



# OVERVIEW OF SECTION I

Section I of the syllabus comprises of the initial two chapters –

**Chapter 1** Basic Concepts

**Chapter 2** Residential Status and Scope of Total Income.

In Chapter 1, we would introduce you to the fundamental concepts of income-tax law in India. Since income-tax is levied on the total income of a person, it is important for you to know who all and which entities are covered under the definition of "person" and how to go about computing the total income of such person. At Intermediate level, we will discuss in detail the procedure for computation of total income and tax liability of an individual. The concepts of "previous year" and "assessment year" are very significant in income-tax law. "Previous year" is the financial year immediately preceding the assessment year. Income earned during the previous year is chargeable to tax during the assessment year immediately following the previous year. You have to understand the meaning and scope of "income" under the Income-tax law. Also, it is important to know the rates of income-tax, surcharge and cess for different persons to compute their tax liability. All these are dealt with in Chapter 1.

Chapter 2 deals with determination of residential status of a person and the scope of total income. It is the residential status of a person that determines the scope of income chargeable to tax in his/her/its hands. For example, in case an individual is a resident and ordinarily resident, his global income would be chargeable to tax in India. However, if he is a non-resident, the income accrued and received outside India will not be chargeable to tax in India, unless it is specifically deemed to accrue or arise in India. The concept of "deemed to accrue or arise in India" is important and is dealt with in detail in this chapter. An individual's residential status is determined on the basis of the number of days of his stay in India in the current previous year or in the current previous year and in the earlier previous years. However, there is also a concept of deeming an individual, who is a citizen of India to be a resident based on fulfilment of certain criteria. The number of days of his stay in India is, however, not relevant for attracting this deeming provision. These aspects are dealt with in detail in Chapter 2.



Before we commence learning the subject of income-tax law, we would like to introduce you to this interesting subject through a Scenario, in which Anisha, an 18 years old girl, is trying to understand the ABCs of income-tax law. Anisha has just joined B. Com in a popular college in Mumbai. She is elated as she has qualified the CA Foundation examination held in June, 2024 with flying colours. She has registered for CA Intermediate course and is eligible to appear for the examination in May, 2025. She has downloaded the BoS Mobile App and is able to access all learning material of Board of Studies (BoS) of ICAI and recorded lectures for different subjects at one place. She had viewed the BoS live virtual classes for the Foundation course online and found them very useful for understanding the concepts, problem solving and preparation for the examination. She is looking forward to viewing the BOS Live Virtual Classes which is to commence shortly for CA Intermediate course. She is especially keen on learning income-tax law, since income-tax aspects relating to different income earned by her family members crop up during dinner table conversations. Therefore, she wants to begin understanding the different concepts of income-tax by relating the same to the income earned by her immediate family and relatives.

Read the Scenario below and the "Points to Ponder" raised by Anisha. Most of you will be in the same age group as Anisha. Being in the same peer group as her, you can help her find answers by reading Chapters 1 and 2 and understanding the basic concepts of income-tax law and the provisions for determining residential status and scope of total income. Also, do solve the Crossword Puzzle given at the end.

## SCENARIO

Anil, aged 50 years, is carrying on business of retail trade in Mumbai. Anil's parents aged 78 years and 82 years stay with him. Anil's wife, Asha, aged 47 years, is a popular baker in her locality in Mumbai. She receives orders from customers in the nearby localities in Santa Cruz, Mumbai and bakes cakes, pastries and cookies at home and delivers them. She also grows seedlings and saplings in pots in her garden for sale. She sold some of her jewellery this year. Both Anil and Asha have


fixed deposits with banks from which they earn interest. Anil has invested in shares of various Indian companies in his name and earned dividend therefrom. Anil and Asha have one son, Abhinav, aged 24 and one daughter, Anisha, aged 18 years, to whom you have already been introduced. All of them are citizens of India.


Abhinav has completed MBA in Marketing from a reputed University in India in May, 2024 and is working as a Marketing Executive in Beta Ltd. in Mumbai from 1<sup>st</sup> June, 2024 for a salary of ₹ 3 lakh per month. This being his first job, he gifted a smart phone to Anisha from his first salary which he received in June, 2024. He won ₹ 20,000 in Maharashtra State Lottery in August, 2024. Abhinav got a job offer in New York and resigned his job in Beta Ltd. on 20<sup>th</sup> September, 2024. He left for New York on 27<sup>th</sup> September, 2024 and joined his new job in Gamma Inc in New York from 1<sup>st</sup> October, 2024. He opened a bank account in New York and his salary from Gamma Inc is credited to that account.

Anil's brother Kishore, aged 48 years, moved to the USA in the year 2005. He is now a citizen of USA and is employed with a consultancy firm in the USA. He has house properties in India from which he derives rental income. He also derives income of ₹ 16 lakhs from a business controlled in Mumbai. He visits India during the month of December every year with his wife Reema, aged 45 years, and son Madhav, aged 19 years, and stays in India for the whole month. Anil and Kishore purchased adjacent houses in New York, USA in April, 2024 from which they earn rental income, which is credited to their bank account in the USA. Anil visited his brother in the USA from 15<sup>th</sup> June, 2024 to 3<sup>rd</sup> July, 2024 along with Asha. They have not made any other foreign trips during the year. Their foreign trips are of the duration of less than one month every year.

Anil's younger sister Nidhi, a citizen of India, got married and settled in UAE in the year 2010. She also derives income of ₹ 18 lakhs from a business controlled in Mumbai. She has fixed deposits in a bank in UAE from which she gets interest. Nidhi is not liable to pay tax in UAE. Like her brother, Kishore, she also visits India in the month of December every year and stays for the whole month.

The following "Points to Ponder" are raised by Anisha. You have to help her find answers to them. Anil tells her that his total income computed as per the Income-tax Act, 1961 is likely to be around ₹ 75 lakhs and Asha's total income is likely to be around ₹ 20 lakhs for A.Y.2025-26.

 <b>Points to Ponder</b>	<b>Write your response after reading Chapter 1</b>
<p>(1) Anisha is interested in knowing whether she and Abhinav would be assesseees as per the Income-tax Act, 1961.</p> <p>Would Anisha and Abhinav be assesseees under the Income-tax Act, 1961?</p>	
<p>(2) She wants to know whether the previous year for her father and her brother for the assessment year 2025-26 would be the same. Would the previous year remain the same for both of them? If not, why?</p>	
<p>(3) She is curious to know whether the following would be income under the Income-tax Act, 1961 –</p> <ul style="list-style-type: none"> <li>(i) Profits from business of retail trade carried on by her father</li> <li>(ii) Profits earned by her mother from business of sale of cakes, biscuits and cookies</li> <li>(iii) Salary earned by Abhinav from Beta Ltd.</li> <li>(iv) Lottery winnings of Abhinav</li> <li>(v) Dividend received by her father from Indian companies.</li> </ul>	

 <b>Points to Ponder</b>	<b>Write your response after reading Chapter 1</b>
<p>(4) She is keen to know whether surcharge would be levied on the total income of her mother and father. Would surcharge be leviable? If so, at what rate? Assume that their actual income is the same as the estimated income.</p>	
<p>(5) Anil's father's HUF consists of ancestral properties, the income from which is assessed as income of the HUF. Anisha finds the concept of HUF fascinating. She is curious to know whether the wife, daughter-in-law and grandchildren would be members of a HUF, and if so, would they be co-parceners also. She is also keen in knowing whether a married daughter would be a co-parcener of her father's HUF.</p> <p>(i) Who amongst the following are members of Anil's father's HUF?</p> <ol style="list-style-type: none"> <li>1. Anil's mother</li> <li>2. Asha and Reema</li> <li>3. Abhinav, Anisha and Madhav</li> </ol> <p>(ii) Who amongst the following are co-parceners of Anil's father's HUF?</p> <ol style="list-style-type: none"> <li>1. Anil's mother</li> <li>2. Asha and Reema</li> <li>3. Nidhi</li> <li>4. Abhinav, Anisha and Madhav</li> </ol>	

Anisha is also keen in knowing the residential status of her family members and relatives for A.Y.2025-26, i.e., whether they would be –

1. Resident and Ordinarily Resident (ROR)
2. Resident but not ordinarily resident (RNOR)
3. Non-resident
4. Deemed resident?

Family member/Relative	Calculate the number of days of stay in India	Determine the Residential Status after reading Chapter 2 [ROR/RNOR/Non-resident/deemed resident]
A. Anil, her father		
B. Asha, her mother		
C. Abhinav, her brother		
D. Kishore, her uncle		
E. Nidhi, her aunt		

Based on the residential status arrived at above, help her find out which of the incomes listed in column (2) below would be included in the hands of these persons while computing their total income.

(1)	(2)	(3)
Family member/ Relative	Particulars of profits/gains/receipts	Whether the profits/gains/receipts would be included in computing his/her total income?  Write Yes/No against each item after reading Chapters 1 and 2
A. Anil, her father	1.	Rental income from house in New York, USA
	2.	Profits from business of retail trade
	3.	Interest on bank fixed deposits
	4.	Dividend from Indian companies
B. Asha, her mother	1.	Profits from sale of cakes, pastries and cookies
	2.	Profits from sale of saplings and seedlings
	3.	Interest on bank fixed deposits
	4.	Gains from sale of jewellery

(1)	(2)	(3)
Family member/ Relative	Particulars of profits/gains/receipts	Whether the profits/gains/receipts would be included in computing his/her total income?  Write Yes/No against each item after reading Chapters 1 and 2
C.	Abhinav, her brother <ol style="list-style-type: none"> <li>1. Salary from Beta Ltd. in Mumbai</li> <li>2. Salary from Gamma Inc in New York</li> <li>3. Maharashtra State Lottery winnings</li> </ol>	
D.	Kishore, her uncle <ol style="list-style-type: none"> <li>1. Rental income from house in New York, USA</li> <li>2. Salary from consultancy firm in USA</li> <li>3. Income from a business controlled in Mumbai</li> <li>4. Rent from properties in India</li> </ol>	
E.	Nidhi, her aunt <ol style="list-style-type: none"> <li>1. Income from business controlled in Mumbai</li> <li>2. Interest on bank fixed deposits in UAE</li> </ol>	

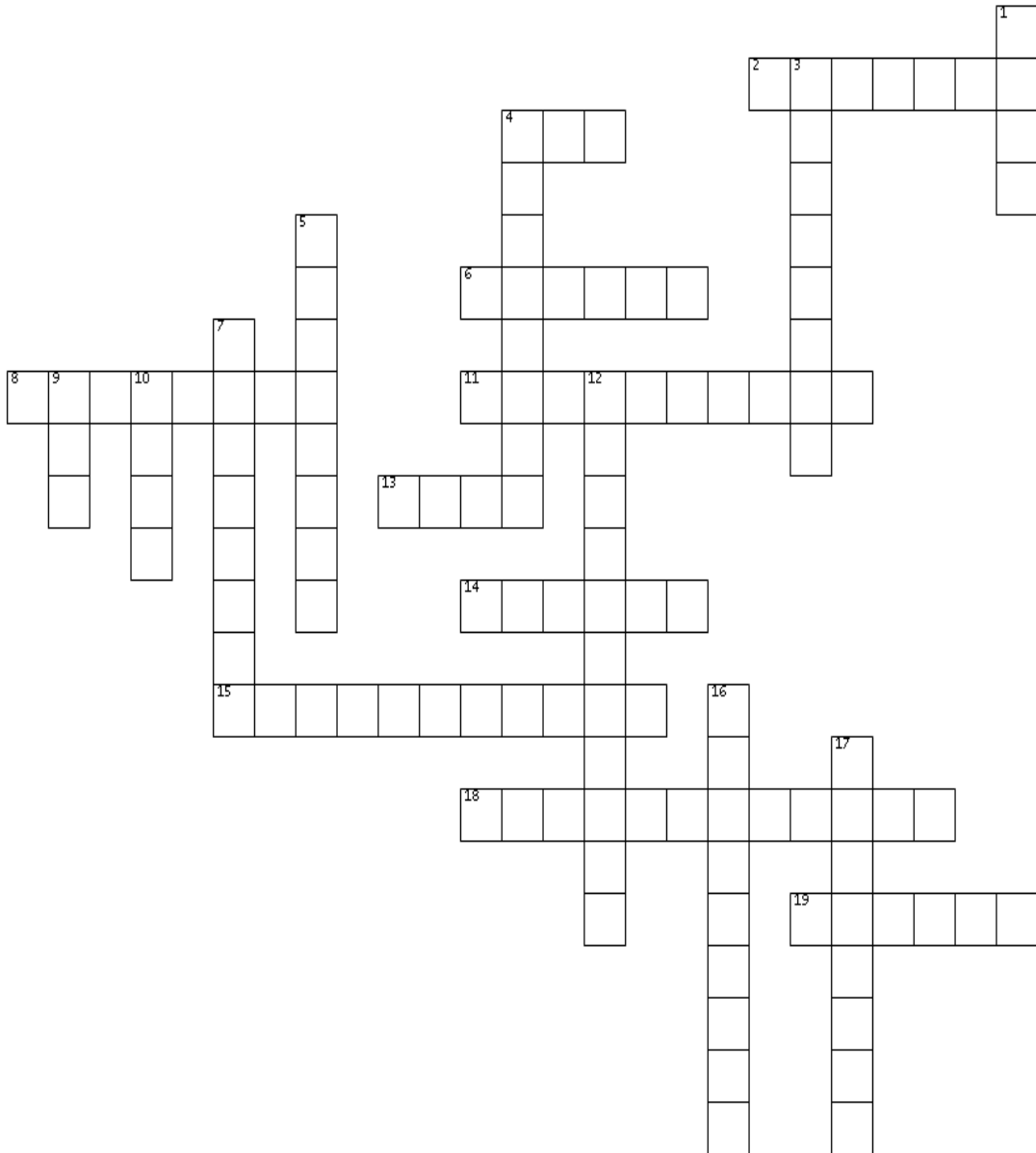




**Point to Ponder** - In case Kishore decides to resettle in India and returns permanently to India on 1<sup>st</sup> October, 2024, what would be his residential status for the A.Y.2025-26, if he decides to retain his US citizenship? Which items of income would be included in Kishore's total income in India from the items listed in column (2) above corresponding to Kishore? Write your response after reading Chapter 2.



# CROSSWORD PUZZLE



## ACROSS

2. The ..... to a section spells out the exceptions/conditions to the provision contained therein.
4. In order to constitute an ..... (acronym), persons must join for a common purpose or action and their object must be to produce income.
6. Income-tax is levied on the total income of the previous year of every .....
8. Section 4 is the .....section of the Income-tax Act, 1961.
11. Previous year means the financial year immediately preceding the ..... year.
13. Income taxable under the Income-tax Act is classified under ..... heads.
14. .... payable for service rendered in India would be treated as earned in India and would be deemed to accrue or arise in India.
15. The first step in computation of total income is determination of ..... status.
18. A ..... is issued by the CBDT to give effect to a provision contained in the Income-tax Act, 1961.
19. Income-tax is a ..... Tax

## DOWN

1. Residential status of a company which is not an Indian company would be determined on the basis of its .... (acronym)
3. An individual who stays in India for 182 days or more in the P.Y.2024-25 is a ..... in India in that year.
4. A person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.
5. An individual earning income of ₹ 50,10,000 would be entitled to ..... relief.
7. A ..... is issued by the CBDT to clarify doubts relating to the provisions of the Income-tax Act, 1961.
9. Some members of the ..... (acronym) are called co-parceners.

10. An individual who is deemed resident under section 6(1A) would by default be a ..... (acronym).
12. The ..... to a section gives a clarification to the provision contained therein.
16. The definition of income under the Income-tax Act, 1961 is an ..... definition.
17. .... paid by an Indian company outside India would be deemed to accrue or arise in India.

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**Find the answers to the Scenario and Crossword puzzle at the end of Module 1.**