

Tax and Taxation

Tax: Tax is a compulsory financial charge or levy imposed by the government on individuals, businesses, or other entities. The purpose of taxation is to generate revenue for the government to fund public services and infrastructure, such as healthcare, education, defense, and social welfare programs. Taxes are collected at various levels, including federal, state, and local.

Taxation: Taxation refers to the process by which the government imposes and collects taxes. It includes the rules, regulations, and methods used to assess and gather taxes from individuals and businesses. Taxation is essential for the functioning of a government and plays a crucial role in the economic development of a country.

Various Terms Used in Taxation

1. Assessee:

○ An assessee is a person or entity who is liable to pay tax or is assessed for taxation under the Income Tax Act. This includes individuals, companies, firms, Hindu Undivided Families (HUFs), and others.

2. Assessment Year:

○ The assessment year is the 12-month period starting from April 1 and ending on March 31 of the next year. During this period, the income earned in the previous financial year is assessed and taxed.

3. Previous Year:

○ The previous year is the financial year immediately preceding the assessment year. It is the year in which the income is earned, and the tax on that income is assessed in the following assessment year.

4. Income:

○ Income refers to the total amount of money earned by an individual or entity from various sources such as salaries, business profits, interest, dividends, rent, and other sources. It is categorized under different heads of income for taxation purposes.

5. Gross Total Income:

○ Gross Total Income is the sum of income from all sources before any deductions under Section 80C to 80U are applied. It includes income from salaries, house property, business or profession, capital gains, and other sources.

6. Net Taxable Income:

○ Net Taxable Income is the income on which tax is calculated. It is derived by deducting eligible deductions (like those under Section 80C, 80D, etc.) from the Gross Total Income.

7. Deductions:

○ Deductions are specific amounts that can be subtracted from the Gross Total Income to reduce the taxable income. Common deductions include those under



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Section 80C (investments in PPF, NSC, etc.), 80D (medical insurance), and others.

8. Tax Liability:

○ Tax liability is the total amount of tax that an assessee is required to pay to the government for a particular assessment year.

9. Advance Tax:

○ Advance Tax is the tax paid in advance during the financial year instead of paying the entire tax amount at the end of the year. It is paid in installments based on the expected income.

10. Self-Assessment Tax:

○ Self-Assessment Tax is the amount of tax paid by the assessee after the financial year ends and before filing the income tax return, to clear any outstanding tax liability.

11. Tax Deducted at Source (TDS):

○ TDS is a method of collecting tax at the source of income. The payer deducts a certain percentage of tax before making a payment to the payee, which is then deposited with the government.

12. Tax Collected at Source (TCS):

○ TCS is a method where the seller collects a certain percentage of tax from the buyer at the time of sale and deposits it with the government.

13. Exemptions:

○ Exemptions are specific incomes or parts of income that are not subject to tax. For example, certain allowances like House Rent Allowance (HRA) may be partially or fully exempt from tax.

14. Rebate:

○ A rebate is a reduction in tax liability. For example, under Section 87A, individuals with income below a certain threshold may receive a rebate on their tax payable.

15. Tax Return:

○ A tax return is a form filed with the tax authorities that reports income, expenses, and other tax information. It is used to calculate and pay the tax liability or claim a refund if excess tax has been paid.

16. Assessment:

○ Assessment is the process of evaluating the income declared by the assessee and determining the correct tax liability by the tax authorities.

17. Audit:

○ A tax audit is an examination of an entity's financial records by tax authorities to ensure that income, deductions, and tax payments have been accurately reported and calculated.



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