DAY 1 : Surcharge and Concept of Marginal Relief

Before we go to practical aspects of marginal relief, students are advised to go through surcharge rates applicable for A.Y. 2014-15

The rates of surcharge applicable for A.Y.2014-15 are as follows –

(a) Individual/HUF/AOP/BOI/Artificialjuridicalperson/Co-operativesocieties/Local Authorities/Firms/LLPs

Where the total income exceeds Rs.1 crore, surcharge is payable at the rate of 10% of income-tax.

Marginal relief is available in case of such persons having a total income exceeding Rs. 1 crore i.e. the additional amount of income-tax payable (together with surcharge) on the excess of income over Rs. 1 crore should not be more than the amount of income exceeding Rs. 1 crore.

(b) Domestic company

(i) In case of a domestic company, whose total income > Rs.1 crore but is ≤ Rs.10 crore

Where the total income exceeds Rs. 1 crore but does not exceed Rs. 10 crore, surcharge is payable at the rate of 5% of income-tax. Marginal relief is available in case of such companies i.e. the additional amount of income-tax payable (together with surcharge) on the excess of income over Rs. 1 crore should not be more than the amount of income exceeding Rs. 1 crore.

(ii) In case of a domestic company, whose total income is > Rs.10 crore

Where the total income exceeds Rs. 10 crore, surcharge is payable at the rate of 10% of income-tax.

Marginal relief is available in case of such companies i.e. the additional amount of income-tax payable (together with surcharge) on the excess of income over Rs. 10 crore should not be more than the amount of income exceeding Rs. 10 crore.

(c) Foreign company

(i) In case of a foreign company, whose total income >Rs. 1 crore but is ≤ Rs.10 crore

Where the total income exceeds Rs. 1 crore but does not exceed Rs. 10 crore, surcharge is payable at the rate of 2% of income-tax. Marginal relief is available in case of such companies i.e., the additional amount of income-tax payable (together with surcharge) on the excess of income over Rs. 1 crore should not be more than the amount of income exceeding Rs. 1 crore.

(ii) In case of a foreign company, whose total income is > Rs.10 crore

Where the total income exceeds Rs. 10 crore, surcharge is payable at the rate of 5% of income-tax.

Marginal relief is available in case of such companies i.e. the additional amount of income-tax payable (together with surcharge) on the excess of income over Rs.10 crore should not be more than the amount of income exceeding Rs. 10 crore.

***Note** –Marginal relief would also be available to those companies which are subject to minimum alternate tax under section 115JB, in cases where the book profit (i.e. deemed total income) exceeds Rs. 1 crore and Rs. 10 crore, respectively.*

Why there is a need for marginal relief?

Consider Example (A) and (B)

Example : (A) Taxpayer : Mr. Active, 54 years having total income of Rs.1,00,00,000.

Particulars	Amount (Rs.)
Tax on Rs.1,00,00,000	28,30,000
Add: Surcharge	Nil
Sub-total	28,30,000

Example : (B) Taxpayer: Mr. Passive, 55 years having total income of Rs.1,01,00,000.

Particulars	Amount (Rs.)
Tax on Rs.1,01,00,000	28,60,000
Add: Surcharge	2,86,000
Sub-total	31,46,000

Now, as compared to Example (A), in Example (B), income is increased by Rs. 1,00,000, while tax is increased by Rs.3,16,000, therefore, there is a need for marginal relief.

Under marginal relief, **tax liability of Rs. 1,01,00,000 is restricted as under**:-

Tax on 1,01,00,000 = Tax on 1,00,00,000 + (Total Income – Rs.1,00,00,000)
= Tax on 1,00,00,000+ (1,01,00,000-Rs.1,00,00,000)
= 28,30,000 + 1,00,000
= 29,30,000
The above tax is increased by education cess 3%

☺ EASY STEPS to compute Final tax liability when total income of Individual ranges between 1,00,00,000 to 1,05,00,000.

Step 1: Find out regular tax liability + Surcharge (Ignore education cess)

Step 2: Find out tax on 1,00,00,000 + (Total Income-1,00,00,000)

Step 3: Step 1 or Step 2 whichever is lower

Step 4: Add Education Cess (@3%)

Take it one more practice sum solved with the help of above steps

Mr. Jayesh having total income of Rs. 1,02,00,000, find out tax payable.

Step 1:- Tax on 1,02,00,000 = Rs. 28,90,000
+ Surcharge (10%) = Rs. 2,89,000

Rs. 31,79,000
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Step 2:- Tax on 1,00,00,000 + (1,02,00,000 – 1,00,00,000)
= Rs. 28,30,000 + Rs. 2,00,000
=Rs. 30,30,000

Step 3:- Step 1 or Step 2 whichever is lower i.e. Rs. 30,30,000

Step 4:- Add education cess (3% of 30,30,000) Rs. 90,900

Rs. 31,20,900