



## JAIN HERITAGE SCHOOL

### Report on Income Tax Session

With the initiative of the Chairman, **Dr. R Chenraj** the students of JHS had an opportunity to interact with **Sri Pratap Singh, Director Income Tax** on the 23<sup>rd</sup> of August 2012, at the Jain College Campus, J.C.Road, Bangalore.

Our Honourable Chairman **Dr. R Chenraj Jain** personally welcomed the students and the teachers on the occasion. He also introduced and welcomed **Sri Pratap Singh, Sri Shasidhar Seth, Mr. G.T Shashi and Mr. Kaushal Srivastav.**

It was indeed a great occasion for the students of JHS to be educated on certain very important aspects of taxation and the working of the department as a whole.

Sri Pratap Singh who passed out from IRS in the year 1991 and presently the Deputy Director of Income Tax discussed in great detail the following points:

**Tax :** It is a compulsory payment paid by the people to the government and it is the major source of revenue to the government.

#### Types of Taxes

##### 1. Direct Tax

##### 2. Indirect tax

Direct tax - tax levied on income and wealth.

Examples: Income tax, Wealth tax, Corporation tax, Estate duty etc.

Indirect tax - tax levied on goods and services.

Examples: Sales tax, Exercise duties, Custom duties etc.

In India, government is giving more emphasis on direct taxes to increase its revenue. Indirect taxes are regressive in nature and hence put more burdens on the common man.

Tax levied on vehicles, jewellery, Excise duty, Custom duties, Cross border movement of Goods and tax levied on different services for example service rendered by CA, Legal advisers, Contractors etc.

**Article 265-** States that only the Government has the authority to levy taxes and no individual or organization has been given the right to levy taxes.

**Article 241** - Speaks in great volume about Legislative powers of the Government. India is Quasi Federal in structure and unitary in spirit. Keeping this makeup article 241 clearly states that power is divided between the Union, State and Local Government bodies. Therefore we have three important Lists called the Union list, the State list and the Concurrent list. Different policies of taxation and areas that come under different list have been clearly specified in this article. This has been prepared keeping in mind the smooth working of different Government Organisations.

### **Why are taxes levied?**

Taxes collected account for the revenue of the Government. For example In the case of Petrol. We import crude oil from the Middle Eastern Countries. A custom duty is charged. This oil goes to the refineries. An excise duty is charged. Further when it comes to the petrol bunks, we are charged VAT.

### **Purpose of Tax**

1. Generates revenue for the Government. Money is generated
2. To cater to infrastructural developments.
  - a. Bangalore Metro cost the Government 12,000 Cr.  
Funded by State Government/Central Government and two financial Institutions
  - b. Bangalore Airport - 3500 Cr.
  - c. To open IIT's and other Educational Institutions - 200 to 300 Cr.
  - d. Armed Forces - 2 Lac Cr.
3. Social Infrastructure
  - a. Right to Education
  - b. Free Education for Girl Child.

## Why the governments impose taxes?

- To increase the government revenue
- To reduce demand for demerits goods like alcohol, tobacco or cigarettes.
- To internalize external cost
- To create more equal distribution of income and wealth.
- To protect home industries. Example: Tariff.
- To discourage imports
- Price stability.

## Merits of direct taxes

- In case of direct tax, the tax payer is sure about how he is paying tax.
- In case of direct tax, the government can calculate the tax revenue in advance.
- It reduces inequality of income and distribution
- Direct tax reduces inflation.

## Merits of Indirect taxes

- It is very easy to collect
- It's common to all the people.
- It's difficult to avoid
- It reduces the consumption of harmful commodities. Example: tobacco, liquor.

## Economic effects of taxation

1. **On distribution of income and wealth:** One of the most important aims of taxation is to reduce the inequalities in the distribution of income and wealth. Income tax reduces this inequality because it takes more from the rich people.
2. **On consumption:** Direct tax such as income tax reduces the disposable income and so consumption falls. Indirect tax such as tax on goods and services raise the prices. Hence it reduces consumption.

3. **On saving and investment:** Direct tax such as income tax, corporation tax reduces the incentive to work, save and investment.
4. **On prices:** Direct tax reduces the demand for goods and services and could lead to a fall in prices. An increase in indirect taxes increases the price and generates inflation.

### **Heads of Income**

The total income of a person is divided into five heads:

1. Salary income
2. Income from house property
3. Income from business or profession
4. Capital Gain
5. Income from other sources.

### **INCOME FROM SALARY**

All income received as salary under Employer-Employee relationship is taxed under this head. Employers must withhold tax compulsorily, if income exceeds minimum exemption limit, as Tax Deducted at Source (TDS), and provide their employees with tax deductions and net paid income. In addition other deductions provided from salary such as:

1. Medical reimbursement: Up to 15,000 per year is tax free if supported by bills.
2. Transport allowances: Up to 800 per month (9,600 per year) is tax free if provided as transport allowance. No bills are required for this amount.
3. Conveyance allowance: is tax exempt.
4. Professional taxes: Most state tax employment on a per-professional basis, usually a slabbed amount based on gross income. Such taxes paid are deductible from income tax.
5. House rent allowance: the least of the following is available as exemption.

- Actual HRA received
- 50%to 40% of basic salary
- Rent paid minus 10%of salary.
- Basic salary for this purpose is basic+ DA forming part +commission on sale on fixed rate.

### Income from house property

It is computed by taking into account what is called Gross Annual Value of the property.

### Criteria for Taxation - Income Tax Slabs Rate

1. Less than 2 Lac - No taxes to be paid
2. 2 to 5 Lac - 10%
3. 5 to 10 Lac - 20%
4. Beyond 10 Lac - 30% Irrespective of the Quantum of Income.

The talk concluded with a questionnaire session .The students participated enthusiastically and were very keen to raise questions .The Chairman also initiated a discussion where he summarized all the learning that had happened .The Chief Guest was impressed by the questions which were put across by the students .It was a wonderful learning experience for the students of Jain Heritage School.

### **The questions are as follows:**

1. What kinds of punishments are meted out to people found with Black Money?
2. What happens to seized Black Money and why isn't it being converted and used for beneficial purposes?
3. How can we avoid double collection while collecting wealth tax?
4. A lot of revenue is being collected through collection of taxes .Why is the development of India still being stalled?
5. In India, is there a progressive amount of income being collected per annum?
6. How does your department ensure transparency?

7. How do you account for the luxury items obtained by politicians?
8. How does the department ensure that income is distributed equitably?
9. What is the current investment in the primary sector?
10. What about the money hoarded in Swiss banks? Is it being accounted?