INCOME TAX

Income tax is a tax levied directly by the central government on the income of the individuals and other non-individuals entities such as Hindu undivided families, companies, firms etc.

Here, we shall learn to calculate the income tax of salaried individuals only.

Some terms related to income tax

Financial year. In India, it is the period from 1st April of current year to 31st March of the next year.

For example: The period of 1st April 2019 to 31st March 2020 is called the financial year 2019-20.

Assessment year. The next year after the financial year is called assessment year.

For example: For financial year 2019-20, the period from 1st April 2020 to 31st March 2021 is called assessment year 2020-21.

Gross Income. It is the total income of an individual earned from different sources in a financial year.

Exemptions and Deductions. Salaried persons are the major part of overall tax payers in the country. Salaried persons tend to save money on tax by investing in plans that offer tax benefits. They can save tax using exemptions and deductions, some of these are given below.

House Rent Allowance (HRA). A salaried individual who live in rented house can get the benefit of HRA exemption. This could be totally or partially exempted from income tax. If a person is not living in a rented house then HRA exemption is not permissible.

Standard deduction. A standard deduction of ₹ 50000 is allowed for salaried/individual persons.

Deductions under section 80C. A person can save tax by investing in different tax saving schemes. A person can claim a deduction of upto ₹ 1.5 lakh under section 80C. Some of such investments are given below:

Life insurance premium
Equity linked savings scheme (ELSS)
Employee's Provident Fund (EPF)
General Provident Fund (GPF)
Principal payment on home loan
Tuition fee of two children
PPF Account
National Saving Certificate (NSC)
National Pension Scheme (NPS)

Deductions under section 80D. A person can save tax on medical insurance premium paid for self, family and dependent parents upto ₹ 25000 under section 80D.

Interest on Home loan under section 24. Home owners who took home loan can claim a deduction of upto ₹ 2 lakh for interest on home loan under section 24.

Deduction under section 80E. If a person have taken education loan for his spouse or children for higher studies in India or abroad, then he can claim a deduction for interest on education loan under section 80E for a maximum of 8 financial years.

Deductions under section 80G. A person who makes donations to the charitable organizations can avail deduction under section 80G. Under this section one may avail deduction of 50% or 100% of the total amount donated depending the type of the organization. Some organizations and their respective deductions are given below:

Prime Minister's National Relief Fund	100%
Family Welfare Relief Fund	100%
National Security Fund	100%
Prime Minister's Armenia Earthquake Relief Fund	100%
Swachh Bharat Kosh	100%
Clear Ganga Fund	100%
Chief Minister's Relief Fund	100%
Jawaharlal Nehru Memorial Fund	50%
Prime Minister's Drought Relief Fund	50%
Indira Gandhi Memorial Trust	50%

Deduction under section 80TTA. An individual can avail a deduction upto ₹ 10000 on income from savings account interest under section 80TTA.

Note

All the deductions given above are directly subtracted from the gross income.

Taxable income. Taxable income is the income used to calculate the income tax in the given financial year. It is obtained by subtracting the exemptions and deductions allowed from the gross income. Thus,

Taxable income = Gross income – Sum of all exemptions and deductions.

Income Tax Slab. Income tax is calculated on the basis of slab system where different tax rates have been prescribed for different slabs.

Income tax slabs tend to change in every budget. There are different slabs for each category of tax payers.

Income Tax Slab for FY 2019-20 (A.Y. 2020-21)

(For individual tax payers below the age of 60 years)

Taxable Income	Income Tax
Upto ₹ 2,50,000	NIL
₹ 2,50,001 to ₹ 5,00,000	5% of taxable income exceeding ₹ 2,50,000
₹ 5,00,001 to ₹ 10,00,000	₹ 12,500 + 20% of taxable income exceeding ₹ 5,00,000
Above ₹ 10,00,000	₹ 1,12,500 + 30% of taxable income exceeding ₹ 10,00,000

For individual tax payers (60 years old or more but less than 80 years)

(Senior Citizens)

Taxable Income	Income Tax
Upto ₹ 3,00,000	NIL
₹ 3,00,001 to ₹ 5,00,000	5% of taxable income exceeding ₹ 3,00,000
₹ 5,00,001 to ₹ 10,00,000	₹ 10,000 + 20% of taxable income exceeding ₹ 5,00,000
Above ₹ 10,00,000	₹ 1,10,000 + 30% of taxable income exceeding ₹ 10,00,000

Tax rebate under section 87A. Section 87A provides tax relief to individual tax payers whose taxable income does not exceed to a specific amount. A tax rebate under section 87A is allowed to individual tax payers a maximum amount of ₹ 12500 for taxable income upto ₹ 5 lakh for Financial Year 2019-20.

Health and Education Cess. A cess is a form of tax collected by the government for the development or welfare of Health and Education sectors.

At present 4% health and education cess is levied on the income tax calculated.

Note

Tax rebate under section 87A is given before calculating 4% cess.