

Various Aspects of INCOME

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As a professional, it is important to have a comprehensive understanding of the broad aspects of income. Income is a vital aspect of taxation, and a proper understanding of its components and sources can help in efficient tax planning and compliance.

Q: What is the definition of 'Income' according to section 2(24)?

A: The definition of 'Income' given under section 2(24) is inclusive and not exhaustive. It includes;

1. Profits and gains; Dividend;
2. Voluntary contributions received by a trust which is created wholly or partly for charitable or religious purposes; or by educational institutions, hospitals or electoral trust;
3. The value of any perquisite or profit in lieu of salary taxable u/s 17;
4. Any special allowance granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of office or employment duties;
5. The value of any benefit or perquisite, whether converted into money or not, obtained from a company either by a director or by a person who has substantial interest in the company or by a relative of the director or such person, and any sum paid by any such company in respect of any obligation which, otherwise, would have been payable by the director or other person aforesaid;
7. The value of benefit or perquisite to a representative assessee like a trustee appointed under a trust;
8. Any sum chargeable to income-tax under clauses (ii) and (iii) of sec. 28 or sec. 41 or sec. 59; Any sum chargeable to income-tax under clauses (iia), (iib), (iic), (iv), (v), (va) and (via) of sec. 28;
9. Any capital gains chargeable u/s 45;
10. The profits and gains of any insurance business carried on by a mutual insurance company or by a co-operative society, computed in accordance with section 44 or any surplus taken to be such profit and gains by virtue of provisions contained in the First Schedule;
11. The profits and gains of any of banking business (including providing credit facilities) carried on by a co-operative society with its members;
12. Winnings from lottery, crossword puzzles, races (including horse races), card games or other games of any sort or from gambling or betting;
13. Any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set up under Employees' State Insurance Act, 1948 or any fund for the welfare of such employee; [Sec. 2(24)(x)]
14. Any amount received under the Keyman insurance policy including the sum allocated by way of bonus; [Sec. 2(24)(xi)] Any sum chargeable to income-tax u/s 56(2)(v), (vi); Any sum of money or specified movable or immovable properties received without consideration or inadequate consideration as provided u/s 56(2)(vii), (via);
15. Any consideration received for issue of shares as exceeds the FMV of shares referred to in section 56(2)(viib);
16. Any sum of money received as advance in the course of negotiation for transfer of a capital asset, if such sum is forfeited as the negotiation do not result in transfer of the asset 56(2)(ix);
17. Any sum chargeable to income-tax u/s 56(2)(x);
18. Any compensation or other payment referred to in Sec. 56(2)(xi);
19. Income shall include assistance received in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) from the Central Government or a State Government or any other authority or body or agency in cash or kind to the assessee other than:
 - a. the subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10 to clause (1) of section 43,
 - b. the subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or the State Government, as the case may be

Q: Does the definition of 'Income' include assistance received in the form of a subsidy or grant?

A: Yes, income includes assistance received in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) from the Central Government or a State Government or any other authority or body or agency in cash or kind.

Q: What is the first aspect of income that must be met for it to be subject to taxation?

A: The income may be regular or irregular and definite source of income,

Q: What are the different forms of income that are subject to taxation?

A: Income can take various forms, such as cash or kind. Barter exchange is income.

Q: Does the Income Tax Act differentiate between legal and illegal sources of income?

A: No, the Income Tax Act does not differentiate between legal and illegal sources of income. This means that all income earned by an individual, regardless of its source, is subject to taxation. However, reporting illegal income can have legal repercussions.

Q: Are expenses incurred by an individual in the course of their employment or business which are reimbursed are considered income?

A: No, reimbursement of expense is not treated as income.

Q: Does the Income Tax Act distinguish between temporary or permanent sources of income?

A: No, the Income Tax Act does not distinguish between temporary or permanent sources of income.

Q: Can losses incurred in a business or profession be considered income under the Income Tax Act?

A: Yes, negative income, such as loss, is also considered income under the Income Tax Act.

Q: Can income that has already been taxed in another jurisdiction or under another law be taxed again in India?

A: No, the fundamental rule of taxation is that no income can be double taxed. This means that income that has already been taxed in another jurisdiction or under another law cannot be taxed again in India.

Q: What is the criteria for income to be considered real and not fictitious?

A: Income should have a substance and should not be created for the purpose of taxes. Any income that is deemed to be fictitious or a sham transaction can be subject to taxation.

Q: Are pin/pocket money received by an individual considered income?

A: No, pin/pocket money received by an individual is not considered income and is not subject to taxation.

Q: Are awards and prizes received by an individual subject to taxation?

A: Yes, awards and prizes received by an individual are considered income and are subject to taxation. This means that any monetary or non-monetary award or prize received by an individual is subject to taxation.

Q: Who has the burden of proof to show that the income received by an individual is taxable?

A: The burden of proof lies with the tax department to prove that the income received by an individual is taxable. This means that the tax department must provide sufficient evidence to prove that the income received by an individual is subject to taxation.

Q: Are all revenue receipts subject to taxation under the Income Tax Act?

A: Yes, all revenue receipts are taxable unless exempt under the Income Tax Act

Q: Whether notional income is taxable?

A: No, notional income is not taxable unless it is expressly mentioned in the provision. Eg. Notional rent from the Deemed Let Out property

Q: What are the thumb rule Steps to identify Income?

A: Thumb rule steps for identify the income areas under;

1. Whether the activity amounts to Transaction?
2. Whether amount is received in Bank a/c or cash or in kind ?
3. Check from whom it is received related or unrelated person?
4. Classify the receipt as Revenue or Capital?
5. Check the purpose for which it is received?

6. Whether the documentary evidence supporting the transaction are as per the purpose said?

Q: How to apply the definition?

A: The definition shall be applicable wherever the word INCOME is used in the act, example in the

1. Provisions of TDS, wordings are tax on **Income Comprise there in**
2. **Section 270A** - Penalty for under-reporting and misreporting of income:
3. **Section 10(1)** - Exemption of agricultural income:

Q: What are suggested document to identify Income as per definition?

A: The following is suggested list which is not an exhaustive;

1. Bank Receipts
2. Expense of personal nature
3. Household -Personal Investment
4. Household /Personal Expense of high value.
5. Listed in AIS/TIS/26AS
6. Property sale document
7. Foreign trip expenses

Q: How is the Interplay between INCOME under Income Tax Act Vs SUPPLY in GST?

A: The interplay can be understood as under

1. The Income includes only the amount earned as defined u/s 2(24)
2. Whereas the word supply has wider scope i.e sale to outside party as well internal. Branch transfer or transfer to agent is covered under supply. Whereas branch transfer is not Income as per Income Tax Act, 1961.
3. Income is recognized on basis of accounting policy as well the definition. The revenue on the last day of the month or year is considered as unbilled revenue. The GST liability is not raised as there is no billed transaction. This creates timing difference due to Income tax liability recognized in year 1 and GST in Year 2 which should be reconciled on timely basis.

Q: How is the Interplay between INCOME under Accounting Vs Income Tax ?

A: The interplay can be understood as under

1. Revenue recognition norms are followed as per the accounting standard
2. Income is recognized as section 2(24) of Income Tax Act, 1961.
3. As per accounting policy the income billed or unbilled is recognized in the accounts. There arises timing difference of recognizing the income in accounts and Income tax due to TDS as reflected in 26AS. As per the accounting policy the revenue may e recognized in Year 1 but the TDS Asset i.e deducted by the client is reflected in the 26AS in Year 2. This creates a timing difference which need to be reconciled timely.