Income Tax

Income tax is a tax imposed by a government on the income of individuals and businesses within its jurisdiction. It is one of the primary sources of revenue for governments and is used to fund public services and infrastructure.

Key Terms related to Income Tax

- **Financial Year** Financial year is the period between 1st April of current year to 31st March of the next year in India. For example, April 1, 2023 to March 31, 2024 will be considered as the financial year in India.
- **Assessment Year** It is the year in which the income earned during the financial year is assessed and taxed. It starts immediately after the end of the financial year. For example, if the financial year is April 1, 2023 to March 31, 2024, the assessment year for that financial year would be 2024-2025.
- **Assessee** It is a term commonly used in taxation to refer to a person or entity who is liable to pay tax or file a tax return.
- **Gross Income** It is the total income of an individual or business earned from different sources in a financial year.
- **Exemptions and Deductions** Exemptions refer to certain types of income that are not subject to taxation. They are typically provided to encourage specific activities or to provide relief in certain circumstances.

Deductions are certain expenses or investments that individuals or businesses can subtract from their total income to arrive at their taxable income.

Some of these are

1. **House Rent Allowance (HRA)** The HRA is designed to help employees meet the cost of renting a home. 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.
2. **Standard Deduction** A standard deduction of ₹ 50000 is allowed for salaried/individual persons under the income tax exemption.
3. **Deductions under Section 80C** Section 80C of the Income Tax Act in India provides various deductions for certain investments and expenses. Here are some of the key deductions available under Section 80C
   - Life insurance premiums paid for life insurance policies.
   - Contribution made to Employee Provident Fund (EPF) account.
   - Investments made in a Public Provident Fund (PPF) account.
   - Investments made in National Savings Certificate (NSC).
   - Investments made in 5-year fixed deposits.
   - Contributions made to the Sukanya Samriddhi Yojana (SSY).
   - Investments made in Equity-Linked Savings Scheme (ELSS).
   - Investments made in Senior Citizens Savings Scheme (SCSS).
   - Tuition fees paid for the education of up to two children.

- Principal repayment of home loan
- Employee contributions to National Pension System (NPS).

4. **Deductions under Section 80D** It allows individuals to claim deductions for premiums paid for health insurance policies covering themselves, their spouse, children and parents. The deductions are available for both individuals and Hindu Undivided Families (HUFs).
5. **Interest on Home loan under Section 24** House owners having home loan can claim a deduction of up to ₹ 2 lakh for interest on home loan under this section.
6. **Deduction under 80E** It provides for the deduction of interest paid on loans taken for higher education. This deduction is available to individuals who have taken loans for themselves, their spouse or their children for higher education.
7. **Deductions under 80G** It provides deductions for donations made to certain funds and charitable institutions. This section encourages individuals and organizations to contribute to social causes by offering tax benefits. Some organizations and their deductions are given below

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

8. **Deductions under Section 80TTA** It provides a deduction to individual taxpayers and Hindu Undivided Families (HUFs) in respect of interest income from savings accounts. The maximum deduction allowed is ₹ 10000.

- **Taxable Income** It is the income used to calculate the income tax in the given financial year. It is calculated by subtracting all the exemptions and deductions allowed from the gross income of individuals/institutions. Thus,

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

Income Tax Slabs

Income Tax Slabs in India are announced by the finance minister every year. Income tax is calculated based upon various slabs and the tax rates. The tax slabs tend to change in every budget. There are different slabs for each category of eligible taxpayer.

New Tax Regime

The new tax regime introduced in India in the financial year 2022-23 (assessment year 2023-24) offers individuals the option to choose between the old tax regime and the new tax regime. The new tax regime comes with lower tax rates but eliminates many deductions and exemptions available in the old tax regime.

Here are the income slabs for individual taxpayers under the old and new tax regime.

For individual (resident or non-resident) less than 60 years of age anytime during the previous year:

Old Tax Regime		New Tax Regime u/s 115BAC	
Income Tax Slab	Income Tax Rate	Income Tax Slab	Income Tax Rate
Up to ₹ 250000	Nil	Up to ₹ 250000	Nil
₹ 250001 – ₹ 500000	5% above ₹ 250000	₹ 250001 – ₹ 500000	5% above ₹ 250000
₹ 500001 – ₹ 1000000	₹ 12500 + 20% above ₹ 500000	₹ 500001 – ₹ 750000	₹ 12500 + 10% above ₹ 500000
Above ₹ 1000000	₹ 112500 + 30% above ₹ 1000000	₹ 750001 – ₹ 1000000	₹ 37500 + 15% above ₹ 750000
		₹ 1000001 – ₹ 1250000	₹ 75000 + 20% above ₹ 1000000
		₹ 1250001 – ₹ 1500000	₹ 125000 + 25% above ₹ 1250000
		Above ₹ 1500000	₹ 187500 + 30% above ₹ 1500000

For individual (resident or non-resident) 60 years or more but less than 80 years of age anytime during the previous year:

Old Tax Regime		New Tax Regime u/s 115BAC	
Income Tax Slab	Income Tax Rate	Income Tax Slab	Income Tax Rate
Up to ₹300000	Nil	Up to 250000	Nil
₹300001 – ₹500000	5% above ₹300000	250001 – 500000	5% above 250000
₹500001 – ₹1000000	₹10000 + 20% above ₹500000	500001 – 750000	12500 + 10% above 500000
Above ₹1000000	₹110000 + 30% above ₹1000000	750001 – 1000000	37500 + 15% above 750000
		1000001 – 1250000	75000 + 20% above 1000000
		1250001 – 1500000	125000 + 25% above 1250000
		Above 1500000	187500 + 30% above 1500000

Surcharge is an additional charge levied for persons earning income above the specified limits. It is charged on the amount of income tax and calculated as per following applicable rates

10% — Taxable income above ₹50 lakh — up to ₹1 crore

15% — Taxable income above ₹1 crore — up to ₹2 crore

25% — Taxable income above ₹2 crore — up to ₹5 crore

37% — Taxable income above ₹5 crore

Maximum rate of surcharge on income by way of dividend or income under the provisions of Sections 111A, 112 and112A is 15%

Tax Rebate under Section 87A

Section 87A of the Income Tax Act in India provides a rebate to individual taxpayers.

- The rebate under Section 87A is available to individual taxpayers, including resident individuals and non-resident individuals, whose total income does not exceed the specified limit.
- The maximum rebate allowed under Section 87A is ₹ 12500. If the total income of an individual is equal to or less than the specified limit, the rebate is limited to the amount of income tax payable, subject to a maximum of ₹ 12500.

Health and Education Cess

- This cess is applicable in addition to the basic income tax and is levied to fund health and education initiatives in the country.
- The health and education cess rate is 4%. This rate is applied to the total income tax liability, including the surcharge but excluding the cess itself.
- The introduction of the health and education cess replaced the earlier education cess (2%) and secondary and higher education cess (1%) from the financial year 2018-19 onwards.

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

Steps to Calculate Income Tax

1. **Identify Sources of Income**
   - Salary income
   - House property income
   - Business or profession income
   - Capital gains
   - Other sources
2. **Compute Gross Total Income (GTI) and Taxable Income**
   - Add up income from all sources mentioned above.
   - Subtract exemptions available, such as HRA (House Rent Allowance), standard deduction, exemptions on allowances, etc.
   - Deduct applicable deductions under Sections like 80C (for investments), 80D (for health insurance premiums), 80G (for donations), etc. to arrive at the total taxable income.
3. **Calculate Tax Liability**
   - Apply the applicable income tax slab rates to the total taxable income to calculate the income tax liability.
   - Consider the health and education cess at the prescribed rate.