

Chapter 12

REBATE & RELIEF

CHAPTER OVERVIEW

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12.1 Rebate of Income Tax for Resident Individuals [Sec. 87A]

1. **Applicability:** Resident Individual.
2. **Income Limit:** Total Income does not exceed ₹ 5,00,000 (i.e Assessee who are in 10% tax slab).
3. **Amount of Rebate:** 100% of Tax Amount or ₹ 2,000, whichever is less.

12.2 Relief for Salaried Employees [Sec. 89]

12.2.1 Concept of Relief

1. Applicability for claiming Relief u/s 89:

- (a) The Employee's Salary is paid in arrears or in advance, and he receives Salary for more than 12 months in one financial year, or,
- (b) He is in receipt of Profit in lieu of Salary u/s 17(3).

Due to the above reasons, his Income is assessed at a **rate higher** than that at which it would otherwise have been assessed.

2. Eligible Receipts: The Assessee is entitled to claim Relief u/s 89 for the following receipts —

- (a) Arrears of Salary.
- (b) Advance Salary.
- (c) Leave Encashment while in service. [Circular No.431/12-09-1985]
- (d) Gratuity or Voluntary Retirement Compensation.
- (e) Any other Profit in lieu of Salary.
- (f) Family Pension specified in Sec.57, received in arrears.

3. Claim of Relief: The Relief should be claimed by the Employee by way of declaration in the prescribed Form 10E. Such claim can be made to the Employer at the time of making TDS. The Employer is bound to consider the claim of relief u/s 192(2A).

4. VRS vs Relief: When an Assessee claims exemption u/s 10(10C) for VRS Compensation, he is **not** eligible for Relief u/s 89(1).

Illustration – Relief u/s 89(1) – Duties of Employer and AO

Balan is employed with M/s NPA Bank. During the Previous Year 2013–2014, Balan received arrears of salary relating to Previous Years 2010–2011, 2011–2012 and 2012–2013. Balan claimed relief u/s 89 on the arrears salary received and furnished the statement of particulars in Form 10E to the Bank at the time of tax deduction.

The Bank rejected the claim of relief u/s 89 on the ground that Balan had not filed the returns of income for the previous years to which the arrears pertain. The Bank was of the view that Balan has to obtain relief only at the time of assessment before the Assessing Officer.

Balan filed his return for the first time, enclosing Form 10E and claiming relief u/s 89. For allowing the relief claim, the AO required Balan to file the returns of income for all the previous years to which the arrears related. When no reply was received from Balan, the AO issued a notice u/s 148 to regularise the earlier years' assessment and grant relief.

- (a) **Can Relief u/s 89 be claimed at the time of tax deduction? Is the Employer duty-bound to allow relief before deducting TDS?**
- (b) **Is the AO's action valid? Is it a must to file all previous year's returns for claiming relief u/s 89?**

1. Case (a) – Employers' Duties regarding Relief u/s 89:

- (a) **Entitlement to Relief:** U/s 89, an assessee is entitled to relief of tax, when he receives in one financial year, Salary for more than 12 months or a payment considered as Profit in lieu of Salary.
- (b) **Employer's Duties:** Sec.192(2A) provides that where the assessee, being a Government Servant or an Employee in a Company, Co-Operative Society, Local Authority, University, Institution, Association or Body, is entitled to relief u/s 89, he may furnish a statement of particulars in Form 10E for claiming the relief. The person responsible for tax deduction shall compute the relief on the basis of these particulars, and take it into account for determining TDS.
- (c) **Conclusion:** Hence, the Bank is duty-bound to allow relief on the basis of Form 10E filed. It is **not** the responsibility of the Bank to verify whether previous years' returns have been filed.

2. Case (b) – Validity of AO's action: The AO's action is not valid in law, since there is no necessity to file all previous years' returns for claiming relief u/s 89. The Board's **Circular No.331 dated 22.03.1982** provides as under –

- (a) Relief u/s 89 should be given in the assessment year in which the extra payment by way of arrears, advance, etc. is taxed.
- (b) Basically, the relief u/s 89 is **arithmetical**. It involves finding out two rates of tax. The first is the rate of tax applicable to the Total Income including the extra amount in the year of receipt. The second is finding out the rate by adding the arrears to the Total Income of the years to which they relate.
- (c) For this purpose, the assessee should be asked for a true and authentic statement of the Total Income of the earlier years to which the arrears pertain.
- (d) There is no warrant for issuing a notice u/s 148 or calling for returns of income of the earlier years.

12.2.2 Computation of Relief, in case of receipt of Arrears / Advance of Salary

Table 1: Relief Computation

Step	Particulars	₹
1	Total Income for the year (excluding Arrears of Salary)	XXX
2	Arrears of Salary received relating to prior previous years	XXX
3	Total Income for the year (including Arrears of Salary)	XXX
4	Tax on Total Income (Item No.3) after SC , EC & SHEC	XXX
5	Tax on Total Income (Item No.1) after SC , EC & SHEC	XXX
6	Difference between (4) and (5)	XXX
7	Total Tax computed as per Column 7 of Table 2 below	XXX
8	Relief u/s 89 [(6)–(7)]	XXX

Table 2: Computation of Tax on Arrears for earlier previous years

Previous year	Total Income	Arrears of earlier years	Total income including arrears	Tax on Income in Col.(4)	Tax on Income in Col.(2)	Difference between Col.(5) & Col.(6)
				(after SC & EC)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)

Note: The above Table is applicable for receipt of Salary in Advance also.

Illustration – Computation of Relief – Arrears of Salary

Mrinal furnishes the following information for the Previous Year 2013–2014 –

1. Total Income (including Arrears)	₹ 4,60,000		
2. Details of Taxable Income for the preceding 3 previous years are as follows –			
Particulars relating to Financial Year	2010–2011	2011–2012	2012–2013
Total Income	₹ 1,20,000	₹ 2,40,000	₹ 2,60,000
Arrears pertaining to previous years received during CY	₹ 20,000	₹ 30,000	₹ 40,000
Investments eligible for deduction u/s 80C	N.A.	N.A.	₹ 70,000

Compute the Relief u/s 89.

Tax Rates for previous three Assessment Years are as under –

A.Y. 2011–2012: Upto ₹ 1,60,000 – Nil. Next ₹ 3,40,000–10%, Next ₹ 3,00,000–20%, Balance –30%, EC at 2% of Tax. SHEC at 1% on Tax.

A.Y. 2012–2013: Upto ₹ 1,80,000 – Nil. Next ₹ 3,20,000–10%, Next ₹ 3,00,000–20%, Balance –30%, EC at 2% of Tax. SHEC at 1% on Tax.

A.Y. 2013–2014: Upto ₹ 2,00,000 – Nil. Next ₹ 3,00,000–10%, Next ₹ 5,00,000–20%, Balance –30%, EC at 2% of Tax. SHEC at 1% on Tax.

Assessee: Mrinal

Previous Year: 2013–2014

Assessment Year: 2014–2015

Table 1: Computation of Relief u/s 89

Particulars	₹
1. Total Income (excluding Arrears of Salary)	3,70,000
2. Arrears of Salary received	90,000
3. Total Income (including Arrears of Salary)	4,60,000
4. Tax on Total Income (Item No.3) after EC at 2% & SHEC at 1% (After rebate u/s 87A)	24,720
5. Tax on Total Income (Item No.1) after EC at 2% & SHEC at 1% (After rebate u/s 87A)	15,450
6. Difference between (4) and (5)	9,270
7. Tax computed as per Table below	7,210
8. Relief u/s 89 [(6) – (7)]	2,060
9. Net Tax Payable [(4) – (8)]	22,660

Table 2: Computation of Tax on Arrears for earlier Previous Years (Amount in ₹)

Previous Year	Total Income	Arrears	Total Income incl. Arrears	Tax on (4)	Tax on (2)	Difference
				After Surcharge & Cess		
(1)	(2)	(3)	(4)	(5)	(6)	(5) – (6)
2010–2011	1,20,000	20,000	1,40,000	Nil	Nil	Nil
2011–2012	2,40,000	30,000	2,70,000	9,270	6,180	3,090
2012–2013	2,60,000	40,000	3,00,000	10,300	6,180	4,120
Total						7,210

Note: Since Total Income is already given in the question, the details as to investments u/s 80C are not relevant.

Illustration – Computation of Relief for Arrears of Salary

Sai, an Employee furnished the following particulars for previous year ending 31.03.2014 –

(a) Salary Income as computed	₹ 3,52,000
(b) Arrears of Salary received (not included in the above) relating to PY 2006–2007	₹ 45,000
(c) Assessed Income for Previous Year 2006–2007	₹ 70,000
(d) On 25.03.2014, amount deposited in Public Provident Fund	₹ 50,000

You are requested to compute relief u/s 89 in terms of Tax Payable.

Rates of tax for Assessment Year 2007–2008 are – On First ₹ 1,00,000 – NIL, On next ₹ 50,000 – 10%, Next ₹ 1,00,000 – 20%, On the balance – 30%. Surcharge at 10% if Total Income exceeds ₹ 10,00,000.

Name: Mr. Sai

Previous Year: 2013–2014

Assessment Year: 2014–2015

Table 1: Computation of Relief u/s 89

Step	Particulars	₹
1	Total Income for the year (excluding Arrears of Salary) [3,52,000 – 50,000]	3,02,000
2	Arrears of Salary received relating to Prior Previous Years	45,000
3	Total income for the year (including Arrears of Salary)	3,47,000
4	Tax on Total Income (Item No.3) after Cess (See Note below)	13,080
5	Tax on Total Income (Item No.1) after Cess (See Note below)	8,450
6	Difference between (4) and (5)	4,630
7	Total Tax computed as per Column 7 of Table 2 below	1,550
8	Relief u/s 89 [(6)–(7)]	3,080

Table 2: Computation of Tax on Arrears for earlier Previous Years (Amount in ₹)

Previous year	Total Income	Arrears of earlier years	Total income including arrears	Tax on Income in Col.(4)	Tax on Income in Col.(2)	Difference between Col.(5) & Col.(6)
				(After Deduction Plus SC & Cess)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006–2007	70,000	45,000	1,15,000	1,550	Nil	1,550

Working Note: Computation of Tax Payable for AY 2014–2015, if Salary Income is –

Particulars	Including Arrears (₹)	Excluding Arrears (₹)
Gross Total Income	3,97,000	3,52,000
Less: Deduction u/s 80C = Contribution to PPF	(50,000)	(50,000)
Total Income	3,47,000	3,02,000
Tax on Total Income	14,700	10,200
Less: Rebate u/s 87A (see Note)	(2,000)	(2,000)
Tax payable	12,700	8,200
Add: Education Cess at 2%	254	164
Add: Secondary and Higher Education Cess at 1%	127	82
Total Tax Payable (Rounded Off)	13,080	8,450

Note: W.e.f A.Y.2014-15, 100% of Tax payable or ₹ 2000 whichever is less shall be allowed as Deduction as Rebate u/s 87A, when Total income of Resident Individual does not exceed ₹5 lakhs.

12.2.3 Computation of Relief, for VRS Compensation / Retirement Gratuity / Commutation of Pension

Step 1: Computation of Tax Payable after Relief u/s 89 for the year of retirement

Particulars		₹
	Tax on Total Income (including VRS Compensation / Gratuity / Commuted Pension)	XXXX
Add:	Education Cess and Secondary and Higher Education Cess	XXX
	Total Tax Payable	XXXX
Less:	Relief u/s 89	(XXX)
	Balance Tax Payable	XXXX

Step 2: Compute **Average Rate of Tax** for the **current year** = $\frac{\text{Balance Tax Payable (from Step 1)}}{\text{Total Income}}$

Step 3: Computation of Average Rate of Tax for preceding Three Financial Years (P.F.Y)

Particulars	P.F.Y- 1	P.F.Y- 2	P.F.Y- 3
1. Total Income (excluding taxable VRS)			
2. Add: $\frac{\text{VRS Compensation}}{3}$			
3. Total Income including VRS compensation			
4. Tax on (3)			
5. Add: EC + SHEC			
6. Total Tax payable / paid			
7. Average Rate of Tax = $\frac{\text{Item 6}}{\text{Item 3}}$			
8. Average of the Average Rates of 3 preceding fin. years	$\frac{\text{Total of Item 7}}{3}$		

Step 4: Relief on VRS Compensation =

	Taxable VRS Compensation × Average Rate of Tax for current year (as per Step 2)
Less:	Taxable VRS Compensation × Average of the Average Rates of 3 preceding financial years (as per Step 4)

Notes:

- In the above procedure, VRS Compensation shall be suitably replaced by Commutation of Pension and Gratuity Amount, wherever required.
- If **Gratuity** is paid for services rendered for **less than 15 years**, it is apportioned over **two prior financial years** (instead of 3 prior financial years).
- If the Assessee claims exemption u/s 10(10C), he cannot claim Relief under 89.

Illustration – Relief u/s 89 vs Exemption u/s 10(10C) – Most Beneficial Option

Ram gives you the following information and requires you to calculate the relief for Previous Year 2013–2014 –

	₹
(a) Gross Salary (excluding Ex-Gratia)	5,00,000
(b) Ex-Gratia Received	12,00,000
(c) Professional Tax Paid	5,000

Details of Taxable Income for the three preceding Previous Years are as follows –

Particulars	2010–2011	2011–2012	2012–2013
Total Income	1,50,000	1,80,000	2,10,000

Tax Rates for previous three Assessment Years are as under –

A.Y. 2011–2012: Upto ₹ 1,60,000 – Nil. Next ₹ 3,40,000–10%, Next ₹ 3,00,000–20%, Balance – 30%, EC at 2% of Tax. SHEC at 1% on Tax.

A.Y. 2012–2013: Upto ₹ 1,80,000 – Nil. Next ₹ 3,20,000–10%, Next ₹ 3,00,000–20%, Balance – 30%, EC at 2% of Tax. SHEC at 1% on Tax.

A.Y. 2013–2014: Upto ₹ 2,00,000 – Nil. Next ₹ 3,00,000–10%, Next ₹ 5,00,000–20%, Balance – 30%, EC at 2% of Tax. SHEC at 1% on Tax.

Compute the Tax Payable by Ram for the Previous Year 2013–2014.

Assessee: Mr. Ram

Previous Year: 2013–2014

Assessment Year: 2014–2015

1. Computation of Taxable Income and Tax Payable under both options, i.e. Relief Vs Exemption

Particulars	Relief u/s 89 (₹)	Exemption u/s 10(10C) (₹)
Income from Salary		
Gross Salary	5,00,000	5,00,000
Taxable Ex–Gratia: Ex–Gratia Received 12,00,000	12,00,000	–
Less: Exemption u/s 10(10C) (5,00,000)	–	7,00,000
Gross Salary before Deduction u/s 16	17,00,000	12,00,000
Less: Deduction u/s 16: Professional Tax	(5,000)	(5,000)
Gross Total Income	16,95,000	11,95,000
Less: Chapter VI–A Deductions	NIL	NIL
Total Income	16,95,000	11,95,000
Tax on Total Income	3,38,500	1,88,500
Add: Education Cess at 2%	6,770	3,770
Add: Secondary and Higher Education Cess at 1%	3,385	1,885
Total Tax Payable	3,48,655	1,94,155
Less: Relief u/s 89 (as computed below)	(1,44,720)	–
Tax Payable (Rounded Off)	2,03,935	1,94,160

Conclusion: Exemption Claim u/s 10(10C) is more beneficial to Ram, due to lower tax liability.

2. Computation of Relief u/s 89 for VRS Compensation

Particulars	Previous Years (Amount in ₹)			
	2010–2011	2011–2012	2012–2013	2013–2014
Total Income (excluding Ex–Gratia)	1,50,000	1,80,000	2,10,000	4,95,000
Add: Taxable Ex–Gratia	–	–	–	12,00,000
Ex–Gratia apportioned over 3 years equally	4,00,000	4,00,000	4,00,000	–
Total Income including Ex–gratia [A]	5,50,000	5,80,000	6,10,000	16,95,000
Tax on Total Income as above	44,000	48,000	52,000	3,38,500
Add: Education Cess at 2%	880	960	1,040	6,770
Add: Secondary and Higher Education Cess at 1%	440	480	520	3,385
Total Tax Payable [B]	45,320	49,440	53,560	3,48,655

Particulars		Previous Years (Amount in ₹)			
Average Rate of Tax	[(B) ÷ (A)] in %	8.24%	8.52%	8.78%	20.57%
Average of Average Rates of Preceding Three Years		8.51%			
Current year Average Rate of Tax × Taxable Ex-Gratia (₹ 12,00,000 × 20.57%)					2,46,840
Less: Average of Average Rates × Taxable Ex-Gratia (₹ 12,00,000 × 8.51%)					1,02,120
Relief u/s 89					1,44,720

Questions for Revision

Note: Detailed Answers to these Questions can be obtained from Padhuka's Revision Guide for Taxation – CA IPCC / Inter.

1. Ashok Kumar, an Employee of a PSU furnishes the following particulars for the previous year ending 31.03.2014 –
- | | |
|---|------------|
| (a) Salary Income for the year | ₹ 5,25,000 |
| (b) Salary for Previous Year 2010–2011 received during the year | ₹ 40,000 |
| (c) Assessed Income for the Previous Year 2010–2011 | ₹ 1,70,000 |
- You are requested by the Assessee to compute Relief u/s 89, in terms of tax payable for Assessment Year 2014–2015. Rates of Income Tax for the A.Y. 2011–2012: Upto ₹ 1,60,000 – NIL. Next ₹ 3,40,000–10%, Next ₹ 3,00,000 – 20%, Balance – 30%, EC at 2% of tax, SHEC at 1% on Tax. **[M 09] [Answer: Relief u/s 89 = ₹ 4,120]**

2. Mr. Nigamanth, an Employee furnishes the following particulars for the Previous Year ending 31.03.2014 –

	Particulars	₹
(a)	Salary Income as computed (after all deductions) for the year	6,60,000
(b)	Arrears of Salary received during the year (not included in the above) relating to FY 2010–11	25,000
(c)	Assessed Income of Financial Year 2010–2011	1,60,000

Compute Relief u/s 89 of the Income Tax Act, 1961, in terms of Tax Payable.

A.Y. 2011–2012: Upto ₹ 1,60,000 – NIL. Next ₹ 3,40,000–10%, Next ₹ 3,00,000 – 20%, Balance – 30%, EC at 2% of tax, SHEC at 1% on Tax. **[N 07] [Answer: Relief u/s 89 = ₹ 2,575]**

3. In the case of Mr. Hari, you are informed that the Salary for the Previous Year 2013–2014 is ₹ 10,20,000 and arrears of salary received is ₹ 80,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary	Arrears now received (₹)
2001 – 2002	75,000	15,000
2002 – 2003	80,000	25,000
2003 – 2004	90,000	40,000

Compute the Relief available u/s 89 and the tax payable for the A.Y. 2014–2015.

Note 1:

- (a) Rates of Taxes: For A.Y. 2001–02, 2002–03 & 2003–04, Upto 50,000 – Nil, 50,000 to 60,000 – 10%, 60,001 to 1,50,000 – 20% , above 1,50,000 –30%
- (b) Surcharge:
- | | |
|--------------|--|
| A.Y. 2001–02 | –12% (if total income exceeds ₹ 60,000) |
| | –17% (if total income exceeds ₹ 1,50,000) |
| A.Y. 2002–03 | – 2% (if total income exceeds ₹ 60,000) |
| A.Y. 2003–04 | – 5% (if total income exceeds ₹ 60,000) [Answer: Relief u/s 89 = ₹ 7,860] |

