INDIVIDUAL TAXATION

HEADS OF INCOME

1. Income from **Salary.**
2. Income from **House property.**
3. Income from **Business / Profession**
4. Income from **Capital Gains**.
5. Income from **Other Sources.**

HEADS OF INCOME

➢ INCOME FROM SALARY

❑ ***Meaning of Salary:***

- Wages;
- Pension;
- Annuity;
- Gratuity;
- Advance Salary paid;
- Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages;
- Annual accretion to the balance of Recognized Provident Fund;
- Leave Encashment;
- Transferred balance in Recognized Provident Fund;
- Contribution by Central Govt. or any other employer to Employees Pension A/c as referred in Sec. 80CCD.

Income from Salary

I. CTC

II. Gross Salary

-is employee provident fund (EPF) and gratuity subtracted from the Cost to Company (CTC). To put it in simpler terms, Gross Salary is the amount paid before deduction of taxes or other deductions and is inclusive of bonuses, over-time pay, holiday pay, and other differentials.

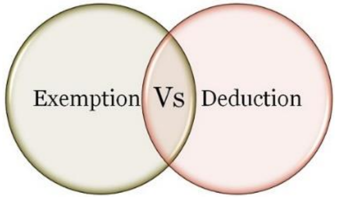
For the same example listed above, let's deduce Mr. A yearly salary by subtracting gratuity and Employee Provident Fund contributions.

Rs. 4,00,000 - Rs. 21,600 - Rs. 18,326

= Rs. 3,60,074

Income from Salary

Particulars	Amount
Basic Salary	—
Add:	—
1. Fees, Commission and Bonus	—
2. Allowances	—
3. Perquisites	—
4. Retirement Benefits	—
5. Fees, Commission and Bonus	—
Gross Salary	—
Less: Deductions from Salary	—
1. Entertainment Allowance u/s 16	—
2. Professional Tax u/s 16	—
Net Salary	—



Income from Salary

❖ <u>Deduction/Exemption</u>

<u>What is the difference between Exemption and deduction?</u>

- ✓ If an income is exempt from tax, then it is not included in the computation of income. However, the deduction is given from income chargeable to tax. Exempt income will never exceed the amount of income. However, the deduct may be less than or equal to or more than the amount of income.
- ✓ **<u>Exemption :</u>** Section 10 deals with exemptions
- ✓ **<u>Deduction:</u>** Section 80 C to 80 U deals with deduction

Income from Salary

Exemption

Section 10(1) to Section 10(38) Deals with exempt Income

Section 10(5)-Leave Travel Allowance*

- The bills for your travel against LTA can be claimed for exemption. It is allowed to be claimed twice in a block of four years. The current block is 2018 to 2021.
- is exempt from tax in the hands of employee as per following.

✓ If journey by **Air** –Economy class fare of the national carrier(Air India) by shortest route or the amount spent whichever is less.

✓ If journey by **Rail** – AC First class fare by shortest route or the amount spent whichever is less

- Where places of origin of Journey and destination are connected by rail & journey is performed by any other mode of transport- AC First class fare by shortest route or the amount spent whichever is less.

✓ Where places of origin of Journey and destination are not connected by rail,

- a) Recognized public transport exists- First class or deluxe class fare by the shortest route or the amount spent, whichever is less.
- b) No recognized public transport exists - AC First class rail fare by Shortest route or the amount spent whichever is less

Exemption

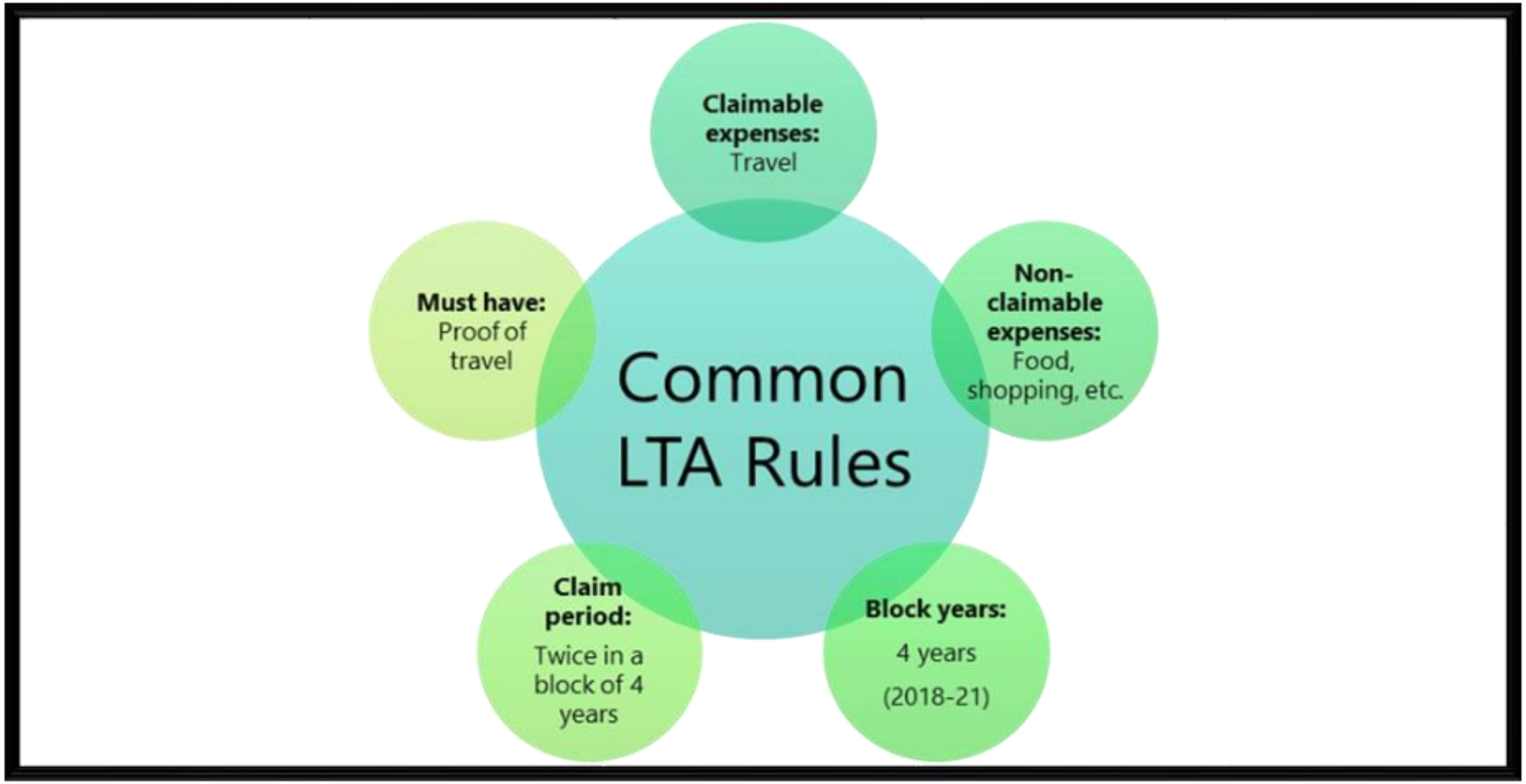
Section 10(1) to Section 10(38) Deals with exempt Income

Section 10(5)-Leave Travel Allowance

Conditions: *

- LTA should be uniform to all the employees
- employers need to collect and scrutinize the proof of travel (ticket etc.)
- limited to the actual expenses incurred
- Any Leave encashed for the purpose of Leave travel or home travel concession is taxable.
- Foreign Travel – The exemption is not available in case of Foreign Travel
- The Exemption is not available to more than 2 surviving children of an individual born after 1.10.1998. However, this restriction is not there in respect of children born before 1.10.1998.

Section 10(5)-Leave Travel Allowance



Section 10(13A): House Rent Allowance(HRA)

- This is the famous exemption which is used by many salaried individuals. However, the wrong belief is that whatever the rent they pay is actually exempted from their income. The reality is different. The amount of exemption is least of the following.

a) Actual HRA Received
b) 40% of Salary (50%, if house situated in Mumbai, Calcutta, Delhi or Madras)
c) Rent paid minus 10% of salary
(Salary= Basic + DA (if part of retirement benefit) + Turnover based Commission)

Employee No - 1234	**Name - Sharda Shukla**
Joining Date - 21/12/2012	**PF No - SB/AYE/1234567/123/1234567**

Example:

BASIC	30,000	PF	2,000
HRA	13,000	Professional Tax	200
CONVEYANCE	2,000		
SPECIAL ALLOWANCE	3,000		
MEDICAL	1,250		
LTA	5,000		
Total Earnings	**54,250**		

Salary (considering no commission & DA)	30,000*12=3,60,000/-	
10% of Basic Salary	3,60,000*10%=36,000/-	
Rent Paid per month	10,000/-	
Particulars	**Calculation**	**Amount(INR)**
a)Actual HRA Received	13,000*12	1,56,000/-
b) 50% of Salary	3,60,000*50%	1,80,000 /-
c)Rent paid (-)10% of salary	(10,000*12)-36,000/-	84,000/-
Exemption Which ever is less(a,b,c)		*84,000/-*

Allowances Exempt under Section 10(14)(I)-No limit

- **Travelling Allowance**
- **Daily Allowance**
- **Conveyance Allowance:-**This is the different allowance than transport allowance. It is the expenditure granted to an employee to meet the expenses on conveyance in performing of his office duties.
- **Helper Allowance**
- **Academic Allowance**:- Allowance granted for encouraging academic, research & training pursuits in educational & research Institutional.
- **Uniform allowance**

Deduction U/s (16)

There are basically two deduction

1.) Entertainment Allowance [Section 16(ii)] -(Government Employees)

2.) Professional Tax [Section 16(iii)] -(KIPL- 2,350/-)

Income from House Property

Particulars	Amount (Rs.)
Gross Annual Value	xxx
Less: Municipal taxes	(xxx)
Net Annual Value	xxx
Less: Deductions u/s 24 Standard deduction Deduction on interest paid	(xxx) (xxx)
Taxable income from house property	

Deductions:

1. **Standard Deduction u/s 24@30% of Annual Value**
2. **Interest paid on home loan(Max Rs. 200,000/-)**
3. **Loan Principle payment u/s 80C**
4. **Deduction for fist time home buyer u/s 80EE**

Income from House Property

Deduction for fist time home buyer u/s 80EE

First time Home Buyers can claim an additional Tax deduction of up to Rs.50,000 on home loan interest payments under this section. Below are the few conditions for this.

- He must be an individual (Resident or Non-Resident).
- Loan must be taken for the acquisition of the property.
- Loan should be sanctioned after 2016-17.
- Loan amount should not exceed Rs. 35 Lakh.
- The value of the house should not be more than Rs 50 Lakh.
- The home buyer should not have any other existing residential house during the sanction of loan.

Do remember that if you claimed the interest under this section, then the same can’t be claimed under other sections for deductions.

Income from Other Sources

1.) **Income:**

- Dividend
- Interest- From Savings, Term deposit, income tax refund, other
- Income of winnings from lotteries, crossword puzzles etc., excluding income from owning race horses
- Income from the activity of owning and maintaining race horses

Income from Other Sources -DEDUCTIONS

Deduction on Interest Income Under Section 80TTA

For a residential individual (age of 60 years or less) or HUF, interest earned upto Rs 10,000 in a financial year is exempt from tax. The deduction is allowed on interest income earned from:

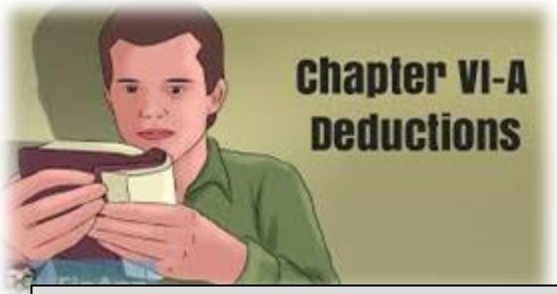
- savings account with a bank;
- savings account with a co-operative society carrying on the business of banking; or
- savings account with a post office

Senior citizens are not entitled to benefits under section 80TTA.

- **Interest income in case of Fixed Deposit (PAN)**

Tax on Fixed Deposits

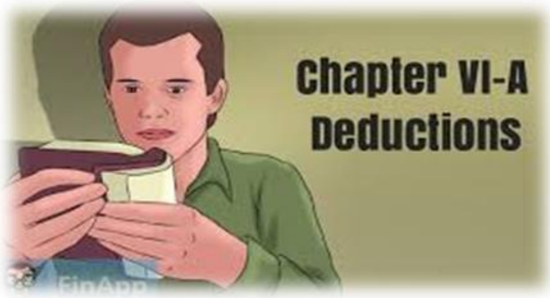
Senior citizens, with effect from 1 April 2018, will enjoy an income tax exemption up to Rs. 50,000/- on the interest income they receive from fixed deposits with banks, post offices etc. under Section 80TTB.



Deductions under Chapter VI-A

Section 80C

- Maximum Limit- Rs.1,50,000/-
- You can save tax on salary income from this section alone
- Different Investment in this section includes
  - ✓ Life Insurance premium (Paid by an individual, spouse, and child. In the case of HUF, on the life of any member of HUF).
  - ✓ EPF-Employee contribution can be claimed for deduction.
  - ✓ Public Provident Fund (Paid by an individual, spouse, and child. In the case of HUF, on the life of any member of HUF).
  - ✓ National Savings Certificate (NSC).
  - ✓ Sukanya Samriddhi Account
  - ✓ ELSS or Tax Saving Mutual Funds
  - ✓ Senior Citizen Savings Scheme
  - ✓ 5-Years Post Office or Bank Deposits.
  - ✓ Tuition fee of kids.
  - ✓ Principal payment towards home loan.
  - ✓ Stamp duty and registration cost of the house.

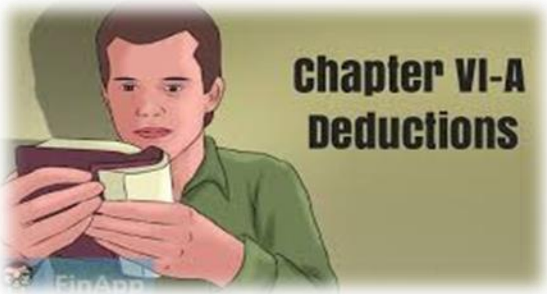


Deductions under Chapter VI-A

Section 80CCC

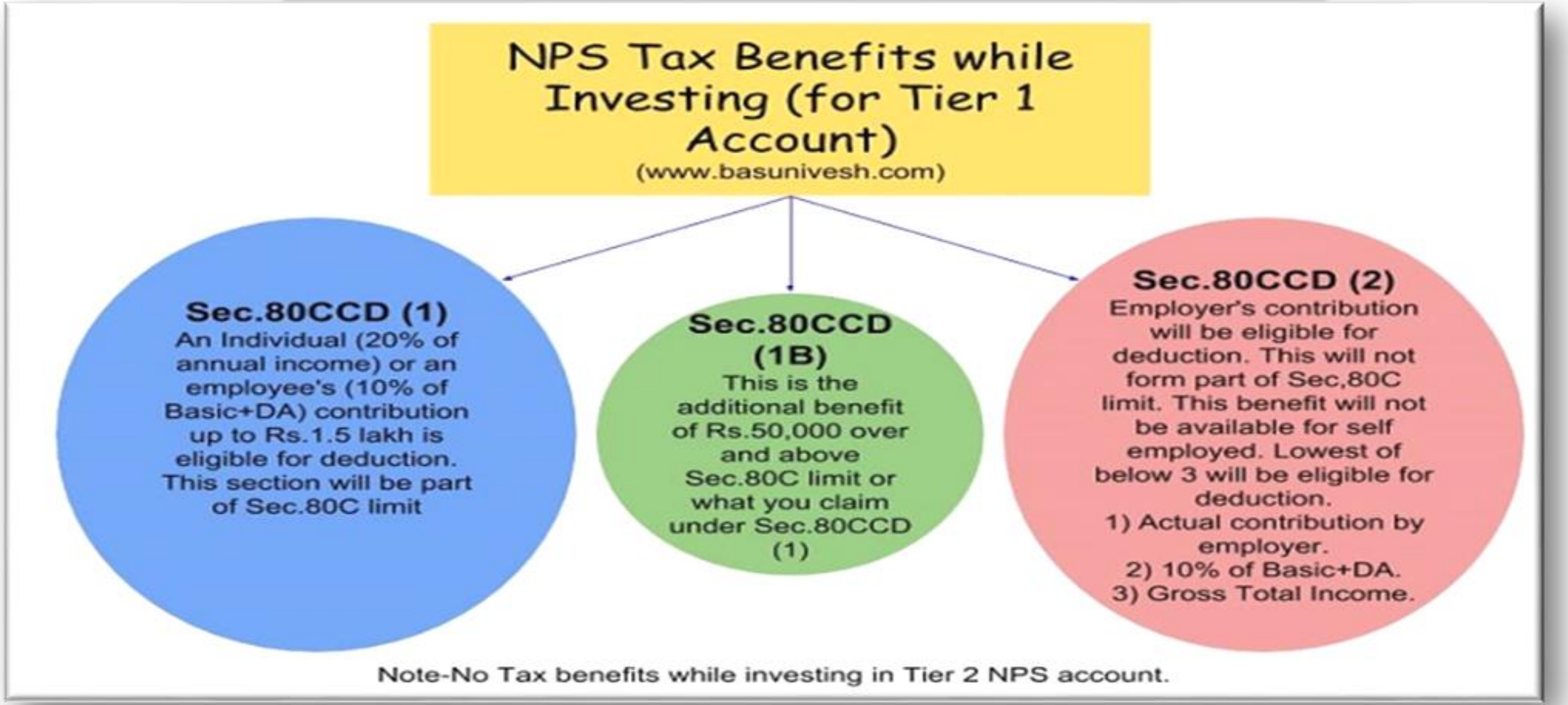
Deduction under Sec.80CCC is available only for individuals. Contribution to an annuity plan of the LIC of India or any other insurer for receiving the pension. Do remember that the amount should be paid or deposited out of income chargeable to tax.

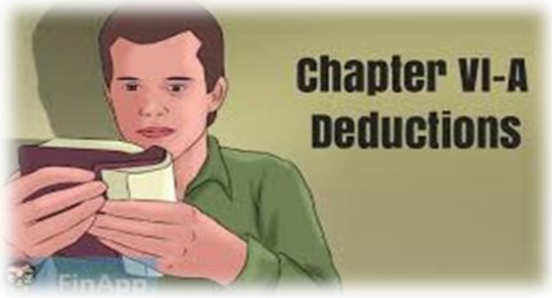
Note:- **this is also the part of the combined limit of Rs.1.5 lakh available under Sec.80C Sec.80CCC, and Sec.80CCD(1)**



Deductions under Chapter VI-A

NPS Tax Benefit Summary





Deductions under Chapter VI-A

Section 80D

Deduction under this section is available if you satisfy the following conditions.

- The taxpayer should be an individual (resident, NRI or Foreign Citizen) or HUF.
- Payment should be made out of income chargeable to tax.
- Payment should be in NON-CASH mode (for preventive health check up, you can pay either through cash or non-cash mode).

Changes from Budget 2018-

1. In Budget 2018, the maximum tax deduction limit for senior citizens under Sec.80D is raised to Rs.50,000. The earlier limit was Rs.30,000.
2. In case of single premium health insurance policies having a cover of more than one year, it is proposed that the deduction shall be allowed on a proportionate basis for the number of years for which health insurance cover is provided, subject to the specified monetary limit.