

Introduction

Income Tax refers to the tax that is levied on the personal or business income as per the Income Tax Act, 1961. The Tax which is levied on the Business Income for a firm or a corporate is referred as Corporate Tax and will not be dealt in this book. This book covers the personal income which is received as salary or professional fees. In particular, this book deals with the Income that originates from Salaries. To understand the Income Tax Act, it is important for you to understand the basic terms used in the Act which are described one by one.

Assessment Year

As per section 2(9) of Income Tax Act, 1961, the Assessment Year means the period of twelve months commencing on the 1st day of April every year and ending on 31st March of the next year. e.g. for 2010-11, the assessment year will be from 1st April 2010 to 31st March 2011 for the Financial Year 2009-2010.

Previous Year

Previous year refers to the Financial Year immediately preceding to the Assessment Year. e.g. for 2010-2011, the Previous year will be from 1st April 2009 to 31st March 2010.

Assessee

As per Income Tax Act 1961 (Act no. 43), an assessee is a person by whom any tax or any other sum of money is payable under this Act, which includes:

- ❑ every person in respect of whom any proceeding under this Act has been taken for the assessment of his income 25[or assessment of fringe benefits] or of the income of any other person in respect of which he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person
- ❑ every person who is deemed to be an assessee under any provision of this Act
- ❑ every person who is deemed to be an assessee in default under any provision of this Act

Person

As per Income Tax Act, the person includes:

- an individual
- a Hindu Undivided family
- a Company or organisation
- a firm

- an association of persons or a body of individuals
- a local authority

Total Income

i. Total Income for Resident

As per the provisions of Income Tax Act, the total income of any previous year of a person who is an Indian resident includes all income from whatever source derived which:

- is received or is deemed to be received in India in such year by or on behalf of such person
- accrues or arises or is deemed to accrue or arise to him in India during such year
- accrues or arises to him outside India during such year

Provided that, in the case of a person not ordinarily resident in India within the meaning of sub-section (6) of section 6, the income which accrues or arises to him outside India shall not be so included unless it is derived from a business controlled in or a profession set up in India.

ii. For Non Resident Indian

As per the provisions of Income Tax Act, the total income of any previous year of a person who is a non-resident includes all income from whatever source derived which:

- is received or is deemed to be received in India in such year by or on behalf of such person
- accrues or arises or is deemed to accrue or arise to him in India during such year.

Gross Total Income

Total income computed in accordance with the provision of the Income Tax Act before making any deduction under Chapter VIA. Gross Total Income or Gross Salary includes the following:

- **Salary as per provisions contained in Section 17(1):** Includes all earning pay components.
- **Value of Perquisites u/s 17(2) (as per Form 12BA):** Includes all perquisites (Non-Monetary Benefits) values paid to the employees.
- **Profits in lieu of Salary u/s 17(3) (as per Form 12BA):** Includes Any compensation paid to the employees in connection with termination, modification of terms of employment, amount paid prior to employment etc.

Allowances exempted U/s 10

Following are the allowances which are exempted U/s 10 of Income Tax from the Gross Salary for the Computation of Income Tax:

- Allowance provided to the Employees working in transport system
- Border Remote area allowance
- Children education allowance (for a maximum of two children)
- Children Hostel Expenditure Allowance (for a maximum of two children)
- Conveyance Allowance
- Counter Insurgency Allowance - provided to the members of armed forces operating in areas away from their permanent locations
- Field Area Allowance - Compensatory field area allowance provided in various areas of Arunachal Pradesh, Manipur, Nagaland, Sikkim, HP, UP and J&K.

- Gratuity - paid at the time of retirement
- High Altitude Allowance
- Highly Active Field Area Allowance
- House Rent Allowance
- Island Duty Allowance
- Leave Encashment on Retirement
- Leave Travel Allowance
- Medical Reimbursement
- Mining/Underground Allowance
- Modified Field Area Allowance
- Retrenchment Compensation - A Compensation given to workers at the time of closing down of Undertaking or transfer
- Tribal Scheduled Area Allowance
- Voluntary Retirement Allowance



For more information on eligibility criteria for each allowance type you can refer to the Income Tax web site as these keeps changing from time to time.

Deductions U/s 16

Following are allowed as deductions from the Gross Salary for the computation of Taxable income U/s 16 of Income Tax Act:

- Entertainment Allowance - Entertainment allowance specially granted to an employee who is in receipt of Salary from Government.
- Professional Tax - Tax on Employment

Other Income Declared by Employee

The **Other Income Declared by the Employee** Income from **House Property, Other sources** if any is added to the Gross Income for the computation of Taxable salary.

Deductions Under Chapter VI-A

Following are additional deductions allowed as deductions from the remaining salary for the computation of Taxable Income:

- **Investments U/s 80C, 80CCF** - all the investments such as Insurance, Mutual funds, House loan principal amount etc. are considered as eligible investment for the computation of Taxable income.
- **Other expenses U/s 80D, 80DD, 80E etc.** - Other expenses such as Mediclaim, Donations, payment of interest on loan for higher education etc. are allowed as other deductions for the computation of Taxable Income.

Relief U/s 89,90,91

The special reliefs granted to some employees due to the dual taxation system are also allowed as Relief U/s 89,90 and 91 and is reduced from the Taxable Income based on the type of agreement with the other country.

Taxable Income

The Net Income which is arrived after considering all eligible exemptions, investments and deductions is known as Taxable Income. The Income Tax is computed on the Net Taxable Income for each employee.