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INDIAN INCOME TAX LAW: A FOUNDATIONAL STUDY ON BASIC CONCEPTS AND LEGAL FRAMEWORK

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ABSTRACT

This article is a comprehensive overview of the fundamental structure and operation of the Indian income tax system. It is specifically addressed to readers with little knowledge of tax legislation, including students just beginning to learn about taxes, first-time taxpayers entering this profession, and individuals curious to know how income tax works in their lives. The article explains in simple terms who is liable to pay income tax, how various sources of income are categorized into different segments, and how the government fixes the quantum of tax that has to be paid by an individual through slab-based rates. It also explains the nuances between the new and old tax regimes and offers handy insights to help readers understand which of the two may better be advantageous and appropriate for them. Useful concepts such as deductions, exemptions, and rebates are elaborated upon, explaining how these aspects can become an important aid in helping to lower the overall tax burden of an individual. Far from providing a detailed legal exposition, the article is grounded in beginner-level explanations, with the aim of equipping people with the knowledge they need better to understand their tax liabilities and ultimately make wiser financial decisions.

KEYWORDS: Income Tax, Tax Slabs, Progressive Rate, Tax Regime, Government, Income, Taxpayer.

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INTRODUCTION

This article presents an overview - facilitating an understanding of the basic features of Income Tax and its aspects, serving as a beginner's guide, as the article aims to introduce the concept of Income Tax alongside the objectives, rights, obligations and other salient features laid down by the concerned legislations and authorities in our country.

Firstly, it is important to understand that tax is a charge imposed by the government on its citizens with the primary objective of benefitting the public at large and it does not cater individual needs. Tax can be called as a mandatory liability or a compulsory donation by people without any direct benefit or reciprocation, as defined by Taylor and Dalton.

Income tax can be understood as a charge levied by the government on the incomes or gains earned by individuals, HUF or legal entities, to be paid annually with accordance to their total income and residential status. Like every other tax, it is a compulsory monetary contribution to the revenue of the state, which in turn benefits the public. While taxes are of 2 categories; Direct and Indirect Tax; Income tax is categorized as a Direct tax, as it is being levied directly on the income of an individual or an entity, which implies that the burden of such tax cannot be shifted on to any other person and the person on whom the tax is being levied on is liable to pay the same.

NATURE AND OBJECTIVES

The nature of income tax is said to be progressive in nature. This progressive taxation system refers to a mechanism where, the tax rate (i.e., income tax) is directly proportional to the income of the individual. In other words, the tax rate increases or progresses as the taxable income increases and hence higher-income earners pay a higher rate of tax from their income compared to lower income earners. This progressive principle is being adapted by the Government with an objective to reduce inequalities of income and wealth distribution among the citizens and to ensure establishment of equity between various classes of tax payers.

Apart from these 2 core objectives, the Income Tax purports to;

- Ensure progress and acceleration in the economic prosperity and development of the country.
- Establish a primary source of fund for the administrative, governance and economic requirements of the nation (inclusive of infrastructure, welfare schemes, defense etc.)
- Channelize investments into growth-oriented sectors that are vital for economic growth through policy driven deductions and exemptions, strategically encouraging savings, investment, education and inclusive & sustainable growth.

APPLICABILITY AND SCOPE

The legislation lays down the categories of individuals for whom the tax policy applies alongside the criteria and basis. It states that an individual is taxed in India and is thereby called an 'assessee', if their gross total income exceeds the basic exemption limit, which varies depending upon factors like age and opted tax regime.

The act defines the term "person", on whom the tax may be levied on, to be inclusive of an individual, a Hindu undivided family, a company or firm, a local authority, an association of persons or a body of individuals and every other artificial juridical person. While these categories of persons are considered for the applicability of income tax, a person who is liable to pay the tax and/or any other sum of amount as prescribed under this Income Tax Act and/or a person in respect of whom nay proceeding has been initiated under this act for the assessment of their income, loss, refund due to them, etc. is called an assessee. A deemed assessee is a person who is deemed to be an assessee for some other person, for the purposes of the law. And, a person is called to be an assessee in default when there is an act or omission committed by an assessee against the provisions of the governing legislation, with respect to income tax.

Further the source of income from which the taxable income may arise as provided under Section 14 of the Act[2], are as follows;

i. **Income from Salary or Pension:**

Salaried individuals and retired persons are taxed under this category as this is inclusive of basic salary, dearness allowance, bonus, gratuity, and pension (excluding family pension).

ii. **Income from Business or Profession:**

This category extends the applicability to Self – Employed individuals, freelancers, consultants, and professionals like doctors, lawyers, etc. Profits and gains earned through the means of business or trade are taxed under this category, and is inclusive of both speculative and non-speculative income.

iii. **Income from House Property:**

Rental income received by the owners of residential or commercial property are taxed under this head, whereby it is vital to note that even if the property is vacant but is deemed to be let out, it may be taxable under certain cases.

iv. **Capital Gains:**

Any profit earned through the sale of capital assets such as Shares, Mutual Funds, Gold, Real Estate are taxable under this head and such capital gains are categorized as Short-Term Capital Gains (STCG) or Long-Term Capital Gains (LTCG) based on the holding period.

v. **Income from Other Sources:**

It is a residual head of income which cover incomes that are not specifically taxable under the other four aforementioned heads, i.e., if an income is not chargeable under any other head, it

[2] Income-tax Act, No. 43 of 1961, § 14, Acts of Parliament, 1961 (India).

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shall be chargeable under "Income from Other Sources" according to the provision made under Section 56(2) of the Act.[3]

This category is inclusive of earnings from dividends; lotteries; interest on securities; gifts received (in cash, cheque or property) if it exceeds an amount of ₹50,000; rent from machineries, plants etc. (not as a part of business); etc. which are however subject to certain deduction and exemption provisions provided under the act. Among the sources under this head, non-recurring incomes are called as 'casual income'.

The aggregate income under these heads sum up to the ***Gross Total Income as u/s 14*** of the act, which is calculated *before making any deductions*, as provided in the Income Tax Act (Eg. u/s 80C, 80U etc.). Further, these categories serve as determination factors to assess whether or not the income earned by an individual is taxable, by considering the source of such income.

Although the Gross Total Income is calculated with the above sources of income, the tax is not levied on this aggregate, as this gross total income is not inclusive of applicable deductions. Hence, after making the required deductions, the balance on which the tax is levied on, is called as the ***Total Income***.

It is also crucial to note that - while the ***residential status*** of the individual serves as the primary basis for income tax; the individuals being considered as residents according to ***Section 6***[4] of the Income Tax Act are taxed on their global income, i.e., from the incomes that they earn - both from within the country and/or from an abroad source, whereas non – residents are liable to pay the income tax only on the income that they generate here, in India.

INCOME TAX SLABS

[3] Income-tax Act, No. 43 of 1961, § 56(2), Acts of Parliament, 1961 (India).
[4] Income-tax Act, No. 43 of 1961, § 6, Acts of Parliament, 1961 (India).

The amount of income tax payable is calculated on the total income according to the rates prescribed - for the relevant *assessment year*, in the chosen *regime* and as provided under the act; whereby such fixtures of rates provided with accordance to income levels are called as ***"Income Tax Slabs"***, i.e., the system is divided into slabs or income ranges whereby the applicable income tax rate payable by persons belonging to different income levels will be provided accordingly.

As mentioned earlier, our country follows a *progressive tax rate system*, reasoning which the income tax slabs are fixed in a way that, the tax rate progresses in direct proportion to the increase in the level of income, with respect to which, the assessee shall be liable to pay the tax based on their income tax slab. The income tax rates so fixed are subject to changes made by the lawful authorities based on various factors. One among such factor is to have a control over the *cyclic fluctuation in the economic status*; i.e., the income tax rates are increased when there is an economic inflation, whereas during times of recession the rates are reduced.

As we delve into the core concept of this blog – income tax slabs, it is inevitable but to be informed and aware of the slabs currently in effect and about the modifications introduced with regards to that. There is a **new tax regime** that is been introduced in India with an objective to simplify the tax system in India and to offer lower tax rates in exchange for foregoing deductions/exemptions. This new regime ultimately aims to ease the process of compliance for the taxpayers, to reduce tax litigation and to support the taxpayers with fewer investments or deductions.

The ***new regime of income tax slabs*** so introduced (as amended in Budget 2023), is as follows:[5]

INCOME TAX SLABS	**TAX RATES**
Up-to Rs. 4,00,000	NIL
Rs. 4,00,001 - Rs. 8,00,000	5%

[5] Ministry of Finance, Budget 2023 – 2024: Budget Highlights (1 Feb. 2023).

Rs. 8,00,001 - Rs. 12,00,000	10%
Rs. 12,00,001 - Rs. 16,00,000	15%
Rs. 16,00,001 - Rs. 20,00,000	20%
Rs. 20,00,001 - Rs. 24,00,000	25%
Above Rs. 24,00,000	30%

The Key Features of this New Tax Regime are:

Lower Tax Rates: The slab structure is been expanded with reduced tax rates ranging from 5% to 30%. Income, up to Rs. 7 lakhs, is effectively applicable for rebate under Section 87A, and thereby shall be considered as tax-free income.[6]

No Major Deductions/Exemptions Allowed: Deductions such as Section 80C, 80 D, HRA, LTA etc., are not allowed under this regime, only except for a few necessary deductions.

Choice of Regime: The choice to opt between the old and new regimes is provided to salaried taxpayers, making it more viable. Whereas, if a taxpayer fails to actively choose between the regimes for each financial year, the new tax regime will have a default application over the taxpayer.

[6] Income-tax Act, No. 43 of 1961, § 87A, Acts of Parliament, 1961 (India).

Simplified Compliance: This regime effectively reduces documentation process and also mainly has modified the concepts of 'previous year' and 'assessment year', into one concept called 'tax year'.[7]

That being said, here is an overview of the *general comparison* between the old tax regime and the new tax regime;[8]

CATEGORY	**OLD REGIME**	**NEW REGIME (2025-2026)**
Basic Exemption Limit	Rs. 2.5 Lakh	Rs. 4 Lakh
Income Tax Rebate Limit	Rs. 5 Lakh	Rs. 12 Lakh
Standard Deduction (Salaried)	Rs. 50,000	Rs. 75,000

While the tax rates were relatively higher in the old tax regime, it also had a number of provisions for deductions on income tax, in order to encourage investments and savings through various means, as u/s 80C, HRA, etc. Further the rebate on income was only allowed up to Rs. 5 lakhs in the old regime, unlike in the new regime. Thus, it is suggested that the choice of regime be made by the taxpayers after a careful analysis of the net tax liability that will be incurred, and in general the old tax regime is preferable for those with high investments/deduction applicability factors and the new one is preferred for those with low deductions or income levels.[9]

[7] ClearTax Editorial Team, Income Tax Slabs for FY 2023-24 (AY 2024-25), ClearTax (2024), https://cleartax.in/s/income-tax-slabs (accessed 20 May, 2025)
[8] ClearTax Editorial Team, Old vs New Tax Regime – A Comparative Guide, ClearTax (2024), https://cleartax.in/s/old-tax-regime-vs-new-tax-regime (accessed 20 May, 2025)
[9] Income-tax Act, No. 43 of 1961, § 115BAC, Acts of Parliament, 1961 (India).

DEDUCTIONS, EXEMPTIONS AND REBATE

Paying income tax is a civic duty, but that doesn't mean you should pay more than necessary. The Income-tax Act, 1961 offers several legal ways to reduce your taxable income through deductions, exemptions, and rebate provisions. These are not loop holes rather they're structured benefits designed to encourage responsible financial habits, support healthcare, education, housing, and social welfare. Understanding how they work is essential for making informed tax decisions and optimizing your annual savings.

These deductions as provided under the Income Tax act, among which most of the deductions are proposed to be inapplicable under the new tax regime, for certain categories. However, understanding the basic deductions and their provisions is important to ascertain our tax liability and its surrounding implications, and also to choose a suitable regime, when given an option. Among which, here are a few Key Provisions that allow deductions on Income Tax, through the Act:

Section 80C – One of the familiar provisions for deductions, which provides for investments and payments. On a general note, this section includes investments or savings like - Life Insurance Premiums, Public Provident Fund, Equity Linked Savings Scheme (ELSS), Employees' Provident Fund, education fees for children, principal repayment on housing loan, NSC, 5 Year FD, Sukanya Samriddhi Yojana; thereby encouraging long – term savings and investments.

Section 80CCD (1) – Includes contribution made by means of money to the National Pension scheme (NPS), which is meant for establishing retirement savings through this scheme, whereby the income tax act provides for an additional deduction of Rs. 50,000 (over and above 80C).

Section 80D – Provides deduction for the premium paid on health insurance, with varying limits for self/spouse/children and parents. This provision promotes medical security and insurance coverage, which when done through deductions in tax liability, would serve as an effective way to encourage people to be aware of and to utilize the benefits of life insurance policy.

Section 80E – Provides for deductions on the interest on education loan availed for higher education for self/spouse/children from approved charitable organizations and financial institutions and there is no limit fixed for this category and this deduction is applicable for 8 years from the year of repayment of the loan.

Section 80TTA / 80TTB – Provides for deductions on Interest on Savings done by individuals, which aims to provide relief on small interest incomes. These both sub-clauses provide deductions up to Rs. 10,000 for individuals below 60 years and up to Rs. 50,000 for senior citizens (including FD/RD interest, respectively.

Section 80G – Familiar provision which allows deductions on donations made to charity, i.e., to approved charitable institutions or even government relief funds. It is important to note that this deduction is not just available to individuals but also to all type of taxpayers - individuals, firms, LLP or any other person. Whereby such a deduction very effectively encourages donations and social responsibilities. Further, this deduction being allowed for non-profitable institutions, social trusts etc. encourages and validates their initiatives.

Section 80U – Provides for deduction for individuals with disabilities, whereby resident individuals who are officially certified as having a disability (up to 80%) by a recognized medical authority are eligible for a fixed tax deduction of ₹75,000 under Section 80U. For individuals with a severe disability (80% or more), the deduction increases to ₹1,25,000. This is a standard deduction and does not depend on actual expenses incurred.[10]

Deductions under the Income-tax Act serve not only as a means to reduce tax liability but also as a way to promote socially and financially responsible behavior. Whether it's investing in long-term savings, insuring one's health, supporting education, or donating to charitable causes, these deductions reflect a tax system designed to reward prudent, purposeful action. Understanding what applies to your situation can make a significant difference in how much tax you pay and how efficiently you manage your finances.[11]

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[10] Income-tax Act, No. 43 of 1961, § 80C - 80U, Acts of Parliament, 1961 (India).
[11] ClearTax Editorial Team, Section 80C to 80U Deductions List, ClearTax (2024), https://cleartax.in/s/80c-80-deductions (accessed 20 May, 2025)

EXEMPTIONS

While deductions reduce taxable income, exemptions refer to certain categories of income that are not taxed at all, provided specific conditions are met. These are excluded while calculating the gross total income, giving direct relief to taxpayers.

House Rent Allowance (HRA) – Section 10(13A)

For salaried individuals who live in rented accommodation, HRA can be partially or fully exempt, depending on:

- Actual HRA received
- Rent paid minus 10% of salary
- 50% of salary (metro) or 40% (non-metro)
- This exemption helps reduce tax liability significantly for those paying rent.[12]

Leave Travel Allowance (LTA)

LTA is exempt twice in a block of four calendar years, for travel within India. This allowance:

- Covers travel fare only (not food or lodging)
- Must be from an approved mode (air, rail, or public transport)
- Encourages salaried individuals to travel and claim legitimate tax exemptions.

Gratuity – Section 10(10)

Gratuity received by employees is tax-free up to ₹20 lakh (for private sector employees covered under the Payment of Gratuity Act). This provision allows full exempt for government employees which is useful for tax-free retirement corpus and to promote financial security after long-term service.[13]

[12] Income-tax Act, No. 43 of 1961, § 10(13A), Acts of Parliament, 1961 (India).
[13] Income-tax Act, No. 43 of 1961, § 10(10), Acts of Parliament, 1961 (India).

Provident Fund – EPF Interest

Interest earned on the Employee Provident Fund (EPF) is exempt from tax up to ₹2.5 lakh per year (if no employer contribution). The Limits are slightly higher for government employeesand this encourages consistent saving habits for retirement.

Agricultural Income – Section 10(1)

Income from agriculture, including rent from land, produce, and farm-based activities, is fully exempt. However, it is considered for rate calculation if total income exceeds the basic exemption limit. This exempt acknowledges the unique role of agriculture in India’s economy and rural livelihood.[14]

REBATE – SECTION 87A

A rebate is not a deduction, but a direct reduction from the final tax payable making it especially beneficial for lower-income taxpayers. The applicability of rebate under the 2 regimes

Old Regime:

- If total taxable income is up to ₹5,00,000, then a rebate of ₹12,500 is allowed.
- Final tax becomes zero.
- Encourages compliance among lower-middle-income taxpayers.

New Regime (Post Budget 2023):

- If total income is up to ₹7,00,000, rebate is ₹25,000 under the revised Section 87A.
- Tax liability becomes zero.
- Provides extended relief under the simplified regime.

[14] Income-tax Act, No. 43 of 1961, § 10(1), Acts of Parliament, 1961 (India).

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The rebate ensures that individuals at the lower end of the income spectrum are not burdened by income tax.[15]

CONCLUSION

Unlike a research paper that delves into technical and theoretical analyses, this article has made a conscious effort to offer a practical and beginner-friendly understanding of the income tax framework in India. With a focus on everyday applicability, it has walked readers through key aspects such as residential status, sources of taxable income, tax slabs under both regimes, deductions, exemptions, and rebates, all rooted in provisions of the Income-tax Act, 1961. By simplifying legal and financial jargon, this guide aims to help individuals, especially first-time taxpayers or students of law and commerce navigate their income tax responsibilities with clarity and confidence. As tax laws continue to evolve, having a basic grasp of these concepts not only empowers financial literacy but also fosters informed and responsible citizenship.

[15] Government of India, Taxpayer Information Series: Deductions Under Chapter VI-A, Income Tax Department (2022).