# Lesson 2:  Income Tax Master Configuration

Tally.ERP 9 requires the following Master setup for the Income Tax to be computed successfully for all the Employees, for all the existing Payroll users:

- Pay Head Configuration
- Income Tax Configuration
- Employee Declarations

Following are the optional configurations:

- Declaring Previous Employer Income/Details
- Override Income Tax Exemption Value
- Override Income Tax Value

## 2.1 Pay Head Configuration

All the existing Pay Heads have to be re-configured for Income Tax before processing the Payroll for successful Income Tax Computation. If there is any amount (perquisites) paid to Employees without using the Payroll Vouchers, the respective ledgers also needs to be identified for successful Income Tax computation.

> *By default all the existing Pay Heads are considered as fully taxable and hence incorrect Tax Computation may be projected. To display the correct Tax Computation, you will have to reconfigure the Existing Pay Heads.*
>
> *The Professional Tax and Provident Fund Pay Heads are configured for Income Tax by default.*

**Example 1:**

*Spectrum Software Services is already using Tally.ERP 9 Payroll and has the following Pay Heads:*

| Earnings Pay Heads | Deductions | Others |
|---|---|---|
| Basic Pay | Employee's PF | Gratuity |
| House Rent Allowance | Employee's ESI | Employer EPS Contribution |
| Conveyance | Professional Tax | Employer EPF Contribution |
| Overtime Pay | | PF Admin Charges @0.01% |
| Variable Pay | | EDLI Contribution @ 0.5% |
| Children Education Allowance | | EDLI Admin Charges @0.01% |
| | | Employer ESI Contribution |

*Bonus is also Paid to the Employees using normal Payment Voucher usign the Bonus Ledger.*

To configure the existing Pay Heads for Income Tax,

Go to **Gateway of Tally > Payroll Info. > Income Tax Details > Pay Head Configuration**

- ❏ Move the cursor to the required Pay Head using up and down arrow keys and press **Enter**
- ❏ In the **Income Tax Configuration** screen,
- ❏ Select the required **Income Tax Component Type** for the selected **Pay Head** as shown:



Figure 3.1  Income Tax Configuration - Income Tax Component selection

- Select the required **Method of Calculation** from **Projected** or **On Actuals**
- **Deduct TDS across Period(s)** will be defaulted to **Yes** for all **Projected** Pay Heads

The completed screen for **Income Tax Configuration** for **Basic Pay** appears as shown:



Figure 3.2  Completed Income Tax Configuration screen

- Press **Enter** to accept and save.

*Income Tax Configuration details*

- *Name of Pay Head /Ledger: This will display the name of the selected component.*

- *Master Type: This will display the information whether the selected component is a Pay Head or a Ledger.*

- *Income Tax Component: The required Income Tax component type has be selected from the list of Income Tax Components for proper tax computation.*

- *Method of Calculation: The required method of Income Tax Calculation should be selected from Projected or On Actuals.*

  - *When the Method of Calculation is selected as Projected, the respective Pay Heads value/amount will be projected for Income Tax Computation for the entire year (based on the date of joining).*

  - *When the Method of Calculation is selected as On Actuals, the respective Pay Heads value/amount will be considered for Income Tax computation based on the actual (Voucher) value paid/payable to the Employee in that particular month.*

- *Deduct TDS Across Period(s): If this option is set to Yes and Method of Calculation is selected as On Actuals, the Income Tax computation for the respective Pay Head will be distributed across the remaining period. Else entire amount will be deducted in the same month in which it is paid/payable.*

The **Pay Head Configuration** screen after setting the **Income Tax Configuration** for **Basic Pay** appears as shown:

| SI.No | Particulars | Income Tax Component | Method of Calculation | Deduct TDS Across Period(s) |
|---|---|---|---|---|
| 1. | Basic Pay | Basic Salary | Projected | Yes |
| 2. | Children Education Allowance | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 3. | Conveyance | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 4. | Employee's PF Deduction@12% | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 5. | Gratuity | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 6. | House Rent Allowance | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 7. | Overtime Pay | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 8. | Professional Tax | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 9. | Variable Pay | Other Earnings/Allowances (Fully Taxable) | On Actuals | No |

*Pay Head Configuration — Spectrum Software Solutions — Ctrl + M*
*Income Tax Pay Head & Ledger Configuration*
*Note :- By default all the Pay Heads are considered as Fully Taxable*

Completed **Income Tax Configuration** for **Children Education Allowance Pay Head** is as shown:

**Income Tax Configuration**

| | | |
|---|---|---|
| Name of PayHead / Ledger | : | Children Education Allowance |
| Master Type | : | Payhead |
| Income Tax Component | : | Children Education A|l |
| Method of Calculation | : | Projected |
| Deduct TDS Across Period(s) | : | Yes |

Accept ?

Yes or No

Figure 3.3  Completed Income Tax Configuration screen

Completed **Income Tax Configuration** for **Conveyance Pay Head** is as shown:



Figure 3.4  Completed Income Tax Configuration screen

Completed **Income Tax Configuration** for **Employee's Provident Fund Deduction Pay Head** is as shown:



Figure 3.5  Completed Income Tax Configuration screen

Similarly, other Pay Heads can also be configured.

You can also configure the Ledgers which are used to make the payments to the Employees for the respective Income tax Components from the Pay Head Configuration screen.

To configure a Ledger for Income Tax,

- ❑   Click on **A: Add Ledger** or press **Alt+A** button
- ❑   Select the required **Ledger** from the **List of Ledgers**



Figure 3.6  List of Ledgers

- ❑   Select the required parameters in the **Income Tax Configuration** screen

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The completed **Income Tax Configuration** screen for **Bonus Ledger** is displayed as shown:

| Income Tax Configuration | | |
|---|---|---|
| Name of PayHead / Ledger | : | **Bonus** |
| Master Type | : | **Ledger** |
| Income Tax Component | : | **Bonus** |
| Method of Calculation | : | **On Actuals** |
| Deduct TDS Across Period(s) | : | **No** |

Accept ?

Yes or No

Figure 3.7  Income Tax Configuration for Bonus Ledger

The completed **Pay Head Configuration** screen is displayed as shown:

| Pay Head Configuration | Spectrum Software Solutions | | Ctrl + M ⊠ |
|---|---|---|---|
| **Income Tax Pay Head & Ledger Configuration** | | | |
| *Note :- By default all the Pay Heads are considered as Fully Taxable* | | | |
| **Sl.No** **Particulars** | **Income Tax Component** | **Method of Calculation** | **Deduct TDS Across Period(s)** |
| 1. Basic Pay | Basic Salary | Projected | Yes |
| 2. Bonus | Bonus | On Actuals | No |
| 3. Children Education Allowance | Children Education Allowance | Projected | Yes |
| 4. Conveyance | Conveyance Allowance | Projected | Yes |
| 5. Employee's PF Deduction@12% | Provident Fund (EPF) | Projected | Yes |
| 6. Gratuity | Gratuity | On Actuals | No |
| 7. House Rent Allowance | House Rent Allowance | Projected | Yes |
| 8. Overtime Pay | Other Earnings/Allowances (Fully Taxable) | Projected | Yes |
| 9. Professional Tax | Professional Tax (Tax on Employment) | Projected | Yes |
| 10. Variable Pay | Other Earnings/Allowances (Fully Taxable) | On Actuals | No |

Figure 3.8  Pay Head Configuration screen - completed

## 2.2 Employee's Income Tax Declarations

The Employee's have to declare their savings, investment and other details such as rent paid, Conveyance, LTA etc. to get the correct Tax Computation after considering these declarations.

**Example 2:**

*Spectrum Software Services collected the Income Tax Declaration details for all the Employees on 15.4.2010.*

## 2.2.1 Rent Declaration for House Rent Allowance

House Rent Declarations are required to be made to get the benefit towards the House Rent Allowance of Income Tax. Tally.ERP 9 allows the option to declare the House Rent Paid (Payable) for single Employee or multiple Employees.

**Example 3:**

*The HRA details as declared by the Employees is given below:*

| Sl. No. | Name of Employee | HRA Amount |
|---------|------------------|------------|
| 1 | Ajay | 5000 |
| 2 | Mahesh | 10000 |
| 3 | Rahul | 6000 |
| 4 | Vijay Kumar | 7000 |

To declare the House Rent paid (payable),

Go to **Gateway of Tally > Payroll Info. > Declarations**

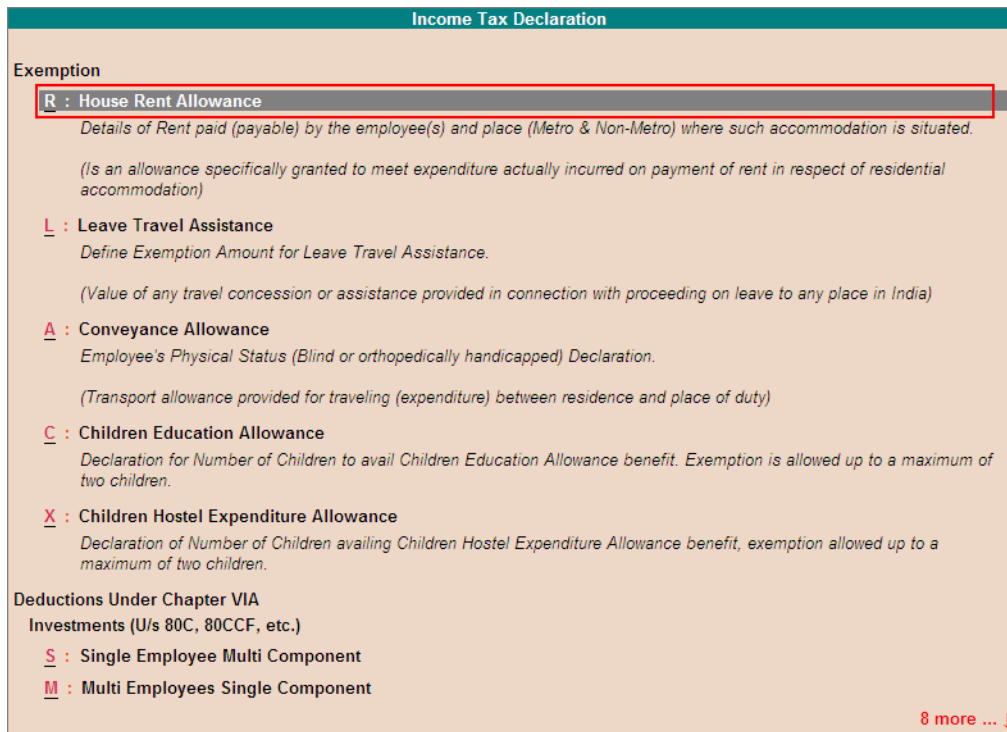◻ Under **Exemptions**, select **Rent and Place of Accommodation** and press **Enter**



Figure 3.9  Income Tax Declaration screen

❑ In the **Employee Filter** sub screen, select **All Employee**
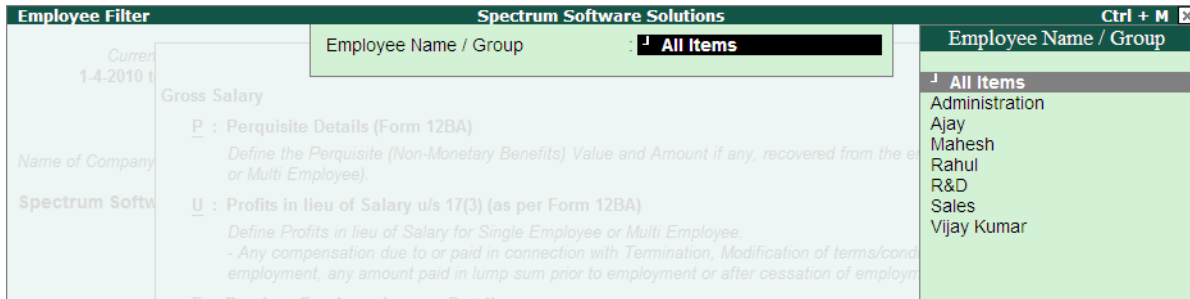


Figure 3.10  Employee Filter screen

*Notes*

*In the above screen you can select an individual Employee and enter the HRA details one by one for all the Employees.*

*Selecting **All Items** will allow you to enter the HRA details for all the Employees from single screen.*

❑ In the House Rent Declaration screen,
  ■ Specify the **Effective From** date as **1.4.2010**
  ■ Enter **Rent Declared** as **5000**
  ■ **Rent Proof** field can be skipped while entering the declaration
  ■ Select **Non-Metro** as **Place of Residence** for Bangalore city

*Tips*

❑ *Effective From: The date from when the Rent is paid in the current financial year has to be specified.*

❑ *Rent Declared: Monthly Rent as declared by the Employee has to be specified in this field.*

❑ *Rent Proof: Actual Rent Paid by the Employee has to be entered in this field. This will be usually entered when the Employee provides the proof of the Rent Paid by him.*

❑ *Place of Residence: Will be **Metro** for New Delhi, Mumbai, Kolkata and Chennai. For all other cities it will be **Non-Metro**.*

Similarly, you can specify the Rent Declaration for all other Employees also.

| House Rent Declaration | | Spectrum Software Solutions | | | | Ctrl + M |
|---|---|---|---|---|---|---|
| Employee / Group | : All Items | | | Financial Year : 1-Apr-2010 to 31-Mar-2011 | | |
| Type of Allowance | : House Rent Allowance | | | | | |
| **Employee Name** | **Employee Number** | **Effective From** | **Rent Declared** | **Rent Proof** | **Place of Residence** | |
| Ajay | 551 | 1-4-2010 | 5,000.00 | | Non Metro | |
| Mahesh | 550 | 1-4-2010 | 10,000.00 | | Non Metro | |
| Rahul | 552 | 1-4-2010 | 6,000.00 | | Non Metro | |
| Vijay Kumar | 549 | 1-4-2010 | 7,000.00 | | Non Metro | |

Figure 3.11  Completed House Rent Declaration screen

**Example 4:**

*The details required for Child Education Allowance, as given by the Employees are shown below:*

| Sl. No. | Name of Employee | No. of Children |
|---|---|---|
| 1 | Ajay | 1 |
| 2 | Mahesh | 2 |
| 3 | Rahul | 1 |
| 4 | Vijay Kumar | - |

Similar to **House Rent Allowance**, the **Child Education Allowance** declaration screen is displayed below:

| Child Education Allowance | Spectrum Software Solutions | | Ctrl + M |
|---|---|---|---|
| Employee / Group | : ⌐ All Items | Financial Year : 1-Apr-2010 to 31-Mar-2011 | |
| Type of Allowance | : Children Education Allowance | | |

| Employee Name | Employee Number | Effective From | Number of Children |
|---|---|---|---|
| Ajay | 551 | | |
| | | 1-4-2010 | 1 |
| Mahesh | 550 | | |
| | | 1-4-2010 | 2 |
| Rahul | 552 | | |
| | | 1-4-2010 | 1 |
| Vijay Kumar | 549 | | |

Accept ?

Yes or No

Figure 3.12  Completed Child Education Allowance screen -1

Similarly, the declaration for **Children Hostel Expenditure Allowance, Conveyance Allowance** and **Leave Travel Allowance** can also be specified.

### 2.2.2 Declaration of Investments U/s 80C & 80CCF

As per section 80C of the Income Tax Act, certain investments are deductible (up to a maximum of Rs 1 lakh) from gross total income. This tax exemption is available across individual tax slabs. As per finance bill 2010-2011, an additional investment of Rs 20,000 into Long Term Infrastructure Bonds is also allowed which increases the maximum amount from Rs 1,00,000 to Rs 1,20,000.

Some of the main schemes eligible for section 80C benefits are:

- PPF
- ELSS - Mutual Funds
- NSC
- KVP
- Life Insurance
- Senior Citizen Saving Scheme 2004
- Post Office Time Deposit Account
- etc...

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**Example 5:**

*Below is the list of Investment Details as provided by the Employees for Deductions under 80C & 80CCF:*

| Sl. No. | Name of Employee | Housing Loan Repayment | Insurance Premium | Long Term Infrastructure Bonds |
|---------|------------------|------------------------|-------------------|--------------------------------|
| 1 | Ajay | 50,000 | 11,000 | 20,000 |
| 2 | Mahesh | 1,00,000 | 20,000 | 20,000 |
| 3 | Rahul | - | 7,000 | 10,000 |
| 4 | Vijay Kumar | - | 9,000 | |

To enter the **Employee Declaration** for Investments made under section **80C & 80CCF,**

- Bring the cursor to **Multi Employee Single Component** under **Investments (80C and 80CCF)** and press **Enter**
- Select **All Items** under **Employee Name/Group**
- Select **Type of Investment** under **Housing Loan Repayment** and press **Enter**

*Notes*

*You have to select the required **Investment Type** to submit the declaration for the respective Investment from the List.*

The **Investment Details** screen for **Housing Loan Repayment** appears as shown:

| Investment Details | Spectrum Software Solutions | | | Ctrl + M |
|---|---|---|---|---|

Employee / Group : ⌐ All Items      Financial Year : 1-Apr-2010 to 31-Mar-2011
Nature of Perquisite : Housing Loan Repayment

| Employee Name | Employee Number | Effective From | Declared Amount | Proof Amount |
|---|---|---|---|---|
| Ajay | 551 | | | |
| | | ████ | | |
| Mahesh | 550 | | | |
| Rahul | 552 | | | |
| Vijay Kumar | 549 | | | |

Figure 3.13  Investment Details

In the **Investment Details** screen,

- For Ajay, specify the **Effective From** date as **1.4.2010**
- Specify the Declared Amount as **50,000**
- **Proof Amount** field can be skipped while entering the declaration

- ◻ *Effective From:* *The date from when the Investment Proof is applicable. This will also be used for the Income Tax Computation for the previous period. If the Employee changes the Investment Declaration the same should be added with new* **Effective From** *date, keeping the earlier date and record intact. e.g. on 1.4.2010 Ajay has declared Housing Loan repayment as 50,000 and on 1.7.2010, the new amount is declared for Housing Loan as 75,000. You have to record both in the system.*

- ◻ *Amount Declared:* *Total Principal Amount payable during the year has to be specified in this field.*

- ◻ *Proof Amount:* *Actual Rent Paid by the Employee has to be entered in this field. This will be usually entered when the Employee provides the proof of the Rent Paid by him.*

Similarly the **Investment Details** for **Housing Loan Repayment** can be entered for the remaining Employees also.

The completed **Investment Details** is displayed as shown:

| Investment Details | Spectrum Software Solutions | | | | Ctrl + M |
|---|---|---|---|---|---|
| Employee / Group | : ⌐ All Items | | Financial Year : 1-Apr-2010 to 31-Mar-2011 | | |
| Nature of Perquisite | : Housing Loan Repayment | | | | |
| **Employee Name** | **Employee Number** | | **Effective From** | **Declared Amount** | **Proof Amount** |
| Ajay | 551 | | | | |
| | | | 1-4-2010 | 50,000.00 | |
| Mahesh | 550 | | | | |
| | | | 1-4-2010 | 1,00,000.00 | |
| Rahul | 552 | | | | |
| Vijay Kumar | 549 | | | | |

Accept ?

Yes or No

Figure 3.14  Investment Details

## Insurance Premium Declaration

The completed Investment Details screen for Insurance Premium is displayed shown:

| Investment Details | Spectrum Software Solutions | | | Ctrl + M |
|---|---|---|---|---|

| Employee / Group | : ⌐ All Items | | Financial Year : 1-Apr-2010 to 31-Mar-2011 |
|---|---|---|---|
| Nature of Perquisite | : Insurance Premium | | |

| Employee Name | Employee Number | Effective From | Declared Amount | Proof Amount |
|---|---|---|---|---|
| Ajay | 551 | | | |
| | | 1-4-2010 | 11,000.00 | |
| Mahesh | 550 | | | |
| | | 1-4-2010 | 20,000.00 | |
| Rahul | 552 | | | |
| | | 1-4-2010 | 7,000.00 | |
| Vijay Kumar | 549 | | | |
| | | 1-4-2010 | 9,000.00 | |

Accept ?

Yes or No

Figure 3.15  Insurance Premium - Investment Details

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**Long Term Infrastructure Bonds Declaration (Sec 80CCF)**

The completed **Investment Details** screen for **Long Term Infrastructure Bonds** is as shown:

| Employee Name | Employee Number | Effective From | Declared Amount | Proof Amount |
|---|---|---|---|---|
| **Investment Details** | **Spectrum Software Solutions** | | | Ctrl + M |
| Employee / Group | : All Items | | Financial Year : 1-Apr-2010 to 31-Mar-2011 | |
| Nature of Perquisite | : Long-Term Infrastructure Bonds | | | |
| Ajay | 551 | | | |
| | | 1-4-2010 | 20,000.00 | |
| Mahesh | 550 | | | |
| | | 1-4-2010 | 20,000.00 | |
| Rahul | 552 | | | |
| | | 1-4-2010 | 10,000.00 | |
| Vijay Kumar | 549 | | | |
| | | | Accept ? | |
| | | | Yes or No | |

Figure 3.16  Investment Details - Long term Infrastructure bonds

Similarly, all other **Investment Details** can also be entered.

> *Notes*
>
> *To enter the **Employee Declarations** for any other scheme apart from the ones given in the **List of Investments**, select **Other Eligible Investments** and specify the Values.*

## 2.2.3 Other Deductions (U/s 80D, 80DD, 80E etc.)

Under Chapter VIA, Other deductions in respect of maintenance including medical treatment of handicapped, medical insurance for self and dependants (including senior citizens, Donations, Interest Payment on Loan for higher education etc. are also allowed under section 80D, 80DD, 80E etc. These deductions are in addition to section 80C & 80CCF.

**Example 6:**

*Below is the list of Investment Details as provided by the Employees for Deductions under section 80D, 80DD, 80E etc.*

| Sl. No. | Name of Employee | Mediclaim Insurance |
|---------|------------------|---------------------|
| 1 | Ajay | - |
| 2 | Mahesh | 15,000 |
| 3 | Rahul | 5,000 |
| 4 | Vijay Kumar | - |

To declare the other Deductions allowed under **Chapter VIA (U/s 80D, 80DD, 80E etc.)**,

- Bring the cursor to **Multi Employee Single Component** udner **Others (80D, 80DD, 80E etc.)** or press **Alt+O**
- In the **Effective From** field specify **1-4-2010**
- Select **Others** in the **Condition** field from the **List of Categories**
- Specify required Amount in the **Declared Amount** field for each Employee
- **Proof Amount** can be specified later when the Employees provide the required proofs

The completed **Chapter VIA - Others** declaration screen for **Mediclaim Insurance** is displayed as shown:



| Employee Name | Employee Number | Effective From | Condition | Declared Amount | Proof Amount |
|---------------|-----------------|----------------|-----------|-----------------|--------------|
| Ajay | 551 | | | | |
| Mahesh | 550 | 1-4-2010 | Others | 15,000.00 | |
| Rahul | 552 | 1-4-2010 | Others | 5,000.00 | |
| Vijay Kumar | 549 | | | | |

Figure 3.17  Chapter VI - Other deductions for Mediclaim Insurance

□ **Effective From:** *The date from when the Investment Proof is applicable. This will be also used for the Income Tax Computation for the previous period. If the Employee changes the Investment Declaration the same should be added with new **Effective From** date, keeping the earlier date and record intact.*

□ **Condition:** *Should be selected as Senior Citizens for Employees above 60 Years and for all other Employees Other Category should be selected.*

□ **Declared Amount:** *Total Principal Amount payable during the year has to be specified in this field.*

□ **Proof Amount:** *Actual Rent Paid by the Employee has to be entered in this field. This will be usually entered when the Employee provides the proof of the Rent Paid by him.*

Similarly, you can specify the other Deductions for Chapter VIA (u/s 80D, 80DD, 80E etc.)

## 2.3 Override Income Tax

The override feature in Tally.ERP 9 Income Tax allows you to do the following:

1. Allow to specify different Income and Exemption slabs for different Employees as they can differ based on the place of duty or based on the type of work. e.g. high altitude allowance differs based on the height (from sea level) of work place.
2. It also provides the flexibility to enter the already earned values without using the payroll module and now the tax can be computed on the entire value
3. It also allows you to override the tax computation which is done by Tally.ERP 9. This can be used if an Employee has got any special permission from the accessing officer for lesser deduction.

Tally.ERP 9 also allows you to override the existing Income and Exemption slabs or it also allows you to override the Tax amount which is computed by default. The override Exemption value if specified will be applicable for entire year, whereas the Tax override value will be applicable on monthly basis for the specified period.

For the detailed usage of Override options, please refer to the Help file.

## 2.4 Tax Configuration

Tax Configuration is a comprehensive Master setup screen for Income Tax which allows you to Configure Pay Heads/ Ledgers, enter Declarations and specify other declaration details such as Tax Deducted by previous Employer, any other source or self tax declaration and declaration about the reliefs provided under section 89, 90 and 91 etc.

In other words**, Tax Configuration** screen is like a **Quick Setup** which guides the users to make all the necessary setup required for correct computation of Income Tax. Various items are arranged in the **Tax Configuration** screen in the same manner as **Form 16** to simplify the entire user experience.

For illustration purpose **Tax Configuration** for **HRA** is explained in this Chapter. You can refer to Tally.ERP 9 Reference Manual (Help File) for more information on using the **Tax Configuration Master Setup** screen.

To configure, Configure HRA Pay Head and enter the Employee Declaration for HRA,

Go to **Gateway of Tally > Payroll Info. > Income Tax Details > Tax Configuration**

- Bring the cursor to *House Rent Allowance* under **Allowance to the extent exempt u/s 10** as shown:



| Particulars | Status |
|---|---|
| **Gross Salary** | |
| Salary as per provisions contained in Sec 17(1) | Not Applicable |
| Value of Perquisites u/s 17(2) (as per Form 12BA) | Not Applicable |
| Profits in lieu of Salary u/s 17(3) (as per Form 12BA) | Not Applicable |
| **Allowance to the extent exempt under section 10** | |
| Allowance For Transport Employee | Not Configured |
| Border/Remote Area Allowance | Not Configured |
| Children Education Allowance | Configured |
| Children Hostel Expenditure Allowance | Not Configured |
| Conveyance Allowance | Configured |
| Counter Insurgency Allowance | Not Configured |
| Field Area Allowance | Not Configured |
| Gratuity | Configured |
| High Altitude Allowance | Not Configured |
| Highly Active Field Area Allowance | Not Configured |
| Hill Area Compensatory Allowance | Not Configured |
| House Rent Allowance | Configured |
| Island Duty Allowance | Not Configured |
| Leave Encashment on Retirement | Not Configured |
| Leave Travel Assistance | Not Configured |
| Medical Allowance | Not Configured |
| Mining/Underground Allowance | Not Configured |
| Modified Field Area Allowance | Not Configured |
| Other Earnings/Allowances (Fully Exempt) | Not Configured |
| Other Earnings/Allowances (User Defined) | Not Configured |
| | 18 more ... |

Figure 3.18  Tax Configuration screen

As discussed earlier, Tax Configuration screen displays the details as per Form 16 and it also displays the status for each particular as Configured/Not Configured or Note Applicable.

- Press **Enter** to view the **Income Tax Allowance Setup** (Setup Helper)
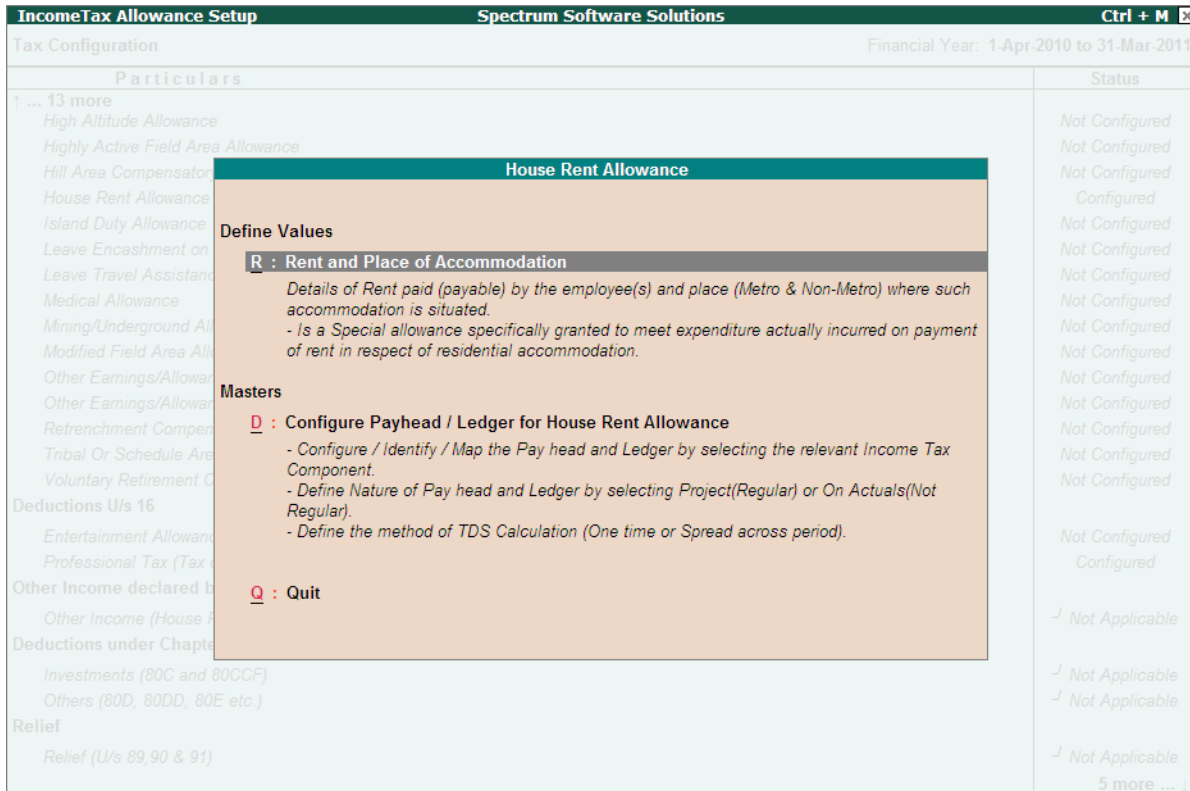
Figure 3.19  Income Tax Allowance Setup

The above setup screen is divided based on the type of allowance/income component/investment:

**Masters:** Allow you to configure the Pay Head/Ledger for the Income Tax

**Declaration or Define Value:** Allows you to enter the Employee Declaration details or define the required value details.


**i. HRA Configuration**

As discussed earlier, the HRA Pay Head/Ledger can also be configured from the **Income Tax Allowance Setup** screen under **Tax Configuration** menu as explained:

◻ Press **Enter** on **Configure Pay Head/Ledger for House Rent Allowance**

The **Pay Head Configuration** screen is displayed below:

| Pay Head Configuration | Spectrum Software Solutions | | Ctrl + M ☒ |
|---|---|---|---|
| Income Tax Pay Head & Ledger Configuration | | | |
| SI.No | Particulars | Income Tax Component | Method of Calculation | Deduct TDS Across Period(s) |
| 1. | Basic Pay | Basic Salary | Projected | Yes |
| 2. | House Rent Allowance | House Rent Allowance | Projected | Yes |

Figure 3.20  Pay Head Configuration for HRA

You can see that the Pay Head Configuration screen when viewed from Tax Configuration menu display only the relevant Ledgers/Pay Heads to help the user in speeder configuration. For details on Configuration of Pay Heads, refer to the **Pay Head Configuration** section discussed earlier.

*Since HRA is dependant on **Basic Pay**, the above screen also displays the **Basic Pay** - Pay Head so that the user can check and configure both the Pay Heads.*

### ii. HRA Declaration

To enter/modify the HRA values declared by one or all Employees,

◻   Press **Enter** on *Rent and Place of Accommodation*

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Figure 3.21  House Rent Declaration screen

The Declaration screen for House Rent allowance opens and it allows you to declare the HRA for one or all the Employees. If already declared you can alter the Declaration values from this screen.

## 2.5 Previous Employer Details

To correctly compute the Income Tax values, you need to collect the details of the **Income Received** and Tax already Deducted/Paid by previous Employer for all the Employees who are joining in the middle of the financial year. The previous employer Income Details and tax details can be entered using the **Income/Income Exemption Details** and **Tax Deducted/Paid Details** respectively.

For the detailed usage of Previous Employer Income/Expenses/Tax Paid etc., refer to the help file (Tally.ERP 9 Refrence Manual)

## 2.6 Pay Head Creation for Income Tax Deduction

Though the Computation report displays the Income Tax value for all the Employees without creating the Income Tax deduction Pay Head, but its mandatory to create the this Pay Head and add the same to the Salary Details for all the Employees.

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## 2.6.1 Creating Income Tax Pay Head

To create the Income Tax Pay Head,

Go to **Gateway of Tally > Payroll Info. > Pay Heads > Create**

In the Pay Head Creation screen,

- ❑ Specify the **Name** of Pay Head as **TDS**
- ❑ Select **Employees' Statutory Deduction** from the **List of Pay Heads**
- ❑ Select **Statutory Pay Type** as **Income Tax** from the list as shown:



Figure 3.22  Pay Head creation - Statutory Pay Type selection

- ❑ In the field **Under** select **Current Liabilities** as the **Group**

> *You can configure the TDS Pay Head either under **Current Liabilities** or **Duties & Taxes**.*

- ❑ Set the option **Affect Net Salary** to **Yes**
- ❑ Specify the required caption for the Pay Head in **Name to appear in Payslip** field
- ❑ **Calculation Type** is defaulted with **As Per Income Tax Slab**
- ❑ Select **Month** as the **Calculation Period**

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❑ **Rounding Method** and **Limit** are defaulted for the **Income Tax Pay Head Creation**

The completed **Income Tax Pay Head Creation** screen is displayed as shown:

| Pay Head Creation | Spectrum Software Solutions | | Total Op. Bal. |
|---|---|---|---|
| Name : TDS | | | |
| (alias) : | | | |

**Pay Head Info**

Pay Head Type : Employees' Statutory Deductions
  Statutory Pay Type : Income Tax
Under : Current Liabilities

Affect Net Salary ? Yes
  Name to appear in Payslip : TDS

Calculation Type : As Per Income Tax Slab
  Calculation Period : Months

**Rounding Info**

Rounding Method : Upward Rounding    Limit    : 1

Opening Balance  ( on 1-Apr-2010) :

Accept ?

Yes or No

Figure 3.23  Completed Income Tax Pay Head creation

❑ Press **Enter** to accept and save.

### 2.6.2 Create/Alter Salary Details

After creating the **Income Tax (TDS) Deduction Pay Head** you have to include this Pay Head in the **Salary Details** for all the **Employees** for successful deduction of **Income Tax** when there salaries are processed.

To alter the **Salary Details,**

Go to **Gateway of Tally > Payroll Info. > Salary Details > Alter**

❑ Select the required **Employee (Mahesh)** and press **Enter**

❑ In the **Salary Details** screen, bring the cursor at the end and select **TDS Pay Head** to add

❑ Press **End of List**

The completed **Salary Details Alteration** screen is displayed as shown:



| Salary Details Alteration | | | | Spectrum Software Solutions | | Ctrl + M ☒ |
|---|---|---|---|---|---|---|

Name : **Mahesh (550)**
Under : **Sales**
          (⅃ *Primary*)

**Salary Details**

| Effective From | Pay Head | Rate | Per | Pay Head Type | Calculation Type | Computed On |
|---|---|---|---|---|---|---|
| 1-Apr-2010 | | | | | | |
| | Basic Pay | 50,000.00 | Months | Earnings for Employees | On Attendance | |
| | House Rent Allowance | | | Earnings for Employees | As Computed Value | Basic Pay |
| | Conveyance | 1,000.00 | Months | Earnings for Employees | Flat Rate | |
| | Children Education Allowance | 1,000.00 | Months | Earnings for Employees | Flat Rate | |
| | Variable Pay | | | Earnings for Employees | As User Defined Value | |
| | Gratuity | | | Gratuity | | |
| | Professional Tax | | | Employees' Statutory Deductions | As Computed Value | On Current Earnings Total |
| | Employee's PF Deduction@12% | | | Employees' Statutory Deductions | As Computed Value | Basic Pay |
| | Employee's ESI Deduction@1.75% | | | Employees' Statutory Deductions | As Computed Value | ((Basic Pay + House Rent Allowance) + Conveyance) + Overtime Pay) + Variable Pay |
| | Employer EPS @8.33% | | | Employer's Statutory Contributions | As Computed Value | Basic Pay |
| | Employer's EPF@3.67% | | | Employer's Statutory Contributions | As Computed Value | Employee's PF Deduction@12% - Employer EPS @8.33% |
| | Employer ESI Contribution@4.75% | | | Employer's Statutory Contributions | As Computed Value | ((Basic Pay + House Rent Allowance) + Conveyance) + Overtime Pay) + Variable Pay |
| | TDS | | | Employees' Statutory Deductions | As Per Income Tax Slab | |

Accept ?

Yes or No

Figure 3.24  Salary Details Alteration screen

◻ Press **Enter** to accept and save

Similarly, alter the **Salary Details** for all the Employees can be altered to add the **TDS Pay Head**.

Once all the above configuration are successfully completed, you can process the salaries and deduct the required TDS.