INDIVIDUAL TAXATION (AY 2020-21)

Brief History of Income Tax in India:

"In this world nothing can be said to be certain, except death and taxes."

Benjamin Franklin

- Tax is a mandatory liability for every citizen of the country. There are two types of tax in India i.e. direct and indirect.

- Taxation in India is rooted from the period of *Manu Smriti and Arthasastra.* Present Indian tax system is based on this ancient tax system which was based on the theory of maximum social welfare.

Brief History of Income Tax in India:

- In India, this tax was introduced for the first time in 1860, by ***Sir James Wilson*** in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857.

- In 1918, a new income tax was passed and again it was replaced by another new act which was passed in 1922.This Act remained in force up to the assessment year 1961-62 with numerous amendments.

- In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India and Sikkim (including Jammu and Kashmir).

Since 1962 several amendments of far-reaching nature have been made in the Income Tax Act by the Union Budget every year.

People raise the question **'Why should I pay tax?**

They argue:

- I have to pay for my food, for my house, for my travel, for my medical treatment, for owning a vehicle not only cost of vehicle but also vehicle tax and what not.
- Even on many roads, one has to pay toll tax! They also say that if we compare with countries like USA and UK, the people get social security as also medical facilities virtually without any cost. But India does not offer such facilities.


PAYING
A RENT
AND
EMI?!

What Government Do from our TAX?

- The Government provide Health care through Government hospitals (usually they offer service without any cost), Education (In Municipal and Government schools the fee is negligible).
- The Government also provides cooking gas at concessional rate or gives subsidy.
- Of course the major expenditure of Government has to be incurred on National Defense, Infrastructure Developments etc.
- Taxes are used by the government for carrying out various welfare schemes including employment programs.
- There are Lakhs of employees in various departments and the administrative cost has to be borne by the Government.
- Though the judicial process involves delay, yet the Salaries, perks of Judges, Magistrates and judicial staff has also to be paid by the Government.
- Thus on considering these various duties of the Government, we need to appreciate that we must pay tax as per law. We have to act like a responsible citizen.

<u>HEADS OF INCOME</u>

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

Important Terms

- **Assessee**
- **Assessment Year (A.Y. 2020-21)**
- **Previous Year (F.Y. 2019-20)**
- **Residential Status**
- **Gross Total Income**
- **Deductions**
- **Total Income**

Important Terms

Definition of **'Assessee'** – Section 2(7) of Income Tax.

As per S. 2(7) of the Income Tax Act, 1961, unless the context otherwise requires, the term "**assessee**" means a person by whom any tax or any other sum of money is payable under this Act, and includes

- Person in respect of whom any proceedings under this Act has been taken for assessment of his income
- Deemed assessee under provisions of this Act
- Any person deemed to be an assesse in default under any provisions of this Act

Assessment Year :

Assessment year means the period starting from April 1 and ending on March 31 of the next year.

Previous Year

The financial year immediately preceding the assessment year

Important Terms

Residential Status

- **Resident**–World income is taxable in India
- **Non Resident(NRI)**–Only income arising or accruing in India is taxable in India
- **Resident but Not Ordinarily Resident**–Income accruing or arising outside India may also be taxable in India

Resident: On basis of stay in India computed separately every year

If satisfies any of the below condition:

1. He is in India for a period of 182 days or more in the FY

OR

2. He is in India for 60 days or more during that FY and has been in India for 365 days or more during 4 previous years immediately preceding the relevant Financial Year.

Important Terms

- ❖ **Gross Total Income**
- ❖ **Deductions**
- ❖ **Total Income**

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.

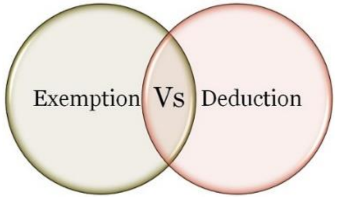
For the same example listed above, let's deduce Mr. A yearly salary by subtracting gratuity and Employee Provident Fund contributions.

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

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.

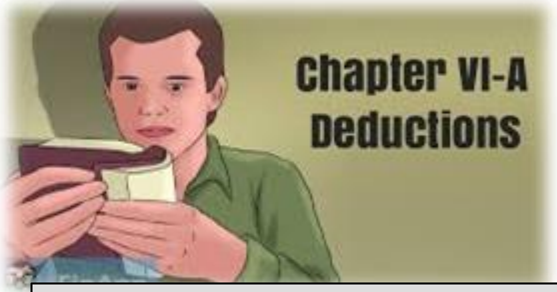
- He must be an individual (Resident or Non-Resident).
- Loan must be taken for the acquisition of the property.
- Loan should be sanctioned after 2016-17.
- Loan amount should not exceed Rs. 35 Lakh.
- The value of the house should not be more than Rs 50 Lakh.
- The home buyer should not have any other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



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.