

Knowledge Base: Income Tax Rules and Calculations in India

This document provides a generic overview of income tax rules and calculations in India. It is intended for informational purposes only and is not a substitute for professional tax advice. Tax laws are subject to change and may vary depending on the financial year.

1. Key Concepts

Financial Year (FY) and Assessment Year (AY): The financial year is the period from April 1st to March 31st of the next year, during which income is earned. The assessment year is the year immediately following the financial year, during which the income is assessed and taxed.

Taxpayer: An individual or entity liable to pay income tax.

Gross Total Income: The sum of all income earned from various sources before claiming any deductions or exemptions.

Taxable Income: The income on which tax is calculated after accounting for all applicable deductions and exemptions.

Heads of Income: The Income Tax Act, 1961, categorizes income into five heads:

Income from Salaries

Income from House Property

Profits and Gains of Business or Profession

Capital Gains

Income from Other Sources

2. Tax Regimes: Old vs. New

India's tax system offers two regimes for individual taxpayers: the Old Tax Regime and the New Tax Regime. Taxpayers have the option to choose the one that is more beneficial to them.

Old Tax Regime: This regime offers higher tax rates but allows taxpayers to claim a wide range of deductions and exemptions to reduce their taxable income.

New Tax Regime: This regime has lower tax rates but allows for minimal or no deductions and exemptions. It has been made the default regime, but taxpayers can still opt for the old regime.

3. Income Tax Slabs and Rates (for Financial Year 2024-25 / Assessment Year 2025-26)

The income tax rates are based on the individual's age and the chosen tax regime.

A. Old Tax Regime

This regime provides different basic exemption limits based on age.

Individuals (below 60 years):

Up to ₹2,50,000: Nil

₹2,50,001 to ₹5,00,000: 5%

₹5,00,001 to ₹10,00,000: 20%

Above ₹10,00,000: 30%

Senior Citizens (60 to 80 years):

Up to ₹3,00,000: Nil

₹3,00,001 to ₹5,00,000: 5%

₹5,00,001 to ₹10,00,000: 20%

Above ₹10,00,000: 30%

Super Senior Citizens (80 years and above):

Up to ₹5,00,000: Nil

₹5,00,001 to ₹10,00,000: 20%

Above ₹10,00,000: 30%

B. New Tax Regime

This regime has uniform slab rates for all individuals, regardless of age.

Up to ₹3,00,000: Nil

₹3,00,001 to ₹7,00,000: 5%

₹7,00,001 to ₹10,00,000: 10%

₹10,00,001 to ₹12,00,000: 15%

₹12,00,001 to ₹15,00,000: 20%

Above ₹15,00,000: 30%

C. Surcharge and Cess

Surcharge: An additional tax on income tax for high-income earners. Rates vary based on income levels and the chosen tax regime.

Health and Education Cess: A 4% cess is levied on the total tax liability (including surcharge).

4. Deductions and Exemptions

These are amounts that can be subtracted from your gross total income to arrive at your taxable income. They are a major benefit of the Old Tax Regime. The New Tax Regime allows very few deductions.

A. Common Deductions (primarily under the Old Regime):

Section 80C: A maximum deduction of up to ₹1,50,000 for investments in instruments like:

Public Provident Fund (PPF)

Employee Provident Fund (EPF)

Life insurance premiums

Equity Linked Savings Scheme (ELSS)

Tuition fees for children

Principal repayment of a home loan

Section 80CCD (1B): An additional deduction of up to ₹50,000 for contributions to the National Pension System (NPS). This is over and

above the ₹1.5 lakh limit of Section 80C.

Section 80D: Deduction for health insurance premiums paid for self, family, and parents. The maximum deduction varies based on age.

Section 24: Interest paid on a home loan can be deducted. For a self-occupied property, the deduction is limited to ₹2,00,000. For a rented property, the entire interest amount can be deducted.

Section 80E: Deduction for the interest paid on an education loan. There is no upper limit, and the deduction can be claimed for up to 8 years.

Section 80G: Deduction for donations made to certain charitable institutions.

B. Common Exemptions (available in both regimes unless specified):

Standard Deduction: A fixed deduction of ₹50,000 for salaried individuals.

House Rent Allowance (HRA): A portion of HRA received from an employer can be exempted, subject to certain conditions.

Leave Travel Allowance (LTA): Travel expenses incurred by an employee on leave can be exempted twice in a block of four years.

5. Calculation of Income Tax

The basic steps to calculate income tax are as follows:

Step 1: Calculate Gross Total Income

Add up all income from the five heads of income (Salaries, House Property, Business/Profession, Capital Gains, Other Sources).

Step 2: Subtract Exemptions and Deductions

Subtract all eligible exemptions (like HRA, LTA) and deductions (under sections like 80C, 80D, etc.) from the Gross Total Income to arrive at the Net Taxable Income.

Step 3: Apply Tax Slabs

Based on the Net Taxable Income and the chosen tax regime (Old or New), apply the relevant tax slab rates to calculate the basic tax amount.

Step 4: Add Surcharge and Cess

If applicable, add the surcharge to the basic tax amount. Finally, add the 4% Health and Education Cess to the total.

Step 5: Subtract Rebate (if applicable)

If your total income is below the specified limit (₹5 lakhs for the old regime, ₹7 lakhs for the new regime for FY 2024-25), you may be eligible for a rebate under Section 87A, which can make your tax liability zero.

Step 6: Pay the Final Tax

Subtract any Tax Deducted at Source (TDS) from your total tax liability to find the final tax payable.

6. Filing the Income Tax Return (ITR)

Mandatory Filing: It is mandatory to file an ITR if your gross total income exceeds the basic exemption limit.

ITR Forms: The Income Tax Department provides different ITR forms (ITR-1, ITR-2, ITR-3, ITR-4, etc.) depending on the sources of income and the taxpayer's profile.

Deadline: The due date for filing ITR for non-audited individuals is typically July 31st of the assessment year.