

## **TAX IMPLICATIONS OF VARIOUS FORMS OF BUSINESS ORGANISATION**

### **I. Individual**

An individual pays tax on his total income at prescribed rates on the basis of slab system. However, he is not entitled to a deduction, in computing business income, any remuneration for work done by him and interest on a capital or own loan invested in the business.

An individual is entitled to the following deductions from his gross total income for the Assessment year 2021-22 :

(1) U/s 80C maximum ₹ 1,50,000 regarding life insurance premia, public provident fund, N.S.C., housing loan, etc.

(2) U/s 80CCC maximum ₹ 1,50,000 regarding contribution to pension fund.

(3) U/s 80D up to ₹ 25,000 regarding premium paid for insurance on the health of self, spouse, dependent children or any contribution made to the Central Government Health Scheme and up to ₹ 25,000 for parent(s) separately. Where the premium is paid in relation to a senior citizen, the deduction can be up to ₹ 50,000.

(4) U/s 80DD regarding medical treatment etc. and amount deposited for maintenance of dependent who is a person with disability :

(i) In case of disability ₹ 75,000

(ii) In case of severe disability ₹ 1,25,000.

(5) U/s 80DDB regarding expenses on medical treatment of specified disease or ailment for himself or dependent :

(i) Amount paid or ₹ 40,000 whichever is less;

(ii) In case of senior citizen, amount paid or ₹ 1,00,000, whichever is less.

(iii) In case of very senior citizen (age 80 years or more) amount paid or ₹ 1,00,000 whichever is less.

From the aforesaid amount any amount received under an insurance from an insurer or reimbursed by an employer, shall be deducted and the balance amount shall be allowed as a deduction.

(6) U/s 80E the whole amount of interest paid regarding loan taken for higher studies.

(7) U/s 80EE regarding interest payable on loan taken in the financial year 2016-17 from any financial institution for acquisition of a residential house. The deduction shall be allowed up to ₹ 50,000.

(8) Deduction in respect of interest on loan taken for Residential House Property (*w.e.f.* Assessment Year 2020-21)

Up to ₹ 1,50,000 every year till the repayment of loan continues.

An individual provided he is not eligible for deduction u/s 80EE.

The loan has been sanctioned by the financial institution between 1.4.2019 and 10.3.2020/31.3.2021 (*w.e.f.* Assessment Year 2021-22)

The stamp duty value of the house property does not exceed ₹ 45,00,000.

(9) Deduction in respect of interest on loan taken to purchase Electric Vehicle (*w.e.f.* Assessment Year 2020-21)

Up to ₹ 1,50,000 every year till the repayment of loan continues.

The loan has been sanctioned by the financial institution between 1.4.2019 and 31.3.2023.

(10) U/s 80GG maximum 25% of total income or ₹ 5,000 p.m., whichever is less, regarding expenditure on house rent.

(11) U/s 80U regarding income of disabled person :

(i) in case of disability ₹ 75,000.

(ii) in case of severe disability ₹ 1,25,000.

(12) U/s 80TTA regarding interest on Saving Bank Account up to ₹ 10,000.

(13) U/s 80TTB regarding interest up to ₹ 50,000 to senior citizen.

**\*Rates of tax for an Individual, HUF, AOP or BOI**

**[Financial Year 2020-21(Assessment Year 2021-22)]**

(a) Individual-Senior Citizen (resident in India, who is of the age of 60 years or more but less than 80 years during the previous year);

On ₹ 3,00,0000	Nil
Next ₹ 2,00,000	@ 5%
Next ₹ 5,00,000	@ 20%
Next- balance	@ 30%

(b) Super Senior Citizen (resident in India, who is of the age of 80 years or more during the previous year) :

On ₹ 5,00,000

Nil

Next ₹ 5,00,000

@ 20%

Next-Balance

@ 30%

(c) Other Individuals, HUF, AOP or BOI :

On ₹ 2,50,000

Next ₹ 2,50,000

Next ₹ 5,00,000

Next-Balance

Nil  
@ 5%  
@ 20%  
@ 30%

**Income Tax Slabs under the New Tax Regime for Individual (being Male, Female, Senior Citizen or Super Senior Citizen) or HUF for Financial Year 2020-21 (Assessment Year 2021-22)**

<i>Total Income</i>	<i>Applicable Tax Rate</i>
Up to ₹ 2.5 lakh	Nil
₹ 2.5 lakh to 5 lakh	5%
₹ 5 lakh to 7.5 lakh	10%
₹ 7.5 lakh to 10 lakh	15%
₹ 10 lakh to 12.5 lakh	20%
₹ 12.5 lakh to 15 lakh	25%
₹ 15 lakh and above	30%

Individuals and HUFs exercising option under section 115BAC are not liable to pay alternate minimum tax (AMT).

Availing a new slab rate is one time non-revocable process. Furthermore, if availing this scheme, an individual has to forgo all tax benefits provided for Leave Travel concession, House Rent Allowance, Standard deduction under the head "Salaries", interest on housing loan on self-occupied or vacant property exemption of ₹ 1,500 per minor child in respect of income of minor child clubbed in the hands of the parent assessee, and other deductions provided in section 80C, 80D, 80E. However, deduction under section 80CCD(2) shall be allowed.

An individual or HUF who does not have any business income would have an option to choose either of the two tax regimes each year depending upon their tax liability under each one of them. However, in respect of an individuals or HUFs having business income, the option once exercised cannot be withdrawn. In such a case, an option once exercised would be applicable for all subsequent assessment years and can be withdrawn only once for a previous year other than the year in which it was exercised and thereafter, the individual or HUF shall never be eligible to exercise option under this section, except where such individual or HUF ceases to have any business income.



**Rate of Surcharge on Income Tax :** Applicable for Individual or Hindu Undivided Family or Association of Persons or Body of Individuals or every Artificial Juridical Person (for the Assessment Year 2021-22) :

Sr. No.	Particulars	Rate of Surcharge on Income Tax
(a)	Where the total income (including income by way of dividend or income under sections 111A and 112A of the Income-tax Act) exceeds ₹ 50 lakh but does not exceed ₹ 1 crore.	10%
(b)	Where the total income (including income by way of dividend or income under sections 111A and 112A of the Income-tax Act) exceeds ₹ 1 crore but does not exceed ₹ 2 crores.	15%
(c)	Where the total income (excluding income by way of dividend or income under sections 111A and 112A of the Income-tax Act) exceeds ₹ 2 crores but does not exceed ₹ 5 crores.	25%
(d)	Where the total income (excluding income by way of dividend or income under sections 111A and 112A of the Income-tax Act) exceeds ₹ 5 crores.	37%
(e)	Where the total income (including income by way of dividend or income under sections 111A and 112A) exceeds ₹ 2 crores, but is not covered under clauses (c) and (d) above.	15%

Provided that in case where the total income includes any income by way of dividend or income chargeable under sections 111A and 112A of the Income-tax Act, the rate of surcharge on the Income-tax computed in respect of that part of income shall be 15%.

**Marginal Relief :** The purpose of marginal relief is to ensure that the increase in amount of tax payable (including surcharge) due to increase in total income of an assessee beyond the prescribed limit should not exceed the amount of increase in total income.

Individual/HUF/AOP/artificial juridical person (for the Assessment Year 2021-22) :

Income	Marginal Relief
<b>Exceed ₹ 50 lakh</b>	The total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax on net income of ₹ 50 lakh by more than the amount of income that exceeds ₹ 50 lakh.
<b>Above ₹ 1 crore</b>	The total amount payable as income tax and surcharge on such income shall not exceed the total amount

	payable as income tax and surcharge on net income of ₹ 1 crore by more than the amount of income that exceeds ₹ 1 crore.
<b>Above ₹ 2 crores</b>	The total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax and surcharge on net income of ₹ 2 crores by more than the amount of income that exceeds ₹ 2 crores.
<b>Above ₹ 5 crores</b>	The total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax and surcharge on net income of ₹ 5 crores by more than the amount of income that exceeds ₹ 5 crores.

No marginal relief will be allowed on health and education cess.

**Health and education cess :** On the amount of income tax and surcharge @ 4%.

## II. Firm/Limited liability partnership

The provisions of income tax Act, relating to assessment of partnership firm and limited liability partnership firm are same.

A firm will pay tax on its total income (for the assessment year 2021-22), @ 30%. In computing the business income the following payments to the partners are deductible :

(1) interest on capital or loan given to the firm at the rate mentioned in the partnership deed but not exceeding 12% p.a.

(2) Remuneration to working partners as mentioned in the partnership deed.

\*Tax on income from transfer of carbon credit (*w.e.f.* Assessment year 2018-19) (sec. 115BBG)

**Who is liable to pay tax :** All assesses.

**Rate of Taxation :** (i) Income from transfer of carbon credits @ 10%; and

(ii) On the balance of total income as per other provisions of the Act.

**Certain deductions not allowed :** From such income any expenditure or allowance shall not be allowed.

## ALTERNATE MINIMUM TAX ON PERSONS OTHER THAN COMPANY FOR A.Y. 2021-22

1. **Who is liable to pay alternate minimum tax (AMT) :** Persons other than a company are liable to pay AMT if ;

(i) he has claimed deduction under Sections 80IA, 80LAB, 80IAC, 80IB, 80IBA, 80IC, 80IE, 80JJA, 80LA, 80QQB or 10AA;

(ii) income tax payable by him on his total income for a previous year in accordance with the provisions of the Income Tax Act is less than AMT payable for such previous year.

**Exception :** An individual or a HUF or an AOP or a BOI (whether incorporated or not) or an artificial judicial person shall not be liable to AMT if adjusted total income does not exceed ₹ twenty lakh.

**2. Tax Liability :** Adjusted total income shall be deemed to be the total income. On the adjusted total income the assessee shall be liable to pay tax @ 18.5% + surcharge (i) In case of an individual HUF, AOP or BOI as discussed in I (ii) In case of firm @ 12%, if such income exceeds ₹ one crore + Health and Education Cess @ 4%.

**3. Computation of adjusted total income [Sec. 115JC(2)]**

Total income of the person

**Add :** (a) Deductions claimed from gross total income in respect of certain incomes (under section 80-IA, 80IAB, 80IAC, 80IB, 80IBA, 80IC, 80IE, 80JJA, 80LA, 80QQB or 80RRB) .....

(b) Deduction claimed u/s 10AA regarding newly established units in special Economic Zones. ....

(c) Deduction claimed u/s 35AD as reduced by the amount of depreciation allowable u/s 32 .....

Adjusted Total Income .....  
.....

#### IV. Company

A domestic company is liable to pay tax for the Assessment Year 2021-22 as under :

(i) Where the total turnover or the gross receipt in the previous year 2018-19 does not exceed 400 crore rupees @ 25% (ii) In any other case @ 30%

**Surcharge :** (i) @ 7% if total income exceeds ₹ one crore but does not exceed ₹ ten crore;

(ii) @ 12% if total income exceeds one crore.

**Marginal relief :** (i) where total income exceeds one crore rupees but does not exceed ₹ ten crore, the total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax on total income of ₹ one crore by more than the amount of income that exceeds ₹ one crore.

where total income exceeds ₹ ten crore, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income tax and surcharge on a total income of ₹ ten crore by more than the amount of income that exceeds ₹ ten crore.

Further, a company will liable to pay Health and Education Cess @ 4% on the amount of income tax and surcharge for the Assessment Year 2021-22.



**\*Tax on Income of certain domestic companies :** A domestic company may pay tax @ 25% (+ surcharge, if any and health and education cess), at its option if it fulfils the following conditions :

**Conditions :** (a) The company has setup and registered on or after 1.3.2016;

(b) The company is not engaged in any business other than the business of manufacture or production of any article or thing research in relation to, or distribution of such article or thing manufactured or produced by it; and

(c) The company has not claimed deductions from its income under the following Sections :

- (A) (i) 10AA \_\_ Unit in special economic zone; or
- (ii) 32(1) (iia) \_\_ Additional depreciation on plant or machinery; or
- (iii) 32AC or 32AD \_\_ Investment allowance; or
- (iv) 33AB \_\_ Deposit in Tea Development Account etc.; or
- (v) 33ABA \_\_ Production of petroleum or natural gas in India; or
- (vi) 35 \_\_ Payment to outsiders for research or expenditure or expenditure on in-house research; or
- (vii) 35AC \_\_
- (viii) 35AD \_\_ Capital expenditure on specified business; or
- (ix) 35CCC \_\_ Expenditure on agricultural extension project; or
- (x) 35CCD \_\_ Expenditure on any skill development project; or
- (xi) Deduction u/ss 80IA, 80IAB, 80IB, 80IBA, 890IC, 80ID, 80IE, 80JJA, from gross total income.

(B) Brought forward loss if such loss is attributable to any aforesaid deduction. Further, such loss cannot be carried forward and set-off in any subsequent year.

### QUESTIONS