DAY 2 : Rebate [New Section 87A]-[Effective from A.Y.2014-15]

Rebate of up to Rs. 2,000 for resident individuals having total income of up to Rs. 5 lakh [New Section 87A]

Mr. Mohan provides the following information for the previous year 2013-14.

	Particulars	**Amount Rs.**
(i)	Income under the head house property	1,90,000
(ii)	Long term capital gain	1,00,000
(iii)	Contribution to Public Provident Fund	30,000

Calculate tax liability of Mr. Mohan under following alternatives

(1) If he is resident.

(2) If he is non-resident.

Let's understand the AMENDMENT first

The Finance Act, 2013 inserted new section 87A which reads as under:

(a) Section 87A has been inserted to provide a rebate from the tax payable (before education cess) by an individual who is resident in India, provided his total income **does not exceed Rs.5,00,000.**

(b) Such rebate shall be the amount of **income-tax payable** on the total income for any assessment year **or** an amount of **Rs. 2,000 whichever is less.**

Solution:

Computation of Total Income of Mr. Mohan

	Particulars	**Amount Rs.**
(1)	Income under the head house property	1,90,000
(2)	Long term capital gain	1,00,000
	Gross Total Income	2,90,000
	Less : Deduction u/s 80C	
	Contribution to PPF	(30,000)
	TOTAL INCOME	**2,60,000**

<u>Computation of Tax Liability</u>

<u>Alternative (1):- If Mr. Mohan is resident</u>

2,60,000

LTCG

LTCG = Rs.1,00,000
Less: Shifting Benefit = (Rs. 40,000) **(REFER NOTE 1)**
Taxable LTCG @20% = Rs. 60,000

Tax on LTCG =60,000 x 20%
=12,000

Balance Income

Balance Income = Rs.1,60,000
Add: Shifting Benefit = Rs. 40,000
Taxable @Slab Rate = Rs.2,00,000
Less: Exemption Limit = Rs.2,00,000
Taxable Slab Rate Income=Nil

Tax on Balance Income = Nil

Tax =Rs.12,000
Less: Rebate u/s 87A =Rs. 2,000 **(REFER NOTE 2)**
=Rs.10,000
Add: 3% Educess =Rs. 300
Taxable Payable = Rs.10,300

<u>NOTES:</u>

1. Generally Long Term Capital Gain should be taxed at 20% under section 112. However, if other incomes are less than exemption limit, then to that extent long term capital gain shall be shifted to other income and balance long term capital gain shall be taxed at 20%. **[This is called Shifting Benefit].**

2. Here total income doesn't exceed Rs.5,00,000 and Mr. Mohan being resident individual, therefore he can avail rebate under section 87A which shall be Rs. 12,000 or Rs.2,000 whichever is less.

Alternative (2):- If Mr. Mohan is non-resident

2,60,000

LTCG

LTCG = Rs.1,00,000
Less: Shifting Benefit = Not Available **(REFER NOTE 1)**
Taxable LTCG @20% = Rs. 1,00,000

Tax on LTCG =1,00,000 x 20%
=20,000

Balance Income

Balance Income = Rs.1,60,000
Add: Shifting Benefit = Rs. Nil
Taxable @Slab Rate = Rs.1,60,000
Less: Exemption Limit = Rs.1,60,000
Taxable Slab Rate Income=Nil

Tax on Balance Income = Nil

Tax	=Rs.20,000
Less: Rebate u/s 87A	=Not Applicable **(REFER NOTE 2)**
	=Rs.20,000
Add: 3% Educess	=Rs. 600
Taxable Payable	= Rs.20,600

NOTES:

1. *Non-resident cannot avail shifting benefit.*

2. *Non-resident cannot avail rebate under section 87A.*