

13 Calculation of Relief u/s 89 (i)

Generally, after revision of pay scale, employees receive arrears. This is the amount which was due for payment, against previous year's salary. On account of receipt of such arrears, *Taxable Income* of that year increases and generally due to slab difference, it causes a substantial increase in income tax liability. Thus employees suffer financial losses without any mistakes on their part. To avoid such problems, IT department allows the assessee to recalculate the income tax after adding the amount of arrears in respective year's taxable income and calculate, the proportionate increase in income tax liability, year wise and finally the difference is given as relief.

First we calculate tax liability increased due to the addition of arrears in the current year income & then calculate (sum of) Tax liability increased due to addition of arrears, in the respective previous year's taxable income. The difference of X-Y is called *relief*, i.e., relief from the payment of the excess amount of tax, which is finally adjusted from current year's total tax liability calculated including arrears.

Method of calculation of relief u/s 89(i)

First of all divide arrears year wise (in the year it was due for payment). Collect the information of total taxable income, investment and deduction allowed and the information of rates of income tax applicable in previous years. Now calculate the relief of 89(i) by putting correct information in Table A & Annexure – 1 of *Form no. 10E*.

- (1) Calculate the total income of current year without adding arrears A
- (2) Write the amount of arrears B
- (3) Calculate the total income by adding (A) & (B) C
- (4) Calculate tax on the total income (C) D
- (5) Calculate tax on current year income (A) E
- (6) Calculate the difference between (D) & (E). This will be the net tax liability on account of arrears as per current rates ($X = D - E$) X
- (7) Now assuming that arrears would have been received in the previous years, calculate the net tax liability which would have been arisen in that previous year. This can be calculated by substituting correct information in Table A of Form 10E Y
- (8) Now calculate $Z = X - Y$. This will be the relief amount u/s 89(i) & will be deducted from total taxability of current year, calculated incl. Arrears Z

Example: Suppose an employee Mr. Ashok Sharma receives salary as per following in year 2016-17

Basic	2,90,000	Investment done * GPF	48,000
Grade Pay	63,800	* Donation in P.M. Relief Fund	800
DA	2,66,000	* Tuition Fees	7,250
HRA	15,000	* Bank Fixed deposit	20,000
TA	19,200	* Other LIC Premium	60,000
ARREARS	75,000	* Interest on NSC	1,750
TOTAL SALARY	7,29,000	* Repayment of House Loan	13,000

Other than this Ashok Sharma has paid Rs. 60,000 as house rent, Rs. 2,500 as P.T., house loan Principle Rs. 13,000 is paid & accrued interest on house loan for 12-13 is Rs. 36,000, which is not paid in actual. And Interest of Rs. 1200 earned against Bank Fixed Deposits. Arrears of Rs. 75,000 earned, details as follows:

S.N.	Particular year of Arrear	Arrears	Related year's total taxable income	So calculate the relief under section 89 (i) and total income tax payable in FY 2014-15
1.	2007-08	35,000	1,05,850	
2.	2008-09	12,500	1,45,230	
3.	2009-10	13,250	1,55,250	
4.	2010-11	14,250	1,65,450	

Statement of Taxable Income & Net Tax Payable For The Financial Year 2016 -17			
Name	Ashok Sharma	Father's name	Shri K. Sharma
Designation	Asstt. Teacher	Place	Nagpur
A: INCOME FROM SALARY HEAD			
	Total Receipt		Total Receipt
1. BASIC PAY	2,90,000	6. LTC	0
2. Gr. Pay	63,800	7. other	0
3. D.A.	2,66,000	8. Bonus	0
4. H.R.A.	15,000	9. ARREARS (P.Y.)	75,000
5. Con. All.	19,200	10. IR	0
		GROSS SALARY	5,29,000
11. ADD: Valuation Of Perquisites U/S 17(2) From Income Tax			0
12. LESS: Allowances To The Extent Exempt (U/S 10)			(-) 34,200
(a) LTC	Con. All.	WA	
	19,200	0	19,200
(b) Less : HRA u/s 10(13A) & rule 2A		15,000	
(i) Actual Received		15,000	
(ii) Rent Paid – 10% (Basic + DA+GP) (60000-41980)		18,020	
(iii) 40/50% of Salary (Basic + DA+GP)		167,920	
13. LESS : U/S 16(iii) Professional Tax		2,500	(-) 2,500
14. Income under the Head of Salary			6,92,300
B : INCOME FROM HOUSE PROPERTY (Self Occupied Or Let-out)			(-)36,000
1. Interest on House Loan U/S 24		36,000	
C : INCOME FROM OTHER SOURCES			2,950
i. Bank / Post Office Interest		1,200	
ii. NSC Interest		1,750	
D : INCOME FROM BUSINESS HEAD			0
E : INCOME FROM CAPITAL GAIN			0
F : GROSS TOTAL INCOME			6,59,250
G : DEDUCTION UNDER CHAPTER VIA			
a. u/s 80C : Investment by assessee in following scheme		gross amount	
i. GPF/PPF		48,000	
ii. LIC + GIS + PLI + ULIP		60,000	
iii. Interest on NSC		1,750	
iv. Children tuition fees		7,250	
v. Repayment of House Loan (PRINCIPLE)		13,000	
vi. Bank Fixed Deposit		20,000	
SUB TOTAL		1,50,000	
b. LESS : Deduction u/s CCE (i+ii+iii) Maximum Rs. 1,00,000		1,50,000	
c. U/s 80 TTA : Interest from Bank		1200	
d. U/s 80 G : Donation		800	
	Total	1,52,000	
H : TOTAL INCOME (TAXABLE) ROUNDED OFF TO MULTIPLE OF 10			5,07,250
I. TAX ON TOTAL INCOME (CALCULATION OF TAX)			26,450
J. DEDUCT REBATE OF INCOME-TAX U/S 87 A			0,000
K. TOTAL TAX PAYABLE			26,450
L. ADD: EDUCATION CESS 3%			794
M. LESS : RELIEF U/S 89(i)			(-) 4,214
N. NET TAX PAYABLE			23,034



Form No. 10 E

Particulars of income under section 192 (2A) for year ending March 31, 2016 for claiming relief under section 89(i) by a Government Employee

1. Name & address of the Employee ASHOK SHARMA
 2. PAN _____ APPLIED
 3. Residential Status _____ INDIVIDUAL

Particulars of Income referred to the rule 21A of the Income Tax Rules 1962 during the previous year relevant to assessment year 2016-2017

1. (a) Salary received in arrears in accordance with the provision of rule 21A(2) 75,000
 (b) Payment in the nature of gratuity in accordance with the prov.of rule 21A(3) Nil
 (c) Payment in the nature of compensation in accordance with the Provo rule 21A (4) Nil
 (d) Payment in commutation of pension in accordance with the Provo rule 21A (5) Nil
 2. Detailed particulars of payments referred to above may be given in annexure

Signature of Employee

VERIFICATION

I, ASHOK SHARMA do hereby declare that what is stated above is true to the best of my knowledge and belief.

Verified today, the31st day of MARCH 2017

Place : NAGPUR Date 31/03/2017

Signature of Employee

TABLE A

Previous year (financial year)	Total income of the relevant previous year	Salary Received in Arrears of the Relevant Previous year	Total income increased by Arrears	Tax on Total income as per col.2	Tax on Total income as per col.4	Difference
1	2	3	4 = 2+3	5	6	7 = 6-5
2007-08	1,05,850	35,000	1,40,850	0	3178	3178
2008-09	1,45,230	12,500	1,57,730	0	796	796
2009-10	1,55,250	13,250	1,68,500	0	876	876
2010-11	1,65,450	14,250	1,79,700	561	2029	1468
	TOTAL	75,000			TOTAL	6318

ANNEXURE – 1 ARREARS SALARY

1. Total income (excluding salary received in arrears) 4,32,250
 2. Salary received in arrears (total) 75,000
 3. Total income (as increased by salary received in arrear as per item 2) 5,07,250
 4. Tax on total income (as per item 3) incl Edu.cess @3% 27,242
 5. Tax on total income (as per item 1) incl Edu.cess @3% 16,711
 6. Tax on salary received in arrears (diff. 4-5) 10,531
 7. Tax computed in accordance with table “a” (as per Col.7 of table A) 6,318
 8. Relief under section 89(1) (diff. 6 & 7) **4,213**

Date : 31/03/2017

Signature of Employee

Place: NAGPUR

Name : ASHOK SHARMA