

Idiot proof your tax return

By Ameet Patel

Picture this scenario: You are a salaried person and someone asks you – “Have you filed your income-tax return?” What would be your reply? Chances are that it will be something like this – “No, my employer deducts tax from my salary and I have no other income so I don’t need to file my return”.

Sounds familiar? Well, let me tell you something, you are in for a rude shock. There are two fallacies in the above referred response. One is that a salaried person does not require to file his return of income because his employer has deducted tax at source from the salary. The other fallacy is that a salaried person does not have any other taxable income. Well, if you are still interested in going further, read on.

Section 139 requires any person whose total income exceeds the maximum amount which is exempt from tax to file his return of income on or before the prescribed due date. Now, total income means the taxable income as computed under the Income-tax Act. The maximum amount which is exempt from tax means:

In case of senior citizens –	Rs. 1,85,000
In case of young ladies (all ladies are young but for tax purposes we refer to the age of 65 and above as senior citizens and the ones below as young!) –	Rs. 1,35,000
In case of others –	Rs. 1,00,000

The above figures of income refer to the final figures arrived at after reducing all allowable deductions. For example, in case of a salaried person, the common types of deductions that are generally available are:

Exemption in respect of Conveyance Allowance (under section 10(14))
Exemption in respect of HRA (under section 10(13A))
Exemption in respect of LTA (under section 10(5))

Deduction in respect of Mediclaim Premium (under section 80D)
Deduction in respect of Donation (under section 80G)
Deduction in respect of investment in PPF, LIC Premium, NSC, recognised PF,
Repayment of Housing Loan, Children’s school fees etc. (under section 80C)

Interest on Housing Loan (under section 24)

Thus, a salaried person (or for that matter even a non-salaried person) should follow the steps given below:

First level – compute the income:

- Add up all the items of income which are taxable
- From the income, reduce the deductions that are available
⇒ Arrive at the **taxable income** (technical jargon – “**Total Income**”)

Second level – compute the tax payable:

- If the taxable income referred to in First level exceeds the threshold limit then calculate the tax payable on the final taxable income

- Add sur-charge @ 10% if his taxable income exceeds Rs. 10 lakhs
- Add Education Cess @ 2% on the tax plus sur-charge
 - ⇒ This gives his total **gross tax liability**

Third level – compute the Advance Tax payable, if any:

- From the gross tax, reduce the taxes deducted at source
 - ⇒ The resultant figure would be the amount that ought to have been paid by him by way of **Advance Tax** in September, December and March of the financial year for which he is doing the exercise

The relevance of the last point mentioned above is brought out later on so I guess, you will have to read on.

For the time being, to summarise, after taking the steps mentioned in the First Level above, if you find that your income exceeds the threshold limits mentioned earlier on in the table, then you know that you have got to file your return – whether you like it or not.

Now, if you happen to be below the threshold limit and are rejoicing at not having to file your return of income, please hold on – I have some bad news for you. Irrespective of your income levels, if you happen to fall under the **one-by-six scheme** then you have to file your return of income even if you have NIL income. You would fall under the **one-by-six scheme** if you have, at any time during the relevant year:

- ⇒ Been the owner of a flat exceeding the specified area (which differ from one city to another)
- ⇒ Been the owner of a motor car
- ⇒ Been the proud owner of a credit card (now you know whom those pesky phone callers who ask you whether you own a credit card or not work for!)
- ⇒ Travelled abroad
- ⇒ Spent more than Rs. 50,000 on electricity bills
- ⇒ Been a member of a swanky club

So, now you know better than to tell someone that you do not have to file your tax return because your employer has deducted tax at source from your salary.

Now let us shift to the other fallacy which I referred to in the second paragraph of this article.

You would do well to remember that the general rule is that all items of income are taxable unless they are specifically exempted from tax under section 10 or under any other section.

The above statement highlights the importance of appreciating (?) the fact that even a simple and innocuous amount of say, Rs. 100 earned on your good old savings account with a bank (where you deposit your salary) is taxable! Yes, and similarly, interest on your bank FD or interest on NSCs, interest on Post Office Schemes, Interest on Senior Citizen Scheme of Post Offices, Interest on Capital Gains Bonds purchased by you in the past to save on capital gains are also fully taxable in your hands.

And yes, one more thing – you are a regular on the web site of moneycontrol aren't you? You regularly buy shares recommended by Udayan on CNBC don't you? You

worship Rakesh Jhunjhunwala and the FIIs. You went gaga when the Court approved the Reliance demerger scheme. You buy shares and sell them in a few days and make a cool sum of money don't you? Well, what about the taxes on such short term profits? Just because you are a salaried person, you don't get any exemption from tax on the short term capital gains.

So, the second lesson for the day is that you need to total up **ALL** your income which is not specifically exempt and add it to your salary income and **THEN** decide whether your total income exceeds the threshold limit mentioned in the table.

Finally, a brief discussion on the Advance Tax payable by you and to which I referred to earlier on.

After completing the steps given in the three levels given above, if there is some tax payable by you in addition to the tax already deducted from your salary, then you have got to pay it in Advance i.e. as and when you earn the income. Advance tax is generally required to be paid in 3 instalments as under:

By 15th September – 30% of the total advance tax payable

By 15th December – 60% of the total advance tax payable

By 15th March – 100% of the total advance tax payable

If you don't pay the advance tax properly as per the above schedule then you would have to pay interest under section 234B and 234C. The only exception to this rule is that if the total amount payable by way of Advance Tax does not exceed Rs. 5,000 then you need not pay the tax in Advance but you can pay it at the time of filing your return. You will not have to pay any interest if you do this. Small mercies!!