

Computation of Total Income and Tax Payable

1. Meaning of Total Income

The Total income of an individual is arrived at after making deductions under Chapter VI-A from the Gross Total Income. As we have learnt earlier, Gross Total Income is the aggregate of the net income computed under the 5 heads of income, after giving effect to the provisions for clubbing of income and set-off and carry forward and set-off of losses.

2. Income to be Considered while Computing Total Income of Individuals

	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm	(i) Salary, bonus etc. received by a partner is taxable as his business income. (ii) Interest on capital and loans to the firm is taxable as business income of the partner.

		<p>The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm.</p> <p>(iii) Share of profit in the firm is exempt in the hands of the partner.</p>
(3)	As a member of HUF	<p>(i) Share of income of HUF is exempt in the hands of the member</p> <p>(ii) Income from an impartible estate of HUF is taxable in the hands of the holder of the estate who is the eldest member of the HUF</p> <p>(iii) Income from self-acquired property converted into joint family property.</p>
(4)	Income of other persons included in the income of the individual	<p>(i) Transferee's income, where there is a transfer of income without transfer of assets</p> <p>(ii) Income arising to transferee from a revocable transfer of an asset.</p> <p>In cases (i) and (ii), income is includible in the hands of the transferor.</p> <p>(iii) Income of spouse as mentioned in section 64(1)</p> <p>(iv) Income from assets transferred to son's wife or to any person for the benefit of son's wife.</p> <p>(v) Income of minor child as mentioned in section 64(1A)</p>

3. Special Provision for Spouses Governed By Portuguese Civil Code [Section 5A]

This section relates to the computation of total income of husband and wife governed by the **system of community of property** as in force in the State of Goa and in the Union Territories of Dadra and Nagar Haveli and Daman and Diu. Such income shall not be assessed as that of the community of property. The income under each head of income (other than under the head 'Salaries') should be apportioned equally between the husband and wife and should be included separately in their respective total income. However, in the case of salary income, it will be assessed in the hands of the spouse who has actually earned it.

4. Computation of Total Income and Tax Liability of Individuals

Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The procedure of computation of total income for the purpose of levy of income-tax is detailed hereunder –

Step 1 – Determination of residential status: The residential status of a person has to be determined to ascertain which income is to be included in computing the total income. In the case of an individual, the duration for which he is present in India determines his residential status. Based on the time spent by him, he may be (a) resident and ordinarily resident, (b) resident but not ordinarily resident, or (c) non-resident. The residential status of an individual determines the taxability of income earned by him. For e.g., income earned outside India will not be taxable in the hands of a non-resident but will be taxable in case of a resident and ordinarily resident.

Step 2 – Classification of income under different heads: The Act prescribes five heads of income. These heads of income exhaust all possible types of income that can accrue to or be received by an individual. An individual has to classify the income earned by him under the relevant head of income.

Step 3 – Exclusion of income not chargeable to tax: There are certain income which are wholly exempt from income-tax e.g. agricultural income. These income have to be excluded and will not form part of Gross Total Income. Also, some incomes are partially exempt from income-tax e.g. House Rent Allowance, Education Allowance. These incomes are excluded only to the extent of the limits specified in the Act. The balance income over and above the prescribed limits would enter computation of total income and have to be classified under the relevant head of income.

Step 4 – Computation of income under each head: Income is to be computed in accordance with the provisions governing a particular head of income. Under each head of income, there is a charging section which defines the scope of income chargeable under that head. There are deductions and allowances prescribed under each head of income. These deductions and allowances have to be considered before arriving at the net income chargeable under each head

Step 5 – Clubbing of income of spouse, minor child etc. : In case of individuals, income-tax is levied on a slab system on the total income. The tax system is progressive i.e. as the income increases, the applicable rate of tax increases. Some taxpayers in the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden. In order to prevent such tax avoidance, clubbing provisions have been incorporated in the Income-tax Act, 1961, under which income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person who has diverted his income to such persons for the purpose of computing tax liability. Effect has to be given to these clubbing provisions.

Step 6 – Set-off or carry forward and set-off of losses: An individual may have different sources of income under the same head of income. He might have profit from one source and loss from the other. For instance, an individual may have profit from his let-out house property and loss from his self-occupied property. This loss can be set-off against the profits of the let-out property to arrive at the net income chargeable under the head “Income from house property”.

Similarly, an assessee can have loss under one head of income, say, Income from house property and profits under another head of income, say, Profits and gains of business or profession. There are provisions in the Income-tax Act, 1961 for allowing inter-head adjustment in certain cases. Further, losses which cannot be set-off in the current year due to inadequacy of eligible profits can be carried forward for set-off in the subsequent years as per the provisions contained in the Income-tax Act, 1961.

Effect has to be given to these provisions for set-off/carry forward and set-off of losses.

Step 7 – Computation of Gross Total Income : The final figures of income or loss under each head of income, after allowing the deductions, allowances and other adjustments, are then aggregated, after giving effect to the provisions for clubbing of income and set-off and carry forward of losses, to arrive at the gross total income.

Step 8 – Deductions from Gross Total Income : There are deductions prescribed from gross total income. The allowable deductions in case of an individual are deductions under sections 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80G, 80GG, 80GGA, 80GGC, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE, 80JJA, 80QQB, 80RRB, 80TTA and 80U. These deductions are allowable subject to satisfaction of the conditions prescribed in the relevant sections.

Step 9 – Total income: The total income of an individual is arrived at, after claiming the above deductions from the gross total income

Step 10 – Application of the rates of tax on the total income: For individuals, there is a slab rate and basic exemption limit. At present, the basic exemption limit is ₹ 2,00,000. This means that no tax is payable by individuals with total income of up to ₹ 2,00,000. The rates of tax and level of total income are as under -

Level of total income	Rate of tax
(i) where the total income does not exceed ₹ 2,00,000	Nil;
(ii) where the total income exceeds ₹ 2,00,000 but does not exceed ₹ 5,00,000	10% of the amount by which the total income exceeds ₹ 2,00,000

- (iii) where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000 ₹ 30,000 plus 20% of the amount by which the total income exceeds ₹ 5,00,000;
- (iv) where the total income exceeds ₹ 10,00,000 ₹ 1,30,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000.

It is to be noted that for a senior citizen (being a resident individual who is of the age of 60 years or more at any time during the previous year), the basic exemption limit is ₹ 2,50,000 and for a very senior citizen (being a resident individual who is of the age of 80 years or more at any time during the previous year), the basic exemption limit is ₹ 5,00,000. Therefore, the tax slabs for these assesseees would be as follows –

For senior citizens (being resident individuals of the age of 60 years or more but less than 80 years)

- (i) where the total income does not exceed ₹ 2,50,000 Nil;
- (ii) where the total income exceeds ₹ 2,50,000 but does not exceed ₹ 5,00,000 10% of the amount by which the total income exceeds ₹ 2,50,000;
- (iii) where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000 ₹ 25,000 plus 20% of the amount by which the total income exceeds ₹ 5,00,000;
- (iv) where the total income exceeds which ₹ 10,00,000 ₹ 1,25,000 plus 30% of the amount by the total income exceeds ₹ 10,00,000.

For resident individuals of the age of 80 years or more at any time during the previous year

- (i) where the total income does not exceed ₹ 5,00,000 Nil;
- (ii) where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000 20% of the amount by which the total income exceeds ₹ 5,00,000;
- (iii) where the total income exceeds which ₹ 10,00,000 ₹ 1,00,000 plus 30% of the amount by the total income exceeds ₹ 10,00,000.

Further, the rates of tax for long-term capital gains, certain short-term capital gains and winnings from lotteries, crossword puzzles, races etc. are prescribed in sections 112, 111A and 115BB respectively. The rates of tax are 20% (10%, without indexation benefit or currency fluctuation, in case of long-term capital gains on transfer of unlisted securities by non-residents or foreign companies), 15% and 30%, respectively, in the above cases.

These tax rates have to be applied on the total income to arrive at the income-tax liability.

Step 11 – Rebate under section 87A (where total income ≤ ₹ 5,00,000) / Surcharge (where total income ≥ ₹ 1,00,00,000)

Rebate under section 87A: In order to provide tax relief to the individual tax payers who are in the 10% tax slab, section 87A has been inserted to provide a rebate from the tax payable by an assessee, being an individual resident in India, whose total income does not exceed ₹ 5,00,000. The rebate shall be equal to the amount of income-tax payable on the total income for any assessment year or an amount of ₹ 2,000, whichever is less.

Surcharge: Surcharge is an additional tax payable over and above the income-tax. Surcharge is levied as a percentage of income-tax. In case where the total income of an individual exceeds ₹ 1 crore, surcharge is payable at the rate of 10% of income-tax.

Level of Total Income	Surcharge	Rebate under section 87A
≤ ₹ 5,00,000	Not applicable	Income-tax on total income or ₹ 2,000, whichever is less
≥ ₹ 5,00,000 ≤ ₹ 1,00,00,000	Not applicable	Not applicable
≥ ₹ 1,00,00,000	10% of income-tax	Not applicable

Step 12 – Education cess and “Secondary and higher education cess” : The income-tax is to be increased by education cess@2% and secondary and higher education cess@1% on income-tax. This is payable by all individuals who are liable to pay income-tax irrespective of their level of total income.

Step 13 – Credit for advance tax and TDS: From the total tax due, deduct the TDS and advance tax paid for the relevant assessment year. The balance is the net tax payable by an individual which must be paid as self-assessment tax before submitting the return of income.

An illustration is given for better understanding of the procedure of computation of total income and tax liability of individuals.

Illustration

Compute the total income and tax liability of Harish, aged 52 years, for the A.Y.2014-15 from the following particulars:

Particulars	₹
(i) Income from house property (computed)	3,15,000
(ii) Income from textile business before adjusting the following	1,20,000
(a) Business loss brought forward	80,000
(b) Current depreciation	40,000
(c) Unabsorbed depreciation brought forward	1,20,000
(iii) Short-term capital gains on sale of land	1,25,000
(iv) Long-term capital loss on sale of shares sold through a recognised	25,000

	stock exchange (securities transaction tax paid)	
(v)	Long-term capital gain on sale of debentures	50,000
(vi)	Dividend on shares held as stock-in-trade	5,000
(vii)	Dividend from a company carrying on agricultural operation	7,000
(viii)	Income from growing and manufacturing coffee (cured and roasted)	80,000

During the previous year 2013-14, Harish has donated ₹ 50,000 to an approved Local Authority for promotion of family planning and repaid ₹ 90,000 towards principal portion of housing loan.

Solution

Particulars	₹	₹	₹
Income from house property			3,15,000
Profits and gains of business or profession			
Income from textile business	1,20,000		
Income from coffee business (40% of ₹ 80,000)	<u>32,000</u>	<u>1,52,000</u>	
Less: (i) Current year depreciation	40,000		
(ii) Brought forward business loss	<u>80,000</u>	<u>1,20,000</u>	32,000
Capital gains			
Short-term capital gain – land		1,25,000	
Long-term capital gain – debentures		<u>50,000</u>	1,75,000
Income from other sources			
Dividend on shares held as stock-in-trade [Exempt u/s 10(34)]		Nil	
Dividend from agricultural company [Exempt u/s 10(34)]		<u>Nil</u>	<u>Nil</u>
			5,22,000
Less: Unabsorbed depreciation			<u>1,20,000</u>
Gross total income			4,02,000
Less:			
Deduction u/s 80C – Repayment of housing loan		90,000	
Deduction u/s 80G @ 100% of ₹ 50,000 subject to [10% of (4,02,000 – 90,000 (80C) - 50,000(LTCG)]		<u>26,200</u>	1,16,200
Total income			2,85,800

Computation of tax liability		
Particulars	₹	₹
Tax on agricultural income plus non-agricultural income i.e., tax on ₹ 48,000 (i.e. 60% of ₹ 80,000) + ₹ 2,85,800 = 3,33,800		
Tax on LTCG of ₹ 50,000 @ 20%	10,000	
Tax on balance income ₹ 2,83,800	<u>8,380</u>	18,380
Less: Tax on agricultural income plus basic exemption limit i.e. ₹ 48,000 + ₹ 2,00,000 = ₹ 2,48,000		<u>4,800</u>
Tax payable		13,580
Less: Rebate under section 87A		<u>2,000</u>
		11,580
Add: Education cess @ 2%		232
Add: Secondary and higher education cess @ 1%		116
Total tax payable		<u>11,928</u>
Total tax payable (rounded off)		11,930

Note – Loss from an exempt source cannot be set-off against income from a taxable source. Therefore, long-term capital loss on sale of shares cannot be set-off against long-term capital gains on sale of debentures.