

## 11 Simple Method of Income Tax Calculation for Employees

- (1) First of all calculate the Taxable Salary (excluding tax free allowance such as Transport allowance, WA, Tax free portion of HRA, PT etc.).
- (2) If you have only one house, which is self occupied and purchased/ constructed by taking home loan then deduct the interest due on home loan max. up to 3 Lakh.
- (3) Add Income from other Sources such as Interest received from bank, NSC etc.
- (4) If any capital asset is sold during the year then calculate the Capital gain and add it.
- (5) Thus, the amount obtained will be called as *Gross Total Income*.  

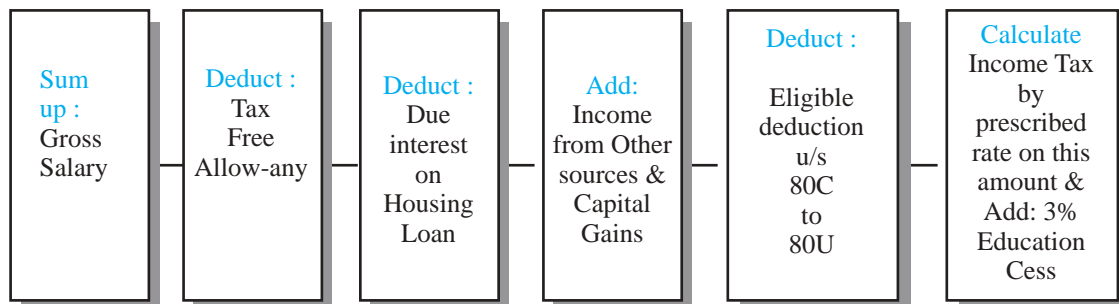
$$\text{Gross Total Income} = \text{Total salary} - \text{Tax-free allowances} - \text{Professional tax} - \text{Interest Due on housing loan} + \text{Income from Other sources} + \text{Capital Gain}$$

(6) **Claim deductions (under chapter VI), as applicable, from Gross total income:-**

- Section 80C** Investment made in GPF/PPF/LIC/NSC/ELSS/ Bank Fixed deposit (for min. 5Yr) etc. up to a maximum limit of Rs.1.5 Lakh
- Section 80CCD** Contribution of assessee & Employer ; toward New Pension scheme of Central Govt. up to a max. limit of 10 % of salary (Pay + Grade Pay + DA), allowed separately.
- 80CCD (IB)** Investment in NPS upto Rs 50000/- can be claimed in deduction in addition to over all limit of Rs. 1.5. lac u/s 80 CCE
- Section 80CCE** Aggregate amount of investment made under section 80C, 80CCC & 80CCD(1) should not be more than Rs.1.5 Lakh but excluding contribution of employer towards NPS up to a max. limit of 10 % of salary
- Section 80CCG** Deduction to an extent of max Rs. 25,000 be allowed from gross total income in respect of investment in specified listed equities in Rajiv Gandhi equity scheme to new retail investor.
- Section 80D** Medical Insurance Premium up to Rs. 15,000 for the health of self/wife, children & Additional Rs. 15,000 (Rs. 20,000 for Sr. citizens) will be allowed for Medical Insurance for mother, father from FY 08-09
- Section 80DD** Expenses on Insurance Premium or treatment of dependent disables
- Section 80E** Interest paid on education loan for higher education of Self/ Spouse /Children
- Section 80G** Donations given to PM/ CM relief funds and others
- Section 80TTA** Interest received from savings account of bank//PO up to Rs.10,000

- (7) Calculate *Taxable Income* as:  

$$\text{Total taxable income} = \text{Gross total income} - \text{Deduction from Sec. 80C to 80U.}$$
- (8) Calculate income tax by new applicable rates and add 3% Education cess on it and if total income is up to Rs. 5 Lakh then *deduct rebate up to Rs. 2000 u/s 87A* and you will get amount of net tax payable.



*Example: If during the financial year 2016-17, Mr. Ram Kumar Sharma of Nagpur received :*

BASIC PAY	3,00,000	LIC	35,000
Grade Pay	1,00,000	NPS	58,000
DA	1,80,000	Children Tuition Fees	50,000
CLA	2,880	Donation u/s 80G	5,000
HRA	30,000	Health insurance u/s 80D	15,000
TA	19,200	Bank Fixed Deposit	25,000

He has paid Rs. 2500 as professional tax and Rs. 82,000 as house rent. Interest accrued housing loan taken by him Rs. 9,000 & repaid 40,000 as Principal of housing loan. Interest received savings bank account Rs. 16700 and invested Rs. 40,000 in Rajiv Gandhi Equity Scheme separately, Employer contributed Rs. 58,000 in new pension scheme. Calculate the IT payable in this case..

**Solution:**

(1) Add all receipts as salary -

Basic + Gr Pay + DA + CLA + HRA + TA + NPS = Gross Salary  
 3,00,000 + 1,00,000 + 1,80,000 + 2,880 + 30,000 + 19,200 + 58000 = 6,90,080

Deduct: Tax-free allowance u/s 10

(a) Transport Allowance @ Rs.1600 p.m. 19,200

(b) Calculation of Tax free Portion of HRA

(i) HRA Received 30,000

(ii) Rent paid – 10% of Basic+Gr.Pay +DA

(82000) - (58,000) 24,000

(iii) 40% of Basic + DP + DA(3,00,000 + 1,00,000 + 180,000) 2,37,000

Tax free portion of HRA i.e. Minimum of (i) (ii) & (iii)..... 24,000 -43,200

Deduct: Tax free allowances u/s 10 (HRA+ TA).....

Deduct Professional Tax u/s 16(iii) 2,500 -2,500

(2) Income from Salary Head **6,44,380**

(3) Deduct Income form House Property : Due Interest on borrowed capital -19,000

(4) Add: Income From Other Sources (Savings bank account Interest) 16,700

(5) **Gross Total Income 6,42,080**

(6) Deductions u/c VI A

(a) Investment made U/Sec 80C –

LIC Premium 35,000

Payment of Housing Loan Principal 40,000

Tuition Fees 50,000

5 year Bank Fixed Deposit 25,000

Total Investment U/S 80C 1,50,000

(b) Contribution of employee u/s 80CCD (IB) 50,000

(c) Contribution of employer u/s 80CCD (2) 58,000

(d) Premium paid for Mediclaim policy u/s 80D 15,000

(e) Donation u/s 80G (100%) 5,000

(f) Deduction u/s 80CCG Raiv Gandhi equity 20,000

(g) Deduction u/s 80 TTA – Interest from Savings account 10,000 3,08,000

Total permissible Deduction U/c VI A i.e. total of (a)(b)(c)(d)(e)(f)(g)&(h)

(7) Total Income (Taxable)..... **3,34,080**

(8) Total Tax (i) First Rs.2,50,000 ----- Nil

(ii) Next Rs. 40,980 ----- 10 % ----- Rs. 4098 8408

(9) Deduct: Rebate in tax u/s 87 A ..... **5000**

(10) Net Tax payable for the Fy 2015-16 will be (3,408 + 102) **3510**

