Income Tax in India is levied under the Income Tax Act, 1961 and the Income Tax Rules, 1962. Every year the Finance Minister presents the Finance Bill which along with other laws affects the Income Tax provisions. The Finance Act invariably has **First Schedule** which is in four parts:

1. Gives the rates of Income Tax for various assessees for the current assessment year. Eg. Finance Act, 2009 had given the rates of Income Tax for the **assessment year** 2009-10.
2. Gives the rates of TDS for the current previous year. For eg. Finance Act, 2009 will affect TDS deductions in Previous Year 2009-10.
3. Calculations for Income Tax on income under the head "salaries" for the purpose of TDS. Same rates applicable for calculation of advance tax. This is for the current previous year.
4. Rules for computation of Net Agricultural Income.

It is to be remembered that the last Finance Act continues to remain in force unless there is another Finance Act to replace it.

It is further to be remembered that Central Board of Direct Taxes (CBDT) in exercise of power U/s 119 of I.T Act issues circulars and clarifications and these are binding on the Income Tax Authorities. However, they don't bind the ITAT.

Certain Concepts:

Previous Year: Broadly speaking, the financial year transactions whereof are under consideration, is called a previous year. Previously the entities were at liberty to fix their own financial years. However since 1988-89 the financial year has been fixed as beginning from 1st day of April and ending on 31st March of the following year.

Assessment Year: The financial year following the previous year in which the transactions of the corresponding previous year are taken into consideration is called assessment year IN RESPECT OF the said previous year.

Unexplained money, investment etc.: It is considered to be the income of the assessee in the previous year in which it is found or is found recorded, whichever is earlier.

As a normal rule income earned in the previous year is assessed only in the following year (i.e the corresponding assessment year). However there is an exception. To paraphrase, if it is suspected that

1. The assessee may run away from India, or
2. Is likely to transfer property to avoid tax, or
3. Has discontinued business, or
4. The artificial person formed for a particular event or purpose is to be dissolved, or
5. The shipping business of non-residents,

In all these circumstances the income earned in the year is assessed in that very year.

Rate or rates of tax: maybe verified from the Finance act of the corresponding assessment year. Rates of tax for assessment year 2010-11 will be found in Finance act, 2010. It must be kept in mind that taxable income beyond a certain limit is also liable to surcharge at the rate of 10% of the income tax payable. The threshold income for application of surcharge varies from person to person. In case of natural persons this limit is different, for firms and domestic companies this limit is different, for foreign companies it is not 10% of income tax rather it is 2.5%. Co-operative societies and local authorities no surcharge is levied. For a person who is none of those discussed above there is no threshold limit for levying surcharge, whatever income it has, surcharge is levied thereon.

Whatever income tax is arrived at with or without surcharge, a further education cess at the rate of 2% of income tax and a further secondary and higher education cess at the rate of 1% is levied.

Marginal relief: suppose someone earned a sum of Rs.10,05,000/-in the previous year. Let us assume that the limit for levying surcharge is rupees 10 Lacs. It will be seen that the tax calculation would be this

Tax on Rs.10,00,000:	Rs.1,97,500/-
Tax on Rs.5,000/-	Rs. 1,500/-
Surcharge:	Rs. 19,900/- (i.e 10% of 197500+1500)
Total:	Rs.2,18,900/-

Now we see that although the income exceeded rupees 10 Lacs only by rupees 5000 but this has resulted into an additional tax liability of rupees 19,900. Therefore marginal relief is provided to ensure that the additional tax liability does not in any manner exceed the amount by which the threshold limit of rupees 10 Lacs has been surpassed. Therefore the tax including surcharge in the case before hand would be Rs.1,97,500+ Rs.5,000 that is Rs.2,02,500/-. However the education cess and SHEC shall be levied on Rs.2,02,500/-.

Income: there are the following five heads of income under which a person is liable to pay income tax:

1. income under the head salaries.
2. Income from house property.
3. Income from business or profession.
4. Income from capital gains.
5. Income under the head "income from other sources".

It must be kept in mind that whether the income be legal or illegal, it is nevertheless an income and liable to income tax.