

# TAXATION-I

REBATE U/S 87 A

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# INTRODUCTION

- ▶ To reduce the tax liability of an individual assessee, the benefit of rebate u/s 87A is applied. Basically the benefit of rebate u/s 87A is applicable only for those individual assesses who fall in the lower income bracket.

## CONDITIONS

- (1) Applicable:** individual
- (2) Residential status:** resident in India (i.e., resident and ordinarily resident, or resident but not ordinarily resident).
- (3) Available:** the taxable income or total income is up to Rs.5,00,000 during the previous year 2019-2020.
- (4) Quantum of rebate:** least of the following:
  - (i) 100% of tax liability on total income (before charging health and educational cess 4% and before considering tax relief u/s 89).
  - (ii) Maximum limit Rs.12,500

## ILLUSTRATION 1

Compute the tax liability of Mrs. Basu (aged 34 years) under the following alternatives for the a/yr. 2020-2021.

- Total income- Rs.2,90,000
- Total income- Rs.3,20,000
- Total income- Rs.5,00,000

### Solution :

1. Computation of tax liability for applying rebate for the A/yr. 2020-2021

Particulars (income)	(i)	(ii)	(iii)
Upto Rs.2,50,000	Nil	Nil	Nil
Rs.2,50,000 to Rs.5,00,000	$40,000 \times 5\% = 2,000$	$70,000 \times 5\% = 3,500$	$2.5L \times 5\% = 12,500$
Gross tax liability	2,000	3,500	12,500
Applicability of tax rebate	Applicable	Applicable	Applicable

## 2. Calculation of tax rebate u/s 87A for the A/yr. 2020-21 relating to P/yr. 2019-2020

Particulars	(i)	(ii)	(iii)
Least of the followings			
(i) 100% of gross tax liability	2,000	3,500	12,500
(ii) Maximum limit	<u>12,500</u>	<u>12,500</u>	<u>12,500</u>
<b>Rebate U/S 87A</b>	<b>2,000</b>	<b>3,500</b>	<b>12,500</b>

## 3. Computation of taxable income for the A/yr. 2020-21, relating to P/yr. 2019-20

	(i)	(ii)	(iii)
Gross tax liability before charging HEC (1)	2,000	3,500	12,500
Less: rebate u/s 87A (2)	2,000	3,500	12,500
<b>Gross tax liability</b> →	<b>nil</b>	<b>nil</b>	<b>nil</b>
<b>Add: HEC (4%)</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>
<b>NET TAX LIABILITY</b> →	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>

ILLUSTRATION 2

Compute tax liability of Mr. Malik (aged 35 years) for the A/yr. 2020-21 under the following alternative:

	I	II
Business income	3,00,000	6,00,000
Agricultural income from Indian land	70,000	70,000

Solution:

1. Calculation for the tax liability for the A/yr. 2020-21

Step 1.	I	II
Tax on both agricultural and non-agricultural income	3L+70,000 3,70,000	6L+70,000 6,70,000
Tax liability:		
Upto Rs.2,50,000	NIL	NIL
Rs.2,50,000 to Rs.5,00,000	1,20,000x5%=6,000	2,50,000x5%=12,500
Rs.5,00,000 to Rs.10,00,000	-	1,70,000x20%=34,000
	6,000	46,500

## Step II:

### Tax on agricultural income

• Agricultural income + exemption limit	70K+2.5L =3,20,000	70K + 2.5L 3,20,000
• <b><u>Tax liability:</u></b>		
upto Rs.2,50,000	NIL	NIL
Rs.2,50,000 to Rs.5,00,000	$70,000 \times 5\% = 3,500$ 3,500	$70,000 \times 5\% = 3,500$ 3,500

## Step III:

### NET TAX LIABILITY

Particulars	step I	step II
Tax on non-agro income	6,000-3,500= 2,500	46,500-3,500=43,500
<b><u>Less: rebate u/s 87A</u></b>		
<b><u>least of</u></b>		
(i) 100% of tax liability	2,500	N.A
(ii) Maximum limit	12,500	N.A
	2,500	N.A
<b><u>NET TAX LIABILITY</u></b>	<b>NIL</b>	<b>43,500</b>

## NOTES:

- (1) In case of alternative I, since the taxable income is less than 5,00,000 (i.e., non-agro income of Rs.3,00,000), Mr. malik will avail the benefit of rebate u/s 87A.
- (2) In case of alternative II, since the taxable income is more than 5,00,000 (i.e., non-agro income of Rs.6,00,000), Mr. malik will not avail the benefit of rebate U/S 87A.

Thank you