



Payroll and Income Tax Guide

Financial Year 2022-2023



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Further, this information must also be read along with your company specific HR/Compensation policy for clear understanding.

What does Salary Income mean?

Salary normally includes wages, annuity, pension, gratuity, commission, perquisites, etc. and any other payment received by an employee from the employer during the year. These are paid and tax is deducted at source by your current employer. An annual statement of earning and deductions (Form 16) is given to each employee at the end of each financial year (April –March).

What do Allowances mean?

Allowances are fixed sums of money paid regularly in addition to salary for the purpose of meeting some requirement. There are 3 types of allowances:

- Taxable allowances
- Partially exempted allowances
- Fully exempted allowances

Most allowances are either fully taxable while some are partially taxable like House Rent Allowance, City Compensatory allowance. A table with details of taxability is enclosed as under:

Fully Taxable Allowances	Partially Exempted Allowances
• Dearness Allowance	• Entertainment Allowance
• Medical Allowance	• House Rent Allowance
• Servant Allowance	• Children Education Allowance
• Hill Allowance	• Children Hostel Allowance
• Deputation Allowance	• Transport Allowance
• Over Time Allowance	
• Other Allowances	

What is a Permanent Account Number (PAN)?

Permanent Account Number is a unique identification number by which the Assessing Officer of the Income Tax Department can identify any assessee. PAN consists of ten alphanumeric characters, and every employee of the company must possess PAN.

It is mandatory to submit the PAN to the employer, failure to which the income tax will be deducted at the rate of 20% of the taxable income or the average tax whichever is higher, as per Sec 206AA of the Income Tax.

What are the current Income Tax slabs?**Income Tax slab for resident Individual who is less than 60 years of age**

Taxable Income Slab	Income Tax Rate & Cess
Up to Rs. 2.5 Lakh	Nil
Rs. 2,50,001 to Rs. 5,00,000	5% of (Total Income minus Rs. 2,50,000)
Rs. 5,00,001 to Rs. 10,00,000	Rs. 12,500 + 20% of (Total Income minus Rs. 5,00,000)
Rs. 10,00,001 and above	Rs. 1,12,500 + 30% of (Total Income minus Rs. 10,00,000)

Income Tax slab for resident Individual who is equal to or greater than 60 and less than 80 years of age (Senior Citizen)

Taxable Income Slab	Income Tax Rate & Cess
Up to Rs. 3 Lakh	Nil
Rs. 3,00,001 to Rs. 5,00,000	5% of (Total Income minus Rs. 3,00,000)
Rs. 5,00,001 to Rs. 10,00,000	Rs. 10,000 + 20% of (Total Income minus Rs. 5,00,000)
Rs. 10,00,001 and above	Rs. 1,10,000 + 30% of (Total Income minus Rs. 10,00,000)

Income Tax slab for resident Individual who is equal to or greater than 80 years of age (Super Senior Citizen)

Taxable Income Slab	Income Tax Rate & Cess
Up to Rs. 5 Lakh	Nil
Rs. 5,00,001 to Rs. 10,00,000	20% of (Total Income minus Rs. 5,00,000)
Rs. 10,00,001 and above	Rs. 1,00,000 + 30% of (Total Income minus Rs. 10,00,000)

Surcharge:

Taxable Income Range	Surcharge %	Marginal Rates
50 Lakhs to 1 Crore	10%	34.32
1 Crore to 2 Crores	15%	35.88
2 Crores to 5 Crores	25%	39
5 Crores and above	37%	42.74

- Note: The amount of Income Tax and Surcharge shall not increase the amount of income tax payable on the respective taxable income by more than the amount of increase in taxable income.
- Sec 87A relief up to Rs. 12,500 will be available to a resident individual whose total taxable income does not exceed Rs. 5,00,000.

Health & Education Cess: 4% of the total of Income Tax and Surcharge.

Tax Calculation of PAN Not Available cases:

If the employee's PAN is not available and his total taxable income is less than the taxable limit (INR 250,000) within the tax year, then there is no tax withholding required.

For example: The taxable income for the year is INR 2,00,000. As it is less than the taxable limit of INR 2,50,000, there is no withholding tax due for the employee on the employment income of INR 2,00,000.

If the employee's total taxable income is INR 3,00,000 which is exceeding INR 2,50,000, then the withholding u/s 206AA will be applicable - i.e. the higher of the graduated tax rates (old or new regime) or a flat rate of 20%, which would be at flat rate of 20% @ INR 300,000 = INR 60,000.

Where the employee's taxable income exceeds the taxable limit (e.g. INR 250,001) in old or new regime, the withholding tax for the employee without PAN will be calculated in accordance to Section 206AA of Income Tax Act 1961, regardless of the employee's taxable income, i.e. the taxes will be withheld at the higher of the following rates:

- at the rate specified in the relevant provision of this Act; or
- at the rate or rates in force; or
- at the rate of twenty per cent

Applicability of Surcharge and Cess - If the withholding tax is calculated at a flat rate of 20%, then Surcharge and Cess is not applicable. Otherwise, the Surcharge and Cess will be included in the withholding tax calculation.

Section 87A Rebate is not applicable, as this would only apply if the employee is assessed based on the graduated rates and the total income is less than INR 500,000. However, for such cases, the flat rate of 20% would result in a higher withholding tax.

What is Form 16?

Form 16 is a certificate issued by the employer every year to its employees under section 203 of Income Tax Act for Tax Deducted at Source from the Income chargeable under “Salaries”.

How do I Account for my Salary from More Than One Employer?

The employee is required to furnish details of the income, under "Salaries" due or received from the former/other employer, to the present/current employer, and also tax deducted at source, in writing and duly verified by him and by the former/other employer in **Form 12B** (copy of this Form is available on (<https://ess.excelityglobal.com/>)). The present/current employer will deduct tax at source based on the aggregate amount of salary (including salary received from the former or other employer), though it does not reflect on the Form 16 of the current employer.

How do I calculate my House Rent Allowance (HRA) and exemption thereon?

From the House Rent Allowance (HRA) received as part of salary during the year, least of the following three amounts are exempt from tax (or not included in income):

- Amount equal to 50% of annual salary for persons staying in metros (Mumbai, Chennai, Calcutta, or Delhi) and 40%, for other cities
- Actual amount of HRA received
- Amount of rent actually paid in excess of 10% of annual salary

For HRA exemption purpose, Salary is defined as basic salary, dearness allowance, and commission on fixed percentage, but not other allowances.

Example:

1. Salary for the entire year Rs. 300,000/- (Basic + Dearness Allowance)
2. Actual HRA received Rs. 72,000/-
3. Rent paid for the entire year Rs. 60,000/- (5000 pm * 12 months)

HRA exemption for this case is:

- a) Actual HRA received = Rs. 72,000
- b) Rent paid less 10% of Salary = Rs. 30,000 (60,000 minus 30,000 (10% of 300,000))
- c) 40% of Salary (300,000) = Rs. 120,000

Least of the above, Rs. 30,000, is exempt from tax

How is the exemption on Leave Travel allowance calculated?
(Refer your HR policy also along with this note. Enclosed is a best practice interpretation)

Allowance to meet the cost of travel incurred by employee:

- Leave Travel Expenses exempt for 2 domestic journeys in a block of 4 calendar years (Current block is 2022 - 2025)
- One un-availed journey for previous block can be availed in the 1st year of the next block
- Assessee should be part of the travel throughout
- Boarding and lodging are not exempt
- Leave should be availed during the period of travel
- Only fare cost is exempt, which is restricted to:

Particulars	Exempt Amount
Journey performed by air	Economy fare by the shortest route or actual amount spent, whichever is the least.
Journey performed by rail	Air-conditioned first-class rail fare by the shortest route or actual amount spent, whichever is least.
Journey performed by any other mode but the origin and destination are covered by Rail	Air-conditioned first-class rail fare by the shortest route or actual amount spent, whichever is least.
Where the origin and destination are not connected by rail, and <ul style="list-style-type: none">• Where an organized public transport exists• Where no organized public transport exists	<ul style="list-style-type: none">• First class or deluxe class fare by shortest route or amount actually spent, whichever is least.• Air-conditioned first-class rail fare by shortest route or actual amount spent, whichever is least.

Example:

1. LTA received for the entire year = Rs. 40,000
2. Air tickets for the travel undertaken = Rs. 35,000

Rs. 35,000 is exempt from tax

**Leave Travel Concession Cash Voucher Scheme:**

To provide tax exemption to cash allowance in lieu of leave travel concession due to pandemic, for Financial Year beginning on April 1, 2020, the value in lieu of any travel concession or assistance received by an individual was also to be exempt by fulfilment of conditions as prescribed.

The conditions listed out by the CBDT for availing the tax exemption under the LTC cash voucher scheme required the employee to spend a sum equal to three times of the value of the deemed LTC fare on purchase of goods / services which carry a GST rate of 12 per cent or more from GST registered vendors / service providers through digital mode between October 12, 2020 to March 31, 2021 and to obtain a voucher indicating the GST number and the amount of GST paid.

However, this amendment is applicable to Financial Year 2020-2021 only.

Children Education Allowance

Rs.100 per month per child up to a maximum of two children, if provided as part of your compensation structure

What is Perquisite and how is it taxed?

Perquisites are emoluments or benefits received from an employer, in addition to salary, bonus, allowances, gratuity, etc. They include rent-free accommodation, free electricity, gas, or water supply, free domestic servant, etc. provided / paid for, by the employer. These perquisites are added to the Salary Income for arriving at the tax liability as per the applicable slabs. Examples of perquisites are:

1. Rent Free (commonly called Company Lease) Accommodation

The valuation of perquisite in respect of accommodation is as under:

1. The employer owns the accommodation. The value of the accommodation is determined at the specified rate (Refer the table below) for the period in which the accommodation was occupied by the employee during the financial year.

Population	Perquisite Rate
> 10 Lakhs	7.5% of Salary
10 – 25 Lakhs	10% of Salary
25 Lakhs >	15% of Salary

2. When accommodation provided is **taken on lease/ rent by the employer**, 15% of the salary or the actual amount of lease rent payable by the employer, whichever is less, will be considered. This amount will be reduced to the extent of the rent paid by the employee, if applicable.

For **furnished accommodation**, the value of perquisite is calculated as follows:

1. The perquisite amount calculated above along with:
 - a) 10% of the cost of furniture, appliances, and equipment's, or
 - b) If the furniture, appliances, and equipment's have been taken on hire by the employer, the actual hire charges payable/paid.

Example:

1. Salary for the entire year is Rs. 500,000
2. CLA (Lease Rent) is Rs. 20,000 pm (taken on lease)
3. Cost of Furniture is Rs. 40,000

Rent for the entire year (Rs.20,000* 12 Months) = Rs. 2,40,000

15 % of Salary (Rs. 500,000 * 15%) = Rs. 75,000

Least of the above is Rs. 75,000

Add 10% of Furniture (Rs.40,000 * 10%) = Rs. 4,000/-

Total perquisite on Rent Free Accommodation with furniture is Rs. 79,000

2. Motor Car**If Car is owned by the Company:**

Car Used for	Partially for official and partially for personal purposes.	
Expense paid by	Running and maintenance expense is reimbursed by the employer.	
Car CC	<1.6 cc	> 1.6 cc
Perk Amount	1800/-p.m	2400/-p.m

If Car is owned by the Employee:

Car Used for	Partially for official and partially for personal purposes.	
Expense paid by	Running and maintenance expense is reimbursed by the employer.	
Car CC	<1.6 cc	> 1.6 cc
Perk Amount	Actual Amount reimbursed less Rs.1800/-p.m	Actual Amount reimbursed less Rs. 2400/-p.m

Driver Salary

Car Owned by	Employer	Employee
Perk Amount	Rs.900/-pm	Actual driver salary reimbursed reduced by Rs,900/-p.m.

Other Vehicles

The actual amount of expenditure reimbursed by the employer less Rs. 900 p.m will be considered as perks.

3. Food Coupon:

Valuation of perquisite for free food and non-alcoholic beverages provided by the employer to an employee shall be the amount of expenditure incurred by such employer and shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.

An exception is provided by way of a proviso to exclude the value of free food and non-alcoholic beverages provided by such employer during working hours at office or business premises or through paid vouchers which are not transferable and usable only at eating joints, to the extent the value thereof in either case does not exceed Rs. 50 per meal or to tea or snacks provided during working hours or to free food and non-alcoholic beverages during working hours provided in a remote area or an offshore installation.

This exception will not be available if in case the new tax regime is opted. Thus, free food and non-alcoholic beverages provided by the employer even during working hours at office or business premises shall be fully taxable in the hands of those employees who have opted for the New Regime.

However, the exemption for meal card is available only up to Rs. 50/-per meal or tea or snacks, and the balance will be taxed as salary income for Old Regime opted employees

4. Gas, Electricity and Water

Value of perquisite is the amount paid by the employer to the agency supplying the amenity (free supply of gas, electricity and water) for household consumption. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

5. Interest free or concessional loans

Value of perquisite is the excess of interest payable at prescribed interest rate over interest actually paid by the employee, or any member of his household. The prescribed interest rate is the rate charged by the State Bank of India as on the 1st day of the relevant financial year.

The aggregate of loan amounts (from Personal, Vehicle & Housing) should be more than Rs.20000/- for this perquisite to apply.

6. Use of Movable assets

If the employee uses an asset owned by the employer, perquisite is charged at the rate of 10% of the original cost of the asset, as reduced by any charges recovered from the employee for such use. These include household furniture, white goods, though computers and laptops are not covered under this perquisite.

What amount gets deducted under section 16?**(a) Standard Deduction**

Rs. 50,000 in lieu of Transport Allowance and Reimbursement of Misc. Medical Expenditure

(b) Tax on Employment / Professional Tax

Professional tax or tax on employment levied by the state is allowed as a deduction

How do I account for my loss on House Property?**For Self Occupied property**

House that is constructed or acquired after April 1999 by using borrowed capital, interest on such borrowed capital up to an amount of Rs. 200,000.00 can be claimed as deduction. In case, the house was acquired / constructed prior to April 1999, the amount of deduction is Rs. 30,000.

No deemed rental income on having two residential house properties: If an individual owns more than one self-occupied house property then only one house property as per his choice is treated as self-occupied and its annual value is computed as nil. The other house property is deemed to be let-out as per section 23 and a notional rent is computed and charged to tax under the head 'Income from House Property'. Section 23 has been amended with effect from 01/04/2019 to provide relief to the taxpayers by allowing them an option to claim nil annual value in respect of any two houses declared as self-occupied. Though from F.Y. 2019-20, an assessee can claim annual value as nil in respect of two-self occupied house properties. However, there is no change in aggregate limit for deduction in respect of interest on housing loan. The aggregate deduction for interest on housing loan for both houses cannot exceed Rs. 30000 or Rs. 2,00,000 (as the case may be).

For Let Out property

Rent received for let out property reduced by Interest on borrowed capital and 30% of the net annual value for repair and maintenance is taken as loss / profit.

For both the above, assessee must produce a certificate from the lender specifying the interest payable towards the capital borrowed for construction or acquisition of a house. Only interest paid post completion of house is entitled / eligible for deduction and Pre-EMI interest is amortized over a period of 5 years.

Example:

1. Interest payable on housing loan (Loan taken after 01.04.1999): 280,000
2. Pre-EMI paid is Rs. 30,000
3. Rent received (in case of Let Out Property) Rs. 36000/- pa

For Self-Occupied property

Interest on housing loan (loan post 01/04/1999) is Rs. 280,000

Pre EMI at 20% on Rs. 30,000/- (Amortized over 5 years) is Rs. 6,000/-

Total loss is Rs. 286,000 however maximum allowed is restricted to Rs. 200,000/-

For Let out Property

Interest on borrowed capital is Rs. 280,000/-

Pre EMI at 20% (Amortized over 5 years) is Rs. 6,000/-

30% of annual value (36,000) is 10,800 (for repairs and maintenance)

Total of 286,000 is reduced by Rs. 25,200 (rent received maintenance) = 260,800

Total loss eligible for deduction is restricted to maximum of Rs.200, 000

Provisions under the Income -tax Law in relation to carry forward and set-off of house property loss:

If loss under the head “Income from house property” cannot be fully adjusted in the year in which such loss is incurred, then unadjusted loss can be carried forward to next year. In the subsequent years(s) such loss can be adjusted only against income chargeable to tax under the head “Income from house property”. Such loss can be carried forward for eight years immediately succeeding the year in which the loss is incurred.

Examples for housing Loan interest benefit:					
Scenarios	Self-Occupied 1	Self-Occupied 2	Let-out property	Total Benefit	Interest to be C/F (applicable to let out only)
1	-250000	-150000	-450000	-200000	-450000
2	-150000	0	-450000	-200000	-400000
3	-150000	0	450000	-150000	0
4	0	0	-450000	-200000	-250000

What are the various Deductions allowed under Chapter VI A?

Under 80C, an employee is entitled to deductions for the amounts paid or deposited in the current financial year in the following schemes, subject to a limit of Rs.150,000/.

- Life Insurance Premium
- Contributions to Pension Fund (80CCC)
- Contributions to recognized Provident Fund / V P F / PPF
- Contributions to approved Superannuation Fund
- Contribution to U L I P, 1971 of Unit Trust of India
- Contribution to U L I P of LIC Mutual Funds
- Annuity with any Insurance Company
- Subscription to Tax Saving Mutual Funds
- Subscription to NSC & Interest accrued on NSC subscription
- Repayment of Housing Loan principal
- Children Tuition Fees (education)
- Tax Saving Term Deposits - Scheduled Bank (5 years and more)
- Deposit under the Senior Citizen Saving Rules.
- Five Year time deposit in an account under the Post Office Time Deposit Rules
- Investment in Sukanya Samriddhi Scheme

Example:

1. Investments in LIC Rs.80000/-, PPF Rs.70000/-
Deduction available will be Rs. 150000/-
2. Investments in LIC Rs.30000/-, PPF Rs.100000/- and Infrastructure Bonds Rs.70000/-
Deduction available will be Rs. 150000/-
3. Investments in Infrastructure Bonds Rs.120000/-
Deduction available will be Rs. 120000/-
4. Investments in LIC Rs.30000/-, PPF Rs.30000/-, and Infrastructure Bonds Rs.30000/-
Deduction available will be Rs. 90000/-

Section 80D: Deduction for premium paid for Medical Insurance

Deduction under this section is available to an individual or a HUF. A deduction of Rs. 25,000 can be claimed for insurance of self, spouse and dependent children. An additional deduction for insurance of parents is available to the extent of Rs 25,000 if they are less than 60 years of age or Rs 50,000 (has been increased in Budget 2018 from Rs 30,000) if parents are more than 60 years old.

Therefore, the maximum deduction available under this section is to the extent of Rs. 100,000

From FY 2015-16 a cumulative additional deduction of Rs. 5,000 is allowed for preventive health check up to individuals.

Medical expenditure incurred by assessee on the health of a senior citizen aged 60 years and above provided that no amount has been paid to effect or to keep in force an insurance on the health.

The Income Tax Act does not define medical expenditure. Though medical expenditure is not defined anywhere in the Act, but going by the motive, expenses such as consultation fees, medicines, hearing aids and so on can be claimed as deduction.

Along with not defining the term medical expenditure, the Income Tax Act also does not specify what documents you should keep claiming this deduction. Even then, it would be prudent to keep documentary evidence such as medical bills, invoice of medicines and others, in case the income tax department asks you to prove the claim of your deduction.

To establish the proof of medical expenses, one must keep the doctor's prescription along with the copy of invoices/receipts of the consultation fees, diagnostic tests, medicine bills etc. would be required.

Remember medical expenditure on certain specified illnesses are also covered under Section 80DDB. If you have exhausted the limit under this section, you can claim deduction for the medical expenses under section 80D, provided you satisfy other conditions. These conditions are: (i) expenses should be incurred for a person aged 60 years and above and (ii) he/she should not be covered under any health insurance policy.

Particulars	Case-1		Case-2		Case-3	
	Self & Family (no one of them is a senior citizen)	Parents (no one of them is a senior citizen)	Self & Family (no one of them is a senior citizen)	Parents (at least one of them is a senior citizen)	Self & Family (at least one of them is a senior citizen)	Parents (at least one of them is a senior citizen)
Medical Insurance, etc.*	25,000	25,000	25,000	50,000	50,000	50,000
Medical Expenditure**	--	--	--	50,000	50,000	50,000
Maximum deduction allowable	25,000	25,000	25,000	50,000	50,000	50,000
Aggregate amount of deduction allowable under section 80D	50,000		75,000		100,000	

* Includes (i) contribution to the Central Government Health Scheme/notified scheme for self & family; and (ii) amount paid for preventive health check-up up to INR 5,000.

** Allowable only if no amount is paid for medical insurance.

Note: The payment for preventive health check-up can only be made in cash, other payments must be made by non-cash mode.

80DD - Medical Treatment for Handicapped Dependent

Deduction on medical treatment and maintenance of handicapped dependant up to Rs.75,000 for disability below 80% and Rs. 1,25,000 for disability above 80%

80DDB –Medical Treatment for Specified Illness/Diseases

Deduction on medical treatment of specified illness/diseases is up to Rs.40000/- for assessee or his dependent. In case of assessee or his dependent being senior citizen or super senior citizen, deduction is up to Rs.100000/- or actual expenditure whichever is lower. Further the deduction amount will be reduced from the amount recovered from the insurer or from the employer.

80E –Interest on Education Loan

The said deduction in respect of interest on loan taken for higher Education of Individual's relative also will be allowed i.e., 100% of amount of interest paid on such loan. "Relative" is defined in the mean the spouse and children of the individual.

Deduction is allowed in respect of Interest on Loans taken for pursuing higher education in specified fields of study to be extended to cover all fields of study, including vocational studies, pursued after completion of school. Interest paid for the first 8 years on loans taken for Higher Education such as Engineering / Medical etc. The deduction is available for a maximum of 8 years (beginning the year in which the interest starts getting repaid) or till the entire interest is repaid, whichever is earlier.

80EE - Interest on loan for acquiring residential house property, sanctioned during FY 2016-17

Additional exemption of Rs. 50,000 for housing loans up to Rs. 35 lakhs provided cost of house is not above Rs. 50 lakhs (new loans taken in the FY 2016-17).

80EEA - Additional Housing Loan Interest Benefit Apr19-Mar22

A deduction for interest payments up to Rs 1,50,000 is available under Section 80EEA. This deduction is over and above the deduction of Rs 2 lakh for interest payments available under Section 24 of the Income Tax Act.

Therefore, taxpayers can claim a total deduction of Rs 3.5L for interest on home loan if they meet the conditions of section 80EEA.

The conditions are as follows:

- a) The loan must be taken between April 1, 2019 and March 31, 2022;
- b) The value of house property must not exceed Rs 45 lakh; and
- c) Individual should not own any house on the date of sanctioning of loan.
- d) The individual taxpayer should not be eligible to claim deduction under the existing Section 80EE.

80U - Permanent Physical Disability Including Blindness

An assessee certified by the medical authority with permanent physical disability is allowed a deduction of Rs. 75,000, and in case the assessee is certified with (severe) permanent physical disability (More than 80%), the deduction of Rs. 1,25,000 will qualify for deduction.

80G - Donations

Section 80G provides for deductions on account of donation made to various funds, charitable organizations etc. Generally, no deduction will be allowed by the D.D.O. from the salary income in respect of any donations made for charitable purposes. The tax relief on such donations as admissible under section 80G of the Act, will have to be claimed by the taxpayer in the return of income.

However, in cases where employees make donations to the Prime Minister's National Relief Fund, the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund through their respective employers, it is not possible for such funds to issue separate certificate to every such employee in respect of donations made to such funds as contributions made to these funds are in the form of a consolidated cheque. An employee who makes donations towards these nationalized funds is eligible to claim deduction under section 80G. It is, hereby, clarified that the claim in respect of such donations as indicated above will be admissible under section 80G based on the certificate issued by the Drawing and Disbursing Officer (DDO)/Employer in this behalf - Circular No. 2/2005, dated 12-1-2005.

80TTA - Interest on Savings Bank account

Maximum deduction allowed on Interest from savings account under Sec 80TTA is Rs.10,000/-. Interest from savings account declared will also be accounted as "Other Income". Sec 80TTB will allow a deduction up to Rs 50,000/- in respect of interest income from deposits held by senior citizens. However, no deduction under section 80TTA shall be allowed in these cases.

80CCD (1): Deduction to NPS Scheme for Contribution by the Individual

Maximum deduction is allowed under this section is within the overall Sec 80CCE limit of Rs.1,50,000/-. Section 80CCE comprises of sub-sections 80C, 80CCC, 80CCD (1).

80CCD (1B) – Additional Voluntary contribution by individual on NPS

This additional benefit of Rs. 50,000 is over and above the benefit of Rs. 1.5 lakhs allowed to be claimed as a deduction under Section 80CCE. Therefore, now the total deduction that can be claimed under Section 80CCE + Section 80CCD (1B) = Rs. 2 Lakhs.

Atal Pension Yojana (APY), a pension scheme launched by Government of India is focused on the unorganized sector workers. Under the APY, minimum guaranteed pension of Rs. 1,000/- or 2,000/- or 3,000/- or 4,000 or 5,000/- per month will start after attaining the age of 60 years depending on the contributions by the subscribers for their chosen pension amount.

Any Citizen of India can join APY scheme. The following are the eligibility criteria:

- (i) The age of the subscriber should be between 18 and 40 years.
- (ii) He/she should have a savings bank account/ post office savings bank account.

A person who is in age group of 18 years to 39 years 364 days can join Atal Pension Yojana.

The contribution amount shall depend on the age of the subscriber at the time of opening of APY account, frequency of contribution and the pension slab chosen.

The contributions to be made at monthly / quarterly / half yearly intervals through auto debit facility from savings bank account/ post office savings bank account of the subscriber. The receipt/challan copy issued by the Bank or Post office or the transaction statement of APY account from the Bank or Post office to be submitted towards APY contribution as a proof.

Contributions made by an individual under the Atal Pension Yojana are eligible for the deductions under section 80CCD of the Income Tax Act, 1961. Maximum deduction allowed under section 80CCD (1) of the Income Tax Act, 1961 is Rs.1,50,000 p.a. as specified under section 80CCE of the Income Tax Act. An additional contribution of Rs. 50,000 p.a. is eligible for an additional deduction of Rs. 50,000 p.a. under section 80CCD(1B) of the Income Tax Act, 1961.

80CCD (2) - National Pension Scheme (NPS Employer Contribution)

The provisions under Section 80 CCD (2) come into effect when an employer is contributing to the NPS of an employee. This section applies to only salaried individuals and not to self-employed individuals. The deductions under this Section can be availed over and above those of Section 80 CCD (1) and 80CCD (1B). Section 80CCD (2) allows salaried individuals to claim deductions up to 10% of their salary which includes the basic pay and dearness allowance or is equal to the contributions made by the employer towards the NPS, whichever is less.

80EEB - Electric Vehicle Loan Interest Benefit Apr19-Mar23

The deduction under this section is available only to individuals. This deduction is not available to any other taxpayer.

A deduction for interest payments up to Rs 1,50,000 is available under Section 80EEB. An individual taxpayer may have an electric vehicle for personal use or for business use. This deduction would facilitate individuals having an electric vehicle for personal use to claim the interest paid on the vehicle loan.

Conditions for claiming the deduction:

- a) The loan must be taken from a financial institution or a non-banking financial company for buying an electric vehicle.
- b) The loan must be sanctioned anytime during the period starting from 1 April 2019 till 31 March 2023.
- c) “Electric vehicle” has been defined to mean a vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle and has such electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy.
- d) Do note that an individual taxpayer should obtain the interest paid certificate and keep the necessary documents such as tax invoice and loan documents handy at the time of filing of the return.

80GGC – Donation to Political Party

To claim deduction under section 80GGC, the individual is required to make donations / contributions only to a political party or an electoral trust.

It should be noted here that, the political party referred above covers only a political party which is registered under Section 29A of the Representation of the People Act, 1951. Any donation / contribution to any other political party would not qualify as a deduction under section 80GGC.

The deduction cannot be claimed by local authorities and every artificial juridical person which is either wholly or partly funded by the Government.

The whole of the amount of contribution / donation is available as a deduction under section 80GGC. In other words, a 100% deduction is available to an amount contributed towards a political party or an electoral trust under section 80GGC. However, total amount of deduction allowed to an assessee cannot exceed the total taxable income of an assessee.

For claiming deduction under section 80GGC, an assessee can adopt any mode of payment which is linked through a banking channel like online net banking or demand draft or cheque or debit card etc.

Any contribution / donations through cash is not eligible for deduction under section 80GGC.

Further, any donations made in kind also doesn't qualify for deduction under section 80GGC.

A new section 115BAC is inserted in the Income Tax Act by Finance Act 2020 which provides that on satisfaction of certain conditions, an individual or HUF shall, from F.Y. 2020-21, A.Y. 2021-22 onwards, have the option to pay tax in respect of the total income at following rates:

NEW REGIME SLAB	
Irrespective of the age	
Income Tax Slab (in Lakhs)	Tax Rate
0 - 2.5	0%
2.5 - 5	5%
5 - 7.5	10%
7.5 - 10	15%
10 - 12.5	20%
12.5 - 15	25%
15 & above	30%

This section is optional for individual and HUF. In other words, an individual or HUF may either opt for existing income tax slab rate applicable to them or go for new income tax slab rates as mentioned above.

In the new regime, a taxpayer will have to forgo all the commonly available tax breaks such as those available under section 80C, 80D, LTA exemption, HRA exemption, Professional Tax, Standard Deduction, Housing Loan Interest etc. except for section 80CCD (2), i.e., Employer's Contribution to NPS.

Sec 87A Relief up to INR 12,500 will be available to a resident individual whose total Taxable Income does not exceed INR 5,00,000.

Health and Education Cess Rates: 4%

Surcharge Rates:

Taxable Income Range	Surcharge %	Marginal Rates
50 Lakhs to 1 Crore	10%	34.32
1 Crore to 2 Crores	15%	35.88
2 Crores to 5 Crores	25%	39
5 Crores and above	37%	42.74

CBDT had issued a Circular No. C1/2020 dated 13.04.2020 to clarify the deduction of TDS by the employer from the payment of salary income to its employees during the FY 2020-21 subsequent to the introduction of Section 115BAC by the Finance Act, 2020.

Section 115BAC of the Income-tax Act, 1961 (the Act), inserted by the Finance Act, 2020 w.e.f. the assessment year 2021-22, *inter alia*, provides that a person, being an individual or a Hindu undivided family having income other than income from business or profession", may exercise option in respect of a financial year to be taxed under the said section 115BAC along with his return of income to be furnished under sub-section (1) of section 139 of the Act for each year. The concessional rate provided under section 115BAC of the Act is subject to the condition that the total income shall be computed without specified exemption or deduction, set-off of loss and additional depreciation.

Representations expressing concern regarding tax to be deducted at source (TDS) were received stating that as the option is required to be exercised at the time of filing of return, the deductor, being an employer, would not know if the person, being an employee, would opt for taxation under section 115BAC of the Act or not. Hence, there was lack of clarity regarding whether the provisions of section 115BAC of the Act are to be considered at the time of deducting tax.

To avoid the genuine hardship in such cases, the Board, in exercise of powers conferred under section 119 of the Act, hereby clarified that an employee, having income other than the income under the head "profit and gains of business or profession" and intending to opt for the concessional rate under section 115BAC of the Act, may intimate the deductor, being his employer, of such intention for each financial year and upon such intimation, the deductor shall compute his total income, and make TDS thereon in accordance with the provisions of section 115BAC of the Act. If such intimation is not made by the employee, then the employer shall make TDS without considering the provision of section 115BAC of the Act.

It was also clarified that, the intimation so made to the deductor shall be only for the purposes of TDS during the financial year and cannot be modified during that year. However, the intimation would not amount to exercising option in terms of sub-section (5) of section 115BAC of the Act and the person shall be required to do so along with the return to be furnished under sub-section (1) of section 139 of the Act for that financial year. Thus, option at the time of filing of return of income under sub-section (1) of section 139 of the Act could be different from the intimation made by such employee to the employer for that financial year.

Further, in case of a person who has income under the head "profit and gains of business or profession" also, the option for taxation under section 115BAC of the Act once exercised for a financial year at the time of filing of return of income under sub-section (1) of section 139 of the Act cannot be changed for subsequent financial years except in certain circumstances.

Accordingly, the above clarification would apply to such person with a modification that the intimation to the employer in his case for subsequent financial years must not deviate from the option under section 115BAC of the Act, once exercised in a financial year.

Applicability of Tax Benefits – Old Regime v/s New Regime:

Tax Benefits	Old Regime	New Regime
Sec 10 Exemptions		
Leave Travel Allowance under Sec 10(5)	Allowed	Not Allowed
Gratuity under Sec 10(10)	Allowed	Allowed
Leave Encashment at the time of separation under Sec 10(10AA)	Allowed	Allowed
Retrenchment Compensation under Sec 10(10B)	Allowed	Allowed
Voluntary Retirement Scheme under Sec 10 (10C)	Allowed	Allowed
House Rent Allowance under Sec 10(13A)	Allowed	Not Allowed
Conveyance under Section 10(14) for disabled (divyang) employees	Allowed	Allowed
Exemptions of certain Allowances under section 10(14) like Children Education Allowance, Hostel Allowance, Uniform Allowance etc.,	Allowed	Not Allowed
Sec 16 Deductions		
Standard Deduction, Tax on Employment under Sec 16	Allowed	Not Allowed
Chapter VIA Deductions		
Chap VI Deductions - 80C, 80CCC, 80CCD (1), 80CCD(1B), 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80U, 80TTA, 80TTB, 80G etc.,	Allowed	Not Allowed
Employer Contribution towards NPS u/s 80CCD (2)	Allowed	Allowed
Sec 24(b) Benefits		
Interest on borrowed Housing Loan for a Self-occupied Property	Allowed	Not Allowed
Set off any loss from House Property to any other head	Allowed	Not Allowed
Interest paid towards Housing loan - For Income from Let-out property **(Intra-head set-off of losses allowed in case of income from Let-out property, but loss cannot be set-off with the other head of Income in new regime)	Allowed	**Allowed

Notification No. 38/2020-Income Tax dated 26th June 2020- CBDT amended Rule 2BB notifying that a salaried employee who opts for new Concessional Tax Regime can claim following Exempt Allowances as under Section 10(14) of Income Tax Act, 1961:

1. Tour/Transfer Allowance
2. Daily Allowance when on Travel
3. Conveyance Allowance for Duties
4. Transport Allowance for Handicapped

Notification denies benefit of exemption to those who opted for new tax Regime in respect of free food and nonalcoholic beverage which was earlier available even if value does not exceed fifty rupees per meal or to tea or snacks provided during working hour.

Amendment in Rules related to allowances for the purposes of clause (14) of section 10 for those who opted Lower Tax Rate Option- Section 115BAC:

An employee, being an assessee, who has exercised Lower Income Tax Rate option under sub-section (5) of section 115BAC shall be entitled to exemption only in respect of the allowances mentioned in sub-clauses (a) to (c) of sub-rule (1) and at serial no. 11 of the Table below sub-rule (2) to the extent and subject to the conditions, if any, specified therein

Clause sub-clauses (a) to (c) of sub-rule (1) of Rule 2BB are as follows:

- (a) any allowance granted to meet the cost of travel on tour or on transfer.
- (b) any allowance, whether, granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty.
- (c) any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit, provided that free conveyance is not provided by the employer.
- (d) any transport allowance granted to an employee, who is blind [or deaf and dumb] or orthopedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty - Rs. 3,200 per month.

Extract of Revised clause (iii) of sub-rule (7) of Income Tax rule 3 related to Valuation of perquisites:

No exemption for free food and non-alcoholic beverage provided by such employer through paid voucher.

Rule 3 deals with valuation of perquisites. Rule 3(7)(iii) provides for valuation of perquisites for free food and non-alcoholic beverages provided by the employer to an employee. The value of such perquisite shall be the amount of expenditure incurred by such employer and shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.

An exception is provided by way of a proviso to exclude the value of free food and non-alcoholic beverages provided by such employer during working hours at office or business premises or through paid vouchers which are not transferable and usable only at eating joints, to the extent the value thereof in either case does not exceed Rs. 50 per meal or to tea or snacks provided during working hours or to free food and non-alcoholic beverages during working hours provided in a remote area or an offshore installation.

This exception is withdrawn in case the new tax regime is opted. Thus, free food and non-alcoholic beverages provided by the employer even during working hours at office or business premises shall be fully taxable in the hands of those employees who have opted for the new tax regime.

Capping on Employer's contribution (applicable for both Old & New Regime):

Employer funded retirement schemes such as Employee Provident Fund, National Pension Scheme, and Approved Superannuation Fund are currently nontaxable to the employee up to 12% for PF, 10% for NPS, INR 150,000/- per annum for SAF respectively.

The combined cap of INR 750000 per annum has been introduced in Budget 2020-21 in respect of the Employer's Contribution to these schemes and amount in excess of INR 750000 will be taxed as perquisite in the hands of the employees.

Any annual accretion by way of interest, dividend or any other amount of similar nature during the financial year to the balance at the credit of the fund or scheme may be treated as perquisite to the extent it relates to the employer's contribution which is included in total income.

While the excess employer contribution above Rs. 7.5 lakhs p.a. is taxable u/s 17(2) (vii), the annual accretion attributable to such excess contribution is taxable u/s 17(2) (viia). These provisions are applicable from FY 2020-21 onwards.

The CBDT had notified a new Rule 3B (Rule) on 5th March 2021 with effect from 1st April 2020. The Rule prescribed a formulary approach for computing the value of annual accretion on excess contributions. The Rule prescribes the following formula:

$$TP = (PC/2) * R + (PC1+TP1) * R$$

Where,

TP = taxable perquisite under Sec 17(2) (viia) for the current tax year

TP1 = Aggregate of taxable perquisite under Sec 17(2) (viia) for the tax year or years commencing on or after 1 April 2020 other than the current tax year

PC = Amount or aggregate of amounts of principal contribution made by the employer in excess of INR 750,000 to the specified funds during the current tax year

PC1 = Amount or aggregate of amounts of principal contribution made by the employer in excess of INR 750,000 to the specified funds for the tax year or years commencing on or after 1 April 2020 other than the current tax year (see 'Note' below)

$$R = I / F_{avg}$$

I = Amount or aggregate of amounts of income accrued during the current tax year in the specified funds

F_{avg} = (Amount or aggregate of amounts of balance to the credit of the specified funds on the first day of the current tax year + Amount or aggregate of amounts of balance to the credit of the specified funds on the last day of the current tax year)/2.

Note : Where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount or aggregate of amounts of balance to the credit of the specified funds on the first day of the current previous year, then such excess shall be ignored for the purpose of computing the amount or aggregate of amounts of TP1 and PC1.

Taxability of Interest on Employee's PF & VPF Contribution (applicable for both Old & New Regime):

Any interest income accrued during the Financial Year shall be taxable to the extent it relates to the amount or aggregate of amounts of contribution exceeding INR 2,50,000 made in a Financial Year on or after 1st April 2021 and computed in such manner as may be prescribed. The provision is applicable for employee's contribution only. The employer's contribution is not covered in this provision.

The interest income earned on excess contribution will be taxable only in those cases where the employees' annual PF and VPF contribution exceeds Rs. 2.5 lakhs.

The interest income accruing in respect of the employee's contribution over Rs. 2.5 lakhs shall be taxable under the head 'Income from Other Sources' as it is not accruing from an employer-employee relationship.

Illustration showing interest calculation and TDS thereon:

Mr. XYZ has an annual salary (Basic + DA) of INR 25 Lakhs.

His contribution to PF is 12% in the FY 2021-22.

Assuming the rate of interest on EPF is 8.5% per annum, his tax liability will be calculated in the following manner:

His Contribution in the Fund = 25 Lakhs * 12% = INR 3 Lakhs

Excess contribution (INR 3 Lakhs - 2.50 Lakhs) = INR 50,000

Interest on excess contribution = INR 50,000 * 8.5% = INR 4250

This amount of Rs. 4250 will be added to the employee's taxable income as 'Income from Other Sources' and taxed according to his tax slab. There are no special rates for the taxability of this interest. Hence, such income shall be taxed at the prevailing income tax rates.

Note:

The government had raised the threshold limit of tax-exempt contributions to the Provident Fund (PF) to Rs 5 lakh (from Rs 2.5 lakh announced in Budget 2021), subject to certain conditions. This increased tax-exempt limit is applicable to only those PF contributions where there is no employer contribution.

The calculation logic be better understood considering the following example:

Amount (in INR) Contributed by employee during Financial Year	Whether employer contributing to fund?	Whether interest earned shall be taxable?	How much interest on employee's contribution shall be taxable?
1,50,000	Yes	No	Not taxable till amount INR 2,50,000
2,50,000	Yes	No	Not taxable till amount INR 2,50,000
2,50,000	No	No	Not taxable till amount INR 5,00,000
4,00,000	Yes	Yes	Interest on contribution of INR 1,50,000 (4,00,000 -2,50,000)
4,00,000	No	No	Not taxable till amount INR 5,00,000
5,50,000	No	Yes	Interest on contribution of INR 50,000 (5,50,000 -5,00,000)
5,50,000	Yes	Yes	Interest on contribution of INR 3,00,000 (5,50,000 -2,50,000)

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