■ INCOME TAX LAW

Detailed Study Notes

Provision for Income Tax | Tax Slabs | Charge of Income Tax

As per Income Tax Act, 1961 • Finance Act 2024-25

These notes cover **Section 2(43), Section 4, Section 5** of the Income Tax Act 1961, the concept of *Previous Year & Assessment Year*, the basis of charge, residential status, and the updated tax slabs under both Old and New Tax Regimes.

■ CHAPTER 1 — BASIC CONCEPTS & DEFINITIONS

1.1 Income Tax — Meaning

Income Tax is a **direct tax** levied by the Central Government on the **total income** earned by a person during a previous year, assessed in the subsequent assessment year. It is governed by the **Income Tax Act, 1961** and administered by the **Central Board of Direct Taxes (CBDT)**.

■ **Key Formula:** Income Tax Payable = (Total Income – Deductions) × Applicable Tax Rate
■ Add: Surcharge (if applicable) | Add: Health & Education Cess @ 4%
■ Less: Rebate u/s 87A (if applicable) | Less: TDS / Advance Tax Paid

1.2 Key Definitions (Section 2)

Section 2(7)	Assessee — a person by whom any tax or any other sum of money is payable under the Act.

Section 2(9)	Assessment Year (AY) — the year immediately following the previous year in which income is assessed.
Section 2(34)	Previous Year (PY) — the financial year immediately preceding the assessment year (April 1 – March 31).
Section 2(31)	Person — includes Individual, HUF, Company, Firm, AOP/BOI, Local Authority, AJP.
Section 2(43)	Tax — includes any income tax chargeable under the provisions of this Act.
Section 2(45)	Total Income — the total amount of income computed in the manner laid down in the Act.

1.3 Previous Year vs Assessment Year

Basis	Previous Year (PY)	Assessment Year (AY)
Period	1 Apr – 31 Mar (year of earning)	1 Apr – 31 Mar (year of tax filing)
Example	FY 2024-25 (Apr 2024 – Mar 2025)	AY 2025-26 (Apr 2025 – Mar 2026)
Purpose	Year in which income is earned	Year in which income is assessed & tax is filed
Governed by	Section 3 of IT Act	Section 2(9) of IT Act
Section	Section 3	Section 2(9)

■■ CHAPTER 2 — BASIS OF CHARGE [Section 4]

2.1 Section 4 — Charge of Income Tax

Section 4 is the **charging section** of the Income Tax Act. It lays down the foundation for levying income tax. The key provisions are:

(i) Annual Charge: Income tax shall be charged for every assessment year in accordance with the rates specified in the Finance Act for that year.

(ii) Total Income: Tax is charged on the total income of the previous year of every person.

(iii) Rate Application: The rates are prescribed in the relevant Finance Act or the First Schedule. The Central Government introduces a Finance Bill (Budget) each year.

(iv) Super Tax: In addition to basic income tax, super tax / surcharge may be levied as per Finance Act provisions.

■ **Memorize:** Section 4 = 'Who is taxed?' + 'On what?' + 'At what rate?' + 'For which year?'
Tax is charged on **Total Income of Previous Year** at **rates of Finance Act of Assessment Year**.

2.2 Exceptions to Previous Year Rule (Income Taxed in Same Year)

Normally income of PY is taxed in AY. However, the following incomes are taxed in the same year:

Section	Exception / Situation
Sec 172	Income of a ship owner / charter in case of non-resident — taxed before the ship leaves Indian waters.
Sec 174	Persons leaving India permanently — income up to departure date is assessed immediately.
Sec 174A	AOP/BOI/AJP formed for a specific event/purpose — assessed when it ceases to exist.
Sec 175	Persons likely to transfer property to avoid tax — assessed before transfer.
Sec 176	Discontinued businesses/professions — income taxed in the year of discontinuance.

■ CHAPTER 3 — RESIDENTIAL STATUS & SCOPE OF INCOME [Section 5]

3.1 Residential Status — Categories

Status	Individual / HUF	Company / Firm
Resident & Ordinarily Resident (ROR)	Meets BOTH basic conditions	Indian Company / POEM in India
Resident but Not Ordinarily Resident (RNOR)	Meets basic condition BUT fails additional conditions	—
Non-Resident (NR)	Does not meet even one basic condition	Foreign Company / POEM outside India

3.2 Scope of Total Income (Section 5)

Income Type	ROR	RNOR	NR
Income received / accrued in India	■ Taxable	■ Taxable	■ Taxable
Income received outside India (but from Indian business/profession)	■ Taxable	■ Taxable	■ Not Taxable
Income from business controlled from India	■ Taxable	■ Taxable	■ Not Taxable
Income from foreign source (outside India)	■ Taxable	■ Not Taxable	■ Not Taxable

■ CHAPTER 4 — INCOME TAX SLABS [AY 2025-26 / FY 2024-25]

4.1 Old Tax Regime — Individuals (Below 60 Years)

Income Slab (■)	Tax Rate	Tax Amount
Up to ■2,50,000	NIL	—

■2,50,001 – ■5,00,000	5%	Up to ■12,500
■5,00,001 – ■10,00,000	20%	■12,500 + 20% of income above ■5 lakh
Above ■10,00,000	30%	■1,12,500 + 30% of income above ■10 lakh

■ **Senior Citizens (60–80 yrs):** Basic exemption limit = ■3,00,000
■ **Super Senior Citizens (80+ yrs):** Basic exemption limit = ■5,00,000
■ **Rebate u/s 87A:** If total income ≤ ■5,00,000 → Tax Rebate of ■12,500 (making tax = NIL)

4.2 New Tax Regime — Section 115BAC (Default from AY 2024-25)

■ The **New Tax Regime** is the **DEFAULT** regime from AY 2024-25. Taxpayers must opt OUT to use Old Regime.
✔ Basic exemption: **■3,00,000** | Rebate u/s 87A: **■25,000** (if total income ≤ ■7,00,000)
✔ Standard Deduction for Salaried: **■75,000** (increased in Budget 2024)

Income Slab (■)	Tax Rate
Up to ■3,00,000	NIL
■3,00,001 – ■7,00,000	5%
■7,00,001 – ■10,00,000	10%
■10,00,001 – ■12,00,000	15%
■12,00,001 – ■15,00,000	20%
Above ■15,00,000	30%

4.3 Old Regime vs New Regime — Quick Comparison

Feature	Old Regime	New Regime
Basic Exemption	■2.5 L / ■3 L / ■5 L	■3,00,000
Rebate u/s 87A	■12,500 (income ≤ ■5 L)	■25,000 (income ≤ ■7 L)
Standard Deduction	■50,000	■75,000
HRA / LTA / 80C etc.	■ Available	■ Not Available
Chapter VI-A Deductions	■ Available	■ Mostly Not Available
Default Status	Optional (Opt-in)	Default (Opt-out needed)
Best For	High investments / deductions	Low investments / simple filing

■ CHAPTER 5 — SURCHARGE, CESS & MARGINAL RELIEF

5.1 Surcharge on Income Tax

Surcharge is an additional levy **on the income tax** (not on income). It applies when total income exceeds specified thresholds:

Total Income Range	Surcharge Rate (Individual)	On Company
Up to ■50 Lakh	NIL	NIL
■50 Lakh – ■1 Crore	10%	7% (Domestic Co.)
■1 Crore – ■2 Crore	15%	12% (Domestic Co.)
■2 Crore – ■5 Crore	25%*	12%
Above ■5 Crore	37%* (Old) / 25% (New)	12%

** Under New Regime, maximum surcharge on all income types is capped at **25%**. The 37% surcharge on income > ■5 Cr applies only in Old Regime.*

5.2 Health & Education Cess

■ **Health & Education Cess = 4%** on (Income Tax + Surcharge)
Previously: Education Cess (2%) + Secondary & Higher Education Cess (1%) = 3% → merged to 4% from AY 2019-20
Cess applies to ALL taxpayers regardless of income level. It is NOT deductible.

5.3 Marginal Relief

Marginal Relief ensures that the **increase in tax due to surcharge** does not exceed the **increase in income** that triggered the surcharge. It is granted so that the taxpayer is not worse off merely because their income crossed a threshold.

■ **Formula for Marginal Relief:**
Marginal Relief = (Tax + Surcharge at higher rate) – (Tax at lower rate + Surplus Income)
Where Surplus Income = Total Income – Threshold (e.g., ■50 Lakh / ■1 Crore, etc.)

■ CHAPTER 6 — PROVISION FOR INCOME TAX (Accounting & Legal)

6.1 What is Provision for Income Tax?

A **Provision for Income Tax** is an estimated amount set aside in a company's accounts to meet its expected income tax liability for the current financial year. It is shown as a **current liability** in the Balance Sheet.

■ It is created at year-end based on estimated taxable profits.
■ Actual tax is computed after the year ends when final accounts are prepared.
■ Any shortfall or excess in provision is adjusted in the following year.
■ Shown under 'Current Liabilities & Provisions' in Balance Sheet.
■ Debited to Profit & Loss Account as 'Tax Expense'.

6.2 Journal Entry for Provision for Income Tax

Entry	Account	Dr / Cr
Creating provision	Income Tax Expense A/c Dr	Dr
	To Provision for Tax A/c	Cr
Paying advance tax	Advance Tax A/c Dr	Dr
	To Bank A/c	Cr
At year-end settlement	Provision for Tax A/c Dr	Dr
	To Advance Tax A/c	Cr
	To Tax Payable A/c	Cr

6.3 Advance Tax — Payment Schedule (Section 208)

Every assessee whose estimated tax liability exceeds **■10,000** in a year must pay Advance Tax in instalments:

Instalment	Due Date	% of Tax Payable
1st Instalment	On or before 15th June	At least 15%
2nd Instalment	On or before 15th September	At least 45% (cumulative)
3rd Instalment	On or before 15th December	At least 75% (cumulative)
4th Instalment	On or before 15th March	100% (cumulative)

■ *For **Presumptive Taxation (Sec 44AD/44ADA)**: Entire advance tax to be paid in single instalment by **15th March** only.*

■ CHAPTER 7 — QUICK REVISION & EXAM TIPS

Important Sections to Remember

Section	Topic	Key Point

Sec 2(9)	Assessment Year	Year of filing tax return
Sec 3	Previous Year	Year of earning income
Sec 4	Charge of Income Tax	The main charging section
Sec 5	Scope of Total Income	Based on residential status
Sec 6	Residential Status	Determines taxability
Sec 87A	Tax Rebate	■25,000 if income ≤ ■7L (New)
Sec 115BAC	New Tax Regime	Default from AY 2024-25
Sec 208	Advance Tax	If tax > ■10,000
Sec 234A	Interest for late filing	@ 1% per month
Sec 234B	Interest – Advance Tax	< 90% tax paid in advance
Sec 234C	Interest – Deferment	Instalment not paid in time
Sec 244A	Interest on Refund	Govt pays @ 6% p.a.

■ EXAM TIPS:

1. Section 4 = Charging Section → 'Tax is charged on Total Income of Previous Year at rates of AY Finance Act'
2. New Regime is DEFAULT → individual must actively opt for Old Regime
3. Cess = 4% always on (Tax + Surcharge). Surcharge is on Tax, not Income.
4. Rebate u/s 87A → Old Regime: ■12,500 for income ≤ ■5L | New: ■25,000 for income ≤ ■7L
5. Advance Tax instalments: 15% / 45% / 75% / 100% on 15 Jun / 15 Sep / 15 Dec / 15 Mar