

SEMESTER-V

SUBJECT: TAXATION II

TOPIC: ADVANCE PAYMENT OF TAX

TEACHER: AMIT MITRA

Advance Payment of Tax

Advance Payment of Tax refers to the liability to pay Income Tax for income earned during the same Financial Year. In general, taxpayers are required to pay tax only for the income of the preceding year. However, if the tax payable is in excess of ten thousand rupees, the tax should be remitted to the government before the due date mentioned in the Act. The purpose of incorporating Advance Tax provisions in the Act is to ensure that revenue reaches the Government without delay. According to Section 208 of Income Tax Act 1961, every person whose estimated tax liability for the financial year exceeds Rs.10,000 has to pay tax in advance.

Calculation of Advance Tax Liability

1. Every assessee shall be liable to pay advance income-tax during any financial year in respect of the taxpayer's total income of the financial year if the amount of advance income-tax payable exceeds ten thousand rupees.
2. The amount of advance income-tax payable by an assessee in the financial year should be computed in the specified manner. The assessee should first estimate the total income and calculate income-tax which is payable on the total income. The tax liability should be calculated using the rates in force in the financial year. The tax payable should include secondary and higher education cess. It should also include surcharge. The assessee should note that surcharge is calculated at a percentage of **income tax**, while cess is calculated as a percentage of the sum of income tax and surcharge.
3. The income-tax calculated as per the above step shall be reduced by the amount of income-tax which would be deductible or collectible at source during the financial year from any income which is taken into account in estimating the total income. Further, a deduction should also be made in relation to the amount of credit availed under Section 207, allowed to be set-off in the financial year.
4. The balance amount of income-tax shall be the advance income-tax payable.
5. The advance income-tax, in case of any person other than a company, shall be payable in three instalments during the financial year, on or before the specified dates.

Who should pay advance tax?

Salaried persons are not required to pay advance tax, as the employer usually deducts tax at source (TDS). However, if an employee has any other income other than salary income for which tax has not been deducted at source and the tax liability exceeds more than Rs.10000, then advance tax must be paid. On the other hand, professionals (self-employed), businessmen and corporates will have to pay taxes in advance as they typically have taxable income that exceeds the advance tax payment threshold.

When to pay advance tax?

The advance tax is to be paid in the following three instalments on the following dates:

For Non-Corporate Assessee:

- On or before 15 September – not less than 30% of the tax payable for the year.
- On or before 15 December – not less than 60% of the tax payable for the year.
- On or before 15 March – not less than 100% of the tax payable for the year.

For Corporate Assessee:

On or before 15 June – not less than 15% of the tax payable for the year.
On or before 15 September – not less than 45% of the tax payable for the year.
On or before 15 December – not less than 75% of the tax payable for the year.
On or before 15 March – not less than 100% of the tax payable for the year.

Exemption for Senior Citizens

According to Section 207 of the Act, a resident senior citizen (an individual aged 60 years or more) who does not have any income from business or profession is not liable to pay advance tax. For instance, a senior citizen may have various sources of income such as rental income, pension, interest from bank deposits, or dividends. Senior citizens do not have to pay advance tax, as these sources of income do not fall under the income tax head of income from business or profession. Also, this exemption is provided irrespective of the amount of income that a senior citizen earns from a source other than business or profession.

PROBLEM:1

The estimated income of R, a resident individual (52 years), for the financial year 2020-21 are as follows:

Income from house property	Rs. 42,500
Income from business	Rs. 5, 45,000
Income from other sources	Rs. 1, 25,500

R is entitled to deduction U/S 80C and 80G amounting Rs. 51,500 and Rs. 7,500 respectively. Tax deductible at source during the year is Rs. 7,330. Calculate the amount of advance tax payable by R.

SOLUTION:

COMPUTATION OF TOTAL INCOME AND DETERMINATION OF TAX LIABILITY OF MR. R

PARTICULARS	RS	RS
INCOME FROM HOUSE PROPERTY		42500
INCOME FROM BUSINESS		545000
INCOME FROM OTHER SOURCES		125500

GROSS TOTAL INCOME		713000
LESS: DEDUCTION		
U/S 80C	51500	
U/S 80G	7500	59000
TOTAL INCOME		654000
TAX ON RS. 654000		
UPTO RS. 250000	NIL	
NEXT 250001 TO 500000 @ 5%	12500	
NEXT 500001 TO 654000 @ 20%	30800	
ADD: HEALTH & EDUCATION CESS @4%	43300	
	1732	
	45032	
	7330	
LESS: TDS		
AMOUNT OF ADVANCE TAX PAYABLE	37702	
ROUNDED OFF U/S 288 A	37700	

TIME TABLE FOR PAYMENT OF ADVANCE TAX BY MR. R

INSTALLMENT	DUE DATE	AMOUNT OF ADVANCE TAX PAYABLE	RS.
1 ST	ON OR BEFORE 15.6.2020	37700*15%	5655
2 ND	ON OR BEFORE 15.9.2020	37700*45%=16965-5655	11310
3 RD	ON OR BEFORE 15.12.2020	37700*75%=28275-5655-11310	11310
4 TH	ON OR BEFORE 15.3.2021	37700*100%=37700-5655-11310-11310	9425

PROBLEM:2

Mr. P. Sanyal (aged 47 years) has earned the following incomes during the previous year 2020-21. Calculate the instalments of advance tax payable.

Income from business Rs. 18, 20,000

Bank interest from fixed deposits (net of tax @ 10%) Rs. 72,000

He is entitled to deduction of Rs. 1,50,000 under section 80C and Rs. 13,700 under section 80D.

SOLUTION:

COMPUTATION OF TAX LIABILITY OF MT.P SANYAL FOR THE A/Y-2021-22.

Income from business	1820000
<u>INCOME FROM OTHER SOURCES</u>	
BANK INTEREST(72000/90*100)	80000
GROSS TOTAL INCOME	1900000
LESS: DEDUCTION U/S 80C TO 80U	
-80C	150000
-80D	13700
TOTAL INCOME	1736300
TAX ON TOTAL INCOME	
UPTO RS. 250000	NIL
NEXT 250001 TO 500000@ 5%	12500
NEXT 500001 TO 1000000 @ 20%	100000
ABOVE 1000000@30%(736300*30%)	220890
	333390
ADD: HEALTH AND EDUCATION CESS@4%(333390*4%)	13336
TAX LIABILITY	346726
LESS: TDS	8000
ADVANCE TAX Payable	338726

INSTALLMENT OF ADVANCE TAX PAYABLE BY MR. P SANYAL

DUE DATE OF INSTALLMENT	AMOUNT OF ADVANCE TAX PAYABLE
ON OR BEFORE 15.6.20	338726*15%=50809
ON OR BEFORE 15.9.20	338726*30%=101618
ON OR BEFORE 15.12.20	338726*30%=101618
ON OR BEFORE 15.3.21	338726*25%=84682