

Calculation of Income Tax Rebate of 2000 - Sec 87A

There is a lot of confusion in the manner in which the rebate u/s 87 A of Income Tax Act is calculated. So I would like to explain the manner in which it should be calculated in this article.

Applicability: Applicable From

Rebate u/s is inserted w.e.f. 01-04-2013 i.e., the rebate provision is Applicable **from Financial Year 2013-14** (Asst. Year 2014-15).

Applicable to (Type of Assessee):

1. Rebate is applicable for **Resident Individuals** i.e., Male and Female including Senior Citizens (less than 80 years).
2. Which means the rebate is not applicable for Non-Resident Individuals

Net Income Limit Less Than 5,00,000

1. The Rebate is applicable for above mentioned individuals whose Net Income i.e., Taxable Income **does not exceed 5,00,000/-**.
2. Which means **only if your net taxable income is less than or equal to 5,00,000**, you are **eligible** for rebate.
3. Even if your **Gross Total Income** is more than 5,00,000 but after considering deduction, the Net Income falls below 5,00,000 you are still eligible for rebate.
e.g. Your Gross Total Income = 5,70,000

Deductions U/s 80C- 80U (LIC, PF, etc.,) = 90,000

Net Taxable Income = 4,80,000

Since your Net Taxable Income doesn't exceed Rs. 5,00,000 you are also eligible for Rebate, but since their basic exemption is already 5,00,000 and Rebate is applicable only if the taxable income is less than 5,00,000, question of Rebate does not arise.

Rebate Calculation: The amount of rebate is **100% of income tax** or **Rs. 2,000** whichever is less.

Rebate should be deducted before calculating education cess.
Illustrations on how to calculate the rebate:

Illustration 1

Calculation of Rebate u/s 87A

	Particulars	Calculation	Amt.
A	Gross Total Income	Rs. 3,50,000	
B	Deductions	Rs. 40,000	
C	Net Taxable Income	3,50,000-40,000	Rs. 3,10,000
D	Tax on Net Taxable Income	10% * (3,10,000-2,00,000)	11,000
E	Rebate Allowed:		
	a. 100% of Tax (D)	11,000	
	b. Maximum Allowed	2,000	
	Least of (a) and (b)		(2,000)

F	Tax After Rebate		9,000
	Add: Education Cess & S.H. Edu. Cess	9,000*3%	270
	Net Tax Liability		9,000+270 9,270

Illustration 2 Calculation of Rebate u/s 87A

A	Grass Total Income		Rs. 2,50,000
B	Deductions		Rs. 35,000
C	Net Tax able Income	2,50,000-45,000	Rs. 2,15,000
D	Tax on Net Tax able Income	10% * (2,15,000- 2,00,000)	1,500
E	Rebate Allowed:		
	100% of Tax (D)		1,500
	Maximum Allowed		2,000
	Least of (a) and (b)		(1,500)
F	Tax after Rebate		Nil
	Add Edn.Cess & S.H. Edu. Cess		Nil
	Net Tax Liability		Nil