

INCOME TAX GUIDE

Complete Guide to Income Tax in India
Based on ClearTax Income Tax Information

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1. Income Tax Law in India

Key Points:

- The Constitution of India states that tax can be imposed only under the provisions of any law
- All rules regarding levy and collection of income tax are governed by the **Income Tax Act of 1961**
- Income tax is covered under union list, directly under central government control
- Only Parliament has the power to make laws for Income Tax collection
- Changes are introduced through Finance Bills during Budget sessions
- Amendments are brought into force through the Finance Act

Components of Income Tax Law

- Income Tax Act
- Income Tax Rules
- Circulars
- Notifications
- Case Laws

2. Income Tax Department

- Government agency empowered to collect direct tax on behalf of Government of India
- Ministry of Finance manages revenue functions
- Central Board of Direct Taxes (CBDT) administers direct taxes
- CBDT is part of Department of Revenue in Ministry of Finance

3. Types of Taxpayers

According to the Income Tax Act, everyone in India who earns taxable income must file income tax returns. The person whose income is considered for tax is called an **assessee**.

Categories of Taxpayers:

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

4. Residential Status

The scope of income subject to tax is determined based on residential status:

Income Type	Resident and Ordinarily Resident (ROR)	Resident but not Ordinarily Resident (RBNOR)	Non-Resident (NR)
Income received in India	Taxable	Taxable	Taxable
Accrued income in India	Taxable	Taxable	Taxable
Income accrues from outside India, but profession/business is in India	Taxable	Taxable	Non-taxable
Income accrues from outside India	Taxable	Non-taxable	Non-taxable
Untaxed past foreign income brought to India	Non-taxable	Non-taxable	Non-taxable

5. Five Heads of Income

All taxable income is classified under five major heads:

Head of Income	Nature of Income Covered
Salary	Salary, wages, pension, gratuity, fees, commission, perquisites, profit in lieu of salary
House Property	Rental income from house property, deemed rent from self-occupied property
Business and Profession	Profits and gains from business or profession
Capital Gains	Profit from sale of capital assets like property, shares, mutual funds
Other Sources	Interest income, dividend, winnings from lottery, betting, gambling

6. Deductions under Income Tax Act

Deductions help reduce taxable income through investments, expenses, or specific income types.

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 30 lakh

Note: Combined tax benefits under Section 80C are limited to Rs 1.5 lakh per financial year.

Health Insurance Deduction (Section 80D)

Deduction Claimed for	Self & Family (Rs)	Parents (Rs)	Preventive Health Check-up (Rs)	Total (Rs)
Self + Family	25,000	-	5,000	25,000
Self + Family + Parents	25,000	25,000	5,000	50,000
Self + Family + Parents (when parents are senior citizens)	25,000	50,000	5,000	75,000
Self + Family + Parents (when both assessee and parents are senior citizens)	50,000	50,000	5,000	1,00,000

Other Important Deductions

- Education Loan (Section 80E):** No limit on interest paid for higher education
- Home Loan Interest (Section 24):** Up to Rs 2 lakh for self-occupied property
- Savings Interest (Section 80TTA):** Up to Rs 10,000 for individuals
- Senior Citizen Interest (Section 80TTB):** Up to Rs 50,000

7. Computation of Income

Step-by-Step Process:

- List all income from five heads
- Exclude exempt income
- Claim applicable deductions under each head
- Claim Section 80 deductions from total income
- Arrive at taxable income
- Apply appropriate tax slab
- Calculate rebate under Section 87A
- Add 4% cess on tax after rebate
- Deduct advance tax/TDS to get balance tax payable

8. Tax Calculation and Slabs

Old Income Tax Regime (Individuals below 60 years)

Income Range	Tax Rate	Tax to be Paid
Up to Rs 2.5 lakhs	0%	No tax
Rs 2.5 lakhs - Rs 5 lakhs	5%	5% of 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

New Tax Regime (FY 2025-26 onwards)

Income Tax Slabs	Income Tax Rates
Up to Rs 4 lakh	NIL
Rs 4 lakh - Rs 8 lakh	5%
Rs 8 lakh - Rs 12 lakh	10%
Rs 12 lakh - Rs 16 lakh	15%
Rs 16 lakh - Rs 20 lakh	20%
Rs 20 lakh - Rs 24 lakh	25%
Above Rs 24 lakh	30%

Special Tax Rates

- Capital Gains:** Long-Term 12.5%, Short-Term 20% (equity shares/mutual funds)
- Casual Income:** 30% flat rate (lottery, betting, gambling)
- Virtual Digital Assets:** 30% flat rate

Rebate under Section 87A

New Tax Regime (FY 2025-26): Rebate up to Rs 60,000 for income up to Rs 12 lakhs means tax-free income up to Rs 12 lakhs.

9. Income Tax Payment Methods

Tax Deducted at Source (TDS)

Tax deducted by the payer at the time of payment and deposited to government. Credit can be claimed while filing ITR.

Advance Tax

Must be paid when estimated tax liability exceeds Rs 10,000. Government specifies due dates for installments.

Self-Assessment Tax

Balance tax after reducing advance tax and TDS from total calculated tax.

Refund

Arises when tax already paid exceeds total tax liability. Excess amount is credited to taxpayer's bank account.

10. Important Terms

Financial Year (FY)

One-year period from 1st April to 31st March for accounting purposes. Example: FY 2024-25.

Assessment Year (AY)

Year immediately following financial year when tax is calculated. Example: AY 2025-26 for FY 2024-25.

PAN (Permanent Account Number)

Unique 10-digit alphanumeric identifier for taxpayers. Required for all tax transactions.

TAN (Tax Deduction and Collection Account Number)

10-digit alphanumeric number for entities responsible for TDS/TCS.

11. Filing Income Tax Returns

ITR Forms

Form	Applicable For
ITR-1	Individuals with salary, one house property, other sources (income up to Rs 50 lakh)
ITR-2	Individuals/HUFs without business, more than one house property
ITR-3	Individuals/HUFs with proprietary business or profession
ITR-4	Individuals/HUFs with presumptive income, one house property
ITR-5	Partnership firms or LLPs
ITR-6	Companies
ITR-7	Trusts

Documents Required

- Form 16 (salary income)
- Form 26AS (tax credit statement)
- Annual Information Statement (AIS)
- Form 16A (TDS certificates)
- Tax saving investment proofs
- Bank account details

Persons Not Required to File ITR

- Taxpayers aged 75+ with only pension and interest income (with bank TDS declaration)
- Income below basic exemption limit:
 - Old Regime: Rs 2.5 lakh (under 60), Rs 3 lakh (60-80), Rs 5 lakh (80+)
 - New Regime: Rs 3 lakh for all

Consequences of Not Filing ITR

- Loss of carry forward of losses
- Delayed refund processing
- Difficulty in getting loans
- Late filing fee: Rs 5,000 (income > Rs 5 lakh), Rs 1,000 (income < Rs 5 lakh)
- Interest under Section 234A

12. Important Income Tax Dates 2025

Date	Event
15th September 2025	ITR filing for FY 2024-25 (individuals not liable for audit)
30th September 2025	Audit report submission (Section 44AB)
31st October 2025	ITR filing for taxpayers requiring audit
31st October 2025	Audit report for transfer pricing transactions
30th November 2025	ITR filing for international/specified domestic transactions
31st December 2025	Last date for belated/revised return filing

Disclaimer: This guide is based on information from ClearTax and is for educational purposes only. Please consult a tax professional for specific advice.

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