

# TAXATION LAWS- DIRECT AND INDIRECT

## Hsst commerce M(4)

Topic: **Assessment of Individual**

### Assessment of an 'Individual'

An individual means a natural person i.e. human being. Individual includes a male, female, minor child and a lunatic or an idiot. In the case of male/female who is a major, income-tax will be levied on his/her Total Taxable Income separately, unless the income is to be clubbed under provisions of sections 60-64. As regards a minor child, the income of a minor after giving exemption upto Rs. 1,500 per minor child will be clubbed with the income of that parent whose Total Income, before clubbing such income, is greater. However, there are certain incomes which are not to be clubbed. Such income of the minor, which is not to be clubbed, will be assessable in the hands of the representative assessee on behalf of the minor.

1. An Individual is liable to Pay Tax in respect of the following incomes

(1) Income earned by an Individual himself

i.e. incomes earned by an individual in his individual capacity.

(2) Remuneration and Interest received by the Partner from a Firm or a Limited Liability Partnership (LLP):

Following incomes received by an individual as partner of a firm shall be taxable in his hand:

(a) The remuneration by way of salary, bonus, commission, etc., received by a partner, is taxable as business income in the hands of a partner [Section 28(v)];

(b) Interest on capital/loans to a firm or a limited liability partnership, in which he is a partner. is also assessed as income from business.

(3) Income Received as a Member of an Association Of Persons (AOP), etc. Where an individual is member of an association of persons or body of individuals, his share of income from such AOP/BOI shall be taxed as under:

(a) Where the income of AOP or BOI is taxed at normal rates i.e. the rates applicable to an individual:

Share of income of a member from such AOP or BOI will be included in the taxable income of the individual only for rate purposes and a relief under section 86 shall be allowed.

(b) Where no income-tax is chargeable on the income of the AOP or BOI :Share of income of a member from such AOP/BOI will be chargeable to tax as part of his Total Income.

(4) Income of the Other Persons included in the Income of the Individual [Sections 60 to 65]:

As already discussed under the chapter on 'clubbing of income', the income of other persons will also be included in the individuals Total Income under respective heads of income.

(v) Income from Impartible Estate of HUF:

Any income from an impartible estate of Hindu undivided family is taxable in the hands of the Karta.

2. Incomes received from Firm /AOP / HUF which are Exempt in the hands of an Individual

The following incomes received by the individual from the Firm or HUF or AOP shall be exempt:

(a) Share of Profit of the Firm or Limited Liability Partnership (LLP) [Section 10(2A)]:

The share of profit from a partnership firm or a limited liability partnership is exempt from tax in the hands of the partner:

(b) Where the income of AOP or BOI is chargeable at Maximum Marginal Rate :

Share of income of a member from such AOP or BOI will not be included in his taxable income at all;

(c) Share of Income from HUF [Section 10(2)]:

A HUF is a separate assessee. Therefore, any share of income received by a member from such HUF will be exempt in the hands of the individual and will not be included in his Total Income.

### 3. Computation of Total income and Tax Liability in case of Individual

Step 1: Compute the income of an individual under five heads of income on the basis of his residential status.

Step 2: Income of any other person, if includible under sections 60 to 64, will be included under respective heads.

Step 3: Set off of the losses if permissible, while aggregating the income under 5 heads of income.

Step 4: Carry forward and set off of the losses of past years, if permissible, from such income.

Step 5: The income computed under Steps 1 to 4 is known as Gross Total Income from which deductions under Sections 80C to 80U (Chapter VIA) will be allowed.

However, no deduction under these sections will be allowed from short-term capital gain covered under section 111A, any long-term capital gain and winning of lotteries etc., though these incomes are part of gross total income.

Step 6: The balance income after allowing the deductions is known as total income which will be rounded off to the nearest

Rs. 10.

Step 7: Compute tax on such Total Income at the prescribed rates of tax i.e. at special rates and normal slab rates.

Step 8: Allow rebate of 100% of the income tax or Rs. 12,500 whichever is less under section 87A in case of resident individual having total income upto Rs. 5,00,000.

Step 9: Add surcharge wherever applicable.

Step 10: Add Health and Education Cess @ 4%.

Step 11: Allow Relief under Section 89, if any.

Step 12 Deduct the TDS, advance tax paid for the relevant assessment year and double taxation relief under section 90, 90A or 91. The balance is the net tax payable which will be rounded off nearest ten rupees and must be paid as self-assessment tax before submitting the return of income.

#### 4. Rebate of Maximum Rs. 2,500 for Resident Individuals having Total Income up to Rs. 5,00,000 [Section 87A]

With a view to provide tax relief to the individual tax payers who are in lower income bracket, the Act has provided rebate from the tax payable by an assessee, if the following condition and satisfied:

- (1) The assessee is an individual
- (2) He is resident in India.
- (3) His total income does not exceed Rs. 5,00,000 (Rs. 3,50,000 up to A.Y. 2019-20).

Quantum of Rebate:

The rebate shall be equal to:

- (1) The amount of income-tax payable on the total income for any assessment year or
  - (2) Rs. 12,500 (Rs. 2,500 upto A.Y. 2019-20),
- whichever is less.

#### 5. Tax on Income of Individual [Section 115BAC(1)] - w.e.f. A.Y. 2021-22

The Income Tax payable in respect of the total income of an Individual for any previous year relevant to assessment year beginning on or after 1.4.2021, shall be computed at the Rate of Tax given: