Individual Taxation

In this Chapter we will learn about Income tax act, rules and section which are relevant for preparation and filing Income Tax Return.
The Income Tax Act 1961, contains a total of 23 chapters and 298 sections
Note –All sections and provisions are relevant to A.Y 2020-21

Important Terms

Previous Year

Previous year means the financial year immediately preceding the assessment year. Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year.

Assessment Year

"Assessment year" means the period of twelve months commencing on 1st April every year. Thus it is normally period beginning on 1st April of one year and ending on 31st March of the next year. Income of previous year of an assesses is taxed during the following assessment year at the rates prescribed by the relevant Finance Act.

Example of Previous Year & Assessment Year

F.Y 2019- 2020

1st April 2019 ⟺ 31st March 2020

Income Earned

Pervious Year / Financial Year-19-20

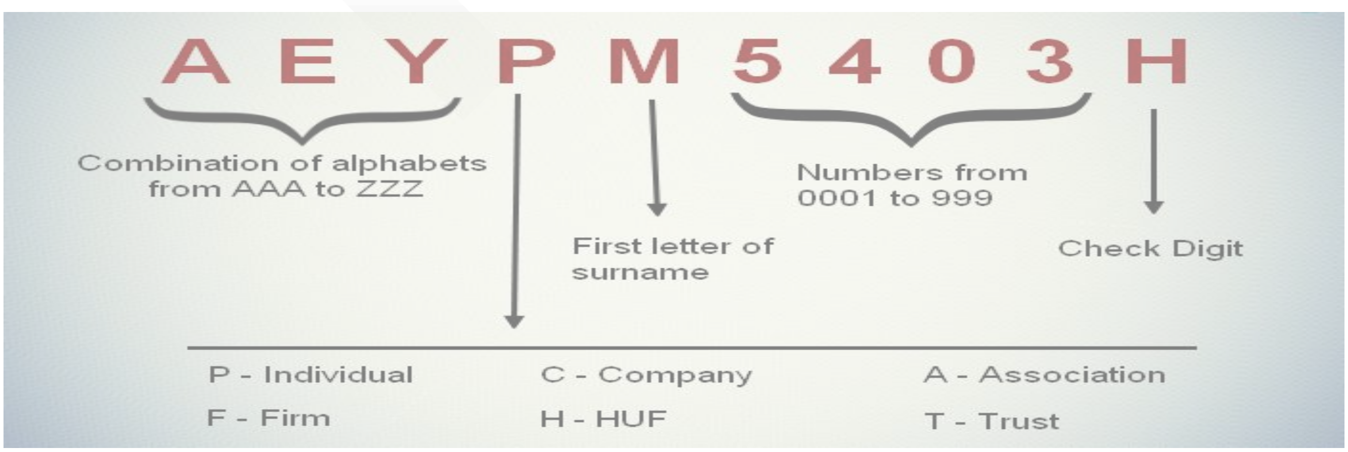
F.Y 2020- 2021

1st April 2020 ⟺ 31st March 2021

Payment of Tax & Return Filing

Assessment Year- 20-21

Permanent account number format



Slab Rates A.Y 2020-21

Income Range for Below Age of 60	
Upto Rs. 2,50,000	NIL
Rs. 2,50,000 to 5,00,000	5 %
Rs. 5,00,000 to 10,00,000	20 %
Above Rs. 10,00,000	30 %

Income Range for Age of 60 to 80 year	
Upto Rs. 3,00,000	NIL
Rs. 3,00,000 to 5,00,000	5 %
Rs. 5,00,000 to 10,00,000	20 %
Above Rs. 10,00,000	30 %

Income Range for Age above 80 years	
Upto Rs. 5,00,000	NIL
Rs. 3,00,000 to 5,00,000	5 %
Rs. 5,00,000 to 10,00,000	20 %
Above Rs. 10,00,000	30 %

Addition Surcharge to be paid along with income tax: -

10% of income tax where total income exceeds Rs. 50, 00,000.

15% of income tax where total income exceeds Rs. 1, 00, 00,000.

Health and Education Cess: (HEC)

The amount of income-tax shall be further increased by health and education cess calculated at the rate of 4% of such income-tax.

Rebate under Section 87A:

The rebate is available to a resident individual if his total income does not exceed Rs. 5, 00,000. The amount of rebate shall be 100% of income-tax or Rs. 12,500, whichever is less.

Important terms

1. **Assessee** is any individual who is liable to pay taxes

2. **Assessing Officer** or AO is an individual **officer** appointed by **Income Tax** Department. An **assessing Officer** or AO is a person who has jurisdiction to make an **assessment** of an assessee or tax payer, who is liable to tax under the Act

3. After completing the **assessment**, the Income Tax Authority (called as A.O.) issues an **order** to the taxpayer, which is called "**Assessment Order**". The **order** contains the details of the **assessment** and calculations as per the Income Tax Department

<u>As person Section 2(31) of Income Tax Act which define,</u>

This are the Pillars of Income Tax Act, taxability based on the box under which you are falling. Further also we understand the term in more one by one,

1. Individual

- ✓ Male/Female
- ✓ In case of Minor/Unsound Mind – Guardian or Manager
- ✓ Deceased Person – Legal Representative

<u>E.g – Mr. Rakesh as Individual</u>

2. HUF – <u>(Hindu Undivided Family)</u>

- ✓ Governed by Hindu law, consist of all males lineally descended from common ancestor and includes wives and daughters
- ✓ Member of HUF called as Co-Parceners. Further Son and Daughter of HUF have same right in Coparcenary Property.
- ✓ Arises from Status, no need of Contract.

<u>**E.g** Kunal shah Huf consist of Father, Son, Daughter, Wife,</u>

3. Company

- ✓ For the purpose this Act, Word Company has much wider connotation than Under Companies Act,
- ✓ Indian Company defined under 2(26)
- ✓ Body corporate incorporated by or under law of Country outside India.
- ✓ Any Body, Association incorporated or not, Indian or not, which declared by general or specific order of CBDT to be Company for such Assessment Year

<u>**E.g** Reliance Industries ltd, Adani Ltd, Kalupur Bank</u>

4. Firm

- ✓ Persons agree to share Profit of business carried by all or any of them acting for all. Individually known as Partners and collectively known as Firm.
- ✓ Term also includes LLP as define under **Limited Liability Partnership Act, 2008.**
- ✓ **E.g** Aastha Realtor, Krishna Farm.

5. AOP

- ✓ Persons combine together for promotion of Joint Enterprise
- ✓ Must have common Purpose or action for formation of AOP.

BOI

Status of person like Executors and Trustees

E.g Co-operative Society, Trust

6. Local Authority

- ✓ Authority legally entitled or entrusted by Government
- ✓ Municipal Committee, District Board etc

7. Artificial Person

- ✓ Establish under specific Act or Legislation
- ✓ Covered all person not falling other likewise idol or deity

E.g ICAI, University

Tax Rate As per Persons

HUF/AOP/BOI

1. Taxed at Normal slab Rate

Total Income Income	Rate (Cess and Surcharge as Applicable)
Up to 2,50,000	Nil
2,50,000 To 5,00,000	5%
5,00,000 To 10,00,000	20%
More than 10,00,000	30%

Firm/LLP

1. Rate is 30% (Cess and Surcharge as Applicable)

- Local Authority

1. Rate is 30% (Cess and Surcharge as Applicable)

- Co-Operative Society

Total Income Income	Rate (Cess and Surcharge as Applicable)
Up to 10000	10%
10,000 To 20,000	20%
More than 20,000	30%

Income from Salary

Income from salary is the **income** or remuneration received by an individual for services he is rendering or a contract undertaken by him. This clause essentially assimilates the remuneration received by a person for the services provided by him under the contract of employment.

Particular	Annual	Monthly
Gross Salary	**696,000**	**58000**
Basic	348,000	29000
Con	18,000	1500
Med	15,000	1250
HRA	139,200	11600
Edu	25,000	2083
Other All	150,800	12567
Total	**696,000**	**58,000**
PF	83,520	6,960
Bonus	43,500	3,625
Cost To Company	**8,23,020**	**68,585**
Deductions		
PF	83,520	6,960
PT	2500	200
Net Salary	**737,000**	**61425**

Deductions & Allowances

- Standard Deduction u/s. 10(A) for Salaried & Pensioner -50,000
- Profession Tax – 2,500
- **HRA(House rent Allowance)**

  HRA formula (Lower of is available as deduction if rent paid)

  1. Actual HRA Received
  2. 50% / 40 %Basic Salary (Basic + DA)
  3. Rent Paid in excess of 10% of salary (Basic + DA)

(50% if In Mumbai, Delhi, Kolkata & Chennai)

Income from House Property

Computation of House property

Particulars	House I (SOP)	House II (LOP)	House III (DLOP)
Gross Annual Value (GAV)	NIL	XXX	XXX
Less: Municipal taxes paid by the owner during the year	NIL	(X)	(X)
Net Annual Value (NAV)	NIL	XXX	XXX
Less: Deductions u/s 24 :			
a) Standard Deduction @30% of NAV b) Interest on borrowed capital (MAX 2,00,000)	NIL (XX)	(XX) (XX)	(XX) (XX)
INCOME FROM HOUSE PROPERTY	(XX)	XXX	XXX

The maximum exemption on Home Loan interest is Rs. 2 lakhs irrespective of it being Let-out or Self-Occupied [in Budget 2017] (Husband & Wife both can claim deduction of 2L separately)

Income from Business or Profession

Profit earned from any business or profession or vocation. We have to take net profit figure from profit and loss account.

Computation of Business Profits:

Sales	XXX
Less: Purchases	XXX
Less: Expenses	XXX
Net Profit/Loss	**XXX**

Capital Gains

Simply put, any profit or gain that arises from the sale of a 'capital asset 'is a capital gain. Land, building, house property, vehicles, patents, trademarks, leasehold rights, machinery, and jewelry are a few examples of capital assets.

First you have to check with Period of Holding (POH) : - (i.e. period between sale & purchase date)
Holding Period is > 24 Months – **Long term Capital Gain**
Holding period is < 24 Months - **Short Term Capital Gain**

Long-term capital gain=

Full value consideration
Less: Expenses incurred exclusively for such transfer
Less: Indexed cost of acquisition
Less: Indexed cost of improvement
Less: expenses that can be deducted from full value for consideration

Capital gain will be exempted if Gain amount re- invested with 6 months from date of sale of Capital Assets or amount can be deposited into Capital Gain Tax Saving Account.

Short -term capital gain=

Full value consideration
Less: Expenses incurred exclusively for such transfer
Less: cost of acquisition
Less: cost of improvement

Let's understand with the help Example –

Situation:-

House property purchased for 10,00,000 on 1st April 2005 and same sold for Rs. 50,00,000 on 01st September 2019. Calculate Capital Gain?

Solution:-

Long term Capital Gain Since – POH More than 24 months

Full value of consideration	50, 00,000
Less: - Indexed Cost of Acquisition	(24, 70,085)
(10,00,000* 289/117)	
Long term Capital Gain	**25,29,915**

Indexed cost of acquisition = $\dfrac{\text{Cost of acquisition * Cost inflation index year of Sales}}{\text{Cost inflation index year of Acquisition}}$

*CII List given year wise last page

Long term capital gain – Exemption u/s 54

A person wanted to shift his residence due to certain reason, hence, he sold his old house and from the sale proceeds he purchased another house. In this case the objective of the seller was not to earn income by sale of old house but to acquire another suitable house. If in this case the seller was liable to pay income-tax on capital gains arising on sale of old house, then it would be a hardship on him. Section 54 gives relief from such a hardship. Section 54 gives relief to a taxpayer who sells his residential house and from the sale proceeds he acquires another residential house. The detailed provisions in this regard are discussed in this part.

Basic conditions

Following conditions should be satisfied to claim the benefit of section 54.

- The benefit of section 54 is available only to an individual or HUF.
- The asset transferred should be a long-term capital asset, being a residential house property.
- Within a period of one year before or two years after the date of transfer of old house, the taxpayer should acquire another residential house or should construct a residential house within a period of three years from the date of transfer of the old house. In case of compulsory acquisition the period of acquisition or construction will be determined from the date of receipt of compensation (whether original or additional).

Exemption can be claimed only in respect of one residential house property purchased/constructed in India. If more than one house is purchased or constructed, then exemption under section 54 will be available in respect of one house only. No exemption can be claimed in respect of house purchased outside India.

With effect from Assessment Year 2020-2 1, the Finance Act, 2019 has amended Section 54 to extend the benefit of exemption in respect of investment made in two residential house properties. The exemption for investment made, by way of purchase or construction, in two residential house properties shall be available if the amount of longterm capital gains does not exceed Rs. 2 crores. If assessee exercises this option, he shall not be entitled to exercise this option again for the same or any other assessment year.

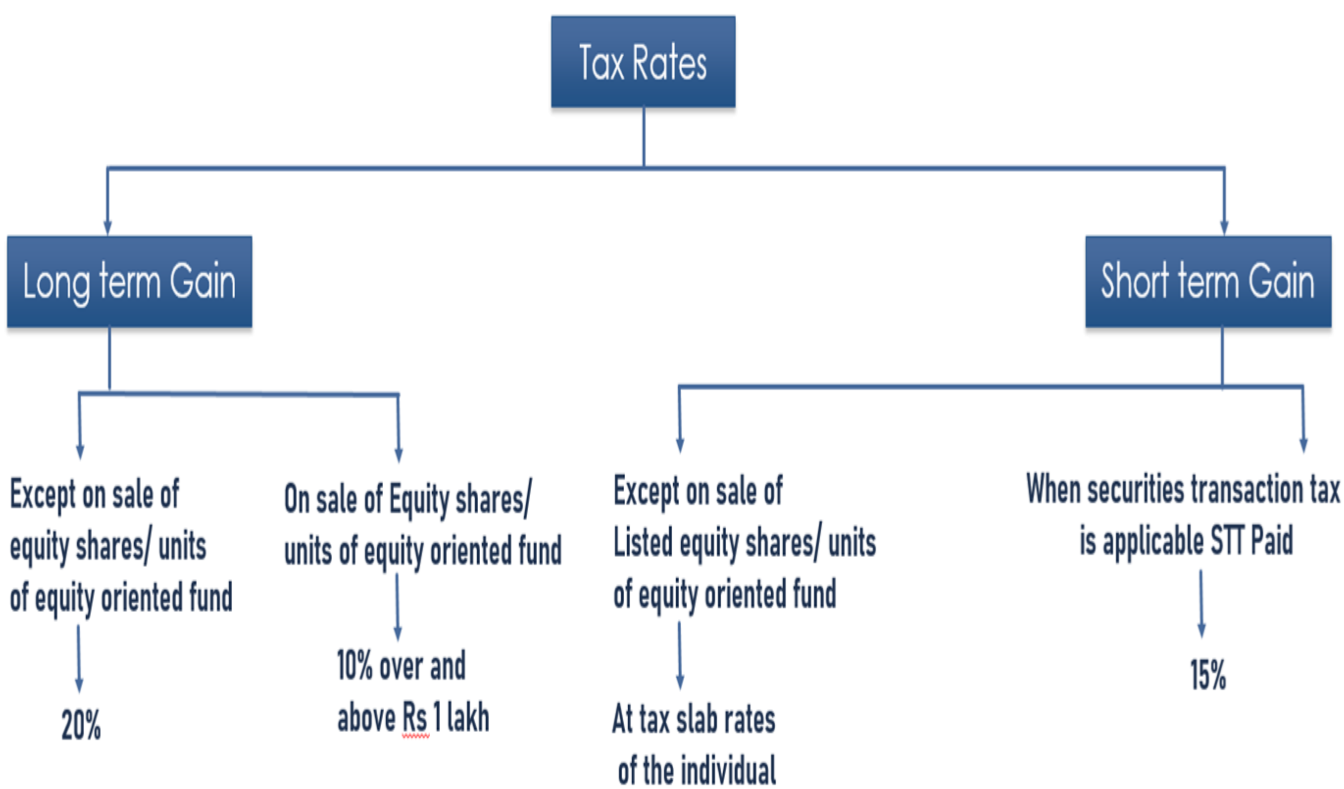
Illustration

Mr. Raja purchased a residential house in April, 2014 and sold the same in April 2020 for Rs. 8,40,000. Capital gain arising on sale of the house amounted to Rs. 1,00,000. Can he claim benefit of section 54 by purchasing/constructing another residential house from the capital gain of Rs. 1,00,000?

Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, ‘being long-term residential house property. This benefit is available only to an individual or HUF. In this case, all the conditions as provided in section 54 are satisfied and hence, Mr. Raja can claim the benefit of section 54 by purchasing/constructing a residential house within the time-limit as provided under section 54.

Period of Holding

Asset	Period of holding	Short Term / Long Term
Immovable property	< 24 months	Short Term
	>24 months	Long Term
Listed equity shares	<12 months	Short Term
	>12 Months	Long Term
Unlisted shares	<24 months	Short Term
	>24 months	Long Term
Equity Mutual funds	<12 months	Short Term
	>12 months	Long Term
Debt mutual funds	<36 months	Short Term
	>36 months	Long Term
Other assets	<36 months	Short Term
	>36 months	Long Term



Income from Other Sources

1. Interest from Saving Bank Accounts Fixed Deposits, Recurring deposits and other such Investment.
2. Interest From post office saving NSC(National Saving Certificate), KVP (Kisan Vikas Patra) MIS (Monthly Income Scheme)
3. If you receive money from winning the lottery, Online/TV game shows etc.,
4. If aggregate value is less than Rs.50000 than nothing will be taxable. if value exceeds Rs. 50,000, the whole amount will be taxable (Gift Received from Relative will not be Taxable)
5. Gift received from **any person (without limit)** on the occasion of the marriage is tax free in the hands of individual

Deduction under section chapter VI A

Deduction under Section 80C

Tax deductions provide a means for individuals to reduce their tax burden. Among the various tax-saving options, most individuals prefer to claim tax deduction under Section 80C of the Income Tax Act, 1961. Section 80C allows individuals and HUFs to **claim tax deduction of up to Rs. 1,50,000** from their gross total income for certain investments and payments.

(a) Life Insurance Premiums
(b) Savings towards Provident Fund / Public provident fund (PPF)
(c) Tax saver Fixed deposits (5 Year Lock-in period)
(d) Tax Saving MF ELSS – 3 or 5 year
(e) Pension Fund
(f) Notified by Government, Insurance Co & Mutual fund Co.
(g) Tax Savings Bonds issued by Government
(h) Home Loan Principal (Repayment) and also Stamp duty & Registration charges paid at the time of purchase of property
(i) School Fees of Max 2 Child (Only school tuition Fees Is allowed)
(j) Savings done by Parent for Girl Child in Sukanya Samridhi Yojana

Deduction under Section 80D – Medical Expenditure

Medical Insurance , *Preventive Health Checkup & Medical Expenditure	Self & Family	Parents	Total
Individual and parents below 60 years	25,000	25,000	50,000
Individual and family below 60 years but parents above 60 years	25,000	50,000	75,000
Both individual, family and parents above 60 years	50,000	50,000	1,00,000

***Overall Sub limit of Preventive Health Checkup should not exceed Rs. 5000 (Individual + Parents)**

Deduction under Section 80E – Interest paid on Education Loan

An education loan helps you not only finance your foreign studies but it can save you a lot of tax as well. If you have taken an education loan and are repaying the same, then the interest paid on that education loan is allowed as a deduction from the total income under Section 80E. However, the deduction is provided only for the interest part of the EMI. ***There is no tax benefit for the principal part of the EMI.***

Conditions to avail 80E Deduction:

1. Only an individual can claim this deduction.
2. The loan should be taken for the higher education of self, spouse or children or for a student for whom the individual is a legal guardian.
3. Parents can easily claim this deduction for the loan taken for the higher studies of their children.
4. The loan should be taken from any bank / financial institution or any approved charitable institutions. Loans taken from friends or relatives don’t qualify for this deduction.
5. The deduction allowed is the total interest part of the EMI paid during the financial year. There is no limit on the maximum amount that is allowed as deduction.
6. The deduction for the interest on loan starts from the year in which you start repaying the loan. It is available only for 8 years starting from the year in which you start repaying the loan

80 EEA – Interest paid on home loan for affordable housing

Interest Deduction up to Rs 1, 50,000. This deduction is over and above the deduction of Rs 2 lakh for interest payments available under Section 24 of the Income Tax Act

Conditions to avail 80EEA:-

1. If the unit is located in a metropolitan city, its size should not exceed 645 sq ft or 60 sq meters. For units in any other city, the size has been limited at 968 sq ft or 90 sq meters. Metropolitan city Bengaluru, Chennai, Delhi, Faridabad, Ghaziabad, Greater Noida, Gurugram, Hyderabad, Kolkata, Mumbai and Noida
2. Stamp duty value of the house property should be Rs 45 lakhs or less. First time home Buyer & must not any property during the sanction of loan

Deduction u/s. 80TTA - Up to Rs 10,000 (Only Saving Bank Interest)

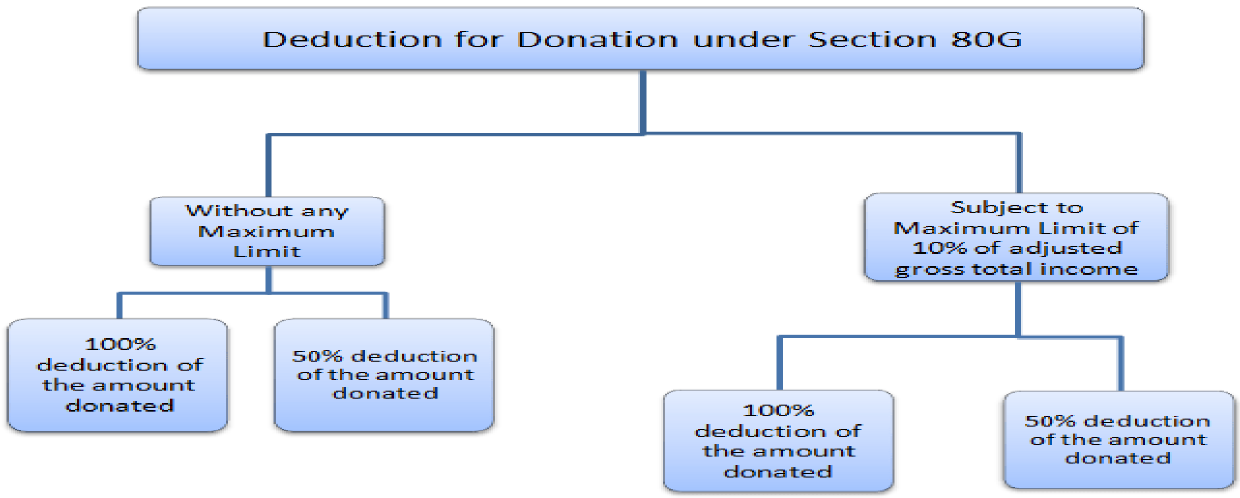
Deduction u/s. 80TTB - Up to Rs 50,000 (Saving Bank & Fixed Deposits Interest. Only for Sr. Citizen)

Deductions 80DD, 80 U, 80DDB

	80DD	80 U	80DDB
Available for	**Dependent who is a person with a disability and is wholly or mainly dependent upon such individual for support & maintenance.**	**For individual taxpayer himself for his disability**	**Dependent who is a person with a disability and is wholly or mainly dependent upon such individual for support & maintenance.**
Deduction allowed	**Disability is 40% to 80% - Rs 75,000 Disability is 80% or more – Rs 1,25,000. Fixed Deduction irrespective of expenses incurred**	**Disability is 40% to 80% - Rs 75,000 Disability is 80% or more - Rs 1,25,000. Fixed Deduction irrespective of expenses incurred**	**Rs 40,000 per annum or the actual amount paid (whichever is less) For Senior citizens, Rs 1,00,000 per annum or the actual amount paid (whichever is less)**
Certificate of disability	**Required from Medical Authority**	**Required from Medical Authority**	**Required, in the prescribed form from a specialist as may be prescribed, working in a government hospital**

Deduction 80 G – Donations

Donation made to certain relief funds or charitable institutions or Association u/s 12AA in cash or kind or any other mode. Cash Donation above Rs. 2000 are not allowed



Calculation of Adjusted Total Income

Gross Total Income	**XXX**
Less:	
Long term capital gain	(XX)
Short term capital gain	(XX)
All other deductions Expect 80G (Under VI A)	(XX)
Adjusted Gross total Income	**XXX**
10% Adjusted Gross total Income	**xx**

Due date of Income Tax Return Filing

Non Audit Assessee - On or Before 31st July

Assessee under Audit – On or Before 30th September

Assessee transactions u/s section 92E – On or before 30th November

Due to Covid – 19 Extension in Due Date

Non Audit Assessee - FY 19-20 31st December

Assessee under Audit – FY 19-20 31th January

Assessee transactions u/s section 92E – On or before 31st January

Late Fees Applicable if not filed before due date:

E- Filing Date	Total income Below Rs 5,00,000	Total income Above Rs 5,00,000
Up to 31st July	Rs 0	Rs 0
Between 1st August to 31st December	Rs 1,000	Rs 5,000
Between 1st January to 31st March	Rs 1,000	Rs 10,000

Presumptive Taxation Scheme

For Net Profit for Business:-

The presumptive taxation scheme of **section 44AD** can be adopted by following persons:
1) Resident Individual
2) Resident Hindu Undivided Family
3) Resident Partnership Firm (not Limited Liability Partnership Firm)

*An insurance agent cannot adopt the presumptive taxation scheme of section 44AD
In case of a person adopting the provisions of section 44AD, income will not be computed in normal manner as discussed earlier (i.e., Turnover less Expenses) **but will be computed @ 6% (non-cash Transaction) or 8 %(cash Transaction),** as the case may be, of the turnover or gross receipt. However, a person may voluntarily disclose his business income at more than 8% or 6%, as the case may be, of turnover or gross receipt. Gross Receipt should not exceed Rs. 2 Crore

For Net Income for Profession:-

The presumptive taxation scheme of **section 44ADA** is designed to give relief to small taxpayers engaged in specified profession. If gross receipts should not exceed Rs.50 lakhs. A person resident in India engaged in following professions can take advantage of presumptive taxation scheme of section 44ADA. In case of a person adopting the provisions of section 44ADA, income will be computed on **presumptive basis, i.e. @ 50%** of the total gross receipts of the profession. However such person can declare income higher than 50%.

For Business of plying, hiring or leasing of goods carriages – 44AE

Does not own more than 10 goods vehicles at any time during the year.

1. Goods Vehicle < Caring Capacity of 12 Ton - **Income Per Vehicle Per Month Rs. 7500**
2. Goods Vehicle Caring Capacity of 12 Ton **- Income Per Ton, per Vehicle Per Month Rs. 1000**

Offline Process of Income Tax Return filing with help of Income Tax Utility

Download – Extract file- Enable Macros
Fill up KYC, Income Details, Investments, TDS, Bank Details

"Validate" Each Sheet, Make sure solve each error until it pop ups 'Sheet is ok '

Press button 'Calculate Tax'

Press button 'Generate XML'----- 'Save XML'

Login to Income Tax Portal – File Return – Select Year – Submit XML- Upload

E- Verify your return Via Aadhar OTP, NET Banking, EVC or Sign and Sent to CPC Bangalore (Speed post) Mention below address in ITR

New Taxation Regime:

From FY 2020-21, you can choose to pay income tax under an optional new tax regime. The new tax regime is available for individuals & HUFs with lower tax rates & zero deductions/exemptions.

New slab rates		Existing slab rates	
Income from Rs 2.5 lakh to Rs 5 lakh	5%	Income from Rs 2.5 lakh to Rs 5 lakh	5%
Income from Rs 5 lakh to Rs 7.5 lakh	10%	Income from Rs 5 lakh to Rs 10 lakh	20%
Income from Rs 7.5 lakh to Rs 10 lakh	15%	Income above Rs 10 lakh	30%
Income from Rs 10 lakh to Rs 12.5 lakh	20%		
Income from Rs 12.5 lakh to Rs 15 lakh	25%		
Income above Rs 15 lakh	30%		

Exemptions and deductions not claimable under the new tax regime:-

1. The standard deduction, professional tax and entertainment allowance on salaries
2. Leave Travel Allowance (LTA)
3. House Rent Allowance (HRA)
4. Minor child income allowance
5. Helper allowance
6. Children education allowance
7. Other special allowance [Section10(14)]
8. Interest on housing loan on the SOF/LOP/ DLOP(Section 24)
9. Chapter VI- A Deductions (80C,80D, 80E and so on)
10. Without exemption or deduction for any other perquisites or allowances
11. Deduction from family pension income

Example for Old Regime vs. New Regime

Income (Rs)		Old regime (Rs)	New regime (Rs)	Tax Difference (Rs)
Salary	1,250,000			
Less: Standard deduction	50,000			
Less: Professional tax	2,400			
Gross total income	1,197,600			
Less: Deduction u/s 80C	150,000			
Total income	1,047,600			
Income tax		126,780	125,000	
Add: Education cess @ 4%		5,071	5,000	
Total tax		131,851	130,000	1,851

https://www.incometaxindiaefiling.gov.in - WEBSITE

Relatives meaning for GIFT

– Spouse of Individual
– Brother & Sister of Individual
– Brother & Sister of Spouse of Individual
– Brother & Sister of either of the parents of Individual
– Any Lineal ascendants or descendants of the individual
-Any Lineal ascendants or descendants of the spouse of the individual.

If Gift Received from List Given below will be exempt Income & gift will not be taxed -

List of Male Donors	List of Female Donors
Father (Papa or Pitaji)	Mother (Maa or Mummy)
Brother (Bhai)	Sister (Bahin)
Son (Beta or Putra)	Daughter (Beti or Putri)
Grand Son (Pota or Potra)	Grand Daughter (Poti or Potri)
Husband (Pati)	Wife (Patni)
Sister's Husband (Jija)	Brother's Wife (Bhabhi)
Wife's Brother (Sala)	Wife's Sister (Sali)
Husband's Brother (Dewar)	Husband's Sister (Nanad)
Mother's Brother (Mama)	Mother's Sister (Mausi)
Mother's Sister Husband (Mausa)	Wife's brother's wife (Sala Heli)
Father's Brother (Chacha or Tau)	Father's Brother's Wife (Chachi or Tai)
Father's Sister's Husband(Fufa)	Father's Sister (Bua)
Grand Father (Dada, Pardada)	Grand Mother (Dadi, Pardadi)
Daughter's Husband (Jawai)	Son's Wife (Bahu or Putra Vadhu)
Spouse Father (Sasur)	Spouse Mother (Sas)
Spouse Grand Father (Dada Sasur)	Spouse Grand Mother (DadiSas)
Brother's Wife (Bhabhi)	Mother's Brother's Wife (Mami) Husband's Brother's Wife (Devrani or Jithani)

Financial Year CII Number:-

As per Notification No. So 3266(E) [No. 63/2019 (F.No. 370142/11/2019-TPL)], Dated 12-9-2019, following table should be used for the Cost Inflation Index :-

Financial Year	Cost Inflation Index (CII)
2001-02 (Base year)	100
2002-03	105
2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129
2008-09	137
2009-10	148
2010-11	167
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018-19	280
2019-20	289
2020-21	301

Sources –

Income Tax Act, 1961 & Income Tax Rules, 1962 & Considerning Amendment issue by CBDT (Central Board of Direct Tax)