# Taxability of salaried individuals

**SALARY AND TAXABILITY**

**What is previous year?**

Previous year means financial year starting from 01 April and ending on 31st March. Eg. The current previous year is 2015-2016.

**What is Assessment Year?**

Every previous year shall have an assessment year. Assessment year for a previous year is the following year starting on 01 April. In other words, assessment year is the next year after a previous year.

Eg. For previous year 2005-06,the assessment year is 2006-07.

For previous year2012-13, the assessment year is 2013-14.

For the current previous year ie 2016-17, the assessment year is 2017-18.

**Salary**

As per Income Tax Act, 1961 salary includes

* Basic salary
* Bonus
* Allowances
* Perquisites, commission in addition to salary
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* Pension or annuity
* Gratuity (fully exempt in case of govt. employee)
* Advance salary
* Taxable portion of recognized provident fund
* Payment received with respect to any period of leave not availed by him

The employer shall calculate the total salary of each employee.

Salary is computed as follows:

1. The taxable portions of the abovelisted constituents of salary are summed up.

Eg. Basic salary, dearness allowance, city compensatory allowance, taxable portion of house rent allowance, etc are summed up.

2. From this entertainment allowance and professional taxes paid, if any are reduced.

3. Now we arrive at ‘SALARY INCOME.’

**How to calculate taxable House Rent Allowance**

House rent allowance is taxable in the hands of the employee. But the Income Tax Act provides for an exemption to the least of the following:

* Actual amount of HRA received
* 40% of salary
* Excess of rent paid over 10% of salary

Here, salary means basic salary + dearness allowance.

|  |  |  |
| --- | --- | --- |
| Sl.No | Particulars | Amount |
| 1 | Basic + DA+ bonus+ other items | XX |
| 2 | Taxable portion of allowances | XX |
| 3 | Taxation portion of perquisite | XX |
| 4 | Gross Salary(1+2+3) | **XX** |
| 5 | Less: Entertainment allowance | (XX) |
| 6 | Less: Professional tax paid | (XX) |
| 7 | INCOME FROM SALARIES | **XX** |

**House Property**

If taxpayer receives rent from building let out, the rental income is taxed under the head ‘INCOME FROM HOUSE PROPERTY’. Municipal taxes paid can be reduced. From this reduced amount, 30% deduction is allowed for repairs and maintenance. Interest on housing loan taken can be reduced up to a maximum of Rs. 2,00,000 in assessment Year 2016-17, in case of self occupied properties. For let out properties full amount of interest is deductible.

|  |  |  |
| --- | --- | --- |
| Sl .No | Particulars | Amount |
| 1 | Rent received | XX |
| 2 | Less: Municipal taxes paid | (XX) |
| 3 | Net Annual Value | XX |
| 4 | Less: 30% deduction on (3) | (XX) |
| 5 | Less: Interest on housing loan | (XX) |
| 6 | INCOME FROM HOUSE PROPERTY | XX |

**Income from Other Sources**

It includes income not taxed in other heads of Income. Eg. Interest from fixed deposits,

interest from savings bank account, winnings from lottery etc.

**Gross Total Income**

In simple words, the sum total of all incomes chargeable to tax is known as gross total

income. So salary + house property income + Interest income = Gross Total Income.

**Deductions**

From gross total income, specified deductions can be made as per the provisions of Income Tax Act to arrive at TOTAL INCOME or TAXABLE INCOME. These deductions are as follows:

**Section 80C**

It includes the following:

* Life insurance premium paid on own life, life of spouse or any child. Premium paid to private insurers is also deductible. Premium paid on life of parents is not allowed as deduction.
* Contribution to Public Provident Fund upto Rs. 1,50,000 in a financial year
* Employee’s contribution to Recognized/ Statutory Provident Fund.
* Subscription to National Savings Certificates including accrued interest
* Tuition fees paid (does not include donation) to school/ nursery/ college/university

in India for full time education of any two children of taxpayer.

* Amount deposited under Senior Citizens savings Scheme
* Amount deposited in 5 year time deposit in post office.
* Principal repayment of loan taken for construction/acquisition of residential house. Stamp duty, registration fees paid at the time of acquisition are also included.
* Contribution made to participate in UnitLinked Insurance Plan (ULIP) of LIC or UTI
* Contribution to notified annuity plan of Life Insurance Corporation of India.

**The total amount of deduction permissible under Section 80C is Rs. 1,50,000.**

**2. Section 80CCD – Deduction for contribution to National Pension scheme**

* Contribution by employee upto 10% of his salary is allowed as deduction u/s 80CCD(1)
* Further contribution by employee upto Rs. 50,000 is allowed as deduction u/s 80CCD(1B), whether or not deduction u/s 80CCD(1) was allowed.
* Contribution by employer upto 10% of salary is allowed as deduction u/s 80CCD(2)
* Deduction u/s 80CCD(2) is not included to calculate limit of Rs. 1,50,000 u/s 80CCE.

**3. Section 80D – Deduction for health insurance premium**

Health insurance premium paid other than by cash by individual for benefit of:

Individual, spouse and dependent children or Parents of individual (whether dependent or not)

Deduction is as follows:

* For Individual, spouse and dependent childrenRs. 25,000
* For Parents of individual – Rs. 25,000.
* If any person included above is aged 60 years or more and is resident in India, the limit is Rs.30,000.
* If person included above is a very senior citizen resident in India, aged above 80 years

who is unable to get insurance cover, deduction of the actual medical expenditure

incurred is allowed upto Rs. 30,000.

Section 80D also covers payment for preventive health check up. Such payment can be made in cash or otherwise. It shall not exceed Rs.5,000. It is included in overall limit of Rs.25,000 / Rs. 30,000.

**4. Section 80DDMedical treatment expense of person with disability**

If individual incurs any expenditure for the medical treatment of a dependant, being a person with disability he shall be allowed deduction of Rs.75,000. If such dependant is a person with severe disability (80% or more), deduction shall be Rs.1,25,000.

Disability includes autism, cerebral palsy and multiple disabilities as defined in National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.

Dependant in case of an individual means spouse, children, parents, brothers and sisters of such individual and who is wholly or mainly dependant on such individual for support and maintenance and who claims no deduction under Section 80U.

**5. Section 80E – Interest on loan for higher studies**

Interest on loan taken by assessee from any financial institution or any approved charitable institution for the purpose of pursuing his or his relative’s higher education is deductible. Relative means spouse and children of individual or student for whom the individual is the legal guardian. Deduction is for interest PAID during the assessment year and 7 succeeding assessment years or such shorter period within which individual repays interest in full.

Higher education means any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central / State Government or local authority.

**6. Section 80TTA – Interest on savings account**

Interest received from deposit in savings account with a bank or a post office up to a maximum of Rs. 10,000 is deductible. But such interest income should first be included in Gross Total Income.

**Income Tax**

**Slab rates for individuals for Assessment Year 2016-17**

|  |  |  |
| --- | --- | --- |
| Sl No | Particulars | Particulars |
| 1 | Where the taxable income does  not exceed Rs. 2,50,000 | NIL |
| 2 | Where the taxable incomeexceeds Rs.2,50,000/but does  not exceed Rs. 5,00,000. | 10% of amount by which the  taxable income exceeds Rs.  2,50,000. |
| 3 | Where the taxable income  exceeds Rs. 5,00,000 but does  not exceed Rs. 10,00,000. | Rs. 25,000 + 20% of the amount by  which the taxable income exceeds  Rs. 5,00,000/. |
| 4 | Where the taxable income  exceeds Rs. 10,00,000 | Rs. 125,000+  30% of the amount  by which the taxable income  exceeds Rs. 10,00,000. |

Resident individuals whose total income is less than Rs. 5,00,000, are eligible for a rebate as per Section 87A of Income Tax Act. Rebate is 100% of tax or Rs. 2000, whichever is lower.

Eg. Total income of Mr. X is Rs. 4,20,000. Tax liability as per the slab rates given above is Rs. 17,000. From this, lower of Rs. 17,000 (ie 100% of tax) or Rs. 2,000 can be reduced. Hence Rs. 2,000 is reduced. So tax payable is Rs. 15,000. On this amount of Rs. 15,000 education cess of 3% is calculated.

**Tax deduction at source**

* The employer responsible for paying salary shall deduct tax at source on the amount payable.
* Where employee who receives salary has any income chargeable under any other head of income (not being a loss under any such head other than the loss under the head "Income from house property") for the same financial year, he may send to the employer the particulars of—
* such other income and of any tax deducted thereon ;
* the loss, if any, under the head "Income from house property",
* and thereupon the employer shall take into account those details.
* The employer shall, for the purposes of estimating income of the assessee or computing tax deductible, obtain from the assessee the proof or particulars of prescribed claims (including claim for setoff of loss) under the provisions of the Act in such form and manner as may be prescribed.
* Where the employee is entitled to the relief under section 89 due to receipt of arrears of salary, he may furnish to the employer, such particulars, as may be prescribed, and the employer shall then compute the relief on the basis of such particulars and take it into account in making the deduction of tax. The employee shall submit in Form No. 10E the details of relief claimed to the Income Tax Department.
* The employer may, at the time of making any tax deduction, increase or reduce the amount to be deducted for the purpose of adjusting any excess or deficiency arising out of any previous deduction or failure to deduct during the financial year.
* It is essential to review total income and TDS of each employee especially when

there is any increase in their salary by way of arrears of salary, dearness allowance, increments etc.

* TDS certificate shall be given to the employee in Form No. 16 annually on or before 31st May of the next year.

**How monthly TDS is worked out:**

At the beginning of the financial year, employer can calculate monthly TDS of an

employee by following the steps given below.

1. Estimate salary income for the year

2. Add other income, if any, declared by employee. (In case of loss, only house

property loss is considered).

3. Find total of 1 and 2 above to arrive at Gross Total Income (GTI).

4. Less: Deductions u/s 80C to 80U.

5. Find 3 minus 4 to arrive at Total Income (TI).

6. Find tax on TI using slab rates applicable

7. Less: Rebate u/s 87A

8. Find 6 minus 7.

9. Add: Education cess at 3% of 8

10. Less: Tax deducted by others as per information given by employee

11. Find out tax liability [ie 8+910]

The tax deductible at source from salary is determined in Step 11. This amount is deducted in 12 monthly instalments.

Note: If Total Income arrived at in Step 5 is below basic exemption limit, no taxability shall arise and consequently provisions of tax deduction at source shall not apply.

**Filing of TDS Returns**

Quarterly statement of tax deduction shall be submitted in Form NO. 24Q by employer

within the time limit given below:

|  |  |  |
| --- | --- | --- |
| Sl No | Particulars | Due date |
| 1 | Quarter ending 30th June | 15th July |
| 2 | Quarter ending 30th September | 15th October |
| 3 | Quarter ending 31st December | 15th January |
| 4 | Quarter ending 31st March | 15th May |

If quarterly returns are not made within due dates, late fees of Rs.200 per day shall be attracted under section 234E of the Income Tax Act, 1961 for every day of default subject to a maximum of the tax required to be deducted.

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