Income Tax Law & Practice Basics, Residential Status & Tax Liability

For B.Com/M.Com Students

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Introduction to Income Tax

- What is Tax?
  - A compulsory financial charge imposed by a government.
  - Funds public services and infrastructure.
- Income Tax in India
  - Governed by the Income Tax Act, 1961.
  - Tax levied on 'total income' of an assessee.
- Key Terms:
  - Assessee: Liable person.
  - Previous Year (PY): Year income earned (Apr–Mar).
  - Assessment Year (AY): Year income is assessed.
  - Example: Income Apr 2024–Mar 2025 → AY 2025–26.

Heads of Income

- The Income Tax Act, 1961, classifies income into five heads:
- Income from Salary
- Income from House Property
- Profits & Gains of Business or Profession
- Income from Capital Gains
- Income from Other Sources

Residential Status: The Foundation of Taxability

- Determines scope of taxability in India.
- Yearly assessment; different from citizenship.
- Indian citizen can be NR; foreigner can be resident.
- Residential status in PY determines taxable income.

Residential Status of an Individual

- An individual can be:
  - Resident
  - Resident & Ordinarily Resident (ROR)
  - Resident but Not Ordinarily Resident (RNOR)
  - Non-Resident (NR)
- Basic Conditions:
  - ≥182 days in India in PY
  - ≥60 days in PY + ≥365 days in preceding 4 years
- Exceptions:
  - Indian citizen leaving for employment/ship crew
  - Indian citizen/PIO visiting India
  - Finance Act 2020: ≥120 days if income > ₹ 15 Lakhs

Residential Status: ROR vs. RNOR

- Additional Conditions (for ROR):
  - Resident ≥2 out of 10 PYs preceding relevant PY
  - ≥730 days in India in preceding 7 PYs
- If both satisfied → ROR
- If one/none satisfied → RNOR

Tax Liability Based on Residential Status

- Indian Income: Taxable for ROR, RNOR, NR
- Foreign Income:
  - ROR: Taxable
  - RNOR & NR: Not Taxable
- Exception: Business controlled/set up from India
  - ROR: Taxable
  - RNOR: Taxable
  - NR: Not Taxable
- Deemed Income: Taxable for all
- Summary:
  - ROR: Taxed on worldwide income
  - RNOR & NR: Taxed only on Indian income

Examples of Residential Status

- Example 1: Mr. A (US citizen, 152 days stay in PY 2024–25):
  - Doesn't meet 182-day/60+365-day condition
  - Status: Non-Resident (NR) for AY 2025–26
- Example 2: Mr. B (Indian citizen, 130 days in PY 2024–25, 400 days in 4 preceding years, income ▯ 12L):
  - Doesn't meet 182-day rule
  - Meets 60-day + 365-day condition
  - Status: Resident → Check additional conditions → RNOR

Summary of Key Concepts

- Income Tax: Mandatory levy, assessed annually.
- Five heads of income classify all income sources.
- Residential Status: Critical for tax liability.
- ROR: Taxed on worldwide income.
- RNOR & NR: Taxed only on Indian income.