**Fundamentals of Taxation**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for April 2025 Examination**

**1. Appraise the concept of taxation by defining key terms such as Person, Assessee, Income, Assessment Year, and Previous Year. Additionally, elucidate the determination of Total Income under various Heads of Income and the Basis of Charge as per the Income Tax Act.**

**Answer:**

**Introduction:**

Taxation is a crucial mechanism through which governments generate revenue to fund public services and infrastructure. The Income Tax Act, 1961, governs direct taxation in India and lays down rules for assessing and levying taxes on individuals and entities. Key terms such as Person, Assessee, Income, Assessment Year, and Previous Year form the foundation of tax regulations. The concept of Total Income is determined under five distinct heads—Salaries, Income from House Property, Profits and Gains of Business or Profession, Capital Gains, and Income from Other Sources. The Basis of Charge defines the taxable event and liability under different circumstances. Understanding these concepts is essential for compliance and efficient tax planning, ensuring equitable tax collection while promoting economic growth.

**This is partially solved sample answer**

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**2. Interpret the concept and significance of GST in India. Demonstrate its scope, key features, and the principles of subsumation of taxes. Briefly outline the GST model adopted in India and its implications.**

**Answer:**

**Introduction:**

Goods and Services Tax (GST) is a comprehensive indirect tax reform implemented in India on July 1, 2017, to unify the taxation system and eliminate cascading taxes. It replaces multiple indirect taxes such as VAT, excise duty, and service tax, bringing uniformity across states. GST follows a destination-based taxation model, ensuring tax is levied at the point of consumption rather than production. Its scope covers the supply of goods and services, promoting ease of doing business. Key features include a dual GST structure (CGST and SGST), an input tax credit mechanism, and a simplified tax compliance system. The principle of subsumation rationalizes tax administration, reducing compliance burdens. By fostering transparency and efficiency, GST has significant implications for businesses, consumers, and the economy, driving formalization and revenue growth.

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**3. Mr. Ramesh runs a retail business. For the financial year 2023-24, the following details are available regarding his income and expenses:**

* **Gross receipts from sales: ₹20,00,000**
* **Purchases: ₹10,00,000**
* **Rent for business premises: ₹2,50,000**
* **Salary paid to employees: ₹3,00,000**
* **Depreciation on business assets: ₹1,00,000**
* **Interest on business loan: ₹50,000**
* **Penalty for late filing of GST return: ₹20,000**
* **Personal travel expenses (recorded as business expense): ₹30,000**

**Additionally, Mr. Ramesh has earned ₹1,00,000 as interest from fixed deposits unrelated to the business.**

**a. Compute the Net Profit chargeable under "Profits and Gains of Business or Profession," excluding disallowable expenses.**

**Answer:**

**Introduction:**

The computation of net profit under Profits and Gains of Business or Profession follows the provisions of the Income Tax Act, considering only allowable expenses. Mr. Ramesh’s business income includes sales revenue, while expenses such as purchases, rent, salaries, depreciation, and loan interest are deductible. However, certain expenditures, like penalties and personal expenses, are disallowed. Additionally, interest from fixed deposits is taxed under Income from Other Sources. The net profit is derived after adjusting for these exclusions, ensuring compliance with tax regulations.

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**b. Calculate the Total Income of Mr. Ramesh, considering the interest income from fixed deposits, and explain its treatment.**

**Answer:**

**Introduction:**

Total Income is computed by aggregating income from different heads as per the Income Tax Act. Mr. Ramesh’s earnings include business profits and interest from fixed deposits. Business income is calculated after deducting allowable expenses, while interest income falls under Income from Other Sources. Disallowable expenses like GST penalties and personal expenses are excluded from business deductions. The final total income comprises the net profit from business and taxable interest income, ensuring compliance with tax provisions.

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