

BASICS OF
INCOME TAX CALCULATION
IN INDIA FROM FY 2020-21

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INCOME TAX CALCULATION UNDER OLD AND NEW TAX REGIMES

On 13th April 2020, the Central Board of Direct Taxes (CBDT) issued a circular to employers to obtain a declaration from their employees if they wish to opt for the new tax regime. For better understanding, to know the calculation procedure under Old and New tax regimes, and to take the decision whether we can select old tax structure or new tax structure, I am trying to write an article on this. This will be useful for salaried employees relating to India. Before going to examples under Old and New tax regimes, we need to keep in mind the below important points.

1. The tax rate slabs of both the Old tax regime and New tax regime are as mentioned below :-

Calculation of Tax under Old tax structure	
<i>Tax Slab</i>	<i>Tax rate</i>
Up to 2,50,000	NIL
2,50,001 to 5,00,000	5%
5,00,000 to 10,00,000	20%
Above 10,00,000	30%

Calculation of Tax under New tax structure	
<i>Tax Slab</i>	<i>Tax rate</i>
Up to 2,50,000	NIL
2,50,001 to 5,00,000	5%
5,00,001 to 7,50,000	10%
7,50,001 to 10,00,000	15%
10,00,001 to 12,50,000	20%
12,50,001 to 15,00,000	25%
Above 15,00,000	30%

2. Health and Education cess @ 4% will be added to the "Tax payable amount after deduction of rebate u/s 87A".

3. Surcharge is levied on taxable income above Rs50,00,000

4. The individuals who are having taxable income of up to Rs5,00,000 will be eligible for tax rebate u/s 87A up to maximum of Rs12,500, and thereby no need to pay any tax either in old tax regime or new tax regime. (The detailed notes will be there below about sec 87A).

5. Under the new tax regime, the individuals are eligible for only one deduction u/s 80CCD(2) which allows deduction on the employer's contribution to the National Pension Scheme (NPS) Account for maximum of 10% of the respective employee's salary (Basic + DA). Other commonly available deductions such as u/s 80C, 80D, 80E, 80G, and 80U, etc. under chapter VI A, and tax exemptions like House Rent Allowance (HRA), Leave Travel Allowance (LTA), etc. are not available in the new tax regime. The deductions and tax exempts under chapter VI A are mentioned below :-



Deductions under chapter VI A**1. Total aggregate deduction up to Rs1,50,000 of below 3 items i.e. (a), (b), and (c)**

- (a) Investments in specified schemes, savings instruments, etc. such as :-
- (i) Employee contribution to Provident fund (PF)
 - (ii) Employee contributions to Public provident fund (PPF)
 - (iii) L I C premium
 - (iv) Subscription to recognized National Savings Scheme certificates (NSC)
 - (v) Contribution to Unit Linked Insurance Plan (ULIP)
 - (vi) Subscription to equity shares and debentures forming part of approved public limited companies
 - (vii) Subscription to approved Mutual funds
 - (viii) Subscription to Term deposits for a fixed period of not less than 5 years of approved scheduled banks, and Post offices
 - (ix) Subscription to notified bonds issued by NABARD
 - (x) deposit to senior citizen savings scheme
 - (xi) Subscription to 5-year term deposit with Post Offices.
- (b) Contribution to pension funds of LIC or other insurers u/s 80 CCC
- (c) Assessee's contributions to pension schemes of central government u/s 80 CCD (1)

2. Other deductions under VI-A

- (d) Deduction up to Rs 50000 in addition to above points (a), (b), and (c) u/s 80 CCD (1B)
- (e) Assessee's contributions to pension schemes of central government u/s 80 CCD (2)
- (f) Amount invested in Health insurance u/s 80 D
- (g) Interest paid on Educational loan u/s 80 E
- (h) Amount invested in listed shares u/s 80 CCG
- (i) Expenditure incurred for the medical treatment of a dependent u/s 80 DD
- (j) Expenditure incurred for the medical treatment of specified diseases u/s DDB
- (k) Interest on loan for acquired of residential house property u/s 80 EE
- (l) Interest on loan for acquired of electric vehicle u/s 80 EEB
- (m) persons with disability u/s 80 U
- (n) Donations to recognized trusts u/s 80 G
- (o) Rent paid for residential accommodation u/s 80 GG
- (p) Royalty Income of books u/s 80 QQB
- (q) Royalty Income of patents u/s 80 RRB
- (r) Interest on Savings Bank Accounts u/s 80 TTA
- (s) Interest in deposits with post offices, co-operative banks u/s 80 TTb



6. Eligibility to claim rebate u/s 87A :-

The following conditions should satisfy if we claim the benefit of rebate u/s 87A :-

(a) we should be a resident individual,

(b) Our total taxable income (after deductions, but before calculating Health and Education cess) does not exceed Rs12,500.

Then, we are not required to pay any tax either under old tax structure or new tax structure. For example, see the below table.

Rebate u/s 87A under Old tax regime :-			
<i>Total Taxable income</i>	<i>Tax payable</i>	<i>Rebate available u/s 87A</i>	<i>Tax payable before Health and Education cess calculated</i>
260000	500 (2,50,001 to 2,60,000) x 5%	500	NIL
400000	7500 (2,50,001 to 4,00,000) x 5%	7,500	NIL
580000	28500 (2,50,000 to 5,00,000) x 5% (5,00,001 to 5,80,000) x 20%	N/A	28500 (12,500 + 16,000)

Rebate u/s 87A under New tax regime :-			
<i>Total Taxable income</i>	<i>Tax payable</i>	<i>Rebate available u/s 87A</i>	<i>Tax payable before Health and Education cess calculated</i>
260000	500 (2,50,001 to 2,60,000) x 5%	500	NIL
400000	7500 (2,50,001 to 4,00,000) x 5%	7,500	NIL
580000		N/A	



	28500 (2,50,000 to 5,00,000) x 5% (5,00,001 to 5,80,000) x 15%		24500 (12,500 + 12,000)
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Based on above points keep in mind, then we can follow the below examples to understand the basic calculation procedure of both the Old tax structure and New tax structure.

Example 1 :-

Particulars	Tax Rate	Old Tax Structure	New Tax Structure
Total income or Gross Salary		480000	480000
Less : Standard deduction		50000	N/A
Income after standard deduction		430000	480000
Less : Deductions and Tax exemptions of Chapter VI A		80000	0
Taxable income		350000	480000
<i>Calculation of Tax for Old tax structure:-</i>			
Up to 2,50,000	NIL		
2,50,001 to 5,00,000	5%	7500	
5,00,000 to 10,00,000	20%		
Above 10,00,000	30%		
<i>Calculation of Tax for New Tax structure:-</i>			
Up to 2,50,000	NIL		
2,50,001 to 5,00,000	5%		11500
5,00,001 to 7,50,000	10%		
7,50,001 to 10,00,000	15%		
10,00,001 to 12,50,000	20%		
12,50,001 to 15,00,000	25%		
Above 15,00,000	30%		
Total Tax amount		7500	11500
Less : Tax rebate u/s 87 A		7500	11500
Total Taxable amount after rebate u/s 87 A		0	0
Add : Health and Education cess	4%	N/A	N/A
Total Tax Payable amount to Government		N/A	N/A

Note 1 :-

The tax amount of Rs11,500 calculated as below :-

There is a taxable amount under New tax regime is Rs4,80,000

On first 2,50,000	0%	0.00
From 2,50,001 to 4,80,000 (i.e. 2,30,000 x 5%)	5%	11500.00
		<u>11500.00</u>

Note 2 :-

Total Taxable amount after rebate u/s 87A is considered zero because both the old and New tax regimes are having the rebate u/s 87A is below Rs12,500 which is under eligible limit.



Example 2 :-

Particulars	Tax Rate	Old Tax Structure	New Tax Structure
Total income or Gross Salary		860000	860000
Less : Standard deduction		50000	N/A
Income after standard deduction		810000	860000
Less : Deductions and Tax exemptions of Chapter VI A		235000	40000
Taxable income		575000	820000
<i>Calculation of Tax for Old tax structure:-</i>			
Up to 2,50,000	NIL	0	
2,50,001 to 5,00,000	5%	12500	
5,00,000 to 10,00,000	20%	15000	
Above 10,00,000	30%		
<i>Calculation of Tax for New Tax structure:-</i>			
Up to 2,50,000	NIL		0
2,50,001 to 5,00,000	5%		12500
5,00,001 to 7,50,000	10%		25000
7,50,001 to 10,00,000	15%		10500
10,00,001 to 12,50,000	20%		
12,50,001 to 15,00,000	25%		
Above 15,00,000	30%		
Total Tax amount		27500	48000
Less : Tax rebate u/s 87 A		0	0
Total Taxable amount after rebate u/s 87 A		27500	48000
Add : Health and Education cess	4%	1100	1920
Total Tax Payable amount to Government		28600	49920
Benefit by choosing old tax regime is Rs.		21320	

Note :-

The Health and Education cess @ 4% is calculated on "Total taxable amount after rebate u/s 87A".



Example 3 :-

Particulars	Tax Rate	Old Tax Structure	New Tax Structure
Total income or Gross Salary		1700000	1700000
Less : Standard deduction		50000	N/A
Income after standard deduction		1650000	1700000
Less : Deductions and Tax exemptions of Chapter VI A		210000	10000
Taxable income		1440000	1690000
<i>Calculation of Tax for Old tax structure:-</i>			
Up to 2,50,000	NIL	0	
2,50,001 to 5,00,000	5%	12500	
5,00,000 to 10,00,000	20%	100000	
Above 10,00,000	30%	132000	
<i>Calculation of Tax for New Tax structure:-</i>			
Up to 2,50,000	NIL		0
2,50,001 to 5,00,000	5%		12500
5,00,001 to 7,50,000	10%		25000
7,50,001 to 10,00,000	15%		37500
10,00,001 to 12,50,000	20%		50000
12,50,001 to 15,00,000	25%		62500
Above 15,00,000	30%		57000
Total Tax amount		244500	244500
Less : Tax rebate u/s 87 A		0	0
Total Taxable amount after rebate u/s 87 A		244500	244500
Add : Health and Education cess	4%	9780	9780
Total Tax Payable amount to Government		254280	254280
Benefit either by choosing old or New tax regime is Rs.		0	

Note :-

We understand that the old tax regime is beneficial for us when the below conditions are fulfilled :-

- (a) Total taxable income is more than Rs15,00,000, and
- (b) The total deductions and exemptions of old tax regime are should be more than Rs2,50,000 (including standard deduction), comparing to the deductions under new tax regime which is applicable for only u/s80CCD(2).

If the total taxable income is below Rs15,00,000 then the above said deductions under old tax structure i.e. 2,50,000 gradually decrease, comparing to the deductions under new tax regime which is applicable for only u/s80CCD(2).

Hope this article gives you basic information to opt the suitable tax structure to pay Income Tax.

Thank you,

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