

FAQs on Computation of Tax

When do I have to pay the taxes on my income?

The taxes on income can be finalized only on the completion of the previous year. However, to enable a regular flow of funds and for easing the process of collection of taxes, Income-tax Act has provisions for payment of taxes in advance during the year of earning itself or before completion of previous year. It is also known as Pay as your earn concept.

Taxes are collected by the Government through the following means:

Voluntary payment by taxpayers into various designated Banks such as Advance tax, Self-Assessment tax, etc.

Taxes deducted at source

Taxes collected at source

Under how many heads the income of a taxpayer is classified?

Section 14 of the Income-tax Act has classified the income of a taxpayer under five different heads of income, viz.:

Salaries

Income from house property

Profits and gains of business or profession

Capital gains

Income from other sources

What is gross total income?

Total income of a taxpayer from all the heads of income (as discussed in previous FAQ) is referred to as Gross Total Income.

What is the difference between gross total income and total income?

Total Income is the income on which tax liability is determined. It is necessary to compute total income to ascertain tax liability. Section 80C to 80U provides certain deductions which can be claimed from Gross Total Income (GTI). After claiming these deductions from GTI, the income remaining is called as Total Income. In other words, $GTI \text{ less Deductions (under section 80C to 80U) = Total Income (TI)}$. Total income can also be understood as taxable income. Following table gives a better understanding of the difference between GTI and TI :

Computation of gross total income and Taxable Income

<i>Particulars</i>	<i>Amount</i>
Income from salary	XXXXX
Income from house property	XXXXX
Profits and gains of business or profession	XXXXX
Capital gains	XXXXX
Income from other sources	XXXXX
Gross Total Income	XXXXX
Less : Deductions under Chapter VI-A (i.e. under section 80C to 80U)	(XXXXX)
Total Income (i.e., taxable income)	XXXXX

Note : Inter source losses, inter head losses, brought forward losses, unabsorbed depreciation, etc., (if any) will have to be adjusted (as per the Income-tax Law) while computing the gross total income.

How to round off total income before computing tax liability?

As per section 288A, total income computed in accordance with the provisions of the Income-tax Law, shall be rounded off to the nearest multiple of ten. Following points should be kept in mind while rounding off the total income:

First any part of rupee consisting of any paisa should be ignored.

After ignoring paisa, if such amount is not in multiples of ten, and last figure in that amount is five or more, the amount shall be increased to the next higher amount which is in multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is in multiple of ten and the amount so rounded off shall be deemed to be the total income of the taxpayer.

Illustration for better understanding

If the taxable income of Mr. Keshav is Rs. 2,52,844.99, then first paisa shall be ignored, i.e., 0.99 paisa shall be ignored) and the remaining amount of Rs. 2,52,844 shall be rounded off to Rs. 2,52,840 (since last figure is less than five). If the total income is Rs. 2,52,845 or Rs. 2,52,846.01, then it shall be rounded off to Rs. 2,52,850 (since the last figure is five or above).

Can I claim deduction for my personal and household expenditure while calculating my taxable income or profit?

No, you cannot claim deduction of personal expenses while computing the taxable income.

While computing income under various heads, deduction can be claimed only for those expenses which are provided under the Income-tax Act.

Most of my income is given away in charity and I am left with just enough money to meet my personal requirements. What will be considered as my income?

What is done after the income is earned by you will not give you tax exemption. However, contribution to approved institutions will give you the benefit of deduction from taxable income under section 80G subject to limits specified therein.

My daughter stays in USA. She owns a house in India and has let it out. She has asked tenants to pay rent to me. She has not received any rent. Is she still liable to tax? What if she transfers the house to me?

Rental income is charged to tax in the hands of the owner of the property. Your daughter is the owner of the house and, therefore, she is liable to pay tax, even though you receive rent. If the house is transferred to you, then you will become the owner and you will have to pay Income-tax on the rental income.

Is there any limit of income below which I need not pay tax?

At this moment (i.e., for the financial year 2019-20) Individual, HUF, AOP, and BOI having income below Rs. 2,50,000 need not pay any Income-tax. In respect of resident individuals of the age of 60 years and above but below 80 years, the basic exemption limit is Rs. 3,00,000 and in respect of resident individuals of 80 years and above, the limit is Rs. 5,00,000. For other categories of persons such as co-operative societies, firms, companies and local authorities, no basic exemption limit exists and, hence, they have to pay taxes on their entire income chargeable to tax.

How to compute the total tax liability?

After ascertaining the total income, i.e., income liable to tax, the next step is to compute the tax liability for the year. Tax liability is to be computed by applying the rates prescribed in this regard. Following table will help in understanding the manner of computation of the total tax liability of the taxpayer.

Computation of total income and tax liability for the year

Particulars	Amount
Income from salary	XXXXX
Income from house property	XXXXX
Profits and gains of business or profession	XXXXX
Capital gains	XXXXX
Income from other sources	XXXXX
Total of head wise income	XXXXX
Set off of losses	XXXXX
Gross Total Income	XXXXX
Less : Deductions under Chapter VI-A (i.e., under section 80C to 80U))	XXXXX
Total Income (i.e., taxable income)	XXXXX
Tax on total income to be computed at the applicable rates	XXXXX
Less : Rebate under section 87A	XXXXX
Tax Liability After Rebate	XXXXX
Add: Surcharge	XXXXX
Tax Liability After Surcharge	XXXXX

Add: Health & Education cess @ 4% on tax liability after surcharge	XXXXX
Tax liability before rebate under sections 86, section 89, sections 90, 90A and 91 (if any) (*)	XXXXX
Less : Rebate under sections 86, section 89, sections 90, 90A and 91(if any) (*)	XXXXX
Tax liability for the year before pre-paid taxes	XXXXX
Less: Prepaid taxes in the form of TDS, TCS and advance tax	XXXXX
Tax payable/Refundable	XXXXX

(*) Rebate under section 86 is available to a member of association of persons (AOP) or body of individuals (BOI) in respect of income received by such member from the AOP/BOI.

Rebate (i.e., relief) under section 89 is available to a salaried employee in respect of sum received towards arrears of salary, gratuity, etc.

Rebate under sections 90, 90A and 91 is available to a taxpayer in respect of double taxed income, i.e., income which is taxed in India as well as abroad.

Note : For provisions relating to Minimum Alternate Tax (MAT) in case of corporate taxpayers and Alternate Minimum Tax (AMT) in case of non-corporate taxpayers refer tutorial on "MAT/AMT".

How to round off the tax liability?

As per section 288B, tax payable by the taxpayer or tax refundable to the taxpayer shall be rounded off to the nearest multiple of ten, following points should be kept in mind while rounding off the tax

First any part of rupee consisting of any paisa should be ignored.

After ignoring paisa, if such amount is not a multiples of ten, and the last figure in that amount is five or more, the amount shall be increased to the next higher amount which is a multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is a multiple of ten; and the amount so rounded off shall be deemed to be the tax payable by the taxpayer or refundable to the taxpayer.

Illustration for better understanding

If the tax liability or refund due to Mr. Keshav is Rs. 2,52,844.99, then first paisa shall be ignored, (i.e., 0.99 paisa shall be ignored) and the remaining amount of Rs. 2,52,844 shall be rounded off to Rs. 2,52,840 (since last figure is less than five). If the tax liability or refund due is Rs. 2,52,845 or Rs. 2,52,846.01, then it shall be rounded off to Rs. 2,52,850 (since the last figure is five or above).

What is rebate under section 87A for F.Y 2019-20 and who can claim it?

An individual who is resident in India and whose total income does not exceed Rs. 5,00,000 is entitled to claim rebate under section 87A. Rebate under section 87A is available in the form of deduction from the tax liability. Rebate under section 87A will be lower of 100% of income-tax liability or Rs. 12,500. In other words, if the tax liability exceeds Rs. 12,500, rebate will be available to the extent of Rs. 12,500 only and no rebate will be available if the total income (i.e. taxable income) exceeds Rs. 5,00,000.

Can a partnership firm or HUF claim rebate under section 87A?

Rebate under section 87A is available only to an individual, hence, any person other than an individual cannot claim rebate under section 87A.

Can a non-resident claim rebate under section 87A?

Rebate under section 87A is available only to an individual who is resident in India, hence, non-residents cannot claim rebate under section 87A.

What is surcharge and how it is computed?

Surcharge is an additional tax levied on the amount of income-tax. In case of individuals/HUF/AOP/BOI/artificial juridical person, surcharge is levied @ 10% on the amount of income-tax where the total income of the taxpayer exceeds Rs. 50 lakh but doesn't exceeds Rs. 1 crore.

Surcharge is levied @ 15% of income-tax where the total income of the taxpayer exceeds Rs. 1 crore but doesn't exceeds Rs. 2 crore.(*).

Surcharge is levied @ 25% of income-tax where the total income of the taxpayer exceeds Rs. 2 crore but doesn't exceeds Rs. 5 crore(*).

Surcharge is levied @ 37% of income-tax where the total income of the taxpayer exceeds Rs. 5 crore(*).

In case of Firm, co-operative society and local authority surcharge is levied at 12% if total income exceeds Rs 1 crore.

In case of a domestic company surcharge is levied @ 7% on the amount of income-tax if the total income exceeds Rs. 1 crore but does not exceed Rs. 10 crore and @ 12% on the amount of income-tax if total income exceeds Rs. 10 crore (*).

In case of a foreign company surcharge is levied @ 2% on the amount of income-tax if the total income exceeds Rs. 1 crore but does not exceed Rs. 10 crore and @ 5% on the amount of income-tax if total income exceeds Rs. 10 crore (*).

(*) A taxpayer can claim marginal relief from the amount of surcharge, subject to certain conditions. Refer to next FAQ for concept of marginal relief.

Illustration for better understanding

Mr. Kapoor is a doctor, his total income for the year amounted to Rs. 44,00,000. Will he be liable to pay surcharge, if yes, then how much?

Surcharge is additional tax levied on the amount of income-tax. In case of individuals surcharge is levied @ 10% on the amount of income-tax where the total income of the taxpayer exceeds Rs. 50

lakh. In this case, total income of Mr. Kapoor is below Rs. 50 lakh, hence, he will not be liable to pay surcharge.

What is marginal relief and how it is computed?

The concept of marginal relief is designed to provide relaxation from levy of surcharge to a taxpayer where the total income exceeds marginally above Rs. 50 lakh, Rs. 1 crore, Rs. 2 crore, Rs. 5 crore or Rs. 10 crore, as the case may be.

Thus, while computing surcharge, in case of taxpayers (i.e. Individuals/HUF/AOP/BOI/artificial juridical person) having total income of more than Rs. 50 lakh marginal relief shall be available in such a manner that the net amount payable as income-tax and surcharge shall not exceed the total amount payable as income-tax on total income of Rs. 50 lakh by more than the amount of income that exceeds Rs. 50 lakh.

In case of a company, surcharge is levied @ 7% (2% in case of foreign company) on the amount of income-tax if the total income exceeds Rs. 1 crore but does not exceed Rs. 10 crore and @ 12% (5% in case of foreign company) on the amount of income-tax if total income exceeds Rs. 10 crore. Hence, in case of company whose total income exceeds Rs. 1 crore but does not exceeds Rs. 10 crore, marginal relief will be computed as discussed above, but in the case of company having total income above Rs. 10 crore marginal relief is available in such a manner that the net amount payable as income-tax and surcharge shall not exceed the total amount payable as income-tax and surcharge on total income of Rs. 10 crore by more than the amount of income that exceeds Rs. 10 crore.

Illustration for better understanding

Mr. Mukesh is salaried employee (age 40 years). His total income from salary for the year 2019-20 amount to Rs. 51,00,000. Will he liable to pay surcharge, if yes, then how much and will he get the benefit of margin relief?

Surcharge is additional tax levied on the amount of income-tax. In case of taxpayers (i.e. Individuals/HUF/AOP/BOI/artificial juridical person), surcharge is levied @ 10% on the amount of income-tax where the total income of the taxpayer exceeds Rs. 50 lakh. In this case, total income of Mr. Mukesh exceeds Rs. 50 lakh and hence he will be liable to pay surcharge. Marginal relief is available in cases where the total income is slightly above Rs. 50 Lakh. The Computation of normal tax liability (i.e. liability without marginal relief) and tax liability under marginal relief (i.e. liability after marginal relief) will be as follows:

(1) Normal tax liability (i.e. without marginal relief)

Tax on total income before surcharge (*) 13,42,500

Add: Surcharge (@10% on the amount of income-tax of Rs. 13,42,500 1,34,250

Tax liability after surcharge (i.e., normal tax liability) 14,76,750

() The normal tax rates for the financial year 2019-20 applicable to an individual below the age of 60 years are as follows:*

Nil upto income of Rs. 2,50,000

5% for income above Rs. 2,50,000 but upto Rs. 5,00,000

20% for income above Rs. 5,00,000 but upto Rs. 10,00,000

30% for income above Rs. 10,00,000.

Apart from above rates, cess will be computed separately.

(2) Tax liability under marginal relief (i.e. after marginal relief)

Tax on Rs. 50 lakh (at the above discussed rates)	13,12,500
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Add: Income above Rs. 50 lakh	1,00,000
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Tax liability under marginal relief	14,12,500
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Conclusion

Normal tax liability (i.e. without marginal relief) comes to Rs. 14,76,750 and tax liability under marginal relief comes to Rs. 14,12,500. It can be observed that tax liability under marginal relief is lower and, hence, Rs. 14,12,500 will be the tax liability before cess. Total tax liability will be computed as follows:

Tax liability after marginal relief (*)	14,12,500
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Add: Health & education cess @ 4%	56,500
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Tax liability	14,69,000
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() In this case, surcharge paid by Mr. Mukesh will be Rs. 70,000 computed as follows:*

Tax liability (before cess) on Rs. 51,00,000 after considering the provisions of marginal relief -14,12,500

Tax liability (before cess) at normal rates on Rs. 51,00,000 if surcharge is not levied - 13,42,500

Surcharge (i.e. increase in tax liability) -70,000

Illustration for better understanding

Mr. Raja is businessman (age 35 years). His total income for the year 2019-20 amounted to Rs. 1,02,00,000. Will he be liable to pay surcharge, if yes, then how much and will he get the benefit of marginal relief?

Surcharge is additional tax levied on the amount of income-tax. In case of taxpayers (i.e. Individuals/HUF/AOP/BOI/artificial juridical person), surcharge is levied @ 10% on the amount of income-tax where the total income of the taxpayer exceeds Rs. 1 crore. In this case, total income of Mr. Raja exceeds Rs. 1 crore and hence he will be liable to pay surcharge. Marginal relief is available in cases where the total income is slightly above Rs. 1 crore. The Computation of normal tax liability (i.e. liability without marginal relief) and tax liability under marginal relief (i.e. liability after marginal relief) will be as follows:

(1) Normal tax liability (i.e. without marginal relief)

Tax on total income before surcharge (*)	28,72,500
Add: Surcharge (@15% on the amount of income-tax of Rs. 28,72,500)	4,30,875
Tax liability after surcharge (i.e., normal tax liability)	33,03,375

(*) The normal tax rates for the financial year 2019-20 applicable to an individual below the age of 60 years are as follows:

Nil upto income of Rs. 2,50,000

5% for income above Rs. 2,50,000 but upto Rs. 5,00,000

20% for income above Rs. 5,00,000 but upto Rs. 10,00,000

30% for income above Rs. 10,00,000.

Apart from above rates, cess will be computed separately.

(2) Tax liability under marginal relief (i.e. after marginal relief)

Tax on Rs. 1 crore (at the above discussed rates)	28,12,500
Add: Surcharge on income-tax @ 10% (if income is Rs. 1 crore)	2,81,250
Add: Income above Rs. 1 crore	2,00,000
Tax liability under marginal relief	32,93,750

Conclusion

Normal tax liability (i.e. without marginal relief) comes to Rs. 33,03,375 and tax liability under marginal relief comes to Rs. 32,93,750. It can be observed that tax liability under marginal relief is

lower and, hence, Rs. 32,93,750 will be the tax liability before cess. Total tax liability will be computed as follows:

Tax liability after marginal relief (*)	32,93,750
Add: Health & education cess @ 4%	1,31,750
Tax liability	34,25,500

Illustration for better understanding

Mr. Karan is a businessman (age 35 years). His total income for the year 2019-20 amounted to Rs. 1,07,00,000. Will he be liable to pay surcharge, if yes, then how much and will he get the benefit of marginal relief?

Surcharge is additional tax levied on the amount of income-tax. In case of taxpayers (i.e. Individuals/HUF/AOP/BOI/artificial juridical person) surcharge is levied @ 15% on the amount of income-tax where the total income of the taxpayer exceeds Rs. 1 crore. In this case, total income of Mr. Karan exceeds Rs. 1 crore and hence he will be liable to pay surcharge. Marginal relief is available in cases where the total income is slightly above Rs. 1 crore. The computation of normal tax liability (i.e. liability without marginal relief) and tax liability under marginal relief (i.e. liability after marginal relief) will be as follows :

(1) Normal tax liability (i.e. without marginal relief)

Tax on total income before surcharge (*)	30,22,500
Add: Surcharge (@15% on the amount of income-tax of Rs. 30,22,500)	4,53,375
Tax liability after surcharge (i.e., normal tax liability)	34,75,875

(*) Tax rates are discussed in previous illustration.

(2) Tax liability under marginal relief (i.e. after marginal relief)

Tax on Rs. 1 crore (at the rates discussed in previous illustration)	28,12,500
Add: Income above Rs. 1 crore	7,00,000
Tax liability under marginal relief	35,12,500

Conclusion

Normal tax liability (i.e. without marginal relief) comes to Rs. 34,75,875 and tax liability under marginal relief comes to Rs. 35,12,500. It can be observed that normal tax liability (i.e. without marginal relief) is lower and, hence, Rs. 34,75,875 will be the tax liability before cess. Total tax liability will be computed as follows:

Normal tax liability i.e. tax liability after surcharge of Rs. 4,53,375	34,75,875
Add: Health & education cess @ 4%	1,39,035
Tax liability	36,14,910