

Introduction

What is Tax?

A **tax** is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. Taxes are also imposed by many administrative divisions. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent.

According to Black's Law Dictionary, a tax is a "pecuniary burden laid upon individuals or property owners to support the government [...] a payment exacted by legislative authority." It "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government [...] whether under the name of toll, tribute, tallage, gabel, impost, duty, custom, excise, subsidy, aid, supply, or other name.

The legal definition and the economic definition of taxes differ in that economists do not consider many transfers to governments to be taxes. For example, some transfers to the public sector are comparable to prices. Examples include tuition at public universities and fees for utilities provided by local governments. Governments also obtain resources by creating money (e.g., printing bills and minting coins), through voluntary gifts (e.g., contributions to public universities and museums), by imposing penalties (e.g., traffic fines), by borrowing, and by confiscating wealth. From the view of economists, a tax is a non-penal, yet compulsory transfer of resources from the private to the Public sector levied on a basis of predetermined criteria and without reference to specific benefit received.

In modern taxation systems, taxes are levied in money; but, in-kind and *corvée* taxation are characteristic of traditional or pre-capitalist states and their functional equivalents. The method of taxation and the government expenditure of taxes raised is often highly debated in politics and economics. Tax collection is performed by a government agency such as the Canada Revenue Agency, the Internal Revenue Service (IRS) in the United States, or Her Majesty's Revenue and Customs (HMRC) in the United Kingdom. When taxes are not fully paid, civil penalties (such as fines or forfeiture) or criminal penalties (such as incarceration) may be imposed on the non-paying entity or individual.

Money provided by taxation has been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, subsidies, and the operation of government itself. Governments also use taxes to fund welfare and public services. A portion of taxes also go to pay off the state's debt and the interest this debt accumulates. These services can include education systems, health care systems, pensions for the elderly, unemployment benefits, and public transportation. Energy, water and waste management systems are also common public utilities. Colonial and modernizing states have also used cash taxes to draw or force reluctant subsistence producers into cash economies.

Governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population. Historically, the nobility were supported by taxes on the poor; modern social security systems are intended to support the poor, the disabled, or the retired by taxes on those who are still

working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy (the government's strategy for doing this is called its fiscal policy; see also tax exemption), or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive.

A nation's tax system is often a reflection of its communal values and/or the values of those in power. To create a system of taxation, a nation must make choices regarding the distribution of the tax burden—who will pay taxes and how much they will pay—and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system, these choices reflect the type of community that the public wishes to create. In countries where the public does not have a significant amount of influence over the system of taxation, that system may be more of a reflection on the values of those in power.

Some economists, especially neo-classical economists, argue that all taxation creates market distortion and results in economic inefficiency. They have therefore sought to identify the kind of tax system that would minimize this distortion.

Since governments also resolve commercial disputes, especially in countries with common law, similar arguments are sometimes used to justify a sales tax or value added tax. Others (e.g., libertarians) argue that most or all forms of taxes are immoral due to their involuntary (and therefore eventually coercive/violent) nature. The most extreme anti-tax view is anarcho-capitalism, in which the provision of all social services should be voluntarily bought by the person(s) using them.

Types of taxes

Direct Tax

The term **direct tax** generally means a tax paid directly to the government by the persons on whom it is imposed. However, there are other definitions as well, under which taxes paid directly from individuals to the government are not legally classified as direct taxes, as described below.

In a general sense, a direct tax is one imposed upon an individual person (juristic or natural) or property (i.e. real and personal property, rental profits, livestock, crops, wages, etc.) as distinct from a tax imposed upon a transaction. In this sense, indirect taxes such as sales tax or a value added tax (VAT) are imposed only if and when a taxable transaction occurs. People have the freedom to engage in or refrain from such transactions; whereas a direct tax (in the general sense) is imposed upon a person, typically in an unconditional manner, such as a poll-tax or head-tax, which is imposed on the basis of the person's very life or existence, or a property tax which is imposed upon the owner by virtue of ownership, rather than commercial use. Some commentators have argued that "a direct tax is one that cannot be shifted by the taxpayer to someone else, whereas an indirect tax can be."

Indirect Tax

The term **indirect tax** has more than one meaning. In the colloquial sense, an indirect tax (such as sales tax, a specific tax, value added tax (VAT), or goods and services tax (GST)) is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer). The intermediary later files a tax return and forwards the tax proceeds to government with the return. In this sense, the term indirect tax is contrasted with a direct tax which is collected directly by government from the persons (legal or

natural) on which it is imposed. Some commentators have argued that "a direct tax is one that cannot be shifted by the taxpayer to someone else, whereas an indirect tax can be."

An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products. Examples would be fuel, liquor, and cigarette taxes. An excise duty on motor cars is paid in the first instance by the manufacturer of the cars; ultimately the manufacturer transfers the burden of this duty to the buyer of the car in form of a higher price. Thus, an indirect tax is such which can be shifted or passed on. The degree to which the burden of a tax is shifted determines whether a tax is primarily direct or primarily indirect. This is a function of the relative elasticity of the supply and demand of the goods or services being taxed. Under this definition, even income taxes may be indirect.

Objectives of the study

- To understand various taxes levied in India
- To understand various sections of Income Tax Act 1961
- To learn the process of Computation of Total Income with a illustration
- To learn various tax planning measures
- To understand practical applicability of provisions of Income Tax Act 1961
- To study classification of Income under various heads of income.

Research Methodology

- Research is defined as a systematic, gathering recording and analysis of data about problem relating to any particular field.
 - It determines strength reliability and accuracy of the project.
1. **Research Design:** Research Design pertains to the great research approach or strategy adopted for a particular project. A research project has to be the conducted scientifically making sure that the data is collected adequately and economically.

The study used a **descriptive** research design for the purpose of getting an insight over the company. It is to provide an accurate picture of some aspects of market environment. Descriptive research is used when the objective is to provide a systematic description that is as factual and accurate as possible.

2. **Method of Data Collection:**

Secondary Data: Through the internet and published data

Types of Direct Taxes in India

Income Tax

An **income tax** is a tax on individual earnings (income) that is paid to the national government. In American English the term also applies to the same type of tax paid to city, state, or local governments, and is occasionally used in reference to corporate profits as well (as this is also considered *income* in American English).

Various income tax systems exist, with varying degrees of tax incidence. Income taxation can be progressive, proportional, or regressive. When the tax is levied on the income of companies, it is often called a corporate tax, corporate income tax, or profit tax. Various systems define income differently and often allow notional reductions of income (such as a reduction based on number of children supported).^[2] The US states of Florida and Texas have no state income tax, which is one reason that many people with substantial assets live there.

Wealth Tax

A **wealth tax** is generally conceived of as a levy based on the aggregate value of all household assets, including owner-occupied housing; cash, bank deposits, money funds, and savings in insurance and pension plans; investment in real estate and unincorporated businesses; and corporate stock, financial securities, and personal trusts. A wealth tax is a tax on the accumulated stock of purchasing power, in contrast to income tax, which is a tax on the flow of assets (a change in stock).

DESCRIPTION OF ILLUSTRATION

NAME OF THE ASSESSE	Mr.X
GENDER	MALE
AGE	56
FINANCIAL YEAR	2012 – 2013
ASSESSMENT YEAR	2013 - 2014
SOURCE OF INCOME	SALARY, HOUSE PROPERTY, INCOME FROM OTHER SOURCES

As Mr. X is earning salary, he has no Business and Profession income

And it is also assumed that he has no Capital Gains income

INCOME UNDER VARIOUS HEADS OF INCOME

Income from Salary

The computation of Mr. X's income from Salary is as follows

Particulars	Rs.	Rs.
Basic Salary	500,000	
Dearness Allowance	10,000	
Commission	50,000	560,000
Leave Travel Allowance	20,000	
Sec 10(5)		
Leave Salary	20,000	
Sec 10(10AA)		
Gratuity	150,000	
Sec 10(10)		
Other Allowances	5,000	
Sec 10(14)		195,000
Perquisites [Rule 3]		
Rent free Accommodation	50,000	
Motor Car	10,000	60,000
TOTAL		815,000

Section 10(5):-

In the case of an individual, the value of any travel concession or assistance received by, or due to, him,—

(a) from his employer for himself and his family, in connection with his proceeding on leave to any place in India ;

(b) from his employer or former employer for himself and his family, in connection with his proceeding to any place in India after retirement from service or after the termination of his service,

subject to such conditions as may be prescribed (including conditions as to number of journeys and the amount which shall be exempt per head) having regard to the travel concession or assistance granted to the employees of the Central Government :

Provided that the amount exempt under this clause shall in no case exceed the amount of expenses actually incurred for the purpose of such travel.

Explanation.—For the purposes of this clause, "family", in relation to an individual, means—

(i) the spouse and children of the individual ; and

(ii) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual;]

Section 10(10AA)

(i) any payment received by an employee of the Central Government or a State Government as the cash equivalent of the leave salary in respect of the period of earned leave at his credit at the time of his retirement [whether] on superannuation or otherwise ;

(ii) any payment of the nature referred to in sub-clause (i) received by an employee, other than an employee of the Central Government or a State Government, in respect of so much of the period of earned leave at his credit at the time of his retirement [whether] on superannuation or otherwise as does not exceed [ten] months, calculated on the basis of the average salary drawn by the employee during the period of ten months immediately preceding his retirement [whether] on superannuation or otherwise, [subject to such limit as the Central Government may, by notification in the Official Gazette, specify in this behalf having regard to the limit applicable in this behalf to the employees of that Government] :

Provided that where any such payments are received by an employee from more than one employer in the same previous year, the aggregate amount exempt from income-tax under this sub-clause [shall not exceed the limit so specified] :

Provided further that where any such payment or payments was or were received in any one or more earlier previous years also and the whole or any part of the amount of such payment or payments was or were not included in the total income of the assessee of such previous year or years, the amount exempt from income-tax under this sub-clause [shall not exceed the limit so specified], as reduced by the amount or, as the case

may be, the aggregate amount not included in the total income of any such previous year or years.

Explanation.—For the purposes of sub-clause (ii),—

the entitlement to earned leave of an employee shall not exceed thirty days for every year of actual service rendered by him as an employee of the employer from whose service he has retired ;

(i) any death-*cum*-retirement gratuity received under the revised Pension Rules of the Central Government or, as the case may be, the Central Civil Services (Pension) Rules, 1972, or under any similar scheme applicable to the members of the civil services of the Union or holders of posts connected with defence or of civil posts under the Union (such members or holders being persons not governed by the said Rules) or to the members of the all-India services or to the members of the civil services of a State or holders of civil posts under a State or to the employees of a local authority or any payment of retiring gratuity received under the Pension Code or Regulations applicable to the members of the defence services ;

(ii) any gratuity received under the Payment of Gratuity Act, 1972 (39 of 1972), to the extent it does not exceed an amount calculated in accordance with the provisions of sub-sections (2) and (3) of section 4⁴⁷ of that Act ;

(iii) any other gratuity received by an employee on his retirement or on his becoming incapacitated prior to such retirement or on termination of his employment, or any

gratuity received by his widow, children or dependants on his death, to the extent it does not, in either case, exceed one-half month's salary for each year of completed service^{48, 49}[calculated on the basis of the average salary for the ten months immediately preceding the month in which any such event occurs, subject to such limit⁵⁰ as the Central Government may, by notification in the Official Gazette, specify in this behalf having regard to the limit applicable in this behalf to the employees of that Government] :

Provided that where any gratuities referred to in this clause⁵¹ are received by an employee from more than one employer in the same previous year, the aggregate amount exempt from income-tax under this clause⁵²[shall not exceed the limit so specified] :

Provided further that where any such gratuity or gratuities was or were received in any one or more earlier previous years also and the whole or any part of the amount of such gratuity or gratuities was not included in the total income of the assessee of such previous year or years, the amount exempt from income-tax under this clause⁵²[shall not exceed the limit so specified] as reduced by the amount or, as the case may be, the aggregate amount not included in the total income of any such previous year or years.

Section 10(10)

- (i) any death-*cum*-retirement gratuity received under the revised Pension Rules of the Central Government or, as the case may be, the Central Civil Services (Pension) Rules, 1972, or under any similar scheme applicable to the members of the civil services of the Union or holders of posts connected with defence or of civil posts under the Union (such members or holders being persons not governed by the said Rules) or to the members of the all-India services or to the members of the civil services of a State or holders of civil posts under a State or to the employees of a local authority or any payment of retiring gratuity received under the Pension Code or Regulations applicable to the members of the defence services ;
- (ii) any gratuity received under the Payment of Gratuity Act, 1972 (39 of 1972), to the extent it does not exceed an amount calculated in accordance with the provisions of subsections (2) and (3) of section 4 of that Act ;
- (iii) any other gratuity received by an employee on his retirement or on his becoming incapacitated prior to such retirement or on termination of his employment, or any gratuity received by his widow, children or dependants on his death, to the extent it does not, in either case, exceed one-half month's salary for each year of completed service [calculated on the basis of the average salary for the ten months immediately preceding the month in which any such event occurs, subject to such limit as the Central Government may, by notification in the Official Gazette, specify in this behalf having regard to the limit applicable in this behalf to the employees of that Government] :

Provided that where any gratuities referred to in this clause are received by an employee from more than one employer in the same previous year, the aggregate amount exempt from income-tax under this clause [shall not exceed the limit so specified] :

Provided further that where any such gratuity or gratuities was or were received in any one or more earlier previous years also and the whole or any part of the amount of such gratuity or gratuities was not included in the total income of the assessee of such previous year or years, the amount exempt from income-tax under this clause [shall not exceed the limit so specified] as reduced by the amount or, as the case may be, the aggregate amount not included in the total income of any such previous year or years.

Income from House Property

Section 22

The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him the profits of which are chargeable to income-tax, shall be chargeable to income-tax under the head "Income from house property"

Particulars	Rs.	Rs.
Gross Annual Value	500,000	
less: Municipal Taxes	(50,000)	
Net annual Value		450,000
Deduction [section 24]		
30% of NAV	135,000	
Interest on Borrowed Capital	100,000	235,000
TOTAL		215,000

Determination of Gross Annual Value



Section 24

Income chargeable under the head "Income from house property" shall be computed after making the following deductions, namely:—

- (a) a sum equal to thirty per cent of the annual value;
- (b) where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital:

Provided that in respect of property referred to in sub-section (2) of section 23, the amount of deduction shall not exceed thirty thousand rupees :

Provided further that where the property referred to in the first proviso is acquired or constructed with capital borrowed on or after the 1st day of April, 1999 and such acquisition or construction is completed [within three years from the end of the financial year in which capital was borrowed], the amount of deduction under this clause shall not exceed one lakh fifty thousand rupees.

Explanation.—Where the property has been acquired or constructed with borrowed capital, the interest, if any, payable on such capital borrowed for the period prior to the previous year in which the property has been acquired or constructed, as reduced by any part thereof allowed as deduction under any other provision of this Act, shall be deducted under this clause in equal instalments for the said previous year and for each of the four immediately succeeding previous years:]

[Provided also that no deduction shall be made under the second proviso unless the assessee furnishes a certificate, from the person to whom any interest is payable on the capital borrowed, specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of the property, or, conversion of the whole or any part of the capital borrowed which remains to be repaid as a new loan.

Explanation.—For the purposes of this proviso, the expression "new loan" means the whole or any part of a loan taken by the assessee subsequent to the capital borrowed, for the purpose of repayment of such capital.]

Income From other sources

Section 56:-

Income of every kind which is not to be excluded from the total income under this Act shall be chargeable to income-tax under the head "Income from other sources", if it is not chargeable to income-tax under any of the heads specified in section 14, items A to E.

Particulars	Rs.	Rs.
Interest from Various Sources		200,000
Dividend	50,000	
Less:- Exempt [section 10(34)]	(50,000)	-
Gift received		150,000
Income from lottery and card games		10,000
TOTAL		360,000

Taxation of Gift

At present a gift is chargeable to tax under section 56 (2) (vii) if it satisfies the following conditions:

A. It is received by an individual or a HUF.

B. If it is received on or after 1st October, 2009.

C. The gift falls in any of the following five categories.

D. The gift does not fall in the exempted category.

Any sum of money (gift in cash or by cheque or draft):

If aggregate amount of sum of money received by an individual/ HUF from one or more persons during a previous year (but on or after 1st October, 2009) exceeds Rs. 50,000/-, the whole of such aggregate value will be chargeable to tax

Relative

"relative" means,—

(i) in case of an individual—

(A) spouse of the individual;

(B) brother or sister of the individual;

(C) brother or sister of the spouse of the individual;

(D) brother or sister of either of the parents of the individual;

(E) any lineal ascendant or descendant of the individual;

(F) any lineal ascendant or descendant of the spouse of the individual;

(G) spouse of the person referred to in items (B) to (F); and

(ii) in case of a Hindu undivided family, any member thereof;

Deduction under chapter VI A

Section 80A

(1) In computing the total income of an assessee, there shall be allowed from his gross total income, in accordance with and subject to the provisions of this Chapter, the deductions specified in sections 80C to [80U].

(2) The aggregate amount of the deductions¹ under this Chapter shall not, in any case, exceed the gross total income of the assessee.

Particulars	Rs.	Rs.
Contribution of PPF	50,000	
Tuition Fees of Son	10,000	
Contribution of LIC scheme	60,000	120,000
Limit u/s 80C		100,000
Medical insurance Premium		20,000
[Section 80D]		
Donation		10,000
[section 80G]		
TOTAL		130,000

Section 80C

(1) In computing the total income of an assessee, being an individual or a Hindu undivided family, there shall be deducted, in accordance with and subject to the provisions of this section, the whole of the amount paid or deposited in the previous year, being the aggregate of the sums referred to in sub-section (2), as does not exceed one lakh rupees.

(2) The sums referred to in sub-section (1) shall be any sums paid or deposited in the previous year by the assessee—

(iv) as a contribution by an individual to any provident fund to which the Provident Funds Act, 1925 (19 of 1925) applies;

(xvii) as tuition fees (excluding any payment towards any development fees or donation or payment of similar nature), whether at the time of admission or thereafter,—

(a) to any university, college, school or other educational institution situated within India;

(b) For the purpose of full-time education of any of the persons specified in sub-section(4)

(xii) to effect or to keep in force a contract for such annuity plan of the Life Insurance Corporation or any other insurer as the Central Government may, by notification³⁷ in the Official Gazette, specify;

Section 80D

(1) In computing the total income of an assessee, being an individual or a Hindu undivided family, there shall be deducted such sum, as specified in sub-section (2) or sub-section (3), payment of which is made by any mode [*as specified in sub-section (2B),*] in the previous year out of his income chargeable to tax.

(2) Where the assessee is an individual, the sum referred to in sub-section (1) shall be the aggregate of the following, namely:—

(a) the whole of the amount paid to effect or to keep in force an insurance on the health of the assessee or his family [or any contribution made to the Central Government Health Scheme] [*or such other scheme as may be notified by the Central Government in this behalf*] [*or any payment made on account of preventive health check-up of the assessee or his family*] as does not exceed in the aggregate fifteen thousand rupees; and

(b) the whole of the amount paid to effect or to keep in force an insurance on the health of the parent or parents of the assessee [*or any payment made on account of preventive health check-up of the parent or parents of the assessee*] as does not exceed in the aggregate fifteen thousand rupees.

Explanation.—For the purposes of clause (a), "family" means the spouse and dependant children of the assessee.

[(2A) Where the amounts referred to in clauses (a) and (b) of sub-section (2) are paid on account of preventive health check-up, the deduction for such amounts shall be allowed to the extent it does not exceed in the aggregate five thousand rupees.]

(2B) For the purposes of deduction under sub-section (1), the payment shall be made by—

(i) any mode, including cash, in respect of any sum paid on account of preventive health check-up;

(ii) any mode other than cash in all other cases not falling under clause (i).]

(3) Where the assessee is a Hindu undivided family, the sum referred to in sub-section (1) shall be the whole of the amount paid to effect or to keep in force an insurance on the health of any member of that Hindu undivided family as does not exceed in the aggregate fifteen thousand rupees.

(4) Where the sum specified in clause (a) or clause (b) of sub-section (2) or in sub-section (3) is paid to effect or keep in force an insurance on the health of any person specified therein, and who is a senior citizen, the provisions of this section shall have effect as if for the words "fifteen thousand rupees", the words "twenty thousand rupees" had been substituted.

Explanation.—For the purposes of this sub-section, "senior citizen" means an individual resident in India who is of the age of [sixty years] or more at any time during the relevant previous year.

(5) The insurance referred to in this section shall be in accordance with a scheme made in this behalf by—

- (a) the General Insurance Corporation of India formed under section 9 of the General Insurance Business (Nationalisation) Act, 1972 (57 of 1972) and approved by the Central Government in this behalf; or
- (b) any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).]

Computation of Total Income

Particulars	Rs.
Income from salary	815,000
Income from house property	215000
Income from other sources	360000
GROSS TOTAL INCOME	1,390,000
Deduction under chap VI A	130000
TOTAL INCOME	1,260,000

Calculation of Tax payable

Particulars	Rs.
Income Tax payable on Total income	208,000
Surcharge	-
Education Cess	4,160
Secondary and higher education Cess	2,080
TOTAL TAX LIABILITY	214,240
Less: Advance Tax paid	(100,000)
Less :TDS Deducted (section 192)	(90,000)
TOTAL TAX PAYABLE	24,240

Provisions relating to advance tax

Section 207. [(1)] Tax shall be payable in advance during any financial year, in accordance with the provisions of sections 208 to 219 (both inclusive), in respect of the total income of the assessee which would be chargeable to tax for the assessment year immediately following that financial year, such income being hereafter in this Chapter referred to as "current income".]

[(2) The provisions of sub-section (1) shall not apply to an individual resident in India, who—

(a) does not have any income chargeable under the head "Profits and gains of business or profession"; and

(b) is of the age of sixty years or more at any time during the previous year.]

Advance tax is paid by the all persons, both corporate assessee (company assessee) and non-corporate assessee (other than non-corporate assessee). The advance tax is to be paid in the following installments on the following dates:

For Non-Corporate Assessee

Due Dates Amount of Tax payable

On or before 15 September - not less than 30% of tax payable

On or before 15 December - not less than 60% of tax payable

On or before 15 March - not less than 100% of tax payable

For Corporate Assessee

Due Dates Amount of Tax payable

On or before 15 June - not less than 15% of tax payable

On or before 15 September - not less than 30% of tax payable

On or before 15 December - not less than 60% of tax payable

On or before 15 March - not less than 100% of tax payable

Since, the actual tax and actual income can be computed only after completion of the year therefore, the income is estimated at different due dates mentioned above. The tax on such estimated income is computed and percentage of the tax as mentioned above is payable by the assessee at different due dates.

Tax deducted at source (Section 192)

(1) Any person responsible for paying any income chargeable under the head "Salaries" shall, at the time of payment, deduct income-tax on the amount payable at the average rate of income-tax computed on the basis of the [rates in force] for the financial year in which the payment is made, on the estimated income of the assessee under this head for that financial year.

[(1A) Without prejudice to the provisions contained in sub-section (1), the person responsible for paying any income in the nature of a perquisite which is not provided for by way of monetary payment, referred to in clause (2) of section 17, may pay, at his option, tax on the whole or part of such income without making any deduction therefrom at the time when such tax was otherwise deductible under the provisions of sub-section (1).

(1B) For the purpose of paying tax under sub-section (1A), tax shall be determined at the average of income-tax computed on the basis of the rates in force for the financial year, on the income chargeable under the head "Salaries" including the income referred to in sub-section (1A), and the tax so payable shall be construed as if it were, a tax deductible at source, from the income under the head "Salaries" as per the provisions of sub-section (1), and shall be subject to the provisions of this Chapter.]

[(2) Where, during the financial year, an assessee is employed simultaneously under more than one employer, or where he has held successively employment under more than one employer, he may furnish to the person responsible for making the payment referred to in sub-section (1) (being one of the said employers as the assessee may, having regard to the circumstances of his case, choose), such details of the income under the head "Salaries" due or received by him from the other employer or employers, the tax deducted at source therefrom and such other particulars, in such form and verified in such manner as may be prescribed, and thereupon the person responsible for making the payment referred to above shall take into account the details so furnished for the purposes of making the deduction under sub-section (1).]

[(2A) Where the assessee, being a Government servant or an employee in a [company, co-operative society, local authority, university, institution, association or body] is entitled to the relief under sub-section (1) of section 89, he may furnish to the person responsible for making the payment referred to in sub-section (1), such particulars, in such form and verified in such manner as may be prescribed, and thereupon the person responsible as aforesaid shall compute the relief on the basis of such particulars and take it into account in making the deduction under sub-section (1).]

[*Explanation.*—For the purposes of this sub-section, "University" means a University established or incorporated by or under a Central, State or Provincial Act, and includes an institution declared under section 3 of the University Grants Commission Act, 1956 (3 of 1956), to be a University for the purposes of that Act.]

[(2B) Where an assessee who receives any income chargeable under the head "Salaries" has, in addition, any income chargeable under any other head of income (not being a loss under any such head other than the loss under the head "Income from house property") for the same financial year, he may send to the person responsible for making the payment referred to in sub-section (1) the particulars of—

(a) such other income and of any tax deducted thereon under any other provision of this Chapter;

(b) the loss, if any, under the head "Income from house property",

in such form and verified in such manner as may be prescribed, and thereupon the person responsible as aforesaid shall take—

(i) such other income and tax, if any, deducted thereon; and

(ii) the loss, if any, under the head "Income from house property",

also into account for the purposes of making the deduction under sub-section (1) :

Provided that this sub-section shall not in any case have the effect of reducing the tax deductible except where the loss under the head "Income from house property" has been taken into account,

from income under the head "Salaries" below the amount that would be so deductible if the other income and the tax deducted thereon had not been taken into account.]

[(2C) A person responsible for paying any income chargeable under the head "Salaries" shall furnish to the person to whom such payment is made a statement giving correct and complete particulars of perquisites or profits in lieu of salary provided to him and the value thereof in such form and manner as may be prescribed.]

(3) The person responsible for making the payment referred to in sub-section (1) [or sub-section (1A)] [or sub-section (2) or sub-section (2A) or sub-section (2B)] may, at the time of making any deduction, increase or reduce the amount to be deducted under this section for the purpose of adjusting any excess or deficiency arising out of any previous deduction or failure to deduct during the financial year.

(4) The trustees of a recognised provident fund, or any person authorised by the regulations of the fund to make payment of accumulated balances due to employees, shall, in cases where sub-rule (1) of rule 9 of Part A of the Fourth Schedule applies, at the time an accumulated balance due to an employee is paid, make therefrom the deduction provided in rule 10 of Part A of the Fourth Schedule.

(5) Where any contribution made by an employer, including interest on such contributions, if any, in an approved superannuation fund is paid to the employee, [tax] on the amount so paid shall be deducted by the trustees of the fund to the extent provided in rule 6 of Part B of the Fourth Schedule.

Conclusion and Recommendation

Tax planning measures

As Mr. X is a salaried person tax planning has been suggested accordingly

Think beyond Section 80C

For salaried individuals whose gross total income exceeds Rs 250,000 pa, deductions under Section 80C may not be sufficient to reduce the overall tax liability. In such cases they can consider the following:

Home loan: Individuals intending to buy a house should consider opting for a home loan. Interest payments of upto Rs 150,000 pa are eligible for deduction under Section 24.

Medical insurance: An individual who pays medical insurance premium for self or spouse/dependent children is allowed a deduction of upto Rs 15,000 pa under section 80D.

An additional deduction of up to Rs 15,000 pa is allowed for premium payment made for parents. In case the parents are senior citizens, then the maximum deduction allowed is Rs 20,000 per year.

Donations: Subject to the stated limits, donations to specified funds/institutions are eligible for tax benefits under Section 80G.

Salaried individuals who plan to pursue higher education should avail of an education loan as the entire interest is eligible for deduction under Section 80E. The loan can be for self, spouse or child from an approved charitable institution or a notified financial institution.

Restructure the salary

Restructuring the salary and including certain components can go a long way in reducing the tax liability. Unlike eligible investments which lead to an additional cash outflow, restructuring the salary is a more 'efficient' means of claiming tax benefits. The following can form a part of one's salary structure:

- Food coupons like Sodexo and Ticket Restaurant; they are exempt from tax up to Rs 60,000 per year.
- Medical expenses which are reimbursed by the employer are exempt up to Rs 15,000 per year.
- Individuals living in a rented accommodation should have House Rent Allowance (HRA) as part of their salary.
- Transport allowance is exempt upto Rs 800 per month.
- Leave Travel Allowance (LTA) can be claimed twice in a block of four years for domestic travel.

Claim tax benefits on house rent paid

Salaried individuals can claim rent paid by them for residential accommodation, if HRA doesn't form part of their salary. This deduction is available under Section 80GG and is least of the following:

Bibliography

- Study material of ICAI direct taxation CA final
- Study material of ICAI taxation CA IPCC
- www.incometaxindia.gov.in
- www.wikipedia.com
- TYBCOM Taxation book- Ainapure Manan Prakashan
- MCOM part 2 Taxation textbook Ainapure