Tax Guide 2021 - 2022

A complete guide on the latest tax reforms, income tax structure and things to do to make 2021-2022 a successful financial year for you.

Income tax related changes were announced in the **Budget 2021 on 1st of February 2021.**

Foreword

Income tax is the unfortunate reality of income. If given a choice, most of us wouldn't want to pay tax on the income we earn. But we should, because the income tax we pay is an important source of revenue for the government. As citizens of India, we are also consumers of the country's public infrastructure and facilities. When we want these facilities and infrastructure to improve, it is also our duty and responsibility to contribute towards building and maintaining it. Paying income tax and filing income tax returns is one way of doing that.

PART 1

All you Need to Know About Income Tax

About Income Tax

What is Income Tax?
Income tax is a tax levied directly on the income of an individual/organization/business by the government for the purpose of financing its various operations.

What are the types of Income Tax?
There are two types of income tax - direct tax and the Goods and Services Tax (GST) which subsumed all other indirect taxes such as VAT, service tax, excise etc

Income tax collected by government is not only used for various government schemes but also acts as a fiscal stabilizer that aid in distributing wealth evenly among the population.

According to the Income Tax Act of India, income from the following sources is considered taxable:

Income from:
- Salary
- House Property
- Profit and gains of business or profession
- Capital gains
- Other sources

The sum of income from all the sources above is calculated according to the provisions of Income Tax Act. The tax rates in India vary according to the earnings of an individual and are referred to as Income Tax slabs. These Income Tax rates are revised every year during the budget.
Income tax is calculated on an annual basis. It is levied on the income earned in the previous year which is also known as the Assessment Year. In the eyes of the law, the Financial Year begins on the 1st of April in a given year and ends on the 31st of March of the following year.

How to Save Income Tax?

While the government expects you to pay income tax, it also allows you to legally save on income tax. You don't have to pay income tax if you earn less than Rs.2.5 lakh in a year. Income more than that is taxed as per different slabs, with the tax rates going up with increase in income. No matter how much taxable income you earn, there are certain exemptions and deductions available to all individual and HUF taxpayers that can be used to pay less income tax.

Tax saving options in India
The most popular tax-saving options available to individuals and HUFs in India are under Section 80C of the Income Tax
Act. Section 80C includes various investments and expenses that can be used to claim deductions. The Section 80C limit is Rs.1.5 lakh in a financial year, which means that you can use this entire amount to reduce your taxable income.

Saving tax beyond Section 80C

Apart from the deductions available under Section 80C, there are various other Section 80 deductions that can also be claimed to save on income tax. These deductions include health insurance premiums, tax benefits on home loans, another way to save tax is by creating a Hindu Undivided Family (HUF). An HUF can be created by married Hindu individuals. An HUF would include the creator, who is called Karta, and his or her family members. The advantage of an HUF is that you can split your income between two entities–yourself as an individual taxpayer and the HUF. This way, you can avail the same tax-saving deductions twice.

How to plan your tax-saving investments for the year?

The best time to start planning your tax-saving investments is at the beginning of the financial year. Most taxpayers procrastinate till the last quarter of the year and end up taking hurried decisions. Instead, if you plan at the start of the year, you can make investments that can also help you fulfill your long-term goals. Tax-saving investments should be used to build wealth as well, not only to just save tax.

Use the following pointers to plan your tax-saving for the year:

- Check the tax-saving expenses that you're already making that you can claim. This includes expenses like insurance premium, children's tuition fees, etc.
- Deduct this amount from 1.5 lakh to figure out how much to invest. The entire amount doesn't need to be invested if expenses are covering it
- Choose tax-saving investments based on your goals and profile. ELSS funds, PPF, NPS and fixed deposits are some of the popular options

This way, you can figure out how much you need to invest to save taxes. It is best to begin investing in the first quarter of the financial year so that you can spread the investments over the year. Doing this won't burden you at the end of the year and will also allow you to make informed investment decisions.

Income tax filing:

Know which ITR form is right for you

ITR 1 Sahaj: This form is for individuals being a resident (other than not ordinarily resident) having total income upto Rs 50 lakh, having Income from salaries, one house property, other sources (Interest etc.), and agricultural income up to Rs 5000 (Not for an individual who is either a director in a company or has invested in unlisted equity shares).

- ITR 2:
  This form is for individuals and HUFs not having income from profits and gains of business or profession.

- ITR 3: For individuals and HUFs having income from profits and gains of business or profession.

- ITR 4 Sugam: For individuals, HUFs and Firms (other than LLP) being a resident having a total income upto Rs 50 lakh and having income from business and profession which is computed under sections 44AD, 44ADA or 44AE.

- ITR 5: For persons other than (i) individual, (ii) HUF, (iii) company and (iv) person filing Form ITR-7.

- ITR 6: For Companies other than companies claiming exemption under section 11.
- ITR 7: For persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) only.

PART 2

Guide for e-Filing ITR Online

Who Should e-File the ITR

- Online filing of tax returns is easy and can be done by most assessees
- Assessee with a total income of Rs. 5 Lakhs and above
- Individual/HUF resident with assets located outside India
- An assesse required to furnish a report of audit specified under sections 10(23C) (IV), 10(23C) (v), 10(23C) (VI), 10(23C) (via), 10A, 12A (1) (b), 44AB, 80IA, 80IB, 80IC, 80ID, 80JJAA, 80LA, 92E or 115JB of the Act
- Assesse is required to give a notice under Section 11(2) (a) to the assessing officer
- A firm (which does not come under the provisions of section 44AB), AOP, BOI, Artificial Juridical Person, Cooperative Society and Local Authority (ITR 5)
- An assesse required to furnish returns U/S 139 (4B) (ITR 7)
- A resident who has signing authority in any account located outside India
- A person who claims relief under sections 90 or 90A or deductions under section 91
- All companies

Types of e-Filing

- Use Digital Signature Certificate (DSC) to e-file. It is mandatory to file IT forms using Digital Signature Certificate (DSC) by a chartered accountant
- If you e-file without DSC, ITR V form is generated, which should then be printed, signed and submitted to CPC, Bangalore by ordinary post or speed post within 120 days from the date of e-filing
- You can file e-file IT returns through an E-return Intermediary (ERI) with or without DSC
-

Steps to Follow to File Income Tax Returns

- Filing your income tax returns online doesn't have to be a complicated process. Simply follow the below steps.
- First, log on to IncomeTaxIndiaeFiling.gov.in And register on the website.
- Your Permanent Account Number (PAN) is your user ID
- View your tax credit statement or Form 26AS. The TDS as per your Form 16 must tally with the figures in Form 26AS
- Click on the income tax return forms and choose the financial year
- Download the ITR form applicable to you. If you're exempt income exceeds Rs. 5,000, the appropriate form will be ITR-2 (If the applicable form is ITR-1 or ITR 4S, you can complete the process on the portal itself, by using the 'Quick e-file ITR' link - this has been explained below)
- Open excel utility (the downloaded return preparation software) and fill out the form by entering all details using your Form 16
- Check the tax payable amount by clicking the 'calculate tax' tab
- Pay tax (if applicable) and fill in the challan details
- Confirm all the data provided in the worksheet by clicking the 'validate' tab
- Generate an XML file and save it on your desktop
- - Go to 'upload return' on the portal's panel and upload the saved XML file

- A pop-up will be displayed asking you to digitally sign the file. In case you have obtained a digital signature, select 'Yes'. If you have not got digital signature, choose 'No'
- The acknowledgment form, ITR Verification (ITR-V) will be generated which can be downloaded by you
- Take a printout of the form ITR-V and sign it in blue ink
- Send the form by ordinary or speed post to the Income-Tax Department-CPC, Post Bag No. 1, Electronic City Post Office, Bangalore, 560 100, Karnataka within 120 days of filing your returns online

Things to Watch Out For

- If the same mobile number or email address is used for more than four taxpayers, you cannot file returns on the website, unless the required change is done. For instance, in some cases, more than five returns may be filed yours, wife, mother, mother-in-law and the Hindu undivided family (HUF) of which you are the Karta, the executor of a will
- If your name mentioned in your bank documents or official statements is even slightly different from the one given in the PAN card, the portal will consider you a different individual. In certain instances, some individuals give their father's name as their 'middle' name in their PAN card, but do not use it for their bank accounts
- If a non-resident Indian must file income tax returns, he will need both an India number and a foreign number

PART 3

10 changes in income tax laws that come into effect from February 1, 2021

Here are the main changes in tax laws that will come into effect from February 1, 2021.

1. **No income tax filing required for senior citizens above 75:**
   Sitharaman announced in Union Budget 2021 that senior citizens above the age of 75 years, who only have pension and interest as a source of income, will be exempted from filing their income tax return (ITR). These senior citizens have not been exempted from paying tax but are exempted from filing an ITR if they fulfill certain conditions. They will be exempted from filing ITR only in the case where the interest income is earned in the same bank where the pension is deposited.

2. **Bank A/c Holders Eligible for Exemption:**
   The government will notify a few banks where account holders will be eligible for this exemption and they will have to provide a declaration to the specified bank. After that, the specified bank will have to compute the income of such senior citizens after giving effect to the deduction allowable under Chapter VI-A and rebate allowable under section 87A of the Act, for the relevant assessment year and deduct income tax on the basis of rates in force. Such senior citizens will not have to furnish a return of income for this assessment year after that.

3. **Pre-filled ITR forms:**
   ITR form will now have pre-filled information on dividend, interest and capital gains to ease compliance for individual taxpayers. Details of capital gains from listed securities, dividend income, and interest from banks, post office, etc. will also come pre-filled. Details of salary income, tax payments, TDS, etc will also be there in ITR forms.

4. **EPF contribution:**
   Interest on employee's share of contribution to Employees' Provident Fund (EPF) on or after April 1, 2021, will be taxable at the stage of withdrawal if it exceeds ₹2.5 lakh in any year. This will lead to additional tax liability, especially for High Networth Individuals (HNIs) who make higher contributions and will also discourage voluntary provident fund (VPF) contributions. This along with taxation of aggregate employer's contributions in excess of ₹7.5 lakh to EPF, NPS and superannuation fund and interest thereon introduced last year, may make EPF an even less attractive retirement scheme.

5. **REIT/ InvIT Exemption:**
   The government has proposed to make dividend payment to Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) exempt from TDS. The government has proposed that advance tax liability on dividend income shall arise only after the declaration/payment of dividend as the amount of dividend income cannot be estimated correctly by the shareholders for paying advance tax. The government had abolished dividend distribution tax to incentivise investment and dividend was made taxable in the hands of shareholders in the budget last year.

6. **Higher TDS for Non-Filers of Income Tax Returns:**
   The government has proposed to insert a new section 206AB in the Income Tax Act as a special provision providing for a higher rate for TDS for the non-filers of an income tax return. The proposed TDS rate in this section will have twice the rate specified in the relevant provision of the Act, or twice the rate or rates in force, or the rate of 5%.

7. **Introduction to Unit Linked Insurance Plans (ULIPs) under Tax Bracket:**
   The government has brought Unit Linked Insurance Plans (ULIPs) under tax bracket. Currently, the redemption of ULIPs is tax-exempt provided the total premium payable for the policy does not exceed 10% of the assured sum. Under the new proposals, the redemption of ULIPs issued on or after 1 February 2021 where the annual premium payable by the individual exceeds ₹2.5 lakh would be subjected to capital gains tax, at par with equity-oriented mutual funds.

8. **LTC Scheme Notified:**
   Employees can still avail exemption for leave travel concession (LTC) of one-third of specified expenditure or ₹36,000 whichever is less, for the block of 2018-21 if they have incurred expenditure on purchase of goods/ services liable to GST @ 12% or more, provided the payment is made via non-cash mode and incurred during the period October 12, 2020, to March 31, 2021. The amendment is proposed to be for the financial year 20-21 only.

9. **Tax Holiday on Affordable Housing Extended:**
   The government has extended the additional tax deduction of ₹1.5 lakh on interest paid on housing loan for the purchase of affordable homes by one more year to March 31, 2022. The additional deduction of Rs1.5 lakh over and above ₹2 lakh was introduced in the 2019 budget. This was allowed for those buying homes for the first time and of up to ₹45 lakh cost.

10. **Time Limit for Filing Delayed ITR Reduced:**
    The last date to file a revised income-tax return or belated return on a voluntary basis will now be December 31 after the close of the financial year instead of March 31, 2022.

PART 4

Union Budget Highlights

The Finance Minister rolled out the Budget in the back drop of the very difficult scenario of the pandemic and also the sliding economy of the last year.

Overall the Budget has been a balancing act keeping in mind the thrust required and also taking into account the economic indicators spelt out by the Economic Survey of India announced recently.

Top 10 Tax Highlights from the Union budget 2021-

1. 1No changes to corporate or personal income-tax rates. Exemption provided to over those over 75 years. The Auto Filling of Tax Returns for interest/dividends etc. also rolled out to help simplify filing.

2. International Financial Services Centre (IFSC) is being set.: Eligibility conditions for India based fund manager regime relaxed; income-tax exemption expanded for offshore banking units; royalty income from aircraft leasing to IFSC units exempted. This will benefit Airlines who have a large number of Aircrafts on lease contracts.

3. Equalization levy expanded by clarifying a) scope of online sale of goods/ provision of services and b) consideration on which the levy applies

4. For Start- ups Tax holiday extended to for those incorporated up to 31 March 2022; capital gains also provided exemption on investment in startups extended to 31 March 2022

5. Affordable housing projects tax holiday extended to those projects approved by 31 March 2022; scope of the tax holiday expanded to cover affordable rental housing projects

6. New tax deduction at source (TDS) at 0.1% introduced for payments by specified persons for purchase of goods from a resident seller

7. Income-tax assessment timelines and the re- assessment window to be reduced to nine months and halved to three years, respectively.

8. Faceless Income-tax Appellate Tribunal (ITAT) appeals scheme with dynamic jurisdiction to be introduced; Authority for Advance Rulings replaced by Board for Advance Rulings; Settlement Commission discontinued – pending applications to be heard by interim boards

9. A new Agriculture Infrastructure and Development Cess (AIDC) on import of 25 notified products from 2 February 2021 and as excise duty on petrol and diesel once notified; consequential reduction in basic customs duty also announced

10. Customs duty structure to be rationalized by eliminating redundant exemptions and phasing out of all conditional exemptions by 31 March immediately after two years.

PART 5

Income Tax Slabs, Changes & Cess as per Union Budget 2021-22

Income Tax Slabs 2021 – 2022 for Individuals & HUF below 60 Years of Age

Taxable income	Tax Rate (Existing Scheme)	Tax Rate (Existing Scheme)
Up to Rs. 2,50,000	Nil	Nil
Rs. 2,50,001 to Rs. 5,00,000	5%	5%
Rs. 5,00,001 to Rs. 7,50,000	20%	10%
Rs. 7,50,001 to Rs. 10,00,000	20%	15%
Rs. 10,00,001 to Rs. 12,50,000	30%	20%
Rs. 12,50,001 to Rs. 15,00,000	30%	25%
Above Rs. 15,00,000	30%	30%
Rebate of Rs 12,500 will be available for taxpayers with taxable income up to Rs 5 lakh available under Section 87A		

Income Tax Slabs 2021 – 2022 for Senior Citizens (Aged 60 Years but Less than 80 Years)

Taxable income	Tax Rate (Existing Scheme)	Tax Rate (Existing Scheme)
Up to Rs. 2,50,000	Nil	Nil
Rs. 2,50,001 to Rs. 3,00,000	Nil	5%
Rs. 3,00,001 to Rs. 5,00,000	5%	5%
Rs. 5,00,001 to Rs. 7,50,000	20%	10%
Rs. 7,50,001 to Rs. 10,00,000	20%	15%
Rs. 10,00,001 to Rs. 12,50,000	30%	20%
Rs. 12,50,001 to Rs. 15,00,000	30%	25%
Above Rs. 15,00,000	30%	30%
1. Rebate of Rs 12,500 will be available for taxpayers with taxable income up to Rs 5 lakh available under Section 87A		

Income Tax Slabs 2021 – 2022 for Super Senior Citizens (Above 80 Years)

Taxable income	Tax Rate (Existing Scheme)	Tax Rate (Existing Scheme)
Up to Rs. 2,50,000	Nil	Nil
Rs. 2,50,001 to Rs. 5,00,000	Nil	5%
Rs. 5,00,001 to Rs. 7,50,000	20%	10%
Rs. 7,50,001 to Rs. 10,00,000	20%	15%
Rs. 10,00,001 to Rs. 12,50,000	30%	20%
Rs. 12,50,001 to Rs. 15,00,000	30%	25%
Above Rs. 15,00,000	30%	30%

2. Surcharge to be levied for F.Y. 2021 - 22	
Taxable Income	Surcharge (%)
Total income above Rs.50 Lakh but below Rs. 1 Crore	10%
Total income above Rs.1 Crore but below Rs. 2 Crore	15%
Total income above Rs.2 Crore but below Rs. 5 Crore	25%
Total income above Rs. 5 Crore	37%
For Non-Resident Individuals (NRI), the basic exemption limit is of Rs. 2.5 lakh in a financial year irrespective of their age.	

Note: Surcharge and cess shall be continued to be levied at the existing rates.
Sec-80EEA- Tax benefit on the new housing loans, additional deduction of Rs.150,000/- extended for the

loans taken till March 31, 2021.

PART 6
Frequently Asked Questions (FAQs)

Can a person change Tax Regime year on year?
The persons who have Income from sources of Salary, House Property, Capital Gain and from other sources are allowed to select tax regime year on year basis. However, those having Income from Business Profession are allowed to select tax regime only once in lifetime.

Is Standard Deduction of Rs. 50000 available under new tax regime to Individuals having Income from Salary?
The main condition of availing an option of paying tax at concessional rates on Income up to Rs. 15 Lacs is "to forego certain tax deductions and exemptions". Here Deductions includes Standard deduction which is otherwise available of Rs. 50000 to those having Income from Salary. It means that Standard Deduction is not available under new tax regime.

Can a person opting New Tax Regime avail benefit of Rebate u/s 87A?
The new tax regime only talks about foregoing most of the exemptions and deductions, and therefore Rebate u/s 87A is available under both Old as well as New Tax Regime.

If Employee does not give Intimation of going for new tax regime to the employer while deciding tax liability and later on wish to go for new regime while filing Income Tax Return, can he do so?
The CBDT via circular dtd. 13th April has clarified that an Employee can change the tax structure at the time of filing income tax and that the amount of TDS will be adjusted accordingly

Source: Economic Times, Financial Express, TaxGuru, IncomeTax India, HostBooks