Indian Government Tax System

What Is Income Tax?

Income tax is a type of tax that the central government charges on the income earned during a financial year by individuals and businesses. Taxes are sources of revenue for the government. The government utilises this revenue for developing infrastructure, providing healthcare, education, subsidies to the farmer/agriculture sector and other government welfare schemes.

Taxes are mainly of two types: direct taxes and indirect taxes. Tax levied directly on the income earned is called a direct tax; for example, Income tax is a direct tax. The tax calculation is based on the income slab rates applicable during that financial year.

Direct Taxes are broadly classified as :

- Income Tax – This is taxes an individual, a Hindu Undivided Family (HUF), or any taxpayer other than companies pay on the income received. The law prescribes the rate at which such income is taxable.
- Corporate Tax - This is the tax paid on the company's taxable income. Here again, a specific tax rate for corporations has been prescribed by the income tax laws of India.

Who Should Pay Income Tax? – Types Of Taxpayers

According to the Income Tax Act, everyone in India, whether resident or nonresident, has to file income tax returns. Currently, tax is payable if the income exceeds Rs 3 lakh in a financial year. The Income Tax Act has classified taxpayers into various categories. Different tax rules apply to different types of taxpayers.

Below are the categories of taxpayers:

- Individuals
- Hindu Undivided Family (HUF)
- Firms
- Companies
- Association of Persons(AOP)
- Body of Individuals (BOI)
- Local Authority
- Artificial Judicial Person

Further, Individuals and HUFs are classified as residents and nonresidents. Resident individuals are liable to pay tax on their global income in India, i.e. income earned in India and abroad. Meanwhile, those who qualify as nonresidents must only pay taxes on income earned or accrued in India. The residential status has to be determined separately for tax purposes for every financial year based on the individual tenure of stay in India. Resident Individuals are further classified into the mentioned categories for tax purposes:

- Individuals less than 60 years of age
- Individuals aged more than 60 but less than 80 years

Types Of Income – What Are The 5 Heads Of Income?

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). For simpler classification, the Income tax department breaks down income into five main heads:

Head of Income	Nature of Income covered
Income from Other Sources	Income from savings bank account interest, fixed deposits, and winning in lotteries is taxable under this head of income.
Income from House Property	Income earned from renting a house property is taxable under this head of income.
Income from Capital Gains	Surplus Income from the sale of a capital asset such as mutual funds, shares, house property, etc, is taxable under this head of Income.
Income from Business and Profession	Profits earned by self-employed individuals, businesses, freelancers or contractors and income earned by professionals like life insurance agents, chartered accountants, doctors and lawyers who have their own practice, and tuition teachers are taxable under this head.
Income from Salary	Income earned from salary and pension is taxable under this head of income.

Taxpayers and Tax Slabs

Each of these taxpayers is taxed differently under the Indian income tax laws. While firms and Indian companies have a fixed rate of tax calculated on taxable income, the individual, HUF, AOP and BOI taxpayers are taxed based on the income slab they fall under. People's income grouped into blocks are called tax brackets or tax slabs. And each tax slab has a different tax rate. The rate at which the tax is charged increases as the taxable income increases.

What is the Existing/Old Income Tax Regime?

The old tax regime provides three slab rates for income tax levy, which are 5%, 20%, and 30% for different income brackets. Individuals can continue with the old taxation regime, and they can claim the following deductions:

- Deductions of allowances like Leave Travel Concession (LTC), House Rent Allowance (HRA), and specific other allowances.
- Deductions for tax-saving investments as per Section 80C (LIC, PPF, NPS, etc) to 80U can be claimed.
- Standard deduction of Rs 50,000.
- Deduction for interest paid on home loan.

Tax slab rates applicable for Individual taxpayers below 60 years for the Old tax regime are as below:

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

There are two other tax slabs for two other age groups: those 60 and older and those above 80.

A word of note: People often misunderstand that if they earn, let's say, Rs12 lakh, they will be paying a 30% tax on Rs.12 lakh, i.e. Rs 3,60,000. This is incorrect. A person earning Rs 12 lakh in the progressive tax system will pay Rs 1,12,500 + Rs 60,000 = Rs 1,72,500.

Income Tax Slabs Under New Tax Regime

In the 2020 budget, a new tax regime was introduced with lower tax rates and limited deductions/exemptions for Individuals and HUFs. Hence, many taxpayers did not opt for the new tax regime. However, to encourage taxpayers to adopt the new tax regime in Budget 2023, the income tax slabs under the new tax regime for FY 2023-24 (AY 2024-25) are revised as follows:

New tax regime FY 2023-24		New tax regime FY 2022-23	
(After budget)		(Before budget)	
Income up to Rs 3 lakh	Nil	Up to Rs 2.5 lakh	Nil
Rs 3 lakh to Rs 6 lakh	5%	Rs 2.5 lakh to Rs 5 lakh	5%
Rs 6 lakh to Rs 9 lakh	10%	Rs 5 lakh to Rs 7.5 lakh	10%
Rs 9 lakh to Rs 12 lakh	15%	Rs 7.5 lakh to Rs 10 lakh	15%
Rs 12 lakh to Rs 15 lakh	20%	Rs 10 lakh to Rs 12.5 lakh	20%
Income above Rs 15 lakh	30%	Rs 12.5 lakh to Rs 15 lakh	25%
		Income above Rs 15 lakh	30%

Most of the deductions and exemptions are not allowed if the taxpayers opt for the New Tax regime. However, the exemptions and deductions available under the new regime are:

- Transport allowances in case of a specially-abled person.
- Conveyance allowance received to meet the conveyance expenditure incurred as part of the employment.
- Any compensation received to meet the cost of travel on tour or transfer.
- Daily allowance received to meet the ordinary regular charges or expenditures you incur on account of absence from his regular place of duty.

Exceptions To The Income Tax Slab

One must remember that not all income can be taxed on a slab basis. Capital gains income is an exception to this rule. Capital gains are taxed depending on your asset and how long you’ve owned it. The holding period would determine if assets are long-term or short-term. The holding period to determine the nature of assets differs for different assets. A glance at the holding period, the nature of the assets and the tax rate for each are given below.

Indian Government Tax System

Financial Year

The financial year is a one-year period that the taxpayers use for accounting and financial reporting purposes. It is the year in which the income is earned. According to the Income Tax Act, such a period begins from 1st April of the calendar year to 31st March of the next calendar year. It is abbreviated as "FY". For example, the financial year starting from 1st April 2023 and ending on 31st March 2024 can be written as FY 2023-24.

In simple words, a financial year is a year in which the income of a person is earned.

Assessment Year

The one year from 1st April to 31st March starting immediately after the financial year is termed an assessment year. This period is the assessment year because all the taxpayers have to evaluate their income earned in the financial year and pay taxes this year. For example, for incomes earned during the FY 2023-24, the assessment year will be AY 2024-25.

In simple words, the income earned in the financial year will be assessed to tax in the assessment year.

Assessee

The assessee is a person or a group who assesses his/her income and pays tax as per the Income Tax Act. The assessee can be an individual, a partnership firm, a company, an Association of Persons (AOP), a Trust, etc.

What is PAN?

PAN is an abbreviation for the Permanent Account Number. It is a unique 10-digit alphanumeric digit issued by the Income Tax Department to Indian taxpayers. All the tax-related transactions and information of a person are recorded against their unique permanent account number. When the person has to pay advance tax or self-assessment tax, they must mention the PAN number.

Also, an individual submits his PAN to certain entities like banks, mutual fund companies, etc. The financial information from such entities goes to the income tax department via PAN. This allows the taxman to link all tax-related activities with the department. Hence, just by putting in a permanent account number, the taxman can identify all your financial transactions.

What is TAN?

TAN is an abbreviation for Tax Deduction and Collection Account Number. It is a unique 10-digit alphanumeric digit allotted by the Income Tax Department of India. All persons responsible for deduction (TDS) or collection of tax (TCS) are required to obtain TAN. It is compulsory to quote the TAN in TDS/TCS return, any TDS/TCS payment challan, and TDS/TCS certificates.

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.

Income Tax Payment

Tax Deducted at Source (TDS)

For specified payments, tax is deducted at source when paying the recipient of income. The income recipient can claim credit of the TDS amount by adjusting it with the final tax liability.

Advance Tax

The taxpayer must pay tax in advance when his estimated income tax liability for the year exceeds Rs 10,000. The government has specified due dates for payment of advance tax installments.

Self-Assessment Tax

It is the balance tax that the taxpayer has to pay on the assessed income. The self-assessment tax is calculated after reducing the advance tax and TDS from the total income tax calculated on the assessed income.

E-Payment of Taxes

Taxpayers can pay advance tax and self-assessment tax online from the e-filing website.

Indian Government Tax System

How to pay income tax online:

Step 1: Navigating to 'e-Pay Tax' Section

- Visit the Income Tax Portal
- On the homepage, locate the 'Quick Links' section on the left side.
- Click on the 'e-Pay Tax' option or use the search bar to find 'e-Pay Tax'

Step 2: Enter PAN/TAN and Mobile Number

- Enter your PAN and re-enter to confirm it.
- Provide your mobile number and click 'Continue'.
- Enter the **6-digit OTP** received on your mobile number and click 'Continue'.

Step 3: Select the correct Assessment Year and Payment Type

- Select the first box labelled as ‘Income Tax’ and click ‘Proceed’
- From the ‘Assessment Year’ dropdown, select ‘2024-25’
- Under the ‘Type of Payment’, select ‘Self-Assessment Tax (300)’ and click on 'Continue'.

Step 4: Enter Tax Payment Details

- Enter the payment amounts accurately under the relevant categories.

Step 5: Select the Payment Method

- Select the payment method and bank to make the tax payment and press 'Continue'.
- Payment can be made using internet banking, debit card, credit card, RTGS/NEFT, UPI or you can choose to pay at the bank counter.

Step 6: Verify Payment Information

- After clicking 'Continue', you can preview the challan details.
- Double-check the payment information for accuracy.
- Click 'Pay Now' to make the payment or 'Edit' to modify the details

Step 7: Submit the Payment

- Tick the checkbox to agree to the Terms and Conditions.
- Click 'Submit To Bank' to proceed with the payment

Step 8: Receive Payment Confirmation

- You will receive a confirmation once your tax payment has been successfully submitted.
  Note: Remember to download the challan as you will need the BSR code and Challan number to complete the return filing process.

Step 9: Declaring Tax Paid Details

- After making the tax payment,Go to the 'Tax Summary' page and click 'Add Paid Tax Details'.

Indian Government Tax Information 2024

Filing Your ITR

E-filing of income tax return has been made mandatory for all classes of taxpayers, barring a few exceptions:

Taxpayers aged 80 and above need not e-file the return.

Taxpayers having an income less than Rs 5 lakhs and not claiming a refund need not e-file the return.

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

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 5,000 (if the total income is above Rs 5 lakh) and Rs 1,000 (if the total income is below Rs 5 lakh) under Section 234F.

Levy of interest under 234A if there are taxes due as on 31 July.

E-filing is a better alternative to filing on the income tax website. Also, it is for more than just e-filing your income tax return.

ITR e-Filing – Documents Required

To begin, gather the following documents to pace up the process:

- PAN
- Aadhaar
- Bank account details
- Form 16
- Other Income information
- Investments details

Form 16, Form 26AS, AIS, TIS, Form 16A, proof of tax saving investments made, bank account details, etc, are some of the crucial information/documents you need to be ready with before filing your return.

Income Tax Return

The taxpayer shall file an income tax return every year via ITR forms prescribed by the income tax department. The government has prescribed seven ITR forms through which the taxpayer can file his income tax return. The taxpayer has to choose the appropriate ITR forms and file his income tax return.

Income Tax Forms List

The seven ITR forms are:

- ITR-1: Individuals (residents) having income from salary, one house property, other sources, agricultural income less than Rs 5,000 and with a total income of up to Rs 50 lakh.
- ITR-2: Individuals/HUFs not having any business or profession under any proprietorship, more than one house property.
- ITR-3: Individuals/HUFs having income from a proprietary business or profession, income of a person as a partner in a firm.
- ITR-4: Individuals/HUFs having presumptive income from business or profession, one house property.
- ITR-5: Partnership firms or LLPs.
- ITR-6: Companies.
- ITR-7: Trusts.

How can I calculate my income tax?

Individuals should calculate income tax depending on the nature of their income. The salaried individual can take the eligible exemptions available for various allowances received. Individuals/HUF can take a deduction under Sections 80C to 80U, deduct it from the gross total income, and calculate the income tax liability. Also, the total income tax liability should be adjusted by the taxes paid, such as advance tax, TDS, etc.

Also, the taxpayer should apply the effect of rebate under Section 87A and relief under Section 89, Section 90, and Section 91 to arrive at the net amount of income tax payable.

Any income that you receive should form part of your income tax return. Of course, the law provides exemptions for certain incomes, e.g. LTCG on listed equity shares up to Rs 1 lakh in any financial year, agricultural income, 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 the law.
- Claim all applicable deductions available under every source of income. E.g., claim a standard deduction of Rs 50,000 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, e.g., amount reinvested in another house property can be claimed as exemption from capital gains income, etc.
- Claim applicable deductions from your total income, e.g. the Section 80 deductions like 80C, 80D, 80TTA, 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.

What Is Computation Of Income?

The process of calculating taxable income after taking into account the income from all the five heads (salary, house property, capital gains, business or profession, and other sources), exemptions, deductions, rebates, set off of losses, etc., is called computation of income. After the computation of income, the taxpayer can compute the income tax liability as per the Income Tax Act.

Rebate u/s 87A

Rebates under Section 87A allow taxpayers to reduce their income tax liability. If you are a resident individual and the amount of your total income after reducing Chapter VI-A deductions (Section 80C, 80D, 80U, etc) does not exceed Rs 5 lakh in a financial year, you can claim a tax rebate up to Rs 12,500. This means if your total tax payable is less than Rs 12,500, then you will not have to pay any tax.

In Budget 2023, a tax rebate on income of Rs 7 lakhs has been introduced under the new tax regime, and no changes have been made in the 2024 interim budget. Therefore, you do not have to pay tax if your taxable income is up to Rs 7 lakhs under the new tax regime.

E-File Returns

The taxpayer shall electronically file the income tax return through the e-filing platform of the IT department. To file the income tax return, the taxpayer should register at www.incometax.gov.in. After that, the taxpayer can log in to the website and file his ITR. Also, there is no need to manually send the acknowledgement of the return to the income tax department. The income tax department now allows e-verification of the ITR in different ways, which completes the income tax return process.

What is ITR–V?

Form ITR-V is an income tax return verification form generated after the taxpayer files income tax return and submits it to the income tax department. The ITR-V should be e-verified or must be sent to CPC Bangalore at “Income Tax Department – CPC, Post Box No – 1, Electronic City Post Office, Bangalore – 560100, Karnataka” for verification. The ITR processing takes place only if its verification is completed.

Indian Government Tax System

Income Tax Saving Instruments

A taxpayer can save tax by tax planning. A taxpayer can do tax planning by investing in tax-saving instruments. It helps in reducing the income tax liability. Section 80C to 80U of the Income Tax Act allows a deduction for certain expenditures and investments from the total computed income if taxes paid under the old tax regime. Some of the popular Section 80C investments are:

Popular Section 80C Investments					
Particulars	ELSS	PPF	NSC	5-Year Tax Saving FD	SCSS
Section 80C Benefit	Yes	Yes	Yes	Yes	Yes
Type of Investment	Equity	Fixed Income	Fixed Income	Fixed Income	Fixed Income
Lock-in Period	3 Years	15 Years	5 Years	5 Years	5 Years
Maximum Investment	No Max Limit	Rs 1.5 lakh	No Max Limit	Rs 1.5 lakh	Rs 15 lakh

*ELSS and NSC have no upper investment limit. However, you get tax benefits under Section 80C only up to Rs 1.5 lakh per financial year.

Health Insurance and Medical Expense Deduction

Apart from the Section 80C deduction, a taxpayer can also take a tax benefit under Section 80D for health insurance premium and medical expenditure incurred for self, family and parents.

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 preventive health checkup)	**Rs. 50,000**	**Rs. 1,00,000**

Education Loan Deduction

Under Section 80E, the taxpayer can claim a deduction for the interest paid on a loan taken for higher education. There is no limit to claiming such a deduction in the income tax return.

Indian Government Tax System

Home Loan Deduction

Under Section 24, the taxpayer can claim a deduction for interest paid on a housing loan during the relevant financial year. The deduction amount will depend upon whether the house is self-occupied or let out. The taxpayer can also claim a deduction of the principal amount of the loan under Section 80C up to Rs 1.5 lakh.

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, the maximum loss from house property is capped at Rs 2 lakhs
Deduction for first-time homeowners under Section 80EE *certain conditions apply	Rs 50,000	–

Deduction for Interest Income

The taxpayer can also claim a deduction for interest on deposits from banks under Section 80TTA of the Income Tax Act. Individuals can claim up to Rs 10,000 deduction under the said section.

Important Income Tax Dates 2024

- 15th March 2024 - Due date for the fourth installment of advance tax for the FY 2023-24.
- 15th June 2024 – Due date for the first installment of advance tax for the FY 2024-25.
- 31st July 2024 – Income tax return filing for FY 2023-24 for individuals and entities not liable for tax audit and who have not entered into any international or specified domestic transaction.
- 15th September 2024 – Due date for the second installment of advance tax for the FY 2024-25.
- 30th September 2024 – Submission of audit report (Section 44AB) for AY 2024-25 for taxpayers liable for audit under the Income Tax Act.
- 31st October 2024 – ITR filing for taxpayers requiring audit (not having international or specified domestic transactions).
- 31st October 2024 – Submission of the audit report for AY 2024-25 for taxpayers having transfer pricing and specified domestic transactions.
- 15th December 2024 – Due date for the third installment of advance tax for the FY 2024-25.
- 31st December 2024 – Last date for filing a belated return or revised return for FY 2023-24.

Indian Government Tax System

Income Tax Law

Income Tax Act

The Income Tax Act includes all the provisions that govern the country’s taxation. Every year, the Finance Minister presents a budget in February. The Union Budget brings in various amendments to the Income Tax Act. The most recent Union Budget presented by the current Finance Minister included the introduction of a new tax regime.

Apart from the IT Act, the other components of the income tax law are income tax rules, circulars, notifications, and case laws. All of these help in the implementation of income tax law and the collection of taxes.

About Income Tax Department India

The Income Tax Department is a government agency. The Act empowers the Income Tax Department to collect direct tax on behalf of the Government of India. The Ministry of Finance manages the revenue functions of the Government of India. The finance ministry has given the task of administration of direct taxes, like Income Tax, etc., to the Central Board of Direct Taxes (CBDT). The CBDT is one of the parts of the Department of Revenue in the Ministry of Finance. The CBDT administers direct tax laws through the IT Department.

Thus, the Income Tax Department is a government agency that administers the Income-tax law under the control and supervision of the CBDT. The Income Tax Department has been given the power to collect direct tax on behalf of the Government of India.