**Fundamentals of Taxation**

**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. (10 Marks)**

**Ans 1.**

**Introduction**

Taxation is a crucial mechanism through which governments generate revenue to fund public expenditures, including infrastructure development, social welfare programs, and administrative functions. The concept of taxation is deeply embedded in economic and legal systems, ensuring financial stability and equitable resource distribution. In India, taxation is governed primarily by the Income Tax Act, 1961, which lays down the rules for assessing and collecting taxes from individuals and entities. Understanding the fundamental principles of taxation involves exploring key terminologies such as Person, Assessee, Income, Assessment Year, and Previous Year and the classification of income under different heads. Additionally, the determination of

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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. (10 Marks)**

**Ans 2.**

**Introduction**

The Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based tax introduced in India on July 1, 2017, replacing multiple indirect taxes levied by the central and state governments. GST was implemented to create a unified taxation system, eliminate cascading effects, and improve tax compliance. It has significantly transformed India's indirect tax structure by integrating taxes such as Excise Duty, VAT, Service Tax, and various local levies into a single tax regime. GST is designed to enhance ease of doing business, increase transparency, and ensure efficient tax collection. The system operates through a dual model,

**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. (5 Marks)**

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#### **Ans 3a.**

#### **Introduction**

The computation of **Profits and Gains of Business or Profession** (PGBP) is a crucial aspect of income tax assessment, determining the taxable income from business activities. The net profit is derived by deducting allowable business expenses from gross receipts, ensuring compliance with the Income Tax Act. Certain expenses, such as penalties and personal expenses, are disallowed while computing taxable income. This section computes Mr. Ramesh’s net profit

**b. Calculate the Total Income of Mr. Ramesh, considering the interest income from fixed deposits, and explain its treatment. (5 Marks)**

### **Ans 3b.**

### **Introduction**

Total income is computed by aggregating income under all applicable heads. Apart from business income, interest income from fixed deposits (FDs) is considered "Income from Other Sources" (IFOS) under the Income Tax Act. Since the FD interest is unrelated to business activities, it is taxed separately and added to the total income.

**Concept and Application**

#### **Concept of Total Income Computation**

#### **Importance of Income Classification**

#### The classification of income under specific heads ensures appropriate tax treatment. Business