

TAXATION

3rd SEMESTER

TOPIC:

*INCIDENCE OF TAX -
EXEMPTED INCOMES*

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Income Tax Deductions & Exemptions under Sections 80C, 80D & 80DDB



Now that 2020 has arrived, it is time to prepare for the income tax returns to be filed in the month of July'20 for the assessment year (AY) 2020-21 for the income earned for financial year (FY) 2019-20. To avoid last-minute investments in order to save taxes, it is advisable to plan your financial goals well in advance and work on them throughout the year.

The income tax is a percentage of income which is paid to the government by the taxpayers for the betterment of the public in general. The income tax slabs are decided by the Finance Ministry and the same is laid out in the budget every year.

The income is categorized in different groups and the groups are known as income tax slabs. The income tax rates are declared in the Budget. Every individual has to adhere to the tax rates, which depend on the annual income of the individuals. The rates are mentioned in detail below:

Income Tax rates for individuals below 60 years of age (Income Tax Exemption of 2.5 lakh)

Taxable income	Tax Rate
INR 0 to INR 2,50,000	Nil
INR 2,50,000 to INR 5,00,000	5%
INR 5,00,000 to INR 10,00,000	₹12,500 + 20% of total income exceeding ₹5,00,000
Above INR 10,00,000	₹1,12,500 + 30% of total income exceeding ₹10,00,000

individuals above 60 years but less than 80 years of age (Income Tax Exemption of 3 Lakh)

Taxable income	Tax Rate
INR 0 to INR 3,00,000	Nil
INR 3,00,000 to INR 5,00,000	5%
INR 5,00,000 to INR 10,00,000	₹10,000 + 20% of total income exceeding ₹5,00,000
Above INR 10,00,000	₹1,10,000 + 30% of total income exceeding ₹10,00,000

individuals above 80 years of age (Income Tax Exemption of 5 Lakh)

Taxable income	Tax Rate
INR 0 to INR 5,00,000	Nil
INR 5,00,000 to INR 10,00,000	20%
Above INR 10,00,000	₹1,00,000 + 30% of total income exceeding ₹10,00,000

- Additionally, there is a surcharge of 10% in case the total income exceeds INR 50 lakh and a surcharge of 15% in case the total income is more than INR 1 crore. There is also an education cess of 3% applicable over and above the surcharge.
- The income tax exemption limit for all individuals below 60 years is Rs 2.5 lakh, for individuals between 60 years and less than 80 years is Rs 3 lakh and for individuals above 80 years is 5 lakh

- Every individual is eligible for a deduction on the amount of income invested in specific securities. We have listed down all the deductions for FY 2019-20, which will help you prepare your income tax returns easily and make the most of the available tax deductions.
- Here is a list of income tax deductions for FY 2019-20 and AY 2020-21 as per various sections of the Income Tax Act, 1961:

1. Income Tax Deduction under Section 80C

This is the most important section for deductions for every taxpayer. The maximum exemption limit in the section is INR 1.5 lakh. There are various avenues like PPF, EPF, term insurance, NPS, etc that could be claimed under section 80C. Below is the complete list:

- Public Provident Fund
- National Savings Certificate
- National Pension Scheme

- Employees' Provident Fund
- Tuition fees
- Post Office tax saving deposits of five year
- Bank deposit
- Life Insurance Premium
- Equity Linked Saving Schemes
- Principal repayment of home loan
- Sukanya Samriddhi Account Deposit Scheme
- Post Office Senior Citizens Savings Scheme

2. Income Tax Deduction under section 80CCC

This section allows a maximum deduction of INR 1.5 lakh and it includes the contribution made to annuity plan of a life insurance provider for the purpose of obtaining pension from the fund.

3. Income Tax Deduction under section 80CCD

This section includes the contribution to the Atal Pension Yojana and allows a deduction of a contribution up to 10% of the total salary of salaried employees and 20% of the gross income of non-salaried to the government-notified pension schemes. The contribution can be deducted from the taxable income under Section 80 CCD

(1). In case the employer contributes to the scheme as well, the entire contribution amount can be claimed as a tax deduction under Section 80CCD

(2).It is important to remember that the complete deduction under Section 80C, Section 80CCC and Section 80CCD (1) cannot exceed INR 1.5 lakh in aggregate. The additional tax deduction amounting to INR 50,000 under the Section 80CCD (1B) is above this limit.

4. Income Tax Deduction under Section 80D

- Income Tax Deduction under section 80D is for the premium paid for Medical Insurance.
- This section allows deductions on the health insurance premium paid by an individual or HUF. . You can claim a deduction of INR 25,000 for self, spouse and dependent children and an additional deduction for insurance of parents, of less than 60 years of age, is up to Rs 25,000. If parents are above the age of 60 can seek a deduction of INR 50,000, which was increased in Budget 2018 from Rs 30,000.

And if both the taxpayer and parent(s) are above 60 years of age then the maximum deduction under section 80D is up to INR 1 Lakh.

5. Income Tax Deduction under Section 80DD

An amount of INR 75,000 may be claimed as a deduction for spending on medical treatments of dependents with a 40% disability. This limit is INR 1.25 lakh in case of severe disability.

6. Income Tax Deduction under Section 80DDB

Deduction for Medical Expenditure on Self or Dependent Relative.

- **Deduction for Medical Expenditure for individuals and HUFs below age 60::**

Income Tax Deduction under Section 80DDB a deduction up to INR 40,000 is available an individual or a HUF who are below 60 years of age. It is for any expenses towards treatment of specified critical ailments for self and dependents.

- **Deduction for Medical Expenditure for senior citizens and super senior citizens:**

Previously for FY 2017-18, the limit was INR 60,000 for senior citizens and INR 80,000 for super senior citizens. Now it has been changed to INR 1 Lakh for all the senior citizens including super senior citizens.

7. Income Tax Deduction under Section 80CCG

This section which offered the tax benefits of Rajiv Gandhi Equity Savings Scheme has been withdrawn but if an individual has claimed a deduction in FY 2016-17, you are eligible to continue with the same for the next two financial years.

8. Income Tax Deduction under Section 24B

This section allows individuals to claim a deduction for the loss under the head 'Income from House Property'.

It allows a tax benefit on the repayment of the loan of a second house up to INR 2 lakh. The unclaimed amount of loss may be carried forward for 8 years and set off against house property income. Additionally, any interest paid on the housing loan is eligible for a tax benefit. Municipal taxes, interest paid on the loan taken for the house, and 30% of the net annual income is allowed as a deduction.

9. Income Tax Deduction under Section 80E

Interest on loan paid for education is eligible for Section 80E. Please note that principal repayment on the loan cannot be claimed as a deduction. The loan should have been taken for yourself, your children, and spouse or for an individual for whom you are a legal guardian. There is no limit on the amount of interest that can be claimed as a deduction.

10. Income Tax Deduction under Section 80EE

Individuals who are buying a home for the first time may claim an additional deduction of INR 50,000 on the home loan interest paid. This includes a clause that the loan should be sanctioned in or after FY 2016-17 and the amount of loan should be less than INR 35 lakh.

Furthermore, the value of the house should not exceed INR 50 lakh and the individual should not own any other residential house under his name.

11. Income Tax Deduction under Section 80EEA

Section 80EEA allows deduction for interest payments up to Rs 1.5L. This deduction is over and above the deduction of Rs. 2 Lakhs available under section 24. An individual should not own any house on the date of the sanction of a loan to claim this deduction.

12. Income Tax Deduction under Section 80G

Section 80G includes all the contributions made to charitable institutions as well as relief funds. The contribution should be made through cheque, cash or in draft. The amount of deduction eligible is INR 2,000. Moreover, for donations made to political parties, the same deduction could be claimed under 80GGC.

13. Income Tax Deduction under Section 80GG

The deduction amount for this section is INR 60,000 per annum and the section is applicable to only those who neither have the ownership of a residential house nor receive a house rent allowance. The amount of deduction will be the least of the following:

- 25% of the total income
- INR 5,000 per month
- An amount of 10% of the adjusted total income deducted from the rent paid

14. Income Tax Deduction under Section 80TTA

This section allows a deduction of INR 10,000 from the gross total income of individuals or Hindu Undivided Family. The deduction is allowed for the interest earned on the deposits made in a savings account in a bank, cooperative society or a post office. However, the deduction will not be application for the interest earned from fixed deposits in the bank.

15. Income Tax Deduction under Section 80U

This section allows deduction to individuals who are physically and mentally challenged.

Income Tax Exemptions for Salaried Employees 2019 - 20

As a salaried person, you would want to know the income tax exemption that you can claim and save on taxes. So, here are some of the exempt allowances of your income that you can claim in your Income Tax Returns (ITR):

1. House Rent Allowance – HRA in Salary

You must have HRA included in your salary which is a payment allotted for staying at a rented accommodation. Even if your employer doesn't pay you any House Rent Allowance, you can still claim it if you live in a rented place. The amount of HRA that can be claimed for income tax exemption is determined based on certain factors like the city of residence and your salary. You can calculate the amount to file for return with the help of the following formula:

a. Actual rent paid annually minus 10% of your basic salary

b. Actual HRA given by the employer annually

c. 50% of your basic salary (annually)

The least of the three figures is the exempt amount that can be claimed under Section 13A.

2. Leave Travel Allowance(LTA)

Your employer also provides you with Leave Travel Allowance incurred to you while traveling on leaves. But this allowance does not include the costs incurred for payments like shopping, leisure, entertainment, etc.

An exception under LTA is that only domestic travel is counted and the cost of international travel is not covered.

3. Food Coupons

If your employer provides you with meal coupons, you can claim it for income tax exemption. The maximum amount of tax exemption that can be filed is INR 50 per meal. If you calculate, according to 22 working days a month and 2 meals per day, a total amount of INR 26,400 can be availed for income tax exemption annually.

It is advisable to plan the investment in advance in order to avoid the last-minute hassles. In case you are unable to invest in the right products, you would have to pay the entire tax depending on your income. The above list of income tax deductions will help you in tax planning and achieving your financial goals.

THANK YOU