Basics of Income Tax for Beginners

Paying your income tax for the first time is a milestone in any citizen’s life. However, the process can seem too daunting and tedious for a first-timer, and some of the terms tend to go right over your head. This needn’t be so. To help you understand the tax implications of your income (based on your income source), here is a compilation of the basics of income tax for beginners.

Budget 2025 Updates

The new Income Tax Bill has been tabled by the Honorable Finance Minister in the Lok Sabha. It aims to simplification and better presentation of the provisions.

The Income Tax Bill introduces the concept of Tax Year.

As per the budget 2025, the income up to Rs. 12,00,000 will have zero tax liability for the FY 2025-26 (AY 2026-27) under the new tax regime. Here's how:

The revised tax slabs under the new regime for FY 2025-26 (AY 2026-27) are as follows:

Annual Income Tax Slabs	income Tax Rates
Upto Rs. 4,00,000	NIL
Rs. 4,00,001 - Rs. 8,00,000	5%
Rs. 8,00,001 - Rs. 12,00,000	10%
Rs. 12,00,001 - Rs. 16,00,000	15%
Rs. 16,00,001 - Rs. 20,00,000	20%
Rs. 20,00,001 - Rs. 24,00,000	25%
Above Rs. 24,00,000	30%

With the revised tax structure, individuals earning up to Rs. 12,00,000 will have no tax liability due to the increased rebate of Rs. 60,000. For salaried individuals, the tax liability will be zero for incomes up to Rs. 12,75,000, due to the Rs. 75,000 standard deduction.

Note:

- The marginal relief on rebate is still applicable.
- The rebate is not available for income that is taxed at special rates (e.g., capital gains under section 112A).

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Are you just out of college and looking for a job? Or have you already landed the job and are going to file your income tax returns for the first time? If the nitty-gritty of income tax and investments confuse you, ClearTax is here to help. Our aim at ClearTax is to simplify Income Taxes for you and make your financial lives easier. Basically, anybody with an income is liable to file income tax returns. Today we bring to you the basics of Income Tax you'll need to equip yourself with and this should help you take a confident first step into your job.

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1. Defining the 'Previous year'

The previous year or the financial year or your tax year is the 12-month period that begins on the 1st of April and ends on the 31st of March of the next year. No matter when you start your job, your tax year closes on 31st March and a new tax year starts on 1st April. So, it is important to plan your taxes for each financial year.

2. Assessment Year

It is a term you'll often hear in relation to tax filing. It is the financial year after the previous year in which you will 'assess' and file your return for the previous year. So, the assessment year is 2019-20 for the previous year 2018-19. Assessment year is the year in which you will file your return for the previous year. For instance, if you start your job on 1 January 2024, your tax year closes on 31 March 2024, 2023-24 is your previous year and your AY is 2024-25.

3. Understanding your Salary

When you start your job – reach out to your payroll or HR department and get your **Salary details/ Pay Slip / Tax Statement.** Here, you will get an idea of the major components of your salary and how much tax will be deducted from your salary based on them.

Example: Most companies give House Rent Allowance or HRA, and you can save tax on that if you are living on rent.

Income on which you Pay Tax

Besides the salary income you receive, you may be earning an income from several other sources. Your Total Income is the sum total of all heads of income below.

Sources of Income

Sources of Income	Particulars
Income from Salary	Salary, Allowances, Leave encashment, Gratuity, Pension, basically all the money you receive while rendering your job as a result of your employment agreement
Income from House Property	Income from house or building, this may be owned and self-occupied or may be rented
Income from Business or Profession	Income/loss that arises as a result of carrying on a business or profession
Income from Capital Gain	Income from gain or loss when you sell a capital asset
Income from Other Sources	This is the residual head – includes your income from savings bank accounts, fixed deposits, family pension or gifts received

4. Income Tax Slabs

Individuals must pay the rate of tax as per the income tax income slab they fall under. People whose income is below Rs.2,50,000 in a financial year do not have to pay taxes. The tax rates vary under the new and the old tax regime, starting from 5% to 30%. Below are the income tax slabs and the applicable tax rates:

Income Tax Slab Rate as per Old Tax Regime

Income Tax Slab	Individuals Below the age of 60	Senior Citizens of age Above 60 below 80	Super Senior Citizens of Age Above 80

<table>
<tr><td>Up to 2,50,000</td><td rowspan="3">Nill</td><td rowspan="3">Nill</td><td rowspan="3">Nill</td></tr>
<tr><td>Senior Citizens up to 3,00,000</td></tr>
<tr><td>Super Senior Citizens up to 5,00,000</td></tr>
<tr><td>2,50,000 to 5,00,000</td><td rowspan="2">5%</td><td rowspan="2">5%</td><td rowspan="2">Nill</td></tr>
<tr><td>Senior Citizens 3,00,000 to 5,00,000</td></tr>
<tr><td>5,00,000 to 10,00,000</td><td>20%</td><td>20%</td><td>20%</td></tr>
<tr><td>10,00,000 And Above</td><td>30%</td><td>30%</td><td>30%</td></tr>
</table>

Income Tax Slab Rate as per New Tax Regime

Income Tax Slab	Income Tax Rate
Up to 3,00,000	Nill
3,00,000 to 6,00,000	5%
6,00,000 to 9,00,000	10%
9,00,000 to 12,00,000	15%
12,00,000 to 15,00,000	20%
15,00,000 and Above	30%

Note: Age relaxation is available only in the Old Tax Regime, it's not available in the New Tax Regime.

5. Deductions

Deductions reduce your Gross Income. These are the amounts Income Tax Department allows you to reduce your Income, bringing down your tax liability.

Sum of All heads of Income = Gross Income

Gross Income – Deductions = Taxable Income

The more you make use of the deductions allowed, the lower your tax shall be. Deductions are allowed under Section 80 of the Income Tax Act (Section 80C to 80U).

However, in 2020, the government introduced two tax regimes in India: The old tax regime and the new tax regime. The percentage of income tax that you pay on your total income differs under the old and the new tax regime. Click here to learn more about the old and the new tax regimes.

Under the old tax regime, all deductions are allowed under Sections 80C to 80U, subject to conditions. However, under the new tax regime, only the deduction on let-out property under Section 24B and the deduction on the employer's contribution to NPS are allowed.

Deductions Under Section 80C

Section 80C can take off ₹. 1,50,000 from your Gross Income. Given below are some of the widely-used investment vehicles under this section.

PPF

One of the most popular deductions under 80C is deposits to Public Provident Fund or PPF. When you open a PPF account, you need to deposit a minimum of INR 500 and a maximum of INR 1,50,000 in a year. Money deposited in a PPF account compounds, as you deposit more money in the subsequent financial years to claim deductions. PPF is a traditional and safe saving avenue to park your hard earned money. A PPF account can be easily opened with a bank.

Tax-Saving FD

Fixed deposits assure capital protection as well as a sizable interest income for investors. To get tax benefits under 80C, you need to stay invested for at least 5 years. It is safe, but the Interest Income from it is taxable.

Tax-Saving Mutual Funds or ELSS

One of the only mutual fund scheme allowed under 80C, ELSS (Equity Linked Savings Scheme) is gaining popularity among people for its historically higher performance in the recent years. Another perk of ELSS is that it has the lowest lock-in period of 3 years.

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6. TDS or Tax Deducted at Source

TDS is Tax Deducted at Source – it means that the tax is deducted by the person making payment. The payer has to deduct an amount of tax based on the rules prescribed by the income tax department. For instance, An employer will estimate the total annual income of an employee and deduct tax on his Income if his Taxable Income exceeds INR 2,50,000 under the old tax regime or INR 3,00,000 under the new tax regime. Tax is deducted based on which tax slab you belong to each year. Similarly, if you earn interest from a Fixed Deposit, the bank also deducts TDS. Since the bank does not know your tax slabs, they usually deduct TDS @ 10%, unless you haven't mentioned your PAN (in that case a 20% TDS may be deducted).

Example on Salary TDS

Aditya is a 25-year-old software engineer living in Mumbai. This is his first job and he's clueless about tax or savings. But it's almost the end of January and Aditya heard his friends talking about Section 80C and how they pay zero tax thanks to Section 80C. Aditya earns Rs 6,60,000 annually. Here are his salary details.

Salary Components	Monthly	Annually
Basic Salary	30,000	3,60,000
House Rent Allowance	15,000	1,80,000
Special Allowance	10,000	1,20,000
Total		6,60,000

Aditya looked up his pay slip and found out that his employer has been deducting a TDS on his salary of Rs 2,988 each month. This shall work out to Rs 35,860 for the whole year. While Aditya has been busy enjoying his new life he has no clue how much tax he needs to pay and whether he can save any tax! Let's help him!

Aditya should first find out his total income from all sources. Besides salary income, Aditya has earned

- savings bank account interest of Rs 2,500. He found this amount in his bank statement.
- His father had forced him to put aside Rs 50,000 in fixed deposit and from his online FD statement, he found out he will earn an interest of Rs 3,500 on this FD until 31st March 2024.
- Aditya is unsure whether any TDS has been deducted from his interest income, so he looks up his Form 26AS. Form 26AS has the details of all the taxes deducted and deposited against Aditya's PAN. He found a TDS of Rs 2,988 deducted by his employer each month until January.
- Aditya lives in rented accommodation in Mumbai along with four other roommates, and his share of rent is Rs 10,000. If Aditya can organize rent receipts from the landlord and get his PAN number, he can claim an exemption on HRA. If Aditya can submit the rent receipts well in time to his employer, his employer will be able to adjust his tax calculations.

Aditya's HRA exemption

HRA actually received		**₹15,000**
HRA Exemption is the least of the following:		₹7,000
HRA received	₹15,000	
50% of the basic salary	₹15,000	
Rent Pai - 10% of the Basic Salary (10,000 -10% of 30000)	₹7,000	
Taxable HRA		**₹8,000**

Now let us see Aditya's Tax Calculation (Under the Old Tax Regime)

Aditya's Tax Calculation	
Income from Salary	**₹5,76,000**

Basic Salary	₹3,60,000	
HRA Taxable (8000×12)	₹96,000	
Special Allowance	₹1,20,000	
Income From Other Sources- IFOS (3,500+2,500)		₹6,000
Gross Total Income		₹5,82,000
Deductions:		₹1,52,500
Under Section 80C	₹1,50,000	
Under Section 80TTA	₹2,500	
Total Income		₹4,29,500
Tax Payable		₹8,975
Less; Rebate under section 87A upto 5Lakh under the Old Tax Regime		₹8,975
Tax Liability		Nil

Did you notice? If Aditya can manage to claim Rs 1,50,000 under section 80C – no tax shall be payable by him on account of rebate claimed under section 87A. With this deduction, his taxable income is less than Rs 5 lakh which is eligible for rebate under section 87A. Whereas in case of new tax regime, the rebate u/s 87A upto Rs. 25000 is available upto an income of Rs.7,00,000

However, Aditya has to file an income tax return because his gross total income is above the basic exemption limit of Rs 2.5 lakh. Also, Aditya can claim a refund of the TDS of Rs 29,880 that has been deducted from his income. Aditya claims Rs 1,50,000 under section 80C. Deduction on Section 80C is available for PF @ 12% of Basic Salary; it's Rs 43,200 for him. Since this is already deducted from his salary, he simply needs to consider this amount—no additional payout is required.

Aditya wants to try his hands in equities and finds the market returns promising so he invests Rs 50,000 in ELSS. He opens a PPF account and deposits Rs 57,580 – all of these add up to Rs 1,50,780. The amount of deduction eligible under section 80C is limited to Rs 1,50,000. Accordingly, Aditya claims a deduction of Rs 1,50,000 under section 80C.

Deduction under section 80C available to Aditya

EPF contribution @ 12% of basic salary	**₹43,200**
Subscription to ELSS	₹50,000
Contribution to PPF	₹57,580
Total Contribution	₹1,50,780
Deduction Eligible	₹1,50,000

7. Standard Deduction

As per the Budget 2018, salaried employees are entitled to a standard deduction of Rs 40,000 from the gross salary. This standard deduction will replace the medical reimbursement amounting to INR 15,000 and transport allowance amounting to Rs. 19,200 in a financial year. Effectively, the taxpayer will get an additional income exemption of Rs 5,800. The limit of Rs. 40,000 has been increased to Rs. 50,000 from FY 2019-20 onwards in the Interim Budget 2019. **From FY 2023-2024, this deduction of Rs.50,000** is available and can be claimed under both the old and new tax regimes.

8. Rebate For Resident Individuals [SECTION 87A]

Section 87A provides a rebate from the tax payable by an assessee who is an individual resident in India to provide tax relief to individual taxpayers.

Rebate to resident individual paying tax under New tax regime

If total income of such individual does not exceed Rs.7,00,000, the rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of Rs.25,000, whichever is less.

Rebate to a resident individual paying tax under Old tax regime

If total income of such individual does not exceed RS.5,00,000, the rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of Rs.12,500, whichever is less.

9. Calculating Tax Payable

On your Taxable Income, tax slabs or rates are applied and tax payable is calculated. From this tax payable, you can reduce all the TDS that has already been deducted.

You can always use our Tax Calculator

10. Income Tax Returns

The Income Tax Department has notified 7 various Income Tax Return forms, i.e. ITR-1, ITR-2, ITR-3, ITR-4, ITR-5, ITR-6 & ITR-7. Every taxpayer should file ITR on or before the specified due date, i.e. 31 July of the assessment year. The applicability of ITR forms varies depending on the sources of income, the amount of the income earned and the category of the taxpayer like individuals, HUF, company, etc. Click here to learn more about the different ITR forms.

Documents Required to File Income Tax Returns

Many documents are required to be kept ready before filing the Income Tax Return (ITR). These documents vary according to the source of income, as stated below:

- Salaried individual – Form 16/16A, 26AS, rent receipt paid for HRA, payslips, investments made under Section 80C, 80E, 80D and 80G.
- Capital gains – ELSS statement, mutual fund statement, sale and purchase of equity/debt funds, purchase/selling price of a house, registration details if any house property is sold, and capital gains statement showing the sale of shares and stock trading.
- House property – PAN card details, co-owner details, property address and home loan interest certificate.
- Other sources - Bank FD details and details of interest received from tax-saving or corporate bonds.

Understanding Key Terms

Form 16: Form 16 is a certificate issued by employers to employees detailing the salary paid and TDS deducted during the financial year. It is essential for salaried individuals while filing their income tax returns.

Advance Tax: If your tax liability exceeds INR 10,000 in a financial year, you need to pay advance tax in four installments.

TDS (Tax Deducted at Source): Employers and other entities deduct tax at source on salaries, interest, rent, and other payments, which is then deposited with the government.

Refunds: If you have paid more tax than your actual liability, you can claim a refund while filing your return.

Notices: The Income Tax Department may issue notices for various reasons, such as discrepancies in returns, under-reporting of income, or random scrutiny. Respond promptly to avoid penalties.

Gross Total Income: The sum of all heads of income before deductions.

Net Taxable Income: The income after claiming all eligible deductions and exemptions.

Tax Audit is an examination of a taxpayer's accounts by a chartered accountant to ensure the accuracy of income and deductions claimed. It is mandatory for businesses and professionals if their turnover exceeds specified limits.