Taxes in India can be categorized as [direct and indirect taxes](https://cleartax.in/s/direct-indirect-taxation-india-explained). Direct tax is a tax you pay on your income directly to the government. Indirect tax is a tax that somebody else collects on your behalf and pays to the government eg restaurants, theatres and e-commerce websites recover taxes from you on goods you purchase or a service you avail. This tax is, in turn, passed down to the government. **Direct Taxes** are broadly classified as :

1. Income Tax – This is taxes an individual or a Hindu Undivided Family or any taxpayer other than companies, pay on the income received. The law prescribes the rate at which such income should be taxed
2. Corporate Tax – This is the tax that companies pay on the profits they make from their businesses. Here again, a specific rate of tax for corporates has been prescribed by the income tax laws of India.

**Indirect taxes** take many forms: service tax on restaurant bills and movie tickets, value-added tax or VAT on goods such as clothes and electronics. Goods and services tax, which has recently been introduced is a unified tax that has replaced all the indirect taxes that business owners have to deal with.

|  |  |  |  |
| --- | --- | --- | --- |
| **31 January** | **31 March** | **31 July** | **Oct – Nov** |
| Deadline to submit your investment proofs | Deadline to make investments under Section 80C | Last date to file your tax return | Time to verify your tax return |

**Income Tax Basics**

Everyone who earns or gets an income in India is subject to income tax. (Yes, be it a resident or a non-resident of India ). Also read our article on [Income Tax for NRIs](https://cleartax.in/s/income-tax-for-nri/). Your income could be salary, pension or could be from a savings account that’s quietly accumulating a 4% interest. Even, winners of ‘Kaun Banega Crorepati’ have to pay tax on their prize money. For simpler classification, the Income Tax Department breaks down income into five heads:

|  |  |
| --- | --- |
| **Head of Income** | **Nature of Income covered** |
| Income from Salary | Income from salary and pension are covered under here |
| Income from Other Sources | Income from savings bank account interest, fixed deposits, winning KBC |
| Income from House Property | This is rental income mostly |
| Income from Capital Gains | Income from sale of a capital asset such as mutual funds, shares, house property |
| Income from Business and Profession | This is when you are self-employed, work as a freelancer or contractor, or you run a business. Life insurance agents, chartered accountants, doctors and lawyers who have their own practice, tuition teachers |

**Taxpayers and Income Tax Slabs**

Taxpayers in India, for the purpose of income tax includes:

* Individuals, Hindu Undivided Family (HUF), Association of Persons(AOP) and Body of Individuals (BOI)
* Firms
* Companies

Each of these taxpayers is taxed differently under the Indian income tax laws. While firms and Indian companies have a fixed rate of tax of 30% of profits, the individual,HUF, AOP and BOI taxpayers are taxed based on the income slab they fall under. People’s incomes are grouped into blocks called tax brackets or tax slabs. And each tax slab has a different tax rate. In India, we have four tax brackets each with an increasing tax rate.

* Income earners of up to 2.5 lakhs
* Income earners of between 2.5 lakhs and 5 lakhs
* Income earners of between 5 lakhs and 10 lakhs
* Those earning more than Rs 10 lakhs

|  |  |  |
| --- | --- | --- |
| **Income Range** | **Tax rate** | **Tax to be paid** |
| Up to Rs.2,50,000 | 0 | No tax |
| Between Rs 2.5 lakhs and Rs 5 lakhs | 5% | 5% of your taxable income |
| Between Rs 5 lakhs and Rs 10 lakhs | 20% | Rs 12,500+ 20% of income above Rs 5 lakhs |
| Above 10 lakhs | 30% | Rs 1,12,500+ 30% of income above Rs 10 lakhs |

This is the income tax slab for FY 2017-18 for taxpayers under 60 years. There are two other tax slabs for two other age groups: those who are 60 and older and those who are above 80.   
**A word of note:** People often misunderstand that if they earn let’s say Rs.12 lakhs, they will be paying a 30% tax on Rs.12 lakhs i.e Rs.3,60,000. That’s incorrect. A person earning 12 lakhs in the progressive tax system, will pay Rs.1,12,500+ Rs.60,000 = Rs. 1,72,500.   
Check out the [income tax slabs](https://cleartax.in/s/income-tax-slabs) for previous years and other age brackets.

**Exceptions to the Tax Slab**

One must bear in mind that not all income can be taxed on slab basis. Capital gains income is an exception to this rule. Capital gains are taxed depending on the asset you own and how long you’ve had it. The holding period would determine if an asset is long term or short term. The holding period to determine nature of asset also differs for different assets. A quick glance of holding periods, nature of asset and the rate of tax for each of them is given below.

|  |  |  |
| --- | --- | --- |
| **Type of capital asset** | **Holding period** | **Tax rate** |
| [House Property](https://cleartax.in/s/house-property/) | Holding more than 24 months – Long Term Holding less than 24 months – Short Term | 20% Depends on slab rate |
| Debt mutual funds | Holding more than 36 months – Long Term Holding less than 36 months – Short Term | 20% Depends on slab rate |
| Equity mutual funds | Holding more than 12 months – Long Term Holding less than 12 months – Short Term | Exempt (until 31 March 2018) Gains > Rs 1 lakh taxable @ 10% 15% |
| Shares (STT paid) | Holding more than 12 months – Long Term Holding less than 12 months – Short Term | Exempt (until 31 March 2018)Gains > Rs 1 lakh taxable @ 10% 15% |
| Shares (STT unpaid) | Holding more than 12 months – Long Term Holding less than 12 months – Short Term | 20% As per Slab Rates |
| FMPs | Holding more than 36 months – Long Term Holding less than 36 months – Short Term | 20% Depends on slab rate |

**Residents and non residents:**

Levy of income tax in India is dependent on the residential status of a taxpayer. Individuals who qualify as a resident in India must pay tax on their global income in India i.e. income earned in India and abroad. Whereas, those who qualify as Non-residents need to pay taxes only on their Indian income. The residential status has to be determined separately for every financial year for which income and taxes are computed.

**Defining Income**

Income has been very widely defined in the Income-tax Act. In simple words, income includes salary, pension, rental income, profits out of any business or profession, any profit made out of the sale of any specified asset, interest income, dividends, royalty income etc. The law classifies income under 5 major heads as already mentioned above.

* Salary Income
* House Property income
* Profits and Gains from Business or Profession
* Capital Gains
* Income from other Sources

The law also allows a taxpayer to claim deductions specific to each such income and hence to avail the appropriate deductions, it is important that you classify income under the right heads. Eg. A salaried taxpayer can claim a standard deduction of Rs 40,000 while a taxpayer having rental income from a flat can claim municipal taxes as a deduction.

**Income Tax deductions**

There are broad themes to what the government incentivizes. These are either in the form of:

1. Various deductions available under Section 80 of the Income Tax Act which can be claimed from the Total Income or
2. Deductions that are specific to each source of income.

Some of the key deductions have been discussed here:

**Home ownership**

* Stamp duty and Registration under Section 80C
* Home loan principal and interest
* First time homeowner benefit of Rs.50,000 under Section 80EE

|  |  |  |
| --- | --- | --- |
| **Deduction on** | **Maximum allowed (for self-occupied house property)** | **Maximum allowed (for property on rent)** |
| Stamp duty and registration + principal | Rs.1,50,000 within the overall limit of Section 80C | Rs.1,50,000 within the overall limit of Section 80C |
| Deduction on home loan interest under Section 24 | Rs.2,00,000 | No cap (but rental income must be shown in the income tax return) Further, maximum loss from house property capped at Rs 2 lakhs |
| Deduction for first-time homeowners under Section 80EE \*certain conditions apply | Rs.50,000 | – |

**Home renting**

* [House Rent Allowance](https://cleartax.in/s/hra-house-rent-allowance) or HRA (for salaried only) Given how many Indians move cities for work, this is a common allowance most salaried individuals can find in their payslips. If you are renting an apartment, be sure to claim this in your tax return.
* [Section 80GG](https://cleartax.in/s/claim-deduction-under-section-80gg-for-rent-paid/) (if you are renting and don’t get HRA) If you are not salaried, or you are still salaried, but don’t get HRA, then you can claim deduction for rent under Section 80GG. Learn more.

**Health**

* Life insurance premium under Section 80C
* Medical insurance under Section 80D
* Preventative health checkups under Section 80D
* Medical bills (for salaried only)( replaced with standard deduction of Rs 40,000 effective 1 April 2018)

**Tax Deductions for health insurance under Section 80D in FY 2017-18**

|  |  |  |
| --- | --- | --- |
| **Person insured** | **Maximum deduction Below 60 years** | **Maximum deduction 60 years or older** |
| You, your spouse, your children | Rs.25,000 | Rs.50,000 |
| Your parents | Rs.25,000 | Rs.50,000 |
| Preventative health checkup | Rs.5,000 | Rs.5,000 |
| Maximum deduction (includes preventative health checkup) | Rs.50,000 | Rs.1,00,000 |

**Long-term savings**

**Employee provident fund** (for salaried only)Companies cut 12% of your basic salary and put it in a fund managed by EPFO.**Public provident fund**Individuals can open a PPF account from a post office or a public sector bank like State Bank of India and ICICI Bank. All of these allow you a deduction under Section 80C upto RS 1.5 lakhs **Contribution to NPS is also another tax saving avenue for claim of deduction under Section 80CCD**

**Other investment avenues**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Investment** | **Risk** | **Interest** | **Guaranteed Returns** | **Lock-in Period** |
| ELSS funds | Equity-related risk | 12-15% expected | No | 3 years |
| NSC | Risk-free | 7.6% | Yes | 5 years |
| 5-Year FDs | Risk-free | 7-9% expected | Yes | 5 years |

**Business profits**

Running a business and wondering how to go about your taxes? It is simple. Take your gross receipts from your business and reduce various business related expenses from it eg telephone, internet, salary you pay to people you have hired, depreciation on the items that you use for your business like computer etc. What you are left with are your profits that you need to offer as your **Income from Business.** Similar is the method of computing your taxable profits if you are carrying out a profession too. But make sure you maintain proper books of accounts recording all your business transactions as law mandates that you do do. However, if you do not want to maintain books, you may opt for Presumptive taxation scheme where you will have to offer a fixed percentage of your gross receipts as your income.

Read our detailed article on [Income from Business](https://cleartax.in/s/freelance-professional-business-income) and [presumptive income and taxes](https://cleartax.in/s/sugam-itr-4s-form)

**Tax Credits**

Income of certain nature will suffer a Tax Deduction at source itself. Eg salary, interest, rent, commission etc. The person in charge of paying such income will have to mandatorily deduct taxes before making the payment subject to certain conditions. Similarly, one may be liable to pay advance taxes if taxes payable after reducing TDS is Rs 10,000 or more. After TDS and advance tax, if there still tax to be paid, the same would be paid in the form of Self Assessment Taxes. All of the above taxes paid i.e. TDS, Advance Tax and Self Assessment Tax would reflect in Form 26AS of the taxpayer which is a significant document one needs to rely on while filing the return of income. This Form 26AS is called the tax credit statement that contains all the tax credits lying against you PAN for any given financial year.

**Income Tax Rules**

While the Income Tax Act, 1961 is the law enacted by the legislature for governing and administering income taxes in India, Income Tax Rules, 1962 has been framed to help apply and enforce the law contained in the Act. Further, the Rules cannot be read independently. They must be read in conjunction with the Act only. Further, the Rules must be within the framework of the Act and cannot override the provisions of the Act. For example, the Act lays down the law with regard to taxability of perquisites given by the employer to his employees as “salary”. However, it does not discuss how the perquisites must be valued. Such valuation is in turn prescribed under Rule 3 of the Income-tax Rules.

**Income Tax Calculation**

Every income that your receive should form part of your income tax return. Of course, the law does provide for exemption of certain incomes eg. dividend income from an Indian company, LTCG on listed equity shares upto Rs 1 lakh in any financial year etc. Therefore, here is a quick guideline you can probably follow to compute taxes due on your income:

* List down all your income – be it salary, rental income, capital gains, interest income or profits from your business or profession
* Remove incomes that are exempt under law
* Claim all applicable deductions available under every source of income . eg claim standard deduction of Rs 40,000 from salary income, claim municipal taxes from rental income, claim business related expenses from your business turnover etc
* Claim all applicable exemptions under every head of income eg. amount reinvested in another house property can be claimed as exemption from capital gains income etc
* Claim applicable deductions from your total income eg the 80 deductions like [80C](https://cleartax.in/s/80c-80-deductions), [80D](https://cleartax.in/s/medical-insurance), [80TTA](https://cleartax.in/s/medical-insurance), [80TTB](https://cleartax.in/s/section-80ttb) etc
* You will now arrive at your taxable income. Check the tax slab you fall under and accordingly arrive at your income tax payable.

The government keeps introducing and altering tax slabs, schemes and tax benefits, so it’s a good idea to keep up with the Budget.

**Income Tax Payment**

The Government collects income tax from three channels:

* TDS
* Advance tax
* Self Assessment tax

**TDS**

* TDS exists to help government get tax throughout the year. There’s a prescribed table on how much tax deducted under what circumstances.
* Your employer cuts TDS based on the information available to him about you. So if you’ve made investments, but have not declared or if you live in a rented house, but have not shared rent receipts, your finance department will have no choice but to deduct tax based on only thing they know – your CTC.
* This is why the investment proofs deadline in your office is super important. Save yourself some headache and submit your investment proofs on time.
* Banks don’t know if you’re working in a company or if income from fixed deposits is what you solely rely on. So they deduct a standard 10% tax before they give away the interest. Now if you fall in the 20% or 30% bracket, it’s on you to pay the remainder of the income tax. That’s why sometimes you may find yourself paying some tax at the time of filing a tax return.
* Make sure banks have your PAN number. They deduct 20% tax if they don’t have your PAN in their records.
* Anyone who’s receiving an income of a specified nature say salary, interest, commission, rent, professional income etc. will have some percentage of tax withheld as prescribed by the government.

**Advance Tax**

Self-employed people must do the calculation themselves and pay the tax to the Government periodically every quarter.The deadlines are:

|  |  |
| --- | --- |
| **Due Date** | **Advance Tax Payable** |
| On or before 15th June | 15% of advance tax |
| On or before 15th September | 45% of advance tax |
| On or before 15th December | 75% of advance tax |
| On or before 15th March | 100% of advance tax |

To calculate your advance tax:

* Add up all the invoices received and include future payments you will be receiving till March 31 to estimate your taxable income.
* Deduct expenses directly related to your business, and any investments you have made under Section 80C in order to arrive at your taxable income.
* Determine your tax liability for the year
* Reduce the Tax already deducted at source from your tax liability as determined above
* If the remaining tax payable is greater than Rs 10,000 you will have to pay advance taxes based on the rates prescribed in the above table.
* Use the [Income Tax Calculator](https://cleartax.in/paytax/TaxCalculator) to determine your tax liability

**Self Assessment Tax**

When you are filing a tax return and you find out that you need to pay additional tax, you’d be paying self assessment tax. Another way to think about this would be.

* if you are paying tax for a financial year after the deadline has ended, you will pay self assessment tax.
* if you are paying tax for a financial year during the financial year, you will pay advance tax.

**Payment of TDS Advance Tax and Self Assessment Tax:**

TDS is deducted by the payer himself and remitted to the government by him. Hence the taxpayer need not worry about this part of his tax liability. As regards advance tax and self assessment tax, the same can be discharged online using Challan 280. Read our detailed [guide](https://cleartax.in/s/pay-income-tax-due) on payment of taxes online.

**Income Tax Return**

An Income Tax Return is a form where a taxpayer discloses details of his income, claims applicable deductions and exemptions and taxes that are payable on the taxable income. Further, details of taxes paid also reflect in the return. Any excess tax paid for a year will be claimed as a refund in the return of income.

Some taxpayers who are into any business or profession disclose details of such business or profession like turnover, expenses relating to business, profits from business etc. All the above information, put together, form part of your return and is filed with the Income Tax Department.

**Income Tax Return Filing**

Filing of income tax return online has been made mandatory for all classes of taxpayers barring few exceptions :

* Taxpayers aged 80 and above need not filed return online
* Taxpayers having an income less than Rs 5 lakhs and not claiming a refund need not file return online

For the rest, [online filing](https://cleartax.in/income-tax-efiling) is mandatory.

Do note that deadlines for filing of returns have also been prescribed. For most individual taxpayers, the due date for filing return of income is 31 July immediately following the concerned financial year. If you do not file on time, here are some disadvantage:

* You will be denied carry forward of losses (except house property loss) to future years
* Delay processing of refund claims if any
* Difficulty on getting home loans
* Levy of late filing fee upto Rs 10,000 under Section 234F
* Levy of interest under 234A if there are taxes due as on 31 July

E-filing online is a more complete and better alternative to filing on the income tax website. Also it is for more than just e-filing your income tax return. ClearTax helps you claim all the deductions you’re eligible for and helps you invest.

Once you file your return online, you either e-verify the same or take a print of the ITR V and send it to CPC, bangalore for processing of your return. Read our detailed article on [e-verification of return of income](https://cleartax.in/s/income-tax-e-verification-evc)

**Documents Required for ITR Filing**

Form 16, Form 26AS, Form 16A, proof of tax saving investments made, bank account details etc are some of the crucial details / documents that you need to be ready with before filing your return. Further the documents you are going to need to file your tax return are largely going to depend on your source of income. Here is our detailed article on [documents you need for filing of your return of income](https://cleartax.in/s/documents-required-for-income-tax-return-filing)

# Income Tax Rate for Individuals – AY 2019-20

Individuals are required to file income tax return each year if they have taxable income of more than Rs.2.5 lakhs. The income tax rate AY 2019-20 or FY 2018-19 for salaried individuals is as follows.

Note: Financial year starts from 1st April and ends on 31st March. For example, the financial year 2018 – 19 would be 1st April 2018 to 31st March 2019. Assessment year is the year immediately following the financial year wherein the income of the financial year is assessed. Hence, in the assessment year 2019 – 20 the income tax for the period from 1st April 2018 to 31st March 2019 would be assessed.

### Income Tax Rate AY 2019-20 | FY 2018-19 – Individuals less than 60 years

|  |  |
| --- | --- |
| **Taxable income** | **Tax Rate** |
| Up to Rs. 2,50,000 | *Nil* |
| Rs. 2,50,000 to Rs. 5,00,000 | 5 % |
| Rs. 5,00,000 to Rs. 10,00,000 | 20% |
| Above Rs. 10,00,000 | 30% |

### Income Tax Rate AY 2019-20 | FY 2018-19 – Individuals betwen 60 years and 80 years

|  |  |
| --- | --- |
| **Taxable income** | **Tax Rate** |
| Up to Rs. 3,00,000 | *Nil* |
| Rs. 3,00,000 to Rs. 5,00,000 | 5% |
| Rs. 5,00,000 to Rs. 10,00,000 | 20% |
| Above Rs. 10,00,000 | 30% |

### Income Tax Rate AY 2019-20 | FY 2018-19 – Individuals above 80 years

|  |  |
| --- | --- |
| **Taxable income** | **Tax Rate** |
| Up to Rs. 5,00,000 | *Nil* |
| Rs. 5,00,000 – Rs. 10,00,000 | 20% |
| Above Rs. 10,00,000 | 30% |

In addition to the Income Tax amount calculated, based on the above-mentioned tax slabs, individuals are required to pay Surcharge and Cess.

* Surcharge: 10% of income tax, where total income exceeds Rs.50 lakh up to Rs.1 crore.
* Surcharge: 15% of income tax, where the total income exceeds Rs.1 crore.
* Health & Education Cess: 4% of Income Tax. [(Newly introduced through 2018 Budget)](https://www.indiafilings.com/learn/budget-2018-19-income-tax/)

## Why Should Individuals File Income Tax Return?

Under the [Income Tax Act](https://www.incometaxindia.gov.in/pages/acts/income-tax-act.aspx), all individuals below the age of 60 years are required to file income tax return if total income exceeds Rs. 2.5 lakhs. In the case of individuals over the age of 60 years, but below 80 years, income tax filing is mandatory if total income exceeds Rs.3 lakhs. Individuals over the age of 80 years are required to file income tax return if the total income exceeds Rs.5 lakhs.

## Penalty for Not Filing Income Tax Return

Not filing your Income Tax Return would result in :

* Receiving a notice from Income Tax department
* Not being able to obtain refund of excess TDS Deducted.
* Penalty interest of  1% per month or part thereof will be charged until the date of payment of taxes. For returns of FY 2017-18 and onwards, penalty of Rs 5,000 will be charged for returns filed after due date but before 31st December. If returns are filed after 31st December, a penalty of Rs 10,000 shall apply. However, penalty will be Rs 1,000 for those with income upto Rs 5 Lakhs.
* Not being able to set off Losses. Losses incurred (other than house property loss) will not be allowed to be carried forward to subsequent years,  to be set off against the future gains.

**Income Tax Rate for Indian Company**

For F.Y.2017-18( A.Y. 2018-19) the income tax slab for Indian Company. Mentioned below is the income tax rate for AY 2018-19 for companies.

|  |  |
| --- | --- |
| **Total Turnover or Gross Receipts (Rs.)** | **Rate of Income Tax** |
| Amount does exceed Rs.50 crore, in the previous year 2015-16 | 25% |
| Amount exceeds Rs.50 crore | 30% |
| **Add:** Surcharge and EC & SHEC | |

**Income Tax Rate for Foreign Company**

|  |
| --- |
| A foreign company is taxable at flat rate of 40 percent for the F.Y. 2017-18 ( A.Y. 2018-19). |
| **Add:** Surcharge and EC & SHEC |

**Income Tax Rate for Co-operative Societies**

For F.Y.2017-18( A.Y. 2018-19 ) the new income tax slab 2018-19 for co-operative society

|  |  |
| --- | --- |
| **Income (Rs)** | **Rate of Income Tax** |
| Upto 10,000 | 10% |
| From 10,001-20,000 | 20% |
| Above 20,000 | 30% |
| **Add:** Surcharge and EC & SHEC | |

### EC & SHEC

**Education Cess(EC) :** The amount of income-tax and the applicable surcharge, shall be further increased by education cess calculated at 2 percent of income tax and surcharge.

**Secondary & Higher Education Cess(SHEC) :** The amount of income-tax and the applicable surcharge, shall be further increased by secondary and higher education cess calculated at 1 percent of income tax 2018-19 and surcharge.

**Rebate under Section 87A :** Section 87A of the Act states that if an individual's total income does not exceed Rs. 5 lakhs then the individual will get benefit of rebate. The amount of rebate shall be 100% of income-tax or Rs. 5,000, whichever is less.