

INCOME TAX

AAO EXAM PAPER-IV

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Provision of Income Tax for Salaried Employees (Including Pensioners)

1. Introduction to Income Tax for Salaried Employees

- **Income Tax Act, 1961:** Governs income tax provisions for salaried individuals in India.
- **Salaried Employees:** Any individual receiving income in the form of salary is categorized under "Income from Salary."
- **Pensioners:** Pension income is also treated as "Income from Salary" for tax purposes.

2. Tax Slabs (for FY 2023 24)

There are two regimes:

1. **Old Tax Regime** (with deductions and exemptions)
2. **New Tax Regime** (with lower tax rates, but limited deductions)

Comparing the old and new tax regime slabs for income tax:

Income Range	Old Tax Regime Rate	New Tax Regime Rate
Up to ₹2,50,000	Nil	Nil
₹2,50,001 to ₹5,00,000	5%	5%
₹5,00,001 to ₹10,00,000	20%	10%
₹7,50,001 to ₹10,00,000		15%
₹10,00,001 to ₹12,50,000	30%	20%
₹12,50,001 to ₹15,00,000		25%
Above ₹15,00,000	30%	30%

3. (a) Deductions Available (Old Regime Only)

- **Standard Deduction:** ₹50,000 for salaried individuals and pensioners.
- **Section 80C:** Deduction up to ₹1,50,000 for investments in specified instruments (e.g., PPF, ELSS, NSC, LIC premium, etc.).
- **Section 80D:** Deduction for medical insurance premium up to ₹25,000 (₹50,000 for senior citizens).
- **Section 80TTA:** Deduction up to ₹10,000 on savings account interest.
- **Section 80TTB:** Deduction up to ₹50,000 for senior citizens on interest income from deposits.
- **House Rent Allowance (HRA):** Exemptions can be claimed if the employee is paying rent.
- **Leave Travel Allowance (LTA):** Exemption for travel expenses within India under specific conditions.

3 (b) New Tax Regime under section 115-BAC

(1) The taxpayer opting for concessional rates in the New Tax Regime will not be allowed certain Exemptions and Deductions (**like 80C, 80D, 80TTB, HRA**) available in the Existing Tax Regime.

(2) Standard deduction under 16 (ia) and professional tax are not allowed under new regime.

(3) Employer's contribution to NPS under section 80-CCD (2) allowed.

4. Taxation of Allowances and Perquisites

- **Allowances:** Some allowances like HRA, LTA, and Special Allowance are exempt under certain conditions.
- **Perquisites:** Benefits provided by employers like rent free accommodation, company car, etc., are taxable based on valuation rules provided in the Income Tax Act.

5. Tax on Pension Income

- Pension is categorized under "Salary Income" and taxed accordingly.
- **Commuted Pension** (lump sum) is **exempt** for government employees. For others, it is exempt partially (1/3rd or 50% depending on gratuity).
- **Uncommuted Pension** (periodic payments) is fully taxable as income.

6. Rebate Under Section 87A

- Available to individuals with total income less than ₹5,00,000.
- Maximum rebate: **₹12,500**.

7. Exemptions and Deductions for Senior Citizens and Super Senior Citizens

- **Higher Basic Exemption Limit:**
 - For senior citizens (60–80 years): ₹3,00,000.
 - For super senior citizens (above 80 years): ₹5,00,000.
- **Higher Deduction under Section 80D:** Up to ₹50,000 for medical insurance premiums.
- **No TDS on Bank Interest** for senior citizens if Form 15H is submitted.

8. Filing of Income Tax Returns

- **Form ITR 1 (Sahaj):** For individuals with income from salary, pension, or other sources (except lottery or horse races) up to ₹50 lakh.
- **Form ITR 2:** For individuals with income exceeding ₹50 lakh or capital gains.
- **Due Date:** Generally 31st July of the assessment year.

9. Tax Planning Strategies for Salaried Individuals

- **Utilize Deductions:** Maximizing benefits under Section 80C, 80D, 80G, etc.
- **HRA & LTA Planning:** Ensure proper documentation and use of exemptions.
- **Investment in Tax Saving Instruments:** PPF, ELSS, NSC, etc.

10. Advance Tax and TDS

- **TDS (Tax Deducted at Source):** Employers are responsible for deducting TDS on salary at applicable rates.
- **Advance Tax:** If tax liability exceeds ₹10,000 in a financial year (after TDS), salaried individuals need to pay advance tax in installments.

Common deduction items in Income Tax

Section	Deduction Admissible.
Sec 10(14)	Exemption of Transport Allowance granted to an orthopedically disabled employee maximum 3200/month 1600/month for non handicap person-Now merge with standard deduction
Sec 16	Amount of professional Tax actually paid

Sec 16 (ia)	Standard Deduction Rs. 50000/
Sec 16 (ii)	Entertainment allowance received by a Govt servant limited to 1/5th of salary of 5000 , whichever is less.
Sec 24 (b)	Interest on borrowed capital subject to maximum Rs. 2,00,000/
Sec 80 C	<p>a) GPF Subscription/ PF Subscriptions b) CGEGIS Contribution c) PLI Premia /LIC Premia d) 5 Year Time Deposit e) 5 Year Fixed Scheduled Bank Deposit f) Repayment of HBA Recovery g) Tuition fees excluding any payment on development fee or donation h) Senior Citizen Scheme, 2004 i) Sukanya Samridhi Scheme Repayment of HBA recovery, Tuition fees excluding any payment on development fee or donation. Under Section 80 CCD(1) Employee's contribution to NPS 10% of (PAY+DA) Limited to Rs. 1,50,000/ under section 80 CCE</p>
Sec 80 CCD(1B)	50,000 Additional contribution to NPS,
Sec 80 CCD(2)	Government's Contribution to NPS 14% (PAY+DA) . There is no restriction of amount for deduction of employer's contribution under Section 80CCD(2).
Sec 80 D	<p>CGHS, Amount paid on mediclaim policy for self/spouse/children does not exceed 25000/ Medical expenditure incurred on the health of self/family members/parents does not exceed Rs. 50000/ Preventive health check up for self and family member subject to a max 5000/ Premium paid for mediclaimpolicy for parents upto 50000/</p>
Sec 80 DD	<p>Medical Expenditure for dependent disability member upto 75000/ Medical Expenditure for dependent of severe disability member upto 125000/</p>
Sec 80 E	Interest on loan borrowed for higher education of spouse/children – loan including interest is cleared or for a period of 8 years whichever is earlier.

Sec 80 TTA	Saving Account Interest received on deposits 10000/
Sec 80 TTB	Fix deposit as well as saving account Interest received on deposits (Senior Citizen) 50000/
Sec 80 U	Medical expenditure for disability employee up to 75000/ Medical expenditure for severely disability employee upto 125000/
Section 80 EEB	Deduction for Interest on Loans for Electric Vehicles. Key Points: <ul style="list-style-type: none"> • Loan Sanction Period: Eligible for loans sanctioned between 1st April 2019 and 31st March 2023. • Deduction Limit: Claim up to ₹1,50,000 on interest paid during the financial year. • Type of Vehicle: Applies to battery-operated vehicles and those powered by electric motors. • Loan Source: Must be taken from recognized financial institutions (banks, NBFCs). • Claiming the Deduction: Requires proof of interest payments and loan documentation.
Sec 87 A	When whole taxable income does not exceed rs. 500000/, rebate of Rs. 12500/
Sec 80 G	<u>100% Exempt</u> <ol style="list-style-type: none"> a) National Defence Fund b) Prime Minister's National Relief Fund c) Prime Minister's Armenia Earthquake Relief Fund d) Africa (Public Contributions India Fund e) National Foundation for Communal Harmony f) University or Educational Institution of National eminence as may be approved. g) National Blood Transfusion Council or any State Blood Transfusion Council, having its sole object to the control, supervision, regulation or encouragement in India of the services related to operation and requirements of blood banks. h) The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force

	<p>Central Welfare Fund established by the Armed Forces of the Union.</p> <p>i) The Andhra Pradesh Chief Minister's Cyclone Relief Fund.</p> <p>j) The National Illness Assistance Fund.</p> <p>k) The Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund of a State or Union Territory, as the case may be.</p> <p>L) The National Sports Fund.</p> <p>m) The National Cultural Fund.</p> <p>n) The Fund for Technology Development and Application set up by the Central Government.</p> <p>o) The National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities.</p> <p>p) National Children's Fund.</p> <p>q) Swachh Bharat Kosh</p> <p>r) Clean Ganga Fund</p> <p>s) National Fund for Control of Drug</p> <p><u>50% Exempt</u></p> <p>a) Jawaharlal Nehru Memorial Trust</p> <p>b) Prime Minister's Drought Relief Fund</p> <p>c) Indira Gandhi Memorial Trust</p> <p>d) Rajiv Gandhi Foundation Fund</p>
HRA Exemption	<ol style="list-style-type: none"> 1. Actual HRA received or 2. Rent paid in excess of 10% of salary(Actual rent paid 10% of annual Basic) or 3. 50% of salary if the employee is in Chennai/ Mumbai /Kolkata /Delhi and 40% of salary if the employee is in any other place. Whichever is less
Cess	Health & Education cess @ 4% of income tax
Surcharge.	<p>Surcharge as below</p> <p>>50 lakh to <1 cr 10%</p> <p>> 1 cr<2 cr 15%</p> <p>>2cr <5 cr 25%</p> <p>> 5 cr 37%</p>

EXEMPTIONS FROM SALARY INCOME

Section 10 of the I.T. Act provides for certain categories of payments to be exempt from taxation,

1. **Death cum retirement gratuity or any other gratuity:** Exempt to the extent specified u/s 10(10)
2. **Commutation of pension** Exempt to the extent as provided in sec. 10(10A)
3. **Leave encashment** Exempt to the extent provided in sec. 10(AA).
4. **Retrenchment Compensation** exempt to the extent provided by section 10(10B).
5. **Compensation on voluntary retirement** Exempt to the extent provided by sec. 10(10C)
6. **Payment from provident fund** Exempt to the extent provided in sec. 10(11) & sec. 10(12).
7. **Payment from approved superannuation fund** –Exempt under section 10(13).
8. **Interest income & investments** As provided u/s 10(15).
9. **Exemption of pension/family pension to awardees of PVC, MVC and VC:** Clause (18) of section 10 provides for exemption of any income by way of pension received by an individual or family pension received by any member of the family of an individual who has been in the service of the Central Government or State Government and has been awarded “Param Vir Chakra” or “MahaVir Chakra” or “Vir Chakra” or such other gallantry award as may be specifically notified by the Central Government

Recent Updates (As of FY 2023-24)

1. Revised Tax Regime Options

The Finance Act has reiterated the option for taxpayers to choose between the old and new tax regimes, emphasizing that employees should be aware of their choices during tax planning.

2. TDS Compliance

- **Mandatory E-filing:** Increased emphasis on the electronic filing of TDS returns for employers, enhancing transparency and compliance.
- **Data Analytics (AIS):** The Income Tax Department is employing advanced data analytics to monitor compliance, particularly targeting discrepancies in TDS filings.

3. Increased Penalties for Non-Compliance

Penalties for late filing of TDS returns have been increased to ₹200 per day, capping at the total amount of TDS due. This change aims to encourage timely compliance.

4. Enhanced Deductions for Senior Citizens

Senior citizens continue to enjoy additional benefits under Section 80TTB, which allows deductions on interest income up to ₹50,000.

5. Digital Initiatives

The Income Tax Department is rolling out digital tools and platforms to facilitate easier access to tax filings and information, streamlining the process for taxpayers.

Question & Answer.

1. What governs the income tax provisions for salaried individuals in India?

The Income Tax Act, 1961 governs these provisions.

2. How are salaried employees categorized for tax purposes?

They are categorized under "Income from Salary." Pensioners are also included in this category.

3. What are the two tax regimes available for FY 2023-24?

The Old Tax Regime (with deductions and exemptions) and the New Tax Regime (with lower tax rates but limited deductions).

4. What is the tax rate for income up to ₹2,50,000 in both tax regimes?

In both regimes, the tax rate is Nil for income up to ₹2,50,000.

5. What is the maximum deduction allowed under Section 80C in the Old Tax Regime?

A maximum deduction of ₹1,50,000 is allowed for investments in specified instruments.

6. What is the standard deduction for salaried individuals in the Old Tax Regime?

The standard deduction is ₹50,000.

7. Which deductions are not available under the New Tax Regime?

Deductions like those under Sections 80C, 80D, 80TTB, and HRA are not allowed.

8. How are allowances such as HRA and LTA taxed?

They can be exempt under certain conditions based on specified criteria in the Income Tax Act.

9. How is pension income categorized for tax purposes?

Pension is categorized under "Salary Income" and taxed accordingly, with specific exemptions for commuted pension for government employees.

10. Who is eligible for a rebate under Section 87A?

Individuals with total income less than ₹5,00,000 are eligible for a maximum rebate of ₹12,500.

11. What is the higher basic exemption limit for senior citizens?

For senior citizens (60–80 years), the limit is ₹3,00,000, and for super senior citizens (above 80 years), it is ₹5,00,000.

12. What forms are used for filing income tax returns for salaried individuals?

Form ITR 1 (Sahaj) is for individuals with income up to ₹50 lakh, while Form ITR 2 is for those with income exceeding ₹50 lakh.

13. What strategies can salaried individuals use for tax planning?

They can maximize deductions under Sections 80C, 80D, and utilize exemptions for HRA and LTA.

14. What are the penalties for late filing of TDS returns?

Penalties have increased to ₹200 per day, capped at the total amount of TDS due.

15. What recent updates have been made regarding the tax regime for FY 2023-24?

The Finance Act emphasizes the option to choose between old and new tax regimes, along with enhanced digital initiatives for easier access to tax information.

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Questions 06

Using the details provided below, calculate the taxable income of Shri Prakash who is below 60 years of age, along with the income tax payable for the financial year 2023-24. He has submitted his PAN to his employer.(As per new tax regime)

Particulars	Amount in Rupees
Basic Pay	7,50,000
DA	2,00,000
HRA	2,00,000
GPF Subscription (per month)	6,000
CGEGIS Subscription (per month)	80
PLI Premium (per month)	600
House Building Advance (HBA) (per month)	3,500
Donation to Clean Ganga Fund	15,000
Five Years TD in Post Office	60,000
Rent Paid for Rented House (Chennai) (per month)	20,000
Health Policy Premium (annual)	25,000

Answers (New tax regime)

Particulars	Amount in Rupees	Relevant Section
1. Gross Salary		
Basic Pay + DA + HRA	11,50,000	
2. Less: Standard Deduction (Sec. 16(ia))	0	<i>(Not applicable in new regime)</i>
3. Gross Total Income	11,50,000	
4. Add: Income from Other Sources		
Interest Income	+15,000	
5. Total Income	11,65,000	
6. Less: Deductions under Section 80-C	0	<i>(Not applicable in new regime)</i>

7. Less: Health Insurance Premium Deduction	0	<i>(Not applicable in new regime)</i>
8. Taxable Income	11,65,000	
9. Income Tax Calculation		
For the first Rs. 2,50,000	Nil	
For the next Rs. 2,50,000 @ 5%	12,500	
For the next Rs. 5,00,000 @ 10%	50,000	
Remaining Rs. 1,65,000 @ 20%	33,000	
Total Income Tax	95,500	
10. Health and Education Cess @ 4%	3,820	
Total Income Tax Payable	99,320	

Notes:

1. Under the new tax regime, standard deductions and most deductions under Section 80C are not available.
2. The new tax regime offers lower tax rates but requires taxpayers to forgo certain deductions.