc.)

HUF

"Hindu undivided family" has not been defined under the Income-tax Act, 1961. The expression is, however, **defined under the Hindu Law as a family, which consists of all males lineally descended from a common ancestor and includes their wives and daughters.**

Under the Income-tax Act, 1961, **Jain undivided families** and **Sikh undivided families, Buddhists** would **also be assessed as a HUF.**

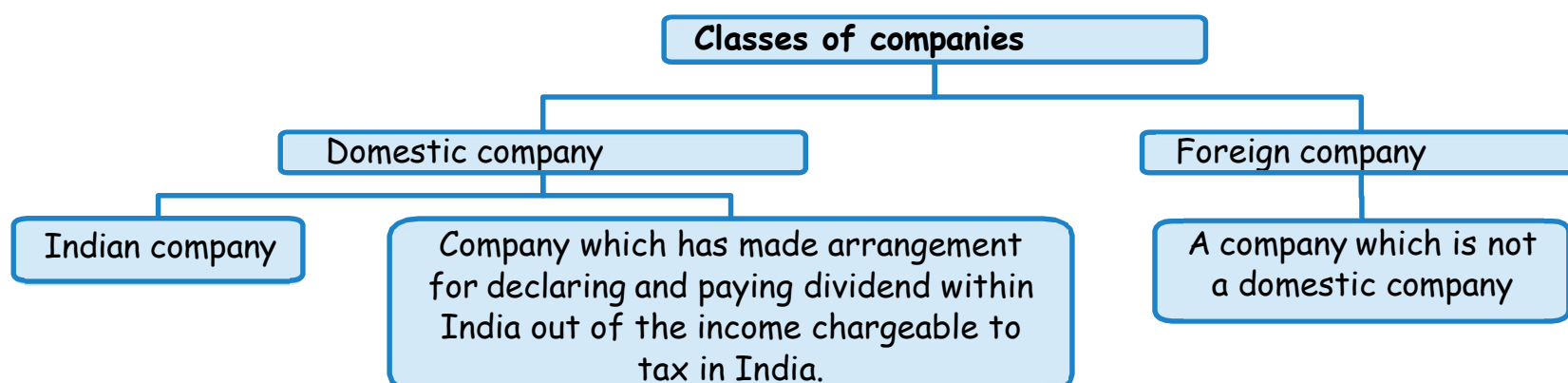
Married daughter also be member of his father's HUF.



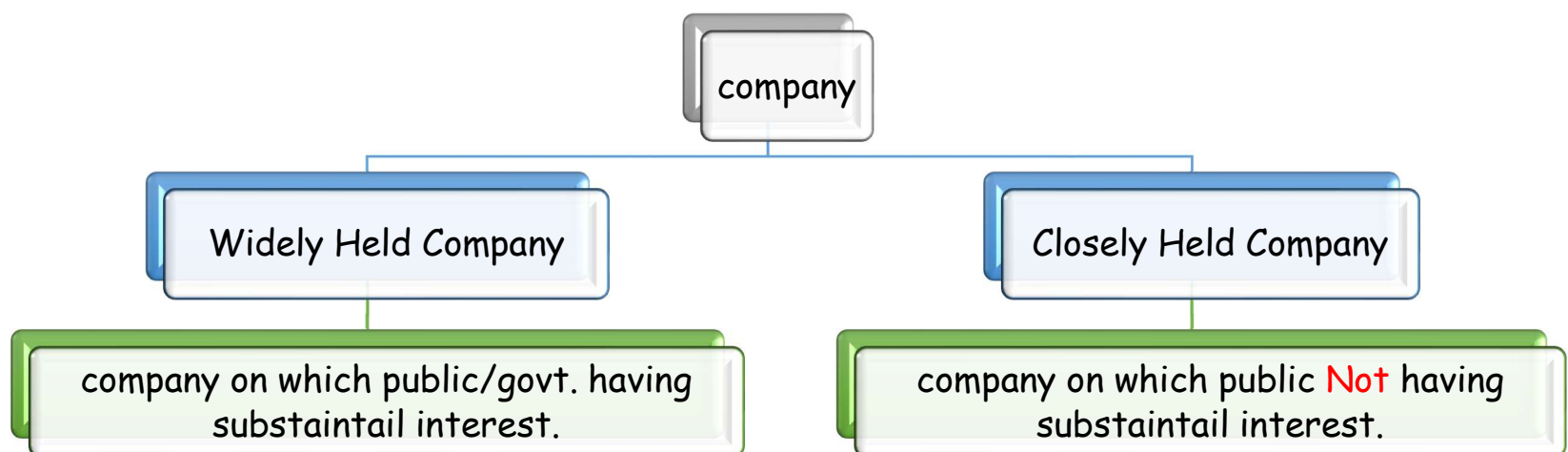
Dayabaga school of Hindu law	Mitakshara school of Hindu law
Prevalent in West Bengal and Assam	Prevalent in rest of India
Nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.	One acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

Company

Company means company registered under companies Act 2013 and company registered in any foreign law.



Company also classified into two primary categories based on public interest -



Firm

Firm as defined under the partnership Act, 1932 and under the Limited liability Partnership Act 2008.

Association of Persons (AOP)

When **persons** combine together for promotion of joint enterprise they are assessable as an AOP.

persons must join for a **common purpose or action** and their object must be to produce income; it is not enough that the persons receive the income jointly. They also joined together for a common purpose or action.

Common Examples of AOP

1. Political Parties

- **Example:** Bharatiya Janata Party (BJP), Indian National Congress (INC), Aam Aadmi Party (AAP)
- **Why AOP?** Political parties consist of **individuals and entities working together** for a common objective (political activities).

2. Joint Ventures & Consortiums

- **Example:** A group of **contractors** jointly bidding for a government infrastructure project.
- **Why AOP?** The members collaborate without forming a company or partnership.

3. Housing Societies & Resident Welfare Associations (RWAs)

- **Example:** A **cooperative housing society** managing apartments for residents.
- **Why AOP?** Members collectively manage resources and funds without forming a registered trust or company.

4. NGOs & Non-Profit Organizations (if not registered as a Trust or Society)

- **Example:** A group of environmental activists working together to promote green initiatives.
- **Why AOP?** It is an informal association of persons working toward a common goal.

5. Unregistered Business Entities

- **Example:** A group of **freelancers** working together on a project and sharing revenue.
- **Why AOP?** They jointly earn and distribute income but are not a registered firm or company.

6. Film & Music Collaborations

- **Example:** A group of **actors, directors, and producers** working together to create a movie without forming a production company.
- **Why AOP?** They share profits but remain independent entities.

Body of Individuals (BOI)

It denotes the status of persons like executors or trustees who merely **receive the income jointly** and who may be **assessable in like manner and to the same extent as the beneficiaries individually**. Thus, co-executors or co-trustees are **assessable as a BOI as their title and interest are indivisible**. Income-tax shall not be payable by an assessee in respect of the receipt of share of income by him from BOI and on which the tax has already been paid by such BOI. For e.g., mutual trade associations, members club, etc.

Common Examples of BOI**1. Joint Inheritance of Property**

- **Example:** Three brothers inherit a house from their father and earn rental income from it.
- **Why BOI?** They receive income as a group but do not engage in any business activity.

2. Lottery or Prize Money Sharing

- **Example:** A group of five friends buys a lottery ticket together and wins ₹50 lakhs.
- **Why BOI?** The individuals collectively receive income, but they are not engaged in a business.

3. Joint Investment in Fixed Deposits or Stocks

- **Example:** A group of family members pools money into a joint **fixed deposit (FD) or stock market investment** and earns interest or dividends.
- **Why BOI?** The income is generated from joint investment rather than a business venture.

4. Family-Owned Agricultural Land

- **Example:** A family jointly owns farmland and earns income from crop sales.
- **Why BOI?** The income is shared, but no commercial business structure exists.

5. Legal Compensation or Insurance Payout

- **Example:** A court awards **compensation** to the family members of a deceased person in a legal case.
- **Why BOI?** The compensation is received as a group without any business involvement.

Difference between AOP and BOI:

Feature	BOI (Body of Individuals)	AOP (Association of Persons)
Who Can Be Members?	Only individuals	Individuals + companies, firms, etc.
Purpose	Usually investment or ownership	Business or commercial activity
Legal Agreement Needed?	Not mandatory	Sometimes formal agreements exist
Example	Joint family receiving inherited wealth	Two firms coming together for a project

Local Authority

The term "Local Authority" means a municipal committee, district board, body of port commissioners or other authority legally entitled to or entrusted by the Government with the control or management of a municipal or local fund.

Example - Municipal Corporations (big cities) & Municipalities (smaller towns), Gram Panchayats (village level) and Zilla Parishads (district level).

Artificial Juridical Persons

Artificial Juridical Persons are the **entities which are not natural persons but are separate entities** in the eyes of law. This is a residual category could cover all artificial persons with a juristic personality not falling under any other category of persons. Deities, Bar Council, Universities are some important examples of Artificial Juridical Persons.

Definition of Assessee (Section 2(7))

"Assessee" means **a person by whom any tax or any other sum of money is payable under this Act**, and includes:

- Anyone liable to pay tax,
- Anyone against whom assessment proceedings are initiated,
- Anyone who is legally responsible for another person's taxes,
- Anyone who defaults on tax obligations and is treated as an "assessee in default."

Income [Section 2(24)]

In Law definition of Income are inclusive and not an exhaustive one. (in simple words every thing which you earn or received is your Income)

Application of Income vis-a-vis Diversion of Income

Particular	Application of Income	Diversion of Income
Meaning	Using income after it is received	Income never reaches the assessee due to a legal obligation
Nature	Voluntary (self-imposed or discretionary)	Mandatory (due to legal or contractual obligation)
Taxability	Income is taxable in the hands of the recipient before application	Income is not taxable in the hands of the recipient because it is diverted before receipt
Ownership of Income	Assessee first receives the income and then applies it	Assessee never owns the income as it is diverted at the source
Example	A person donates part of their salary to charity	A court orders a portion of an employee's salary to be paid directly to an ex-spouse as alimony

Examples -

Scenario	Diversion of Income (Not Taxable in Assessee's Hands)	Application of Income (Taxable in Assessee's Hands)
Court-ordered alimony	A court orders that ₹50,000 per month be paid directly to the ex-spouse from salary. The amount is not considered income of the assessee.	A person receives ₹50,000 salary and then voluntarily pays ₹10,000 to the ex-spouse. The full ₹50,000 is taxable.
Salary attachment by the government	The government deducts ₹20,000 directly from salary due to a legal obligation before it reaches the employee.	The employee receives ₹1,00,000 salary and then voluntarily donates ₹20,000. The full ₹1,00,000 is taxable.
Trust income earmarked for a beneficiary	A trust's income is legally assigned to a specific beneficiary, so the trust does not pay tax on it.	A person receives rental income and donates part of it to charity. The full rental income is taxable.