



165th Anniversary of Income Tax Day

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Why in News?

Recently, the Union Finance Minister presided over the **165th Anniversary of [Income Tax Day](#)** observed by the **[Central Board of Direct Taxes \(CBDT\)](#)** in New Delhi, highlighting the Income Tax Department's significant achievements.

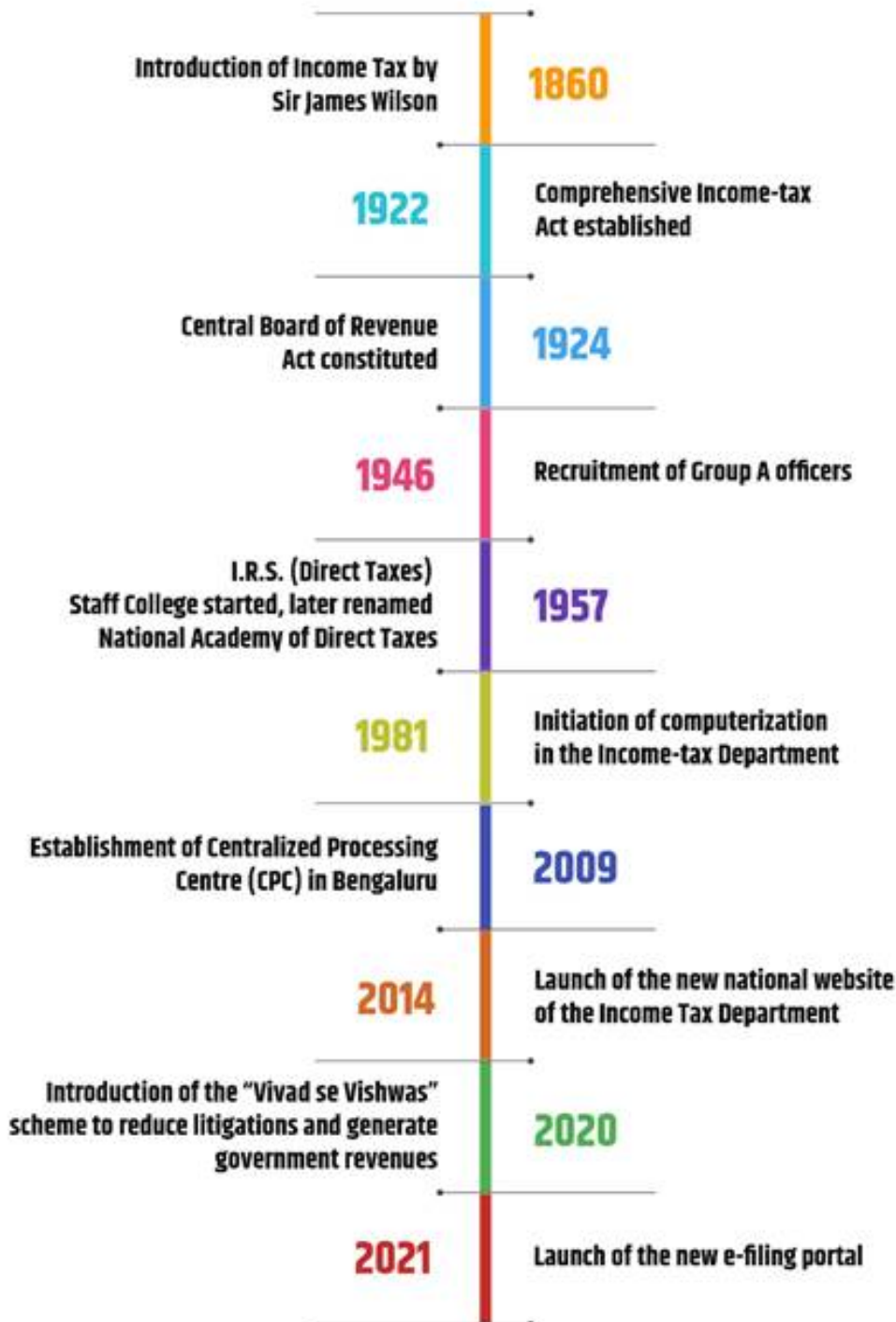
What is Income Tax Day?

- **About:** Income Tax Day (or **Aaykar Divas**), celebrated on **24th July**, marks a significant milestone in India's fiscal history. This day commemorates the **introduction of income tax in India by Sir James Wilson, a British economist in 1860** to meet the losses from the **[1857 Military Mutiny](#)**.
 - Income Tax Day not only honours the historical development of tax administration in India but also **highlights the continuous advancements and modernization efforts** aimed at creating a more efficient and taxpayer-friendly system.
- **Evolution of Income Tax in India:**
 - **Income-tax Act of 1922:** It established a structured tax system in India by formalising various income tax authorities and laying the foundation for a systematic administration framework.
 - **Central Board of Revenue Act (1924):** Created the **Central Board of Revenue**, a statutory body responsible for administering income tax.
 - **Recruitment of Group A Officers (1946):** Enhanced professional development with training in Bombay and Calcutta.
 - **Establishment of the National Academy of Direct Taxes (1957):** Strengthened professional training and development.
 - **Income Tax Act of 1961:** **Several amendments were made over the years, leading to the [Income Tax Act of 1961](#), which has been in force since April 1962 and applies to the whole of India.**
 - **Bifurcation of Central Board of Revenue in 1964:** Initially the Board was in charge of both [direct and indirect taxes](#).
 - However, when the administration of taxes became too burdensome for a single board, it was divided into two separate entities: **the Central Board of Direct Taxes and the Central Board of Excise and Customs, under the Central Boards of Revenue Act, 1963.**
 - **Technological Advancements:** The introduction of computerisation in 1981 focused on processing challans electronically. In **2009, the Centralized Processing Centre (CPC)** was set up in Bengaluru to handle the bulk processing of e-filed and paper returns, operating efficiently in a jurisdiction-free manner.
 - The **[E-Verification Scheme](#)** enables authorities to collect information to accurately determine a **taxpayer's income and reduce tax evasion**, while providing taxpayers with relevant financial data from various sources.
 - **[Vivad se Vishwas scheme](#):** **It is a settlement program in India that aims to end pending direct tax disputes between taxpayers and the government.**
 - The scheme helps litigants settle their disputes and allow the government to collect

revenue that's tied up in litigation.



Key Milestones in Indian Income Tax System



What is Income Tax?

- **Definition:** It is a government levy on the **income earned by individuals and businesses** during a financial year.
 - "Income" encompasses various sources, defined broadly under **Section 2(24) of the Income Tax Act, 196.**

- **Income Sources:**
 - **Salary:** Includes all payments from an employer to an employee, such as basic pay, allowances, commissions, and retirement benefits.
 - **House Property:** Rental income from residential or commercial properties is taxable.
 - **Business/Profession:** Profits from business or professional activities are taxable after deducting expenses.
 - **Capital Gains:** Profits from selling [capital assets](#) like property or jewellery are taxable. These gains can be long-term or short-term.
 - **Other Sources:** Includes income not covered by the other categories, such as savings interest, family pension, gifts, lottery winnings, and investment returns.
- **Importance: It is crucial for nation-building, providing essential revenue for security, services, and economic development.**
 - It balances wealth redistribution and state power, shaping social structure and establishing a social contract.
 - Tax reforms enhance governance, expand state capacity, and boost legitimacy, making **income tax vital for a self-sustaining state and societal welfare.**
- **Current Landscape:** The landscape of [personal income tax \(PIT\)](#) in India has seen significant growth, reflecting the country's expanding economy and improved tax compliance.
 - Gross PIT, including the [Securities Transaction Tax \(STT\)](#), increased from Rs 5.75 lakh crore in 2020-21 to Rs 9.67 lakh crore in 2022-23. By 2023-24, the personal income tax collections, including STT, had surged to an impressive Rs 12.01 lakh crore (provisional, as of April 2024).
 - For the assessment year (AY) 2024-25, there were **58.57 lakh first-time Income Tax Returns (ITRs) filers (Total ITRs filed for AY 2024-25 is 7.28 crore)**, showcasing India's economy becoming more formalised as more people voluntarily pay taxes.
 - ITR is a form that **individuals in India must submit to the Income Tax Department**, containing information about their income and taxes for the financial year from **1st April to 31st March of the following year.**
 - The Income Tax Department has made significant progress since its inception, with revenue growing from **Rs. 30 lakh to Rs. 20 lakh crore**, [doubling the tax base](#), and increasing the [tax-to-GDP ratio](#), through initiatives like the [rationalisation of corporate tax](#) and the [new tax regime](#).

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. With reference to India's decision to levy an equalization tax of 6% on online advertisement services offered by non-resident entities, which of the following statements is/are correct? (2018)

1. It is introduced as a part of the Income Tax Act.
2. Non-resident entities that offer advertisement services in India can claim a tax credit in their home country under the "Double Taxation Avoidance Agreements".

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (d)

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