

5 Method of Income Tax Calculation

For the convenience of readers, the Method of Income Tax calculation is described here in five steps as following and through a flow chart in the next page.

- 5.1 First Step - Calculation of Gross Total Income:** Calculate Taxable Income arising from following 5 different sources separately :
- (1) Income from Salary Head
 - (2) Income from House Property
 - (3) Income from Business & Profession
 - (4) Income from Capital Gains
 - (5) Income from Other Sources
- The Gross Total Income is calculated after adjusting the losses and clubbing the income of other persons, if any with the sum of above-mentioned 5 sources of income
- 5.2 Second Step - Calculation of Total Income:** Total income is calculated after deduction as shown in the eligible deductions of Chapter VIA from Gross Total Income. The Brief details of some important Deductions are as under:

80C	Investment made in GPF/PPF/LIC/NSC/ELSS/Bank Fixed deposit for min. 5Yr, <i>NABARD BOND</i> etc. up to a maximum limit of Rs.1.5Lakh
80CCD	Contribution of Assessee and Employer towards <i>New Pension System (NPS)</i> of Central Govt. up to a max. limit of 10 % of salary in each case.
80CCD (1B)	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
80CCE	Aggregate sum of investments made under section 80C, 80CCC & 80 CCD should not be more than Rs.1.5 Lakh but excluding contribution of employer towards <i>New Pension System (NPS)</i> up to a max. limit of 10 % of salary
80CCG	The deduction to the extent of max Rs. 25,000/- be allowed in respect of investment in <i>Rajiv Gandhi Equity Scheme</i> to new retail investor.
80D	Health Insurance Premium up to Rs. 15,000 for the health of self/wife, children & Additional Rs. 15,000 (Rs. 20,000 for Sr. Citizens) is allowed for health Insurance for mother, father; which may include max Rs. 5000 for preventive health check-up. Expenses on Insurance Premium or treatment of dependent disables.
80G	Donations given to P.M./C.M. relief funds etc .

- 5.3 Third Step - Calculation of Tax on Total Income:** Income tax is calculated at specified rates (0, 10%, 20%, and 30%) on taxable income. Though agricultural income is tax-free but if it is more than Rs.5,000 then it should be considered into total income, for slab purpose.
- 5.4 Fourth Step - Calculation of Tax Payable:** After deducting rebate of income tax under section 88E (for those who have paid security transaction tax), Tax Payable is calculated.
- 5.5 Fifth Step - Calculation of Net Tax Payable:** If applicable, add surcharge at prescribed rate, and then calculate Education Cess @3% on Tax plus surcharge. Thus the amount received will be called *Gross Tax Payable*. Now Deduct relief U/S 89(i), if any, from Gross Tax Payable & get Net Tax Payable.

