

# HOW TO CALCULATE YOUR INCOME TAX?



As soon as people hear the terms '**Income Tax**', they start feeling complex & tensed, because that is how taxes are stereotyped.

But, in today's post, I will help you understand the **basics of income tax** with examples!

### **Attitude towards Taxes!**



**Before reading this post VS After reading this post**

# Types of Income

Firstly, it is important to **calculate your income**, on which taxes will be paid.

Under the Income Tax Act, there are broadly 5 types of Incomes!

- 
- **Income from Business**
  - **Income from Salary**
  - **Income from House Property**
  - **Income from Capital Gains**
  - **Income from Other Sources**





# Old Regime vs New Regime

Second Important thing to understand is that, there are **2 income tax slabs**, to choose from while filing your taxes.

Old Regime	Annual Taxable Income	New Regime
<b>NII</b>	Up to ₹2.5 lakh	<b>NII</b>
<b>5%</b>	₹2.5 lakh to ₹5 lakh	<b>5%</b>
<b>20%</b>	₹5 lakh to ₹7.5 lakh	<b>10%</b>
	₹7.5 lakh to ₹10 lakh	<b>15%</b>
<b>30%</b>	₹10 lakh to ₹12.5 lakh	<b>20%</b>
	₹12.5 lakh to ₹15 lakh	<b>25%</b>
	Above ₹15 lakh	<b>30%</b>

## Old Regime

Various deductions can be availed, before calculating tax




vs

## New Regime






directly calculate tax, based on the tax slab

# Case Study

Harsh, a **28-year-old** man, has the following Incomes.

Salary from Lotak Bank		= ₹10,00,000
Rent from Penthouse		= ₹4,50,000
Comission Income		= ₹1,00,000

Harsh, at the same time, has also smartly made the following **tax saving actions**.

Public Provident Fund (80C)		= ₹80,000
ELSS Funds (80C)		= ₹70,000
Nation Pension Scheme(80CCD)		= ₹40,000
Donation in PM-CARES (80G)		= ₹50,000
Medical Insurance of Self (80D)		= ₹25,000



# Taxable Income

So now, this is what Harsh's taxable income would look like :

Description	Old Regime	New Regime
Gross Total Income (sum of all)	₹15,50,000	₹15,50,000
Less : 80C Deduction	₹(1,50,000)	NA
Less : 80 CCD Deduction	₹(40,000)	NA
Less : 80G Deduction	₹(50,000)	NA
Less : 80D Deduction	₹(25,000)	NA
Less : Standard Deduction	₹(50,000)	NA
<b>Taxable Income</b>	<b>₹12,35,000</b>	<b>₹15,50,000</b>

If Harsh abides by the **old regime** and avails the deductions, his **taxable income** turns out to be **₹12,35,000**.

While, if he abides by the **new regime**, and doesn't avail any deduction, then his taxable income is **₹15,50,000**.



# Tax Slabs

So, now when you look back at the old tax slab vs new tax slab table, you would find that:

Old Regime	Annual Taxable Income	New Regime
NII	Up to ₹2.5 lakh	NII
5%	₹2.5 lakh to ₹5 lakh	5%
20%	₹5 lakh to ₹7.5 lakh	10%
	₹7.5 lakh to ₹10 lakh	15%
30%	₹10 lakh to ₹12.5 lakh	20%
	₹12.5 lakh to ₹15 lakh	25%
	Above ₹15 lakh	30%

Harsh would be taxed at 30%,  
as per the old regime, since,  
taxable income = ₹12,35,000

Harsh would be taxed at 30%,  
as per the new regime,  
Since his taxable income = ₹15,50,00



# Common Error

Now, you know Harsh's taxable income, you his tax slab, now **let's calculate his actual tax liability!**

Under the **old tax regime**, the tax would be :

$$30\% \times ₹12,35,000 = ₹3,70,500$$

Under the **new tax regime**, the tax would be :

$$30\% \times ₹15,50,000 = ₹4,65,000$$

**So Simple, isn't it?**

**Because it is wrong!**





# Right Way to Calculate Tax

To explain to you how taxes are actually calculated, let's take the old tax regime for instance :

- For the first ₹2,50,000 you pay 0% i.e., **₹0 tax**
- For the next ₹2,50,000 you pay 5% i.e., **₹12,500**
- For the next ₹5,00,000 you pay 20% i.e., **₹1,00,000**
- For the remainder ₹2,35,000 you pay 30% i.e., **₹70,500**

Total Tax Paid under Old Regime = **₹1,83,000**

Similarly, **calculate the tax liability** for Harsh as per the **new tax regime**, and let me know your **answers in the comments!**



At the end, Harsh needs to pay additional 4% of his tax liability as health & education cess, which is applicable to all!