

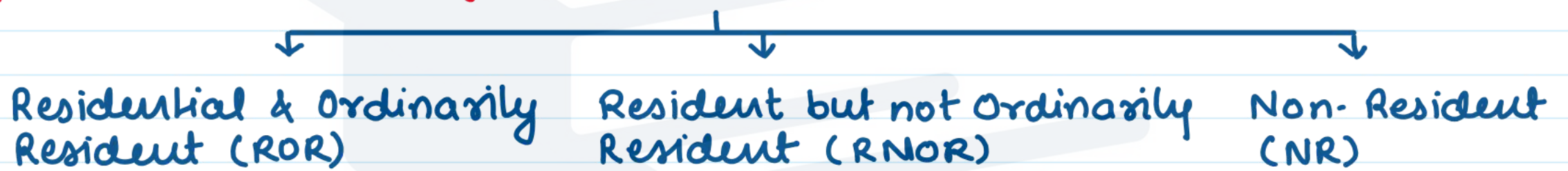
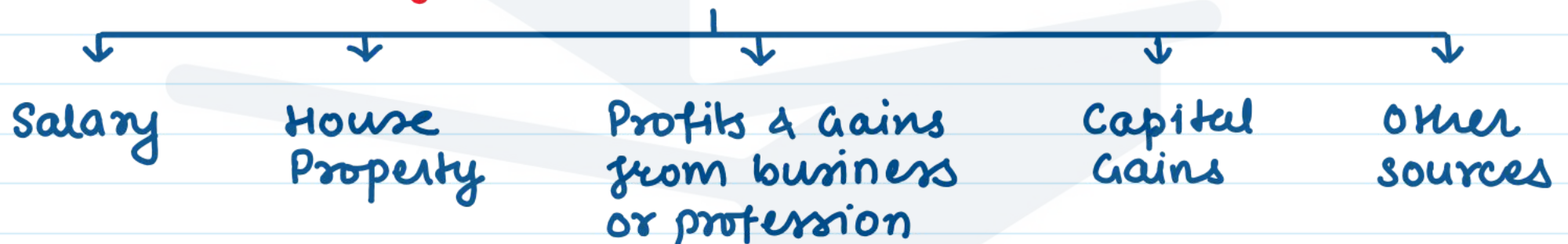
Chapter 2 - Computation of Total Income & Tax Liability**TP:1** Charge of Income tax (charging section) [sec 4]

Section 4 is the charging section which provides that tax shall be levied at the

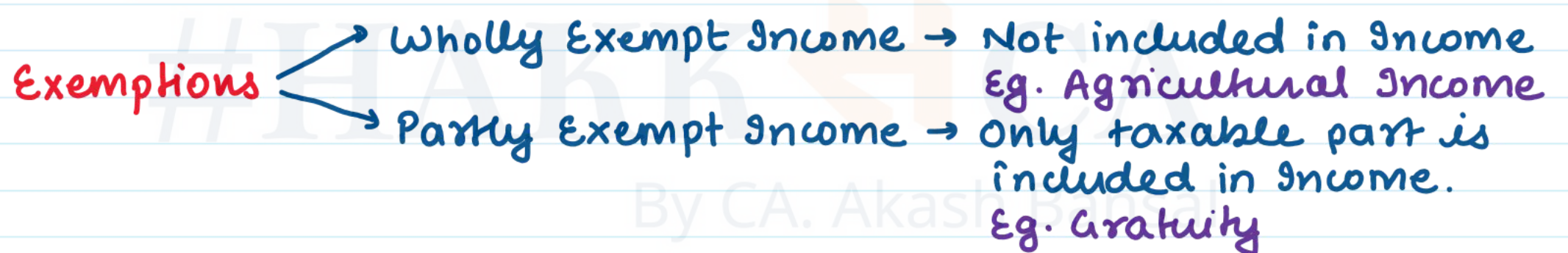
- i) rates prescribed under Annual Finance Act or Income Tax Act, 1961 or both
- ii) on Every person
- iii) on total income earned during PY
- iv) in accordance with provisions of the Act.

TP:2 Concept of Total Income & Tax Liability

Following are the steps involved in computing total income & tax liab.

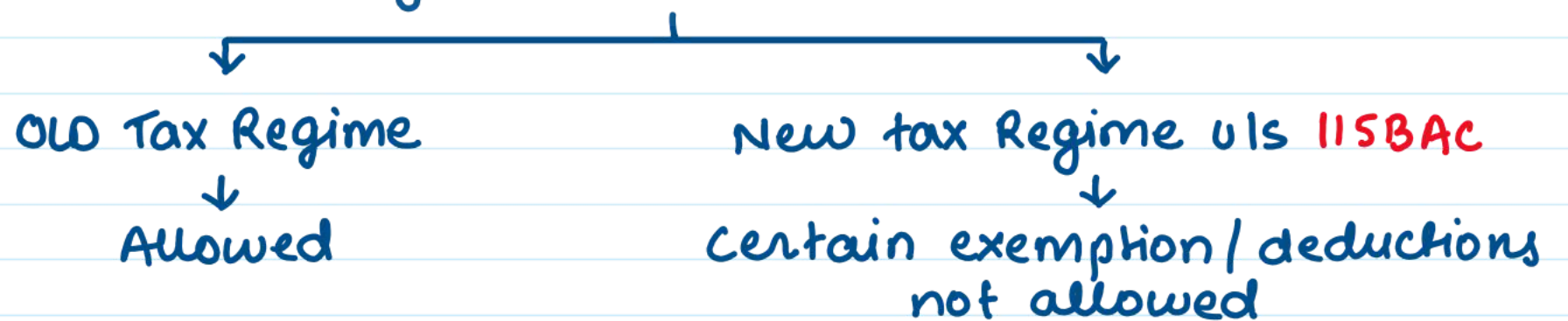
Step 1: Determination of Residential Status**Step 2: Classification of Income under different heads****Step 3: Computation of Income under each head**

Income shall be computed under each head as per the provisions of particular head



Deductions: Deductions are prescribed under each head of income
Eg. Deduction of interest on loan & municipal taxes from income under head house property.

Imp. Note - Allowability of exemptions & deductions depends on income tax regime opted.

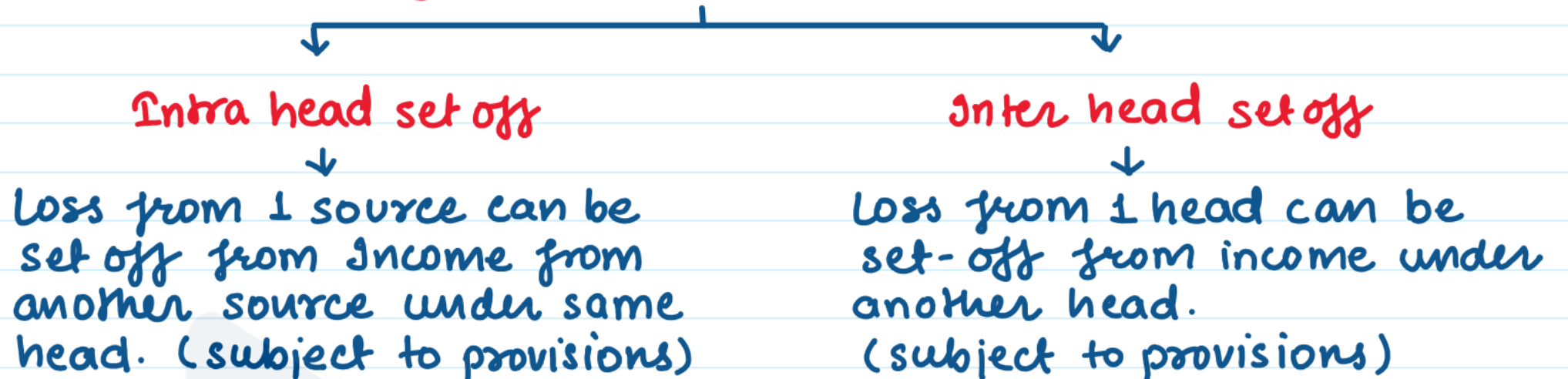




Step 4: Clubbing of Income of Minor, Spouse etc.

Income of other person to be included in total Income of the assessee.
(Detailed discussion in clubbing chapter)

Step 5: Set-off or Carry forward & set-off of losses

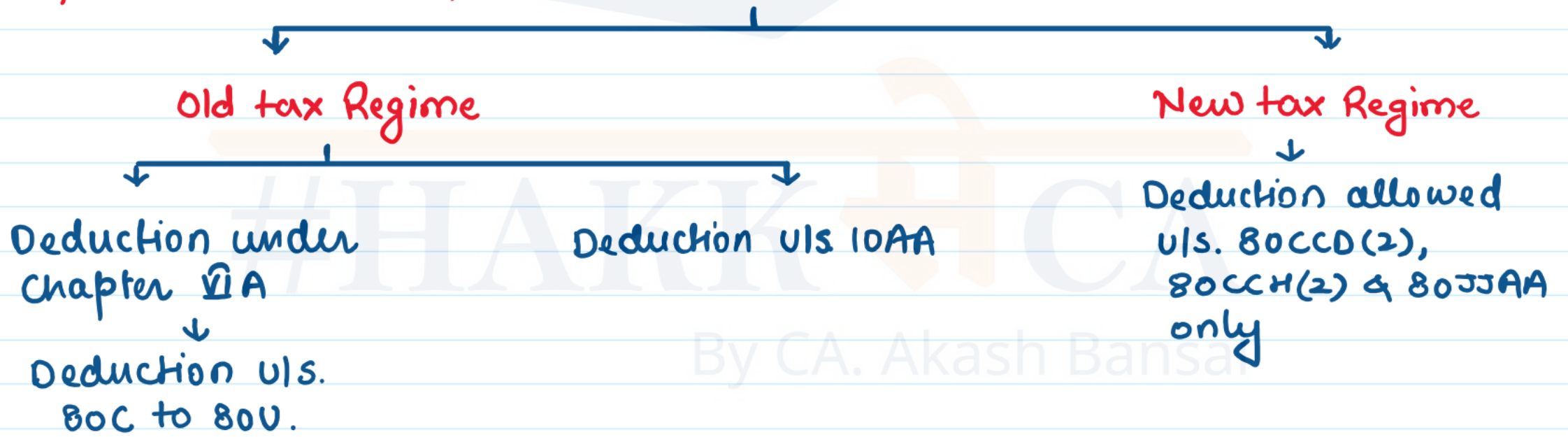


Step 6: Computation of Gross total Income.

Aggregate of income under all heads of Income after applying provisions of clubbing of Income & setting off of losses.

Income under head salary	xxxx
Income under head house property	xxxx
Profits and Gains from business or profession	xxxx
Income under head capital gains	xxxx
Income from other sources	xxxx
Gross total Income	<u>xxxx</u>

Step 7: Deductions from Gross total Income



Step 8: Computation of Total Income

Gross total income	xxxx
Less: Deduction under chapter VI A / 10AA	xxxx
Total Income	<u>xxxx</u>

Rounding off u/s 288A in multiple of ₹ 10

i.e. 3,33,406 rounded off to 3,33,410
 5,60,703 rounded off to 5,60,700
 10,05,605 rounded off to 10,05,610.



Step 9: Calculation of Tax Liability

Total income x tax rates	xxxx
Add: Surcharge @ applicable rate (if any)	xxxx
	<hr/>
	xxxx
Less: Rebate (if applicable)	xxxx
Tax liability before HEC	xxxx
Add: Health & Education Cess @ 4%	xxxx
Gross tax liability / Tax liability	<hr/> xxxx <hr/>



Step 10: Calculation of tax payable

Tax liability	xxxx
Less: Tax deducted at source	xxxx
Less: Tax collected at source	xxxx
Less: Advance tax	xxxx
Less: Self-assessment tax	xxxx
Net tax payable	<hr/> xxxx <hr/>

Rounding off u/s 288B in multiple of ₹ 10

- i.e. 3,33,406 rounded off to 3,33,410
- 5,60,703 rounded off to 5,60,700
- 10,05,605 rounded off to 10,05,610.

Note: Tax payable is rounded off and not tax liability.

TP:3 Rates of tax, surcharge and cess [Prescribed under Finance Act + Income tax Act, 1961]

1. Individual / HUF / AOP / BOI / Artificial Juridical Person

<u>Old tax Regime</u>	<u>New tax Regime</u>																										
A. Individual (Resident or non-resident) / HUF / AOP / BOI / AJP	A. All Individual (Resident or non-resident) / HUF / AOP / BOI / AJP																										
↓	↓																										
<table border="0" style="width: 100%;"> <tr> <th style="text-align: left;">Income</th> <th style="text-align: left;">Tax Rate</th> </tr> <tr> <td>First 2,50,000</td> <td>NIL</td> </tr> <tr> <td>Next 2,50,000</td> <td>5%</td> </tr> <tr> <td>Next 5,00,000</td> <td>20%</td> </tr> <tr> <td>Above 10,00,000</td> <td>30%</td> </tr> </table>	Income	Tax Rate	First 2,50,000	NIL	Next 2,50,000	5%	Next 5,00,000	20%	Above 10,00,000	30%	<p style="margin-left: 20px;">Amend ★</p> <table border="0" style="width: 100%;"> <tr> <th style="text-align: left;">Income</th> <th style="text-align: left;">Tax Rate</th> </tr> <tr> <td>First 4,00,000</td> <td>NIL</td> </tr> <tr> <td>Next 4,00,000</td> <td>5%</td> </tr> <tr> <td>Next 4,00,000</td> <td>10%</td> </tr> <tr> <td>Next 4,00,000</td> <td>15%</td> </tr> <tr> <td>Next 4,00,000</td> <td>20%</td> </tr> <tr> <td>Next 4,00,000</td> <td>25%</td> </tr> <tr> <td>Above 24,00,000</td> <td>30%</td> </tr> </table>	Income	Tax Rate	First 4,00,000	NIL	Next 4,00,000	5%	Next 4,00,000	10%	Next 4,00,000	15%	Next 4,00,000	20%	Next 4,00,000	25%	Above 24,00,000	30%
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B. Resident Individuals who are Senior Citizen (Age $\geq 60Y$ but $< 80Y$)

Income	Tax Rate
First 3,00,000	NIL
Next 2,00,000	5%
Next 5,00,000	20%
Above 10,00,000	30%

C. Resident Individuals who are Super Senior Citizen (Age $\geq 80Y$)

Income	Tax Rate
First 5,00,000	NIL
Next 5,00,000	20%
Above 10,00,000	30%

Important Note:

Circular No.28/2016 dated 27.07.2016

If birth date of Individual is 01st April, then he shall be assumed to have attained age of 60/80 years on 31st March itself.

DoB

01.04.1966 \rightarrow 60Y on 31.03.2026
 01.04.1946 \rightarrow 80Y on 31.03.2026

\downarrow
 PY 25-26

Important Points

- a) List of deductions/exemptions not allowable [sec 115BAC(2)]
 - i) Leave travel concession [sec 10(5)]
 - ii) House rent allowance [sec 10(13A)]
 - iii) Special allowance [sec 10(14)]
 - iv) Daily allowance or constituency allowance of MPs/MLAs [s. 10(17)]
 - v) Exemption on minor's income included in Parents' Income [10(32)]
 - vi) Tax holidays for units established in SEZ [sec 10AA]
 - vii) Entertainment allowance Professional tax [sec 16]
 - viii) Interest on self-occupied House property [sec 24(b)]
 - ix) Additional Depreciation [sec 32(1)(iia)]
 - x) Donation made for scientific research [sec 35]
 - xi) Specified Business [sec 35AD]
 - xii) Deductions under Chapter VI A [except 80CCD(2), 80CCH(2), 80JJAA]

b) Certain set-off of losses not allowed

HP loss **not allowed** to be set off from any other head.

Eg. HP loss = 2,00,000
 PGBP Income = 3,00,000
 GTI = 3,00,000
 C/F loss = 2,00,000

Carried forward loss attributable to above deductions or unabsorbed dep for earlier years, **not allowed** to set off.

Eg. Unabsorbed dep [PY 24-25]

Pertaining to additional depreciation \downarrow 2,00,000	Pertaining to normal depreciation \downarrow 3,00,000
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Set-off in PY 25-26 = 3,00,000 only.



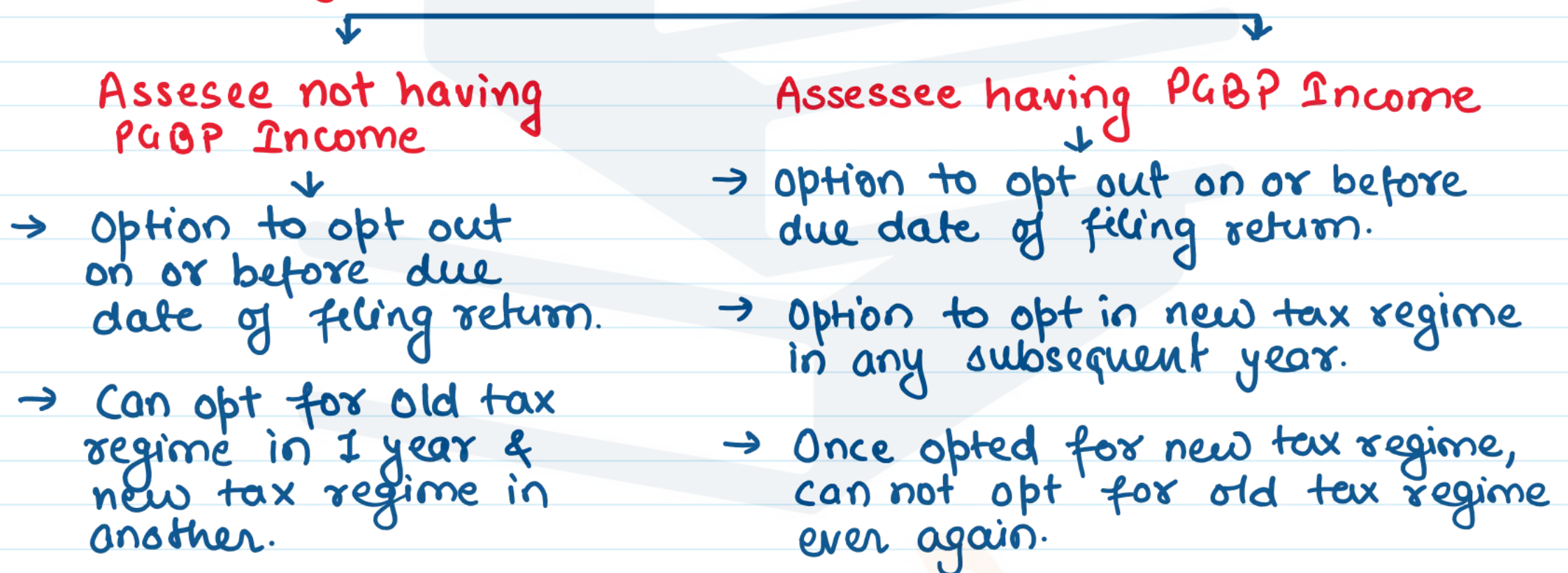
- c) Max depreciation rate = 40%. → Depreciation rate can not exceed 40%.
- d) Exemption / deduction for allowance or perquisites provided under any other act is not allowed.
- e) Unabsorbed additional depreciation shall be added back in wdv as on 01.04.2025 if assessee opts for Sec 115BAC

Eg. Unabsorbed depreciation pertaining to additional dep [PY 24-25] - 3,00,000

Opening wdv of P&M as on 01.04.2025 - 15,00,000

Then, for PY 25-26, opening wdv shall be ₹ 18,00,000 since unabsorbed additional depreciation is not allowed to set-off.

- f) Time limit for exercising the option to shift out of new tax regime



Eg. PY 25-26 → New
PY 26-27 → Old
PY 27-28 → New
PY 28-29 → Old

Eg. PY 25-26 → opt out i.e. old
PY 26-27 → old
PY 27-28 → opt in i.e. new
PY 28-29 → New
PY 29-30 → New } cannot opt old again.

- g) Provisions of Alternate Minimum Tax (AMT) shall not be attracted.



Surcharge i.e. Tax on Tax

Total Income

$\leq 50,00,000$
$> 50,00,000$ but upto $1,00,00,000$
$> 1,00,00,000$ but upto $2,00,00,000$
$> 2,00,00,000$ but upto $5,00,00,000$
$> 5,00,00,000$

Rate of Surcharge on tax	
<u>OLD Tax Regime</u>	<u>New tax Regime</u>
Nil	Nil
10%	10%
15%	15%
25%	25%
37%	25%

Health & Education Cess (HEC)

HEC - 4% of Tax including surcharge.

Eg.

Miss Anaya, Aged 48 years, resident, New tax Regime

Total Income = 2,28,50,000

Computation of tax liability in hands of Anaya for AY 2026-27

First 4,00,000	0
Next 4,00,000 @ 5%	20,000
Next 4,00,000 @ 10%	40,000
Next 4,00,000 @ 15%	60,000
Next 4,00,000 @ 20%	80,000
Next 4,00,000 @ 25%	1,00,000
Balance 2,04,50,000 @ 30%	61,35,000
Tax before surcharge	64,35,000
Add: Surcharge @ 25%	16,08,750
Tax before HEC	80,43,750
Add: HEC @ 4%	3,21,750
	<u>83,65,500</u>

2. Firm / Limited Liability Partnership (LLP)

→ Flat Rate - 30%

→ Surcharge

Income upto 1 crore

↓
NIL

Income > 1 crore

↓
12%

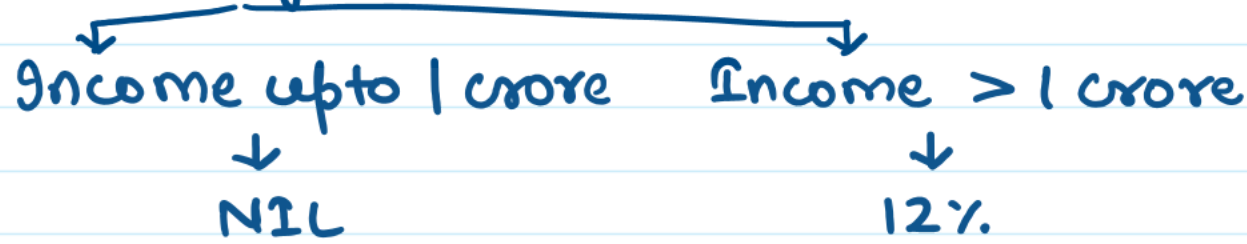
→ HEC - 4%



3. Local Authority

→ Flat tax rate - 30%.

→ Surcharge



→ HEC - 4%.

4. Co-operative society

Normal Tax Rate

First 10,000	10%
Next 10,000	20%
Above 20,000	30%

Surcharge

Total Income	Rate
≤ 1 crore	NIL
> 1 crore upto 10 crore	7%
> 10 crore	12%

HEC - 4%.

Special Tax Rate

Resident manufacturing co-operative society. [115BAE]

Rate - 15%.

Condition - set-up & registered on or after 01.04.2023 & commences manufacture before 31.03.2024

Surcharge - 10% without any threshold limit

HEC - 4%.

Other resident co-operative society. [115BAD]

Rate - 22%.

a) List of deductions / exemptions not allowable :

- i) Tax holidays for units established in SEZ [Sec 10AA]
- ii) Tea / coffee / rubber development account [Sec 33AB]
- iii) Site restoration fund [Sec 35ABA]
- iv) Additional depreciation [Sec 32(1)(iia)]
- v) Donation for scientific research [Sec 35]
- vi) Investment linked tax incentives for specified business [Sec 35AD]
- vii) Agriculture extension project [Sec 35CC]
- viii) Deduction under chapter VIA (other than 80JJA) [Sec 80C to 80U]

b) Carried forward loss attributable to above deductions or unabsorbed dep for earlier years, **not allowed** to set off.

c) Provisions of Alternate Minimum Tax (AMT) shall not be attracted.



5. Domestic Company

Normal Tax Rate

Turnover for PY 23-24	Rate
≤ 400 crore	25% ^{*Amend}
Other case	30%

Surcharge

Total Income	Rate
≤ 1 crore	NIL
> 1 crore upto 10 crore	7%
> 10 crore	12%

HEC - 4%

Special Tax Rate

Domestic manufacturing company [Sec 115BAB]

Rate - 15%

Condition -

set-up & registered on or after 01.04.2019 & commences manufacture before 31.03.2024

Surcharge - 10% without any threshold limit

HEC - 4%

Other Domestic company [Sec 115BAA]

Rate - 22%

a) List of deductions / exemptions not allowable :

- i) Tax holidays for units established in SEZ [Sec 10AA]
- ii) Tea / coffee / rubber development account [Sec 33AB]
- iii) Site restoration fund [Sec 35ABA]
- iv) Additional depreciation [Sec 32(1)(iia)]
- v) Donation for scientific research [Sec 35]
- vi) Investment linked tax incentives for specified business [Sec 35AD]
- vii) Agriculture extension project [Sec 35CC]
- viii) Expenditure for skill development [Sec 35CCD]
- ix) Deduction under Chapter VIA (other than 80JJA) [Sec 80C to 80U]

b) Carried forward loss attributable to above deductions or unabsorbed dep for earlier years, **not allowed** to set off.

6. Other than Domestic Company i.e. Foreign Company.

→ Flat tax rate - 35%

Surcharge

Total Income	Rate
≤ 1 crore	NIL
> 1 crore upto 10 crore	2%
> 10 crore	5%

HEC - 4%



Concept of Marginal Relief on surcharge

Where incremental income is less than the increase in tax (together with surcharge) due to charge of surcharge at higher rate, then marginal relief is allowed to the assessee upto the amount of difference in incremental income and incremental tax.

Steps to solve Marginal Relief

Step A: Calculate tax plus surcharge on net total income (actual)

Step B: Calculate tax plus surcharge on total income without considering incremental income.

Step C: Deduct Step B from step A i.e. step A - step B

Step D: Write down additional income over and above nearest surcharge slab income.

Step E: Marginal relief = Step C - step D

Step F: Deduct MR from step A.

Step G: Add Health & Education cess @ 4%.

Important Note: MR is provided on tax liability before HEC.

Eg:

Mr. J.S. Bansal, aged 68 years, Non-resident, old tax Regime

Total Income = 2,03,10,000

Computation of tax liability in hands of Mr. J.S. Bansal for AY-26-27

First 2,50,000	Nil
Next 2,50,000 @ 5%	12,500
Next 5,00,000 @ 20%	1,00,000
Next 1,93,10,000 @ 30%	<u>57,93,000</u>
Tax before surcharge	59,05,500
Add: surcharge @ 25%	<u>14,76,375</u>
A: Tax including surcharge	73,81,875
B: Tax + surcharge on 2,00,00,000	66,84,375
C: Excess tax (A-B)	6,97,500
D: Income over & above 2,00,00,000	3,10,000
E: Marginal relief (C-D)	<u>3,87,500</u>
F: Tax before HEC (A-E)	69,94,375
Add: HEC @ 4%	<u>2,79,775</u>
Tax liability	<u>72,74,150</u>



TP:5 **Rebate u/s 87A**

- ① The person should be **RESIDENT Individual**.
- ② Rebate shall be provided on tax before HEC.

Two Regime

OLD Tax Regime

- i) Total Income upto ₹ 5 Lakhs
- ii) Rebate equals to
 - a) Tax payable on TI
 - b) 12,500
 Whichever is lower
- iii) Rebate shall not be allowed on tax payable on LTCG u/s. 112A.

No Rebate if Total Income is more than ₹ 5,00,000.

NEW Tax Regime ^{★ Amend}

- i) Total Income upto ₹ 12 Lakhs
- ii) Rebate equals to
 - a) Tax payable on TI
 - b) 60,000
 Whichever is lower
- iii) ^{★ Amend} Rebate shall not be allowed on tax payable on special income i.e. LTCG u/s 112, 112A, STCG u/s 111A, Casual Income etc.

However, if total income is more than ₹ 12,00,000 & tax payable on total income is more than excess income over ₹ 12,00,000
Then, Rebate equals to

- Step 1: Calculate tax on total income before HEC
- Step 2: Income over ₹ 12,00,000
- Step 3: Step 1 - Step 2 = Rebate

Eg. Mr. X aged 68 years, Total Income = 12,30,000 (Normal Income)

Computation of tax payable (New tax regime)

Tax on total income of 12,30,000 at slab rate 64,500
 Less: Rebate u/s 87A 34,500

WN:

Step 1: Tax on 12,30,000 64,500
 Step 2: Income over 12,00,000 30,000
 Step 3: Rebate (1-2) 34,500

Add: HEC @ 4%

30,000
1,200
31,200



eg. Mr. Y aged 68 years, resident, Total Income = ₹4,50,000

Computation of tax liability (under old tax regime)

First 3,00,000	NIL
Next 1,50,000	7,500
	<u>7,500</u>
Less: Rebate u/s 87A	7,500
Tax liability	<u>0</u>

#HAKK  CA

By CA. Akash Bansal



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