Income Tax in India

It is a tax imposed by the Government of India on any body who earns income in India. This tax is levied on the strength of an Act called "**Income tax Act**" which was passed by the Parliament of India.

The word "Income" has a very broad and inclusive meaning. In case of a salaried person, all that is received from an employer in cash, kind or as a facility is considered as income. For a businessman, his net profits will constitute income. Income may also flow from investments in the form of Interest, Dividend, and Commission etc. Under the Act, all incomes earned by persons are classified into 5 different heads, such as:

a. Income from Salary
b. Income from House property
c. Income from Business or Profession
d. Income from capital gains
e. Income from other sources

The rates of income tax and corporate taxes are available in the Finance bill [commonly called budget] passed by Parliament every year.

The new tax rates applicable from April 1, 2010 are as follows:

- On all incomes up to Rs. 1,60,000 per year. (For women - Rs. 1,90,000 and for senior citizens - Rs. 2,40,000), no Income Tax is applicable.
- From Rs. 1,60,001 - Rs. 5,00,000 : 10% of amount (For women - Rs. 1,90,001 to Rs. 5,00,000 and for senior citizens - Rs. 2,40,001 to Rs. 5,00,000)
- From Rs. 5,00,000 to Rs. 8,00,000 : 20% of amount (Same for women and senior citizens)
- Above Rs. 8,00,000 : 30% of amount (Same for women and senior citizens)

The tax can be reduced by making investment in approved schemes and also by making donations to approved charitable institutions.

After payment of tax, a return of Income has to be filed according to your status and nature of income from the following:

ITR1	For Individuals having Income from Salary/ Pension/ Family Pension / House Property & Interest
ITR2	For Individuals and HUFs not having Income from Business or Profession
ITR3	For Individuals/HUFs being partners in firms and not carrying out business or profession under any proprietorship
ITR4	For individuals & HUFs having income from a proprietary business or profession
ITR5	For firms, AOPs and BOIs
ITR6	For Companies other than companies claiming exemption under section 11
ITR7	For persons including companies required to furnish return under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D)
ITR8	Return for Fringe Benefits
ITRV	Where the data of the Return of Income/Fringe Benefits in Form ITR-1, ITR-2, ITR-3, ITR-4, ITR-5, ITR-6 & ITR-8 transmitted electronically without digital signature

The due dates are as follows:

Companies & their Directors	31st October
Other business entities, other than companies, if their accounts are auditable	31st October

& their working partners	
In all other case	31st July

Income from Salary

Under this head, income received as salary under Employer-Employee relationship is taxed. If income exceeds minimum exemption limit, then Employers must withhold tax compulsorily as Tax Deducted at Source (TDS). The employees should also be provided with a Form 16 which shows the tax deductions and net paid income. Form 16 also contains any other deductions provided from salary as follows:

- Medical reimbursement up to Rs. 15,000 per year is tax exempt provided bills are given
- Conveyance allowance up to Rs. 9600 per year is tax free
- Professional taxes which are usually a slabbed amount based on gross income are deductible from income tax.
- House rent allowance: the minimum of the following is available as deduction
    - The actual HRA received
    - 50%/40 % (metro/non-metro) of 'salary'
    - Rent paid minus 10% of 'salary'

Income from House Property

Unlike the other heads of income, Income from house property is a notional income based on a concept called “Annual Value”. This is the value a property is expected to fetch if it is let out. It may be more than the actual rent being received if let out. If it is not let out the expected market/fair rent will be considered as “Annual Value” for the purpose of taxation. Property includes the building and the land surrounding it.

However if a house is not let out and not self-occupied, then annual value is assumed to have accrued to the owner. In case of a self occupied house, annual value is to be taken as NIL. But if there is more than one self occupied house then the annual value of the other house/s is taxable. From this, Municipal Tax paid is deducted to arrive at the Net Annual Value. From this Net Annual Value, the following are deducted:

- 30% of Net value as repair cost - mandatory deduction
- Interest paid or payable on a housing loan for the house

Income from Business or Profession:

Income arising from profits and gains of any Business or Profession; income derived by a Trade/ Professional/ similar Association by performing specific services for its members; any benefit from business whether convertible into money or not, incentives for exporters; any salary, interest, bonus, commission or remuneration received by Partner of a firm; any amount received under a Key man Insurance Policy which also covers Bonus; income from managing agency and speculative transactions; is taxable.

Income from Capital Gains

Under section 2(14) of the I.T. Act, 1961, Capital asset is defined as property of any kind held by an assessee such as real estate, equity shares, bonds, jewellery, paintings, art etc. but does not consist of items like stock-in-trade for businesses or for personal effects. Capital gains arise by transfer of such capital assets.

Long term and short term capital assets are considered for tax purposes. Long term assets are those assets which are held by a person for three years except in case of shares or mutual funds which becomes long term just after one year of holding. Sale of long term assets give rise to long term capital gains which are taxable as below:

- As per Section 10(38) of Income Tax Act, 1961 long term capital gains on shares/securities/ mutual funds on which Securities Transaction Tax (STT) has been deducted and paid, no tax is payable. Higher capital gains taxes will apply only on those transactions where STT is not paid.

- For other shares & securities, person has an option to either index costs to inflation and pay 20% of indexed gains, or pay 10% of non indexed gains.
- For all other long term capital gains, indexation benefit is available and tax rate is 20%

Income from Other Sources

There are some incomes which are to be taxed under this category which are not covered under the other heads such as income by way of dividends, interest, horse races, winning of bull races, winning of lotteries etc.

Deductions allowed from Gross Income:

Section 80C

Under this section one can claim up to Rs. 1 lakh in deductions. The options in this section include

- Employee Provident Fund (EPF),
- Public Provident Fund (PPF) - up to Rs.70, 000 per annum,
- National Savings Certificate (NSC),
- 5-year bank fixed deposits,
- Life insurance policies,
- Equity-Linked Savings Schemes (ELSS),
- Unit Linked Insurance Plans (ULIPs),
- School fees, and
- Home loan principal repayment.

Investing in infrastructure bonds under Section 80 CCF will reduce the taxable income by Rs. 20,000 apart from Rs.1 Lakh specified above.

Section 80D

The medical insurance premium paid would qualify for Deduction. The qualifying amounts under Section 80D for self, spouse and dependent children is upto Rs. 15,000/- and additional deduction upto Rs. 15,000/- for the parents. This limit has now been enhanced to Rs 20,000 for senior citizens on the condition that the premiums are paid via cheque.