

## Tax Rates

- The income tax rates are:

<i>Taxable Income for Men</i>	<i>Rate</i>
Up to Rs. 1,60,000	Nil
1,60,001 to 5,00,000	10%
5,00,001 to 8,00,000	20%
800,001 and above	30%

<i>Taxable Income for Women</i>	<i>Rate</i>
Up to Rs. 1,90,000	Nil
1,90,001 to 5,00,000	10%
5,00,001 to 8,00,000	20%
800,001 and above	30%

(i) Education Cess of 2% & additional Secondary Education Cess 1% is to be levied on the aggregate of income tax where applicable.

## Tax deductions and rebates

- As per new provision of tax deduction at source (TDS) under the Income Tax Act 1961 effective from April 1, 2010, TDS at higher of the prescribed rate or 20% will be deducted on all transactions liable to TDS, where the Permanent Account Number (PAN) of the deductee is not available.
- Deduction under Section 80C in respect of prescribed contributions to savings instruments for e.g. insurance premium, Provident Fund, PPF, NSC, etc continues. Investment in “term deposit” having a term of five years or more with a ‘scheduled bank’ will be eligible for deduction under section 80C only if such “term deposit” is in accordance with the scheme framed and notified by the Central Government in the Official Gazette. The aggregate deduction under section 80C however, cannot exceed Rs. 1,00,000 under any circumstances.
- The limit on deduction under section 80CCC with respect to contribution to a pension plan with an Indian insurance company has been increased from Rs. 10,000 to Rs. 1,00,000. However, the total of tax deduction under sections 80C, 80CCC and 80CCD (contribution to the pension scheme of the Central Government) will be limited to Rs. 1,00,000 in every case. To clarify, this amendment only allows an individual to choose one or more investments qualifying for tax deduction within the overall deductible limit of Rs. 1,00,000.
- Deduction in respect of subscription to long-term infrastructure bonds (80CCF) - In computing the total income of an assessee, being an individual or a Hindu undivided family, there shall be deducted, the whole of the amount, to the extent such amount does not exceed Rs. 20,000, paid or deposited, during the previous year relevant to the assessment year beginning on the 1st day of April, 2011, as subscription to long-term infrastructure bonds as may, for the purposes of this section, be notified by the Central Government.
- It was proposed additional deduction of Rs.15,000 under Section 80D to an individual who pays medical insurance premium for his/her parent(s). Also note, that the parent(s) NEED NOT be a ‘dependant’. So now you can buy health insurance for your parents and claim deduction upto Rs 30,000 (Rs. 35,000 in the case of a senior citizen).
- Deduction of Rs. 50,000 to support the medical expenses (or take insurance cover) of certain dependants who have mental or physical challenges as specified, subject to fulfilling certain prescribed conditions. In case of severe disability, the deduction is increased to Rs. 100,000.
- Deduction for expenses incurred on self or certain dependants on the medical treatment of specified diseases, subject to fulfilling certain prescribed conditions—actual expenditure is deductible subject to a cap of Rs. 40,000 (Rs. 60,000 in the case of a senior citizen).

- Interest paid on loan, taken from certain financial institutions or approved charitable institutions for the purposes of pursuing higher education as defined, are fully tax deductible. Such deduction is available for the initial year (in which the payment of interest begins) and a maximum period of seven years thereafter.
- Money donated to tax-approved charitable institutions is deductible to the extent of 50%, subject to conditions. Deduction of 100% is available in the case of payment to certain specified Funds like Prime Minister's National Relief Fund.
- Deduction of Rs.50,000 for persons with specified disability. In the case of severe disability, the deduction is increased to Rs.75,000.
- Contribution to approved scientific research or rural development institutions tax deductible.

### Perquisites

In the case of salaried employee, some of the perquisites provided by the employer are valued for income taxation in the hands of the employee as under:

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- Provision of unfurnished accommodation: Owned by the employer:
  - In cities having population exceeding 4,00,000 as per 2001 census, 20% of salary (as defined) for the period during which accommodation is provided
  - In other cities, 15% of salary as aforesaid as reduced by the rent, if any, paid by the employee to the employer for the said accommodation. Leased by the employer: Actual amount of lease rent payable by the employer *or* 20% of salary as defined, whichever is lower, as reduced by the rent, if any, paid by the employee to the employer for the said accommodation.
- Provision of furniture (includes TV, refrigerator, air-conditioner, other appliances)
  - 10% per annum of cost of furniture, where it is owned by the employer
  - Actual hire charges paid by the employer in other cases, as reduced by charges, if any, paid by the employee to the employer for such furniture.
- Provision of motor car and chauffeur: Nil
- Gas, electric energy and water: Actual amount spent by the employer less recovery, if any, from the employee.
- □ Provision of a sweeper, gardener, watchman or a personal attendant shall be the actual cost to the employer as reduced by charges, if any, paid by the employee to the employer for such services.
- Interest-free or concessional loans: Value computed with reference to the interest charged by SBI as on 1 April of the relevant financial year for similar loan less interest, if any, paid by the employee to the employer (Nil perquisite value in case of loan obtained for medical treatment of specified diseases or where the loan amount is petty not exceeding Rs. 20,000).
- Use of movable assets (excluding computers and laptops): 10% p.a. of the cost of the asset in case asset owned by the employer or hire charges paid by the employer where hired, less amount recovered, if any, from the employee.
- Asset sold: Excess, if any, of the net cost of the asset (i.e., cost less depreciation at 10% for every completed year) over the amount paid, if any, by the employee (for computers /electronic items

the depreciation rate is 50% and for motor cars it is 20% computed on reducing balance basis).

- Value of free food and beverages, gift, credit card expenses including annual fees, payment to clubs, telephone expenses: Nil
- Employer's contribution towards approved superannuation fund: is chargeable to tax in the hands of employees to the extent such contribution exceeds Rs. 1,00,000 per assessment year. It is taxable in the year in which contribution is made.

### **Some of the concessions / exemptions to salaried employees**

- Leave Travel Concession: Exemption not exceeding economy class airfare charged by national carrier or air-conditioned 1st class train fare by the shortest route to destination, as the case may be. Only two journeys permitted in a block of four calendar years (current block begins year 2006).
- Gratuity received on retirement, termination of employment or death is exempt from tax to the extent of least of the following:
  - Rs. 10,00,000
  - $\frac{1}{2}$  months average salary (last 10 months) for each year of completed service
  - Gratuity actually received.
- Commuted value of pension:  $\frac{1}{3}$ rd value exempt where gratuity is also receivable or 50% value exempt where there is no gratuity.
- Leave encashment at the time of retirement on superannuation or otherwise: Earned leave limited to 10 months and encashment computed with reference to average salary of last 10 months. Earned leave entitlement cannot exceed 30 days for each year of completed service. The amount of exemption is limited to Rs. 3,00,000.
- Voluntary retirement compensation: Exempt if the same is received under a Voluntary Retirement Scheme of the employer that meets with prescribed guidelines—exemption however, limited to Rs. 5,00,000.
- House rent allowance: Amount exempted is the least of the following:
  - Actual house rent allowance received from the employer
  - Rent paid by the employee in excess of 10% of salary (as defined)
  - 50% of salary (for the four metro cities) or 40% of salary (for non-metros).
- Actual amount of profession tax paid is deductible.
- ☐ Transport allowance for commuting between the place of residence and the place of duty is exempt to the extent of Rs.800 per month.

### **Capital gains**

- Capital gain is a gain that arises on 'transfer' (includes sale, exchange) of a "capital" asset and has to be categorized into short-term gains or long-term gains. Gains arising on transfer of a capital asset held for not more than 36 months (12 months in the case of a share held in a company or other security listed on recognized stock exchange in India or a unit of a mutual fund) prior to its transfer are "short-term". Capital gains arising on transfer of capital asset held for a period exceeding the aforesaid period are "long-term". Capital gains on transfer of a tax depreciable capital asset are computed in the prescribed manner. Such capital gains are assumed

to be 'short-term' capital gains for the purposes of levying income tax.

- Capital gains are generally computed as under: Full value of transfer consideration received/receivable xxx Less: (a) Cost of acquisition (b) Expenses wholly & exclusively incurred to transfer xx xx Net capital gains X
- Generally speaking, full value of the transfer consideration is the total consideration agreed between the seller and buyer. In the case of transfer of land and or building, such agreed transfer consideration between the parties or the value adopted/assessed by the stamp duty authorities, which ever is higher, shall be used for computing the capital gains.
- Cost of bonus shares is Nil. Generally, the cost in the case of assets acquired under gift, will, inheritance, etc is assumed to be the cost for which the previous owner acquired it. If the capital asset was acquired before 1 April 1981, the fair market value of the asset as on 1 April 1981 can also be taken as its 'cost'. Generally, the 'cost' of capital asset can be increased by the notified cost inflation index, while computing 'long-term' capital gains. Any sum paid on account of securities transaction tax is *not* deductible while computing capital gains.
- Long-term capital gains tax can be saved if such gains are invested, within a period of six months from the transfer of the capital asset, in duly approved bonds redeemable after 3 years and issued only by *National Highways Authority of India* (NHAI) or *Rural Electrification Corporation Ltd* (REC) (the tax savings is proportionate to the investment in case the entire capital gains is not invested). Such bonds can neither be transferred nor any loan or advance can be obtained against its security for a period of three years from the date of acquisition of bonds. The total size of such capital gains tax saving bonds approved by the Government is Rs. 4,500 crores for REC and Rs. 1,500 crores for NHAI.
- Long-term capital gains arising on transfer of equity shares in a company or units of an 'equity oriented' mutual fund is exempt from income tax if the Securities Transaction Tax is paid on such transaction i.e., the transfer of equity shares or such units should be made through the recognized stock exchange in India (or such units are repurchased by the relevant Mutual Fund). Short-term capital gains arising on such transactions are taxable at a base rate of 10% (increased by surcharge as applicable and education cess of 2%). Effective 1 June 2006, the definition of 'equity oriented' mutual fund has been changed to mean a fund where the investible corpus is invested by way of equity shares in Indian companies to the extent of more than 65% (earlier it was 50%) of the total proceeds of such fund.

### Some other exemption from tax

- Dividend received on shares in a domestic company.
- Income received from units of a Mutual Fund registered with the Securities and Exchange Board of India.

### Set-off of loss

- Taxable 'capital loss' (i.e., a transaction on which there is a liability to pay tax if the result were 'gains' instead of 'loss') can be setoff only against 'capital gains'. Exempt capital loss (i.e., a transaction which is exempt from tax if the result were 'gains' instead of 'loss') cannot be set-off against taxable capital gains. Taxable long-term capital loss can be set-off only against long-term capital gains. However, taxable short-term capital loss can be setoff against both short-term and long-term capital gains.

- Loss from 'business or profession' arising in a year cannot be set-off against 'salary income', if any, of such year.
- Unabsorbed loss can be carried forward for set-off as stipulated only if such loss is determined pursuant to the income tax return filed within the prescribed due date.

### Wealth tax

- Wealth tax is payable on the following 'assets' held as at 31 March of the relevant year:
  - (1) any building or land appurtenant thereto but excludes, among others:
    - (i) property occupied for carrying on any business or profession;
    - (ii) residential property that has been let-out for a minimum period of 300 days in the relevant financial year;
  - (2) Motor-cars (except those used in the business of running them on hire or stock-in-trade);
  - (3) jewellery, bullion, furniture, utensils or any other article made wholly or partly of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals (stock-in-trade excepted);
  - (4) yachts, boats and aircrafts (except those used for commercial purposes);
  - (5) urban land as defined; and
  - (6) cash in hand in excess of Rs. 50,000.
- One house or a plot of land is exempt. No wealth tax payable on a plot of land not exceeding 500 square metres.
- Wealth tax payable at 1% on the aggregate value of 'assets' exceeding Rs. 15,00,000

### Tax Return

- The due date for filing of income tax return in the case of an individual is 31 July following the end of the financial year (in case of individual having business or profession and subject to tax audit u/s 44AB, the due date is 31 October).
- ☐ Obligation to file a tax return in Form No 2C (in the absence of taxable income) where any one or more of the prescribed economic parameters are met has been deleted effective financial year beginning 1 April 2005. The last of such return will have to be filed for financial year ended 31 March 2005.

### Permanent Account Number (PAN)

- Effective 1 June 2006, the Central Government has empowered itself to notify any class of persons, who will be required to apply for a PAN.
- Effective 1 June 2006, it will be mandatory to quote PAN of all the payees in the withholding tax (TDS) quarterly statements filed by the payer with the tax authorities. In other words, all such payees are now required to obtain their PAN and / or communicate the same to the payer of such income (example interest, professional fees, etc).
- Effective 1 June 2006, the tax officer has been empowered to suo motto allot a PAN to any person, irrespective of whether any tax is payable by such person or not, upon such person undertaking transactions as may be prescribed. 1 Includes occupation of immovable property of specified area, owner/lessee of a motor vehicle except two wheeler, foreign travel, holder of credit card (excluding 'add on' card), etc

## **Others**

- Dematerialization of tax withholding certificate (TDS certificate) has been deferred. TDS certificates in Form 16 (for salaries) and Form 16A (for other payments) will continue till further notification in physical form.
- The time limit available to the income tax officer for completing regular assessment has been preponed from 31 March to 31 December. To illustrate, the assessment for the financial year ended 31 March 2004 i.e., assessment year 2004-05 has to be completed by the tax authorities by 31 December 2006 (earlier, it could be completed by 31 March 2007).

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