

Unit 9 : DEDUCTIONS TO BE MADE IN COMPUTING TOTAL INCOME

Gross total income of the assessee is not the income on which tax is to be paid. From gross total income certain general deductions are allowed which are covered by Chapter VIA of the Income Tax Act. Chapter VIA covers section 80 and these deductions are covered by Section 80 C to 80 U out of which following are included in the syllabus of M.Com: -

- 1) 80 C : Life Insurance premium, deferred annuity, contribution to provident fund, subscription to certain equity shares or debentures etc.
- 2) 80 D : Medical Insurance Premium.
- 3) 80 DD : Medical Treatment of Handicapped dependent.
- 4) 80 DDB : Deduction in respect of medical treatment etc.
- 4) 80 E : Interest on loan taken for higher education.
- 5) 80 U : Deduction to physically handicapped.

80C - LIFE INSURANCE PREMIUM, DEFERRED ANNUITY, CONTRIBUTION TO PROVIDENT FUND, SUBSCRIPTION TO CERTAIN EQUITY SHARES OR DEBENTURES ETC.

A. Who is eligible: An Individual or a HUF

B. Which payments are eligible?

1. Life Insurance premium (including payment made by Government employees to the Central Government Employee's insurance scheme and payment made by a person under children's deferred endowment assurance policy) [subject to a maximum of 20 per cent of sum assured (sum assured does not include any premium agreed to be returned or any benefit by way of bonus)
In the case of an individual policy should be taken on his own life, life of the spouse or any child (child may be dependent/independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, policy may be taken on the life of any member of the family.
2. Payment in respect of non-commutable deferred annuity
Annuity plan should be taken in the name of the individual, his wife/ her husband or any child of such individual.
3. Any sum deducted from salary payable to a Government employee for the purpose of securing him a deferred annuity (subject to a maximum of 20 per cent of salary)
It should be for the benefit of the individual, his wife or children
4. Contribution (not being repayment of loan) towards statutory provident fund and recognised provident fund
5. Contribution (not being repayment of loan) towards 15 years public provident fund
In the case of individual, the provident fund account should be in his own name or in the name of his/her spouse or any child (child may be dependent/independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, fund account should be in the name of any member of the family.

There is no maximum ceiling under the Income-tax Act. However, under the public provident fund scheme, the maximum contribution is ₹ 1,50,000.

6. Contribution towards an approved superannuation fund,
7. Subscription to National Saving Certificates, VIII Issue, Accrued interest (which is deemed as reinvested) is also qualified for deduction for first 5 years.
8. Contribution for participating in the unit-linked insurance plan (ULIP) of Unit Trust of India.
In the case of an individual, ULIP should be taken on his own life, life of the spouse or any child (child may be dependent/ independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, ULIP may be taken on the life of any member of the family.
9. Contribution for participating in the unit-linked insurance plan (ULIP) of LIC Mutual Fund (i.e., formerly known as Dhanraksha plan of LIC Mutual Fund)
In the case of an individual, ULIP should be taken on his own life, life of the spouse or any child (child may be dependent/ independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, ULIP may be taken on the life of any member of the family.
10. Payment for notified annuity plan of LIC (i.e. New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I, New Jeevan Akshay I and New Jeevan Akshay II)
11. Subscription toward notified units of Mutual Funds or UTI
12. Contribution to notified pension fund set up by Mutual Fund or UTI (i.e. Retirement Benefit Unit Scheme of UTI and Kothari Pioneer Pension Plan of Kothari Mutual Fund)
13. Any sum paid (including accrued interest) as subscription to Home Loan Account Scheme of the National Housing Bank or contribution to any notified pension fund set up by the National Housing Bank.
14. Any sum paid as subscription into any scheme of -
 - a. public sector company engaged in providing long-term finance for purchase/construction of residential houses in India.
 - b. Housing board constituted in India for the purpose of planning, development or improvement of cities/ towns.
15. Any sum paid as tuition fees (not including any payment towards development fees/ donation/ payment of similar nature) whether at the time of admission or otherwise to any university/college/educational institution in India for full time education of any two children of the assessee.
16. Any payment towards the cost of purchase/construction of a residential property (including repayment of loan taken from Government, bank, cooperative bank, LIC, National Housing Bank, assessee's employer where such employer is public company/public sector company/ university/co-operative society)
The following payment made towards the cost of purchase/construction of a new residential property is qualified for the purpose of section 80C:
 - a. any instalment or part payment of the amount due under any self-financing or other scheme of any development authority, housing board or other authority engaged in the construction and sale of house property on ownership basis; or

- b. any instalment or part payment of the amount due to any company or co-operative society of which the assessee is a shareholder or member towards the cost of the house property allotted to him (it is not applicable if the assessee is not a shareholder or member of the company/co-operative society which provides house to the assessee); or to claim benefit under section 80C of instalment paid or part-payment made towards cost of house property allotted to assessee; he must be a member/shareholder of company or co-operative society to when instalment or part-payment is made – Sandeep S. Shah v. ITO [2002] 123 Taxmen 696 (Mad).
- c. repayment of the amount borrowed by the assessee from –
- i. the Central Government or any State Government, or
 - i. any bank, including a co-operative bank, or
 - ii. the Life Insurance Corporation of India, or
 - iii. the National Housing Bank, or
 - iv. any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of house in India for residential purpose which is eligible for deduction under section 36(1) (viii), or
 - v. any company in which the public are substantially interested or any co-operative society is engaged in the business of financing the construction of houses, or
 - vi. the assessee's employer where such employer is an authority or a board or a cooperation or any other body established or constituted under a Central or State Act, or
 - vii. the assessee's employer where such employer is a public company or public sector company, or a university established by law or a college affiliated to such university or local authority or co-operative society;
- d. stamp duty, registration fee and other expenses for the purpose of transfer of such house property to the assessee. The following payments are not qualified for the purpose of section 80C:
- a. the admission fee, cost of the share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming such shareholder or member; or
 - b. the cost of any addition or alteration to, or repair of, the house property which is carried out after the issue of the completion certified in respect of the house property by the authority competent to issue such certificate or after the house property (or any part thereof) has either been occupied by the assessee or any other person on his behalf or been let out; or
 - c. any expenditure in respect of which deductions are allowable under the provisions of section 24.
17. Amount invested in approved debentures of and equity shares in a public company engaged in infrastructure including power sector or units of mutual fund proceeds of which are utilized for the developing, maintaining, etc. of a new infrastructure facility.
18. Amount deposited in a term deposit for 5 years or more with a scheduled bank/post office in accordance with a scheme framed and notified by the Central Government.

19. Subscription to bonds issued by NABARD as notified by the central government.
20. Amount deposited under Senior Citizens Saving Scheme.

C. Amount of deduction:

Gross qualifying amount is the figure derived in para B. However, amount of deduction under section 80C is computed as under:

Gross qualifying amount; or
` 1,50,000, whichever is **lower**.

It should be noted that the **aggregate amount of deduction under section 80C, 80CCC and 80CCD cannot exceed ` 1,50,000.**

SECTION 80 D: MEDICAL INSURANCE PREMIUM

A. Who is eligible

1. An individual
2. An H.U.F.

B. Which payments are eligible

1. Payments made as premium towards medical insurance policy approved by central government or to central Govt. Health Scheme or Contribution to Central Govt. Health Scheme (CGHS) or Preventive Health Check Up.
2. In case of individual, policy has to be in name of assessee himself or his family members i.e. spouse, dependent children. In case of H.U.F. policy has to be in name of any member.
3. In case of individuals, premium paid for parents is also eligible irrespective of whether they are dependent or not dependent on the assessee.
4. Payment should be made by any mode other than cash. However, payment on account of preventive health check up can be made in any mode including cash.

C. Actual deduction

If total premium does not exceed ` 25,000 : 100% (Separately for 2 & 3 mentioned above)

If premium exceeds ` 25,000 : Only ` 25,000.

The aforesaid limit will be revised to ` **30,000** where the assessee or his wife or her husband, or dependent parents or any member of the family is a **senior citizen** (i.e. one who is at least of 60 years of age at any time during the previous year) and the medical insurance premium is paid to effect or keep in force an insurance in relation to him or her. In order to get a deduction in excess of ` 25,000, one has to pay mediclaim insurance premium to effect or keep in force insurance in relation to a senior citizen as noted above. If mediclaim premium is paid on senior citizen (age above 60 years) then maximum deduction is ` 30,000.

It may be noted that an individual can make claim for his family plus parents i.e. ` 25,000 + ` 25,000 (or ` 30,000 for senior citizen). In rare cases it could very well be up to ` 60,000.

SECTION 80DD – DEDUCTION IN RESPECT OF MAINTENANCE INCLUDING MEDICAL TREATMENT OF HANDICAPPED DEPENDENT.

A. Who is eligible : Resident Individual/ HUF.

B. Which Payments are eligible:

- (a) Expenditure incurred on medical treatment [including nursing], training and rehabilitation of a disabled dependent, or
- (b) Any payment or deposit made under a scheme framed by LIC or any other insurer or the administrator or the specified company and approved by the board for payment of lump sum amount or annuity for the benefit of dependent with disability.

C. Relevant Conditions / Points :

1. The concerned assessee must attach a copy of certificate in the prescribed Form and signed by prescribed medical authority along with return of income filed u/s 139. A fresh medical certificate may be required to be submitted after the expiry of stipulated period depending on the condition of disability as specified in such certificate.
2. Dependent means (a) in case of an individual, the spouse, children, parents, brothers and sisters of such individual and (b) in the case of a Hindu Undivided Family, any member of HUF; and who is dependent wholly or mainly on such individual or HUF for support and maintenance and who has not claimed deduction under section 80U relating to previous year.

D. Extent of Deduction :

- (a) ` 75,000/- in case of normal disability or
 - (b) ` 1,25,000/- in case of severe disability of 80% or above.
-

SECTION 80 DDB : MEDICAL TREATMENT

A. Who is eligible : Resident Individual/HUF

B. Which Payments are eligible:

- (a) Expenditure incurred on medical treatment of a specified disease or ailment as prescribed in respect of assessee himself or wholly/mainly dependent spouse, children, brothers, sisters or parents.
- (b) For HUF - Any member of the family who is mainly/wholly dependent on the family.

C. Relevant conditions :

The assessee has to submit a certificate in prescribed form from a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist as may be prescribed.

Amount of deduction :

₹ 40,000 or amount actually spent whichever is less. For senior citizens (60 years or more) the higher limit is ₹ 60,000. For super senior citizens (80 years or more), the higher limit is ₹ 80,000. If any insurance reimbursement is received in respect of such expenditure then deduction will be reduced by the same amount.

SECTION 80E – DEDUCTION IN RESPECT OF INTEREST ON LOAN TAKEN FOR HIGHER EDUCATION.

A. Persons Covered : Individual.

B. Eligible Amount :

Any amount paid by way of interest on loan taken from any financial institution or any approved charitable institution for his / her higher education or for the purpose of higher education of his/her spouse and children or the student for whom the individual is the legal guardian.

C. Relevant Conditions / Points

1. Amount should be paid out of income chargeable to tax.
2. Higher education means full time studies for any graduate or post-graduate course in Engineering, medicine, management or for post-graduate course in applied sciences including mathematics or for post-graduate course in applied sciences or pure sciences including mathematics and statistics. From A.Y. 2010-11 it will cover all fields of study including Vocational Studies after passing the Senior Secondary Examination or its equivalent.
3. Approved charitable institution means an institution established for charitable purposes and notified by the Central Government u/s 10(23C) or referred in section 80G(2)(a).
4. Financial institution means banking company or any institution notified by Central Govt.
5. The deduction is allowed in the initial assessment year (i.e., the assessment year relevant to the previous year, in which the assessee starts paying the interest on loan) and 7 assessment years immediately succeeding the initial assessment year or until the interest is paid in full whichever is earlier.

D. Extent of Deduction : Entire amount of interest. The deduction is available for a maximum of 8 years or till interest is paid whichever is earlier.

PROBLEMS

1. Calculate deduction available under section 80 D: -

Sr. No.	Mr. X	Mrs. X	Parents (age above 60 years)	Deduction
1.	3,000	5,000		Nil
2.	11,000	5,000		Nil
3.	17,000	12,000		Nil

4.	Nil	30,000	10,000
5.	Nil	Nil	40,000
6.	Nil	Nil	21,000
7.	10,000	17,000	20,000
8.	16,000	10,000	35,000
9.	9,000	6,000	5,000
10.	25,000	10,000	Nil
11.	5,000	Nil	35,000
12.	19,000	19,000	11,000
13.	22,000	22,000	22,000

2. Mr. X's business income is ₹ 1,00,000. He pays ₹ 15,000 to pension fund. He also pays medical insurance premium for the following: -

1. Mr. X ₹ 10,000
2. Mrs. X ₹ 20,000
3. Son of X (working in bank) ₹ 20,000
4. Daughter of X (Dependent) ₹ 10,000
5. Father of X (working in sales tax) ₹ 45,000
6. Mother of X (Dependent) ₹ 5,000
7. Brother of X (Dependent) ₹ 10,000

Calculate deduction to be allowed u/s 80D.

3. Income of a resident is ₹ 12,50,000 (inclusive of interest on Government securities of ₹ 15,000). He invests ₹ 1 lakh in schemes and deposits qualified for deduction under section 80C. He pays ₹ 20,000 on account of mediclaim insurance premium. Find out the net taxable income for the assessment year 2018-19.

4. X is salaried employee. His basic salary is ₹ 40,000 per month. He gets one month salary as bonus. He has been provided a rent-free unfurnished house which is owned by the employer company at the place of his posting i.e., Chennai. He gets bank interest of ₹ 10,000. He makes the following investments/deposits every year -

Life insurance premium on his own life (sum assured: ₹ 40,000)	9,000
Notified equity linked saving scheme of UTI	12,000
Repayment of loan taken on July 1, 2000 for purchasing a house Property (which is self-occupied by his family at Pune)	27,000
Payment of interest on the above loan	1,60,000
Tuition fees of two children (₹ 14,000+ ₹ 26,000)	40,000
Deposit in home loan account scheme of NHB	9,000
Mediclaim insurance premium	11,000

No other investment is made by X. Find out the net taxable income for the assessment year 2018-19.

SECTION 80U: DEDUCTION TO PHYSICALLY HANDICAPPED

1. **Who is eligible:** An **individual** only.

2. **Conditions to be satisfied**

- 1) Individual is resident in India.
- 2) Such individual at the end of previous year is suffering from not less than 40% of disability given below:
 1. Blindness
 2. Low vision
 3. Leprosy cured
 4. hearing impairment
 5. Locomotor disability
 6. Mental retardation
 7. Mental illness
- 3) Such disability should be certified by medical authority notified by the Government. Where disability requires reassessment fresh certificate will have to be produced on expiry of the period of original certificate.

3. **Actual Deduction**

An Individual who satisfies all conditions mentioned above is eligible to a flat deduction of ₹ 75,000. A higher deduction of ₹ 1,25,000 is allowed for severe disability of more than 80%.

PROBLEMS

1. Mr. X whose business income is ₹ 2,00,000, became blind on 31st March, 2011 in an accident. He paid mediclaim insurance ₹ 7,000, deposited ₹ 12,000 to public provident fund account. His disability is certified to the extent of 50%. Calculate his taxable income.

2. Mr. Anand is blind, who is the owner of M/s Balaji Food Products. The net profit revealed by the P & L a/c is ₹ 1,75,000. He paid to GIC for Medical Insurance as detailed below:

For Self	₹	3,950
For Wife	₹	3,950
For father who is working as Principal in college	₹	<u>3,950</u>
	₹	<u>11,850</u>

His disability is certified to the extent of 95%.

Determine the amount of deduction available under section 80 and compute net taxable income of Mr. Anand for the assessment year 2018-19.

