RLC OU LLB
All In One Books
3YDC-6th Sem

Page Number Wise- Subjects

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Any One of These Optional Subject

S No	Topic
1	Laws relating to Women
2	Human Rights Law

For each subject we will cover following things for easy exam preparation in this all in one book

1. Unit Syllabus Wise- Short Notes
2. Model Answers to Case Law Questions
3. Last Minute Revision Notes

Taxation Law Unit-1

By Ravi Yalavarthi

Unit-1 Syllabus

Constitutional basis of power of taxation — Article 265 of Constitution of India – Basic concept of Income Tax — Outlines of Income Tax Law – Definition of Income and Agricultural Income under Income Tax Act — Residential Status – Previous Year — Assessment Year — Computation of Income.

1 . Introduction to Taxation and its Objectives

Taxation is the process through which a sovereign government imposes a mandatory financial contribution on its citizens and corporate entities. This levy, known as a tax, is the primary source of revenue for the state, enabling it to fund public expenditures and fulfill its governance responsibilities.

The power to tax is a fundamental attribute of sovereignty, without which a state cannot function. A tax is not a voluntary payment or a donation; it is a legally enforceable obligation imposed on taxpayers. A key feature that distinguishes a tax from a fee is the absence of a direct quid pro quo, meaning the taxpayer does not receive a specific service or benefit in direct proportion to the tax paid. Instead, the collected revenue is pooled and utilized for the collective welfare of the community.

★ 1.1 The Meaning of Tax

A tax is a compulsory levy imposed by a government for a public purpose. It is a financial charge that individuals and businesses are required to pay, and the failure to comply results in legal penalties. The core characteristics of a tax provide a clearer understanding of its nature within a legal and economic framework.

A. Key Characteristics of a Tax

- **Compulsory Contribution:** The payment of tax is a legal duty. It is not optional or based on the willingness of the taxpayer. The state uses its sovereign power to enforce this contribution.
- **Levied by Government:** The authority to impose taxes is vested exclusively in the government. This power is derived from the constitution and is exercised through specific statutes passed by the legislature.
- **No Direct Quid Pro Quo:** Taxpayers cannot claim a specific benefit in return for the tax they pay. The revenue is used for the common good, such as national defense, public health, and infrastructure, which benefits society as a whole rather than providing a direct service to an individual taxpayer. This differentiates a tax from a fee, which is typically paid for a specific service rendered (e.g., a driver's license fee).
- **For Public Purpose:** The ultimate objective of collecting taxes is to fund public services and welfare activities. The funds are not meant for the private benefit of any individual but for the advancement of the collective interests of the citizenry.

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Case Law Model Answer- Taxation Law

** These are model answers, so read these to get an idea on how can we attempt these case law questions in the semester exams, then write your own answers by including what we read from above subject notes

Q1. Mr. X sells a residential house property for Rs. 60 Lakhs and the Long Term Capital Gain is Rs. 20 lakhs. Invested Rs. 30 Lakhs on construction of first floor of another house owned by him. He believes that he is not liable for capital gains tax. What is your advice to him? Explain him with the provisions under the Income Tax Act.

Facts of the Case: Mr. X sold a residential house property, resulting in a Long-Term Capital Gain (LTCG) of Rs. 20 lakhs. He subsequently invested Rs. 30 lakhs in the construction of a new first floor on another residential house that he already owned. Mr. X believes he is not liable to pay capital gains tax on the Rs. 20 lakhs gain.

I. Issue

The primary legal issue is whether the construction of a new floor on an existing residential house qualifies as "construction of a residential house" for the purpose of claiming exemption from Long-Term Capital Gains under Section 54 of the Income Tax Act, 1961.

II. Rule

1. **Statutory Provision: Section 54 of the Income Tax Act, 1961** Section 54(1) provides an exemption from tax on Long-Term Capital Gains arising from the transfer of a residential house property. The exemption is available if the assessee, within a period of one year before or two years after the date of transfer, **purchases** another residential house, or within a period of three years after that date, **constructs** a residential house.
   The amount of exemption is the lower of:
   - The Long-Term Capital Gain arising from the transfer; or
   - The amount invested in the purchase or construction of the new residential house.
2. If the amount invested is greater than or equal to the LTCG, the entire gain is exempt.
3. **Judicial Precedents (Case Law)** The terms "purchase" and "constructs" are not defined in the Act, and their interpretation has been the subject of several judicial decisions. The courts have generally taken a liberal and purposive view to uphold the spirit of the law, which is to encourage reinvestment in housing.

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Revision Notes- Taxation Law

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6 Mark Questions Revision Notes

S. No.	Topic	Short Revision Note
1	**Perquisites under Income from Salary**	A benefit or amenity provided by an employer to an employee (e.g., rent-free house, car). It is valued as per specific rules and included in taxable salary.
2	**Defective Return U/s 139 (9)**	A return of income that is incomplete or contains errors as specified by the law. The Assessing Officer must give the taxpayer an opportunity to rectify the defect.
3	**Permanent Account Number (PAN)**	A 10-digit alphanumeric number issued by the Income Tax Department. It is mandatory for filing tax returns and for specified high-value financial transactions.
4	**Income Tax Authorities**	A hierarchy of bodies and officers responsible for administering the Income Tax Act. It is headed by the Central Board of Direct Taxes (CBDT).
5	**Belated Return under Income Tax Act**	A return of income filed after the due date. It can be filed before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.
6	**Composite & Mixed Supply (GST)**	**Composite:** Naturally bundled supplies (e.g., TV with warranty). Taxed at the rate of the principal supply. **Mixed:** Not naturally bundled (e.g., gift basket). Taxed at the highest rate applicable to any of the items.
7	**Reverse Charge under GST**	A mechanism where the liability to pay GST is on the recipient of the goods or services, instead of the supplier. Applicable in specified cases.
8	**Persons Not Liable for GST Registration**	Persons exclusively supplying non-taxable or wholly exempt goods/services, and agriculturists (for produce from cultivation of land).