

FAQs ON TAXABLE INCOME

1. What does the Income Tax Department consider as income?

The word Income has a very broad and inclusive meaning. In case of a salaried person, all that is received from an employer in cash, kind or as a facility is considered as income. For a businessman, his net profits will constitute income. Income may also flow from investments in the form of Interest, Dividend, and Commission etc. Infact the Income Tax Act does not differentiate between legal and illegal income for purpose of taxation. Under the Act, all incomes earned by persons are classified into 5 different heads, such as:

- a. Income from Salary
- b. Income from House property
- c. Income from Business or Profession
- d. Income from capital gains
- e. Income from other sources

2. Are all receipts considered as income?

No. Receipts can be classified into two kinds. A) Revenue receipt B) Capital receipt.

The general rule under the Income tax Act is that, all revenue receipt are taxable unless a receipt is specifically exempted and all capital receipts are exempt from taxation unless there is a provision to tax it. Gifts and loans etc are in the nature of capital receipts not attracting tax.

3. What are revenue and capital receipts?

In a simple language, all that one derives from a source is called revenue receipt. For ex. Salary from employment, Rent from property, Interest or Divided from Investments, Profits from business. When an income is earned on account of transacting the source itself, it is called Capital receipt. For ex. Sale of land and building, business, investment etc.

4. Is income tax levied on gifts received by a person?

Gift exceeding Rs 25,000 is taxable unless it is received from:

- a) any person who is a relative or
- b) on occasion of marriage or
- c) under will or by inheritance or
- d) in contemplation of death of the payer

- 5. I own shares of various Indian companies and receive dividends. Is it taxable?**

No. The dividend declared by Indian companies is not taxable in the hands of the share holders because tax on distributed profits have already been borne by the company.

- 6. I am a religious preacher and earn money from preaching. Do I have to pay tax and file return?**

Yes.

- 7. Can I claim deduction for my personal and household expenditure in calculating my income or profit?**

No.

- 8. Most of my income is given away in charity and I am left with just enough to meet my personal requirement. What will be considered as my income?**

What is done after the income is earned does not determine its taxation. However charitable contribution to approved institutions will give you the benefit of certain deductions from taxable income.

- 9. My daughter stays in USA. She owns a house in India and has let it out. She has asked tenants to pay rent to me so that I can a lead decent life. She has not received any rent. Is she still liable to tax? What if she transfers the house to me?**

Your daughter is the owner of the house and therefore she is liable to pay tax even though you receive the rent. If the house is transferred, then you would become the owner and you will have to pay tax on the rental income.

- 10. My children living abroad send me Rs.20000/- per month for my maintenance. Would this be considered as my income?**

No.

- 11. Is there any limit of income below which I need not pay taxes?**

At the moment individual, HUF, AOP, and BOI having income below rupees one lakh need not pay any income tax. For other categories [persons] such as co-operatives societies, firms, companies and local authorities no such exempted limits exists, so they have to pay taxes on their entire income. In cases of senior citizens aged above 65 years and women the exempted limit for the financial

year 2007-08 are rupees one lakh ninety thousand and one lakh forty thousand respectively.

12. I am an agriculturist. Is my income taxable?

Your agricultural income is not taxable per se. However, if you have any other source of income like income from investments, property etc, while calculating tax on them, your agricultural income will be taken into account, so that you pay tax at a higher rate on that other income.

13. What is agricultural income?

To consider an activity as □agriculture□ the basic operation such as tilling, sowing, irrigating & harvesting should have been carried out. Thereafter what is sold in the market should be the primary product harvested. Receipt from such sale is considered as agricultural receipt. If however some further processing or modification were done to the harvested product to enhance its marketable value then such enhanced value would be considered as business income.

14. Is income from animal husbandry considered as agricultural income?

No.

15. Do I have to maintain any records or proof of earnings?

For every source of income you have to maintain proof of earning and the records specified under the IT Act. In case, no such records have been laid down, you should maintain reasonable level of records with which you can support the claim of income.

16. As an agriculturist, am I required to maintain any proof of earning and expenditure incurred?

Even if you have only agricultural income you are advised to maintain some proof of your agricultural earnings.

17. I win a lottery or prize money in a competition. Am I required to pay taxes on it?

Yes.