

# BANKING AND TAXATION

## Introduction

Gokul was talking with his friends. They were discussing that each month they were able to save some money. They wondered where to keep it safely so that it would be available when they needed it.

Mohan – I think we should open a savings account.

Ajmal – It would be better if we open a recurring deposit account; we will get more interest.

Naresh – But, we will have to deposit some money every month in a recurring deposit account.

Gokul – We can easily do that for the next few months.

Ajmal – Good! Let us deposit a fixed amount of money for the next six months.

Gokul – How much money? Where should I deposit it? Can I deposit only for six months?

Naresh – No. You can go up to 10 years and deposit in a bank or even a post-office. Not only this, you can open more than one account. Just be careful that the money deposited should be a multiple of ten.

Gokul – What are the benefits of depositing for a longer period?

Naresh – The interest rates are higher; the longer the period the higher is the interest rate.

Rakesh – And suppose I want to withdraw money before the period ends or if I don't have enough money for the installment?

Naresh – Every year you can withdraw a limited sum. We will have to ask the bank about what will happen if we don't deposit the installment. But if you have to close the account, then they will deduct some money from your interest and return the rest.



Garima – Is there some other type of account that gives even more interest?

Rakesh – Yes, you can open a fixed deposit account. But here, you have to deposit the money for a fixed period.

Garima – How do I decide whether to put my savings in a recurring deposit account or a fixed deposit?

Rakesh – If you don't need your savings in the near future then you can open a fixed deposit account, otherwise go for a recurring deposit account.

### Try This



You must have read about simple interest in previous classes. Let us solve some examples to understand the differences between savings, recurring deposit and fixed deposit accounts.

1. Mahesh deposits ₹300 every month, for three months, in his savings account. Ekta deposits ₹100 every month for three months in her recurring deposit account, depositing a total of ₹300. If :
  - a. the rate of interest per annum in the savings account is 4% and it is 6% in the recurring deposit account, which one will give more interest?
  - b. the rates of interest in both the accounts is 6%, then will there be any difference in the interest amounts? If yes, then what is the reason for the difference?
2. Manisha deposits ₹2000 in her savings account for two years on which she gets interest at the rate of 4% per annum. Rohan deposits ₹2000 in a fixed deposit account for 2 years and gets interest at the rate of 8% per annum. What will the interest amount earned by Manisha and Rohan at the end of two years?

We can summarize the differences in the three types of accounts as follows:

When we have some savings which we may need at any time then we should put them in a savings account. We open a fixed deposit account when we feel that we will not need our savings in the coming six months, one-two years or for some fixed duration.

The money deposited in a savings account can be withdrawn anytime so the bank can't use this money and therefore the rate of interest is less. But for the money deposited in a fixed deposit account, the bank knows that it can use it for the duration of the account and therefore the rate of interest is higher.

Recurring deposit account is different from the other two accounts as the person depositing does not have a very large sum of money to start with. She has some savings and she wants to continuously save this same amount every month for a fixed period. In such a

situation, a recurring deposit account is a good option. The rate of interest is higher than a savings account because here also the duration is fixed.

**Let us understand recurring deposit accounts through some examples.**

**Example-1.** Santosh Kumar opened a recurring deposit account for six months where he had to deposit ₹100 every month. If the annual rate of interest is 6% then what will be the maturity amount at the end of six months?

**Solution :** (i) Interest earned on the first installment of ₹100 (Interest on ₹100 for 6 months at the rate of 6%)

$$= \frac{100 \times 6 \times 6 \times \frac{1}{12}}{100}$$

(ii) Interest on the second installment of ₹100 (Interest on ₹100 for 5 months at the rate of 6%)

$$= \frac{100 \times 6 \times 5 \times \frac{1}{12}}{100}$$

(iii) Interest on the third installment of ₹100 (Interest on ₹100 for 4 months at the rate of 6%)

$$= \frac{100 \times 6 \times 4 \times \frac{1}{12}}{100}$$

(iv) Interest on the fourth installment of ₹100 (Interest on ₹100 for 3 months at the rate of 6%)

$$= \frac{100 \times 6 \times 3 \times \frac{1}{12}}{100}$$

(v) Interest on the fifth installment of ₹100 (Interest on ₹100 for 2 months at the rate of 6%)

$$= \frac{100 \times 6 \times 2 \times \frac{1}{12}}{100}$$

(vi) Interest on the sixth and last installment (Interest on ₹100 for 1 month at the rate of 6%)

$$= \frac{100 \times 6 \times 1 \times \frac{1}{12}}{100}$$

Total interest =

$$\left[ \frac{100 \times 6 \times 6 \times \frac{1}{12}}{100} + \frac{100 \times 6 \times 5 \times \frac{1}{12}}{100} + \frac{100 \times 6 \times 4 \times \frac{1}{12}}{100} + \frac{100 \times 6 \times 3 \times \frac{1}{12}}{100} + \frac{100 \times 6 \times 2 \times \frac{1}{12}}{100} + \frac{100 \times 6 \times 1 \times \frac{1}{12}}{100} \right]$$

$$= \frac{100 \times 6 \times \frac{1}{12}}{100} [6 + 5 + 4 + 3 + 2 + 1]$$

$$= \frac{100 \times 6 \times \frac{1}{12}}{100} [1 + 2 + 3 + 4 + 5 + 6]$$

$$= \frac{100 \times 6 \times \frac{1}{12} \times 6 \times 7}{100 \times 2} \quad (\text{using the formula for sum of a finite arithmetic series})$$

$$= \frac{21}{2} = ₹10.50$$

The total sum of money obtained after six months =  $100 \times 6 + 10.50 = ₹610.50$

**Example-2.** If ₹ P is deposited for  $n$  months at the interest rate of  $r\%$  per annum then calculate the interest obtained on the recurring deposit account after  $n$  months.

**Solution :**

Interest on ₹ P after  $n$  months at the interest rate  $r\%$  per annum (interest on first installment)

$$= \frac{P \times r}{100} \times \frac{n}{12} \quad (\text{because the bank kept this money for } n \text{ months})$$

Interest on ₹P after  $(n-1)$  months at  $r\%$  interest rate (interest on second installment)

$$= \frac{P \times r}{100} \times \frac{n-1}{12} \quad (\text{because the bank keeps this money for } n-1 \text{ months})$$

Interest on ₹P after  $(n-2)$  months at  $r\%$  interest rate (interest on third installment)

$$= \frac{P \times r}{100} \times \frac{n-2}{12} \quad (\text{because the bank keeps this money for } n-2 \text{ months})$$

.....  
.....

Similarly, interest on ₹ P in the penultimate month (that is, in  $(n-(n-2))^{\text{th}}$  month) at  $r\%$  interest rate (interest on the second last installment)

$$= \frac{P \times r}{100} \times \frac{2}{12} \quad (\text{because this money is with the bank for 2 months})$$

Interest on ₹ P in the last month at  $r\%$  interest rate (interest on the last installment)

$$= \frac{P \times r}{100} \times \frac{1}{12} \quad (\text{because the bank keeps this money for 1 month})$$

$$\begin{aligned} \text{Total interest} &= \frac{P \times r}{100} \times \frac{1}{12} [n + (n-1) + (n-2) + \dots + 2 + 1] \\ &= \frac{P \times r}{100} \times \frac{1}{12} \left[ \frac{n(n+1)}{2} \right] \\ &= \frac{P \times r}{100} \times \frac{1}{12} \left[ \frac{n(n+1)}{2} \right] \quad (\text{because it is an arithmetic progression}) \end{aligned}$$

∴ the total interest on an amount saved in a recurring deposit account =

$$= \frac{P \times r}{100} \times \frac{1}{12} \left[ \frac{n(n+1)}{2} \right]$$

Where P = monthly installment amount       $r$  = rate of interest  
 $n$  = total number of monthly installments

### Let us now understand the calculation of interest on a fixed deposit account through some examples

Compound interest is applicable on the amount deposited in a fixed deposit account and it is given by the following formula:

$$A = P \left( 1 + \frac{r}{100} \right)^n$$

Where A = total amount, P = principal amount,  $r$  = rate of interest and  $n$  = time

Log tables can be used for calculations.

**Example-3.** Nikhil deposited ₹10,000 for 1 year and six months in a fixed deposit account in a *Grameen* (Rural) Bank. If the rate of interest per annum is 8%, compounded semi-annually, then find the maturity amount in Nikhil's account at the end of 18 months.

**Solution :** Given,

Principal,  $P = ₹10,000$ , Rate of interest = 8% per annum or 4% semi-annually

Time = 1 year 6 months = 3 half-years

Total amount,  $A = ?$

$$\therefore \text{Total amount, } A = P \left( 1 + \frac{r}{100} \right)^n$$

$$\therefore \text{Total amount, } A = 10000 \left( 1 + \frac{4}{100} \right)^3$$

$$A = 10000 \left( 1 + \frac{1}{25} \right)^3$$

$$A = 10000 \left( \frac{26}{25} \right)^3$$

$$A = 10000 \times \frac{26}{25} \times \frac{26}{25} \times \frac{26}{25}$$

$$A = ₹11248.64$$

Therefore, the total amount or principal due Nikhil will be ₹11248.64.

**Example-4.** Mohan deposited ₹50000 for two years in a fixed deposit account in an Agricultural Development Bank. If the rate of interest per annum is 10% and interest is compounded every six months, then on maturity how much money will the bank give Mohan?

**Solution :** Given,

Principal,  $P = ₹50,000$ , Rate of interest = 10% per annum or 5% semi-annually

Time = 2 years = 4 half-years

Total amount,  $A = ?$

$$A = P \left( 1 + \frac{r}{100} \right)^n$$

$$\therefore \text{Total amount, } A = 50000 \left( 1 + \frac{5}{100} \right)^4$$

$$A = 50000 \left( 1 + \frac{1}{20} \right)^4$$

$$A = 50000 \left( \frac{21}{20} \right)^4$$

$$A = 50000 \times \frac{21}{20} \times \frac{21}{20} \times \frac{21}{20} \times \frac{21}{20}$$

$$A = ₹60775.31$$

Thus, Mohan will get ₹60775.31 as maturity amount after two years.

### Exercise-1

1. Karim deposits ₹150 every month for 2 years in his recurring deposit account in State Bank of India. If the rate of interest is 5% per annum then how much money will be paid to Karim by the bank after 2 years?
2. Reshma opened a recurring deposit account in Punjab National bank for five years and deposits ₹200 every month. If the rate of interest is 6% per annum then how much money will she get after 5 years?
3. Rohan opened a recurring deposit account in a post-office and deposited ₹50 every month for 5 years. How much money will he get if the rate of interest is 5% per annum?
4. Padmini opened a recurring deposit account in District Cooperative Bank for ten years and her monthly installment is ₹100. If on maturity she gets ₹3025 as interest, what is the rate of interest per annum?
5. If Kishan opens a recurring deposit account in some bank branch for three years and deposits a monthly installment of ₹250, then how much money will he get if the rate of interest is 5% per annum?
6. Rajat opened a recurring deposit account in a branch of Central Bank of India and deposited ₹100 every month for 3 years. What rate of interest per annum will yield an interest of ₹222 on maturity?
7. Kishan deposits ₹ 20,000 for 1 year as fixed deposit in Allahabad Bank at an interest rate of 16% per annum. If the interest is compounded every three months, how much money will Kishan get on maturity?
8. Hemchand deposits ₹ 1,00,000 for 1 year and six months as fixed deposit in a Rural Bank at an interest rate of 8% per annum. If the interest is compounded every three months, how much money will Hemchand get on maturity?
9. If a person saves ₹ 2 lakhs for two years in a fixed deposit account at 4% interest rate per annum, what amount will he get on maturity if interest is compounded annually?
10. Nilesh opens a fixed deposit account for one year in Bank of India and deposits ₹50000 at 8% rate of interest. If interest is compounded quarterly then how much money will the bank pay to Nilesh after one year?
11. Pushpa saved ₹60000 for one year six months in a fixed deposit account. How much money will she get on maturity if the rate of interest is 12% per annum and interest is compounded after every six months?
12. Sriram deposited ₹20000 for two years in a fixed deposit account. If the annual rate of interest is 6% per annum and the interest is compounded every six months then what amount will Sriram get after due date?

### ANSWER KEY - 1

- |                 |               |                |                 |
|-----------------|---------------|----------------|-----------------|
| 1. ₹3787.50     | 2. ₹13830     | 3. ₹3381.25    | 4. 5%           |
| 5. ₹9693.75     | 6. 4%         | 7. ₹23,397.17  | 8. ₹1,12,616.24 |
| 9. ₹2,16,320.00 | 10. ₹54121.60 | 11. ₹71,460.96 | 12. ₹22510.17   |

# Taxation

## Introduction

The Indian Government needs to carry out a number of activities for the welfare of its citizens. To do so, it requires money. Can you tell; From where does the government get the money to carry out these activities?

To obtain this money, the government levies different kinds of taxes on its citizens; for example, income tax, service tax, sales tax etc. The amount of tax is pre-decided.



## Think and discuss

From where else can the government get money to carry out development work?

## Do you know what income tax is?

The Indian Government gets its revenue from various sources and a big part of this money is derived from income tax. To collect income tax, the government first specifies a minimum limit. People, industries and organization whose income is more than the specified limit set by the government have to pay income tax. But those individuals, industries and organization whose income is less than this limit do not have to pay income tax. For different levels (slabs) of income, the government specifies different rates of income tax and the income tax has to be paid according to this rate. But for some special categories of persons, companies and industries, income tax rebates are also provided.

The rate of income tax increases with increase in income. This increased rate is levied on the income that falls beyond the minimum limit specified. There can be one or more than one source of income for persons, industries and companies and income and income tax are calculated based on the sum of the incomes from all the sources. Sometimes, for special activities, the government levies a little extra tax in addition to income tax and this is called Cess. It is compulsory for all individuals, companies and industries that fall within the income tax limit to pay taxes.

## Is there an account number for identifying a tax payer?

The income tax department established by the Govt. of India collects taxes from tax payers. Now, the question is: How does the income tax department identify or recognize tax payers? For tax payer identification, the department issues a permanent account number (PAN) or temporary account number (TAN) to all individuals, organizations or companies.



PAN is mandatory for opening a bank account so that the income tax department can collect information about the income of account holders.

### Tax is levied at what rate and over which period?

A person has to pay tax on the income generated, from all sources, in the period between 1<sup>st</sup> April and 31<sup>st</sup> March. This period or duration is known as the financial year. For calculation of income tax, the government decides tax rates which can change with change in financial year.

- (1) Let us look at the tax rates table for the last three years which shows how the tax rates have changed over time:-

Financial year	Male		Female		Senior Citizen	
	Taxable Income	Rates of income tax	Taxable Income	Rates of income tax	Taxable Income	Rates of income tax
2013-2014	Up to 2 lacs	NIL	Up to 2 lacs	NIL	Up to 2 lacs	NIL
	2,00,001 to 5,00,000	10%	2,00,001 to 5,00,000	10%	2,00,001 to 5,00,000	10%
	5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%
	Above 10 lacs	30%	Above 10 lacs	30%	Above 10 lacs	30%
2014-2015	Up to 2 lacs	NIL	Up to 3 lacs	NIL	Up to 3 lacs	NIL
	2,00,001 to 5,00,000	10%	3,00,001 to 5,00,000	10%	3,00,001 to 5,00,000	10%
	5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%
	Above 10 lacs	30%	Above 10 lacs	30%	Above 10 lacs	30%
2015-2016	Up to 2 lacs	NIL	Up to 3 lacs	NIL	Up to 3 lacs	NIL
	2,00,001 to 5,00,000	10%	3,00,001 to 5,00,000	10%	3,00,001 to 5,00,000	10%
	5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%
	Above 10 lacs	30%	Above 10 lacs	30%	Above 10 lacs	30%

- (2) Currently, educational sub-tax or cess is 2% for middle school and 1% for higher education and the total educational cess is 3%.
- (3) If the taxable income is more than 10 lacs then an additional 10% surcharge is levied on the payable tax.
- (4) As per Section 80C of income tax Act of 1961, the maximum exemption/rebates on savings is ₹1.5 lacs, which is deducted from the gross salary. The amount remaining after deduction is used for calculating tax.

The following investments are eligible for tax exemptions (rebates):

- (1) Annual premium on Life Insurance policy
- (2) Annual premium of ULIP (Unit Linked Insurance Plan)
- (3) Annual contribution to General Provident Fund
- (4) Home Loan Installments
- (5) Tuition/education fees of children
- (6) Payments made towards fixed deposits with a minimum tenure of five years
- (7) Annual subscriptions to group policies and family welfare schemes

### Let us understand calculation of income tax through some examples.

**Example-1.** The income of a person in the financial year 2008-2009 was ₹4,28,000. She deposited ₹2500 every month in general provident fund and ₹25000 as semi-annual premium of life insurance policy. She purchased a National Savings Certificate worth ₹30,000 and donated ₹25,000 to a charitable trust. Calculate the income tax paid by the person at the end of the financial year. According to Section 80C of income tax act, a total of ₹1,00,000 is eligible for exemption as savings under general provident fund, National Savings Certificate and LIC etc. As per section 80G, 50 percent of the donation is also eligible for tax rebates. The rates of tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Up to ₹ 1,50,000	NIL
2.	₹ 1,50,001 to ₹ 3,00,000	10%
3.	₹ 3,00,0001 to ₹ 5,00,000	20%

In addition, a 3% educational cess or sub-tax will be levied on income tax.

**Solution :** Total income of the person = ₹4,28,000

Exemption allowed on amount donated to trust = 50% of ₹25000

$$= \frac{25000 \times 50}{100}$$

Rebate = ₹12,500

Remaining income = ₹(4,28,000 – 12,500) = ₹4,15,500

$$\begin{aligned}
 \text{Amount exempted under Section 80C of income tax act} &= \text{general provident fund} + \\
 &\quad \text{life insurance policy premium} + \text{national savings certificate} \\
 &= 2500 \times 12 + 25000 \times 2 + 30,000 \\
 &= 30,000 + 50,000 + 30,000 \\
 &= \text{which is more than ₹1,00,000}
 \end{aligned}$$

Maximum exemption permitted is ₹1,00,000

$$\begin{aligned}
 \text{Therefore, taxable income} &= ₹4,15,500 - ₹1,00,000 \\
 &= ₹3,15,500
 \end{aligned}$$

According to given tax rates, tax on upto ₹1,50,000 = NIL

$$\begin{aligned}
 \text{Income tax} &= 10\% \text{ of ₹150000} + 20\% \text{ of ₹15500} \\
 &= ₹15,000 + ₹3100 \\
 &= ₹18,100 \\
 \text{Educational cess} &= 3\% \text{ of ₹18100} \\
 &= ₹543 \\
 \text{Total payable tax} &= ₹18,100 + ₹543 \\
 &= ₹18643
 \end{aligned}$$

**Example-2** The income of a person in the financial year 2012-2013 is ₹4,80,000 (not including house rent allowance). He deposited ₹36000 in provident fund, ₹20,000 in the National Savings Certificate plan and ₹18000 as premium on life insurance policy. In addition, he had to pay 3% educational cess on income tax. If he pays ₹1500 every month for 10 months towards income tax, then what is the amount of payable tax remaining? Up to ₹1,00,000 of savings under provident fund, Life Insurance and National Savings Certificate are exempt from tax. The rates of tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Upto ₹2,00,000	NIL
2.	₹2,00,001 to ₹5,00,000	10%

**Solution :** Annual income = ₹480000

$$\begin{aligned}
 1. \quad \text{Amount saved under provident funds} &= ₹36000 \\
 2. \quad \text{Amount saved under life insurance policy} &= ₹18,000 \\
 3. \quad \text{Amount saved under national savings certificate} &= ₹20,000 \\
 \text{Total amount saved} &= ₹36,000 + ₹18,000 + ₹20,000 \\
 &= ₹74,000
 \end{aligned}$$

$$\text{Taxable income} = ₹4,80,000 - ₹74,000 = ₹4,06,000$$

$$\text{Income tax} = 10\% \text{ of } (₹4,06,000 - ₹2,00,000) \quad (\because \text{No tax is levied on income up to ₹2,00,000})$$

$$= \frac{206000 \times 10}{100}$$

$$= ₹20,600$$

$$\text{Education cess} = 3\% \text{ of } ₹20,600$$

$$= \frac{20600 \times 3}{100}$$

$$= ₹618$$

$$\text{Total payable income tax} = ₹20,600 + ₹618 = ₹21,218$$

$$\text{Income tax deposited over 10 months} = ₹1,500 \times 10 = ₹15,000$$

$$\begin{aligned} \text{Remaining Income tax due} &= ₹21,218 - ₹15,000 \\ &= ₹6,218 \end{aligned}$$

**Example-3.** The income of a government employee in the financial year 2013-2014 was ₹3,60,000. She deposited ₹20,000 as premium on life insurance policy and ₹4,000 every month in general provident fund. Calculate the payable tax.

Also, a maximum of ₹1,00,000 of savings under provident fund, Life Insurance and National Savings Certificate are exempt from tax.

The rates of tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Upto ₹2,00,000	NIL
2.	₹2,00,001 to ₹5,00,000	10%
3.	₹5,00,001 to ₹10,00,000	20%

3% of payable tax is educational sub-tax.

**Solution:** Annual income of the government employee = ₹3,60,000

1. Amount saved under provident funds = ₹48,000

2. Amount saved under life insurance policy = ₹20,000

$$\text{Total amount saved} = ₹48,000 + ₹20,000$$

$$= ₹68,000$$

Since, maximum permissible rebate is ₹1,00,000 therefore tax need not be paid on

$$= ₹68,000$$

$$\text{Taxable income} = ₹3,60,000 - ₹68,000 = ₹2,92,000$$

Income tax = 10% of ₹(2,92,000 – 2,00,000) ( $\because$  No tax is levied on income up to ₹200000)

= 10% of ₹92,000

= ₹9,200

Education cess = 3% of income tax

=  $\frac{9200 \times 3}{100}$

= ₹276

Total payable income tax = ₹9,200 + ₹276 = ₹9,476

## Exercise - 2



- The income (excluding house rent allowance) of a government employee in the financial year 2013-2014 was ₹4,10,000. He deposited ₹20000 as premium on life insurance policy and ₹4000 every month in general provident fund. He also purchased a national savings certificate worth ₹25000. He donates ₹ 20,000 to the Primeminister's Relief Fund (which is 100% tax free) and ₹12,000 to Old Persons's Home (which gets him 50% tax rebate). Calculate the payable tax for him at the end of the year. A maximum of ₹1,00,000 of savings (under any scheme ) are permitted. The rates of tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Upto ₹2,00,000	NIL
2.	₹2,00,001 to ₹5,00,000	10%
3.	₹5,00,001 to ₹10,00,000	20%

- Educational cess = 2% of payable tax
  - Secondary and Higher education tax = 1% of payable tax
- Naveen's income in the financial year 2013-2014 was ₹7,20,000. He deposited ₹20000 as premium on life insurance policy and ₹4000 every month in general provident fund. He also purchased a national savings certificate worth ₹30000. He donates ₹ 15,000 to an orphanage (which is 50% tax free). Calculate the tax payable by him at the end of the year.

The rates of tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Up to ₹2,00,000	NIL
2.	₹2,00,001 to ₹5,00,000	10%
3.	₹5,00,001 to ₹10,00,000	20%
4.	Over ₹10,00,001	30%

1. Educational cess = 2% of payable tax
2. Secondary and Higher education tax = 1% of payable tax
3. A maximum of ₹1,00,000 of savings (under any scheme) are eligible for tax rebate.
3. Ramesh's total annual income in the financial year 2008-2009 was ₹3,00,000. He deposited ₹1000 every month in general provident fund and paid an annual premium of ₹12,000 on life insurance policy. If there is no tax on income up to ₹1,50,000 and 10% tax on income above ₹1,50,000 and maximum savings permissible under all schemes are ₹1,00,000 then calculate the tax payable by him at the end of the year where the educational sub-tax is 3% of income tax.
4. The monthly income (excluding house rent allowance) of a bank employee in the financial year 2014-2015 was ₹40,000. He deposits ₹42,000 annually in general provident fund and ₹6000 as semi-annual premium on life insurance policy. If he pays ₹1600 every month for 11 months towards income tax, then what is the amount of payable tax remaining in the last month of the year? 100% of all savings (maximum of ₹1,00,000) are tax-exempt.

A. The rates of tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Up to ₹2,50,000	NIL
2.	₹2,50,001 to ₹5,00,000	10%
3.	₹5,00,001 to ₹10,00,000	20%
4.	More than ₹10,00,001	30%

- B. Cess = 10% of payable tax if annual taxable income is more than 10 lakhs,
- C. Education tax = 3% of payable tax
5. Rajesh's total annual income in the financial year 2012-2013 was ₹5,25,000. He deposited ₹8000 every month in general provident fund and paid an annual premium of ₹8,000 on life insurance policy. If there is no tax on income up to ₹2,00,000 and 10% tax on income above ₹2,00,000 and maximum savings permissible is 100%

under all schemes (up to ₹1,00,000) then calculate the tax payable by Rajesh at the end of the year where the educational sub-tax is 3% of income tax.

6. In the financial year 2014-2015, the annual income of Mrs. Bhawna (not including house rent allowance) was ₹ 6,00,000. She deposits ₹ 48,000 every year in general provident fund and ₹25,000 as annual premium on life insurance policy. If she pays ₹1500 every month for the first 11 months towards income-tax and ₹1,00,000 is allowed as savings under all saving schemes then calculate the payable income tax due.

The rates of income-tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Up to ₹2,50,000	NIL
2.	₹2,50,001 to ₹5,00,000	10%
3.	₹5,00,001 to ₹10,00,000	20%

In addition, a 3% education sub-tax has to be paid over the income tax.

7. An officer's annual income (excluding house rent allowance) in the financial year 2012-2013 is ₹7,20,000. She deposits ₹3000 every month towards premium on life insurance policy, ₹4000 every month in general provident fund and also purchased a national savings certificate worth ₹30000. She donated ₹20,000 to an orphanage and 50% of this donation is eligible for tax rebate. If a maximum of ₹1,00,000 can be invested in any type of savings to qualify for tax rebate, then calculate the tax she has to pay at the end of the year.

A. The rates of tax are as follows:

S.No.	Tax Limits	Rate of Tax
1.	Up to ₹2,00,000	NIL
2.	₹ 2,00,001 to ₹5,00,000	10%
3.	₹ 5,00,001 to ₹10,00,000	20%
4.	More than 10,00,001	30%

B. Education tax = 3% of payable tax

## ANSWER KEY

1. Total income tax ₹8,961
2. Total income tax ₹54,487
3. Total income tax ₹12,978
4. Total income tax ₹18,128 and the tax due in the last month is ₹528.
5. Total income tax ₹23,175 and education sub-tax is ₹675.
6. Total income tax ₹31,312 and education sub-tax is ₹912.
7. Total income tax ₹53,560 and education sub-tax is ₹1,560.