



All India RRB Officers' Federation (AFFILIATED TO AIBOC)

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All Affiliates/ Members
(Please re-circulate)

10 BIPARTITE SETTLEMENT – PAYMENT OF ARREARS APPORTIONING INCOME TO SAVE TAX

We reproduce hereunder the text of All India Bank Officers' Confederation Circular No. 56 dated 18th August, 2015.

QUOTE

We hope that the arrears of 10th Bipartite Settlement have been paid to all our members in all Affiliates. We are aware that the payment of these arrears has enhanced our tax liability in this financial year. Many of our members may have to pay higher tax due to the inclusion of entire arrears in this financial year due to application of higher tax products applicable to the total income (including arrears). There is a provision contained in Section 89 of Income Tax Act 1961 which provides for income apportionment which can provide a tax relief to many of our members. We quote below the news item published in a newspapers "Mint" which explains the modality of the Section.

DE-JARGONED: SECTION 89 OF THE INCOME-TAX ACT

An employee's tax liability can increase when she receives arrears. However, one can get some amount of relief under section 89 of the Income-tax Act, 1961. Here is a look at what is covered under this section, and how one can avail of the relief.

WHAT IS SECTION 89?

The receipt of arrears can lead to a higher tax incidence in the hands of the employee as the amount gets taxed in the year of receipt. Had the employee received this amount in the year(s) that it pertained to, the additional tax would have been staggered over the years, instead of being paid as a lump sum. This is where section 89 comes in.

This section, titled "relief when salary, etc., is paid in arrears or in advance", comes under chapter VIII (Rebates and Reliefs) of the income-tax Act. According to it, if you get salary in arrears or advance in a financial year due to which your total income for the year increases, which in turn increases your taxable income, you can claim for relief under section 89. According to this section, arrears includes salary/family pension paid in arrears/advance (additional salary), certain part of gratuity, compensation received on termination of employment, and commuted pension. The rules apply to both government and private sector employees.



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HOW TO CLAIM RELIEF?

Firstly, you should calculate tax for the current year on income including the arrears or compensation. Then calculate the tax for the current year on the income excluding the arrears. After that, subtract these two figures; let us call this figure A. The next step is to calculate tax for the year in which the arrears should have been received—once with the arrears, and then without. Again subtract these two figures; let us call this figure B.

To get the amount of relief that you can receive under section 89, subtract figure A from figure B.

Here's an example. Say, you earn Rs.10 lakh a year in financial year (FY) 2014, and receive an arrear of Rs.4 lakh for FY13. Your total salary in FY13 was Rs.8 lakh. For FY14, without the arrears, your tax liability will be Rs.1.34 lakh, and with arrears (total salary of Rs.14 lakh), it will become Rs.2.57 lakh. This is a difference of Rs.1.23 lakh. Now, we have to calculate the tax incidence for FY13, on your salary of Rs.8 lakh. Without the arrears, you paid a tax of Rs.92,700, and with the arrears (total salary of Rs.12 lakh) you would have paid Rs.1.95 lakh as tax. This is a difference of Rs.1.03 lakh. So, the relief that you can get under section 89 is Rs.20,600 (Rs.1.23 lakh - Rs.1.03 lakh).

You will have to fill up Form 10E with these details and then submit it to your current employer to claim the relief. Keep your salary slips handy to provide as proof of receipt of the arrears. But do keep in mind that only if the tax paid is higher will you be able to claim this relief. If you do not have to pay excess tax due to the arrears, then you do not get the relief.”

Our members may carefully go through the provisions of Section 89 of Indian Income Tax Act and take the full advantage of the same by apportioning their arrears of the previous years to avoid the higher tax liability, if applicable.

UNQUOTE

With greetings,


(S.K. Bhattacharjee)
GENERAL SECRETARY