**INTRODUCTION**

Tax Deducted at Source or TDS is the amount which is deducted from the income of an individual by an authorized deductor and deposited to the IT department. The TDS can be calculated by following a few simple steps.

* **How is TDS Calculated?**

While the basic salary is fully taxable according to respective tax bracket, some exemptions are available for payments made as allowances and perks. You can calculate [TDS](https://www.bankbazaar.com/tax/all-about-tds.html) on the employee’s income by following the below steps.

* Calculate gross monthly income as a sum of basic income, allowances, and perquisites.
* Calculate available exemptions under Section 10 of the Income Tax Act (ITA). Exemptions are applicable to allowances such as medical, HRA, travel.
* Reduce exemptions according to step (2) for the gross monthly income calculated in step (1).
* As TDS is calculated on yearly income, multiply the corresponding figure from above calculation by 12. This is your yearly taxable income from salary.
* If you have any other income source such as income from house rent or have incurred losses from paying housing loan interests, add/subtract this amount from the figure in step (4).
* Next, calculate the employee’s investments for the year which fall under Chapter VI-A of ITA, and deduct this amount from the gross income calculated in step (5). An example of this would be exemption of up to Rs.1.5 lakh under Section 80C, which includes investment avenues such as PPF, life insurance premiums, mutual funds, home loan repayment, ELSS, NSC, Sukanya Samriddhi account and so on.
* Now, reduce the maximum allowable income tax exemptions on a salary. Currently, income up to Rs.3 lakhs is fully exempt from paying taxes, while income from Rs.3 lakhs to Rs.5 lakhs is taxed at 10%, and Rs.5 lakhs to Rs.10 lakhs income bracket is taxed at 20%. All income above this amount is taxed at 30%.
* Do note that senior citizen has different tax slabs and receive higher exemptions than those discussed above.
* **Example**

As per the steps outlined above, let’s consider a numeric example for better understanding.

* **Steps (1) & (2)**
* Suppose the monthly gross income is Rs.80,000. This figure may contain divisions as - basic pay Rs.50,000, [HRA](https://www.bankbazaar.com/tax/house-rent-allowance.html) of Rs.20,000, travel allowance of Rs.800, medical allowance of Rs.1,250, child education allowance (CEA) of Rs.200 and other allowances totaling 12,750.
* **Steps (3) & (4)**
* Assuming that the employee stays at his / her own property, the monthly exemption from allowances equals Rs.2,250 (medical + travel + CEA). Therefore, his / her yearly taxable amount comes to (Rs.80,000 - Rs.2,250)\*12, which comes to Rs.9,33,000.
* **Step (5)**
* Let's say he/she just experienced a loss of Rs.1.5 lakhs on house loan interest repayments over the year. Reducing this exempted amount from the taxable income, their taxable income becomes Rs.7,83,000.
* **Step (6)**
* Suppose the employee has invested Rs.1.2 lakhs in various categories that fall under Section 80C exemptions and made another Rs.30,000 investment in categories falling under Section 80D. So, the resulting Rs.1.5 lakhs are exempted from taxes according to Chapter VI-A. Deducting this amount from the gross taxable income calculated above, his [taxable income](https://www.bankbazaar.com/tax/taxable-income.html) becomes Rs.6,33,000.
* **Step (7)**
* Finding out the tax slab
* The final tax breakup according to income slabs listed by the IT department is as follows:
* Therefore, the final TDS to be deducted on his / her yearly income is Rs.25,000 + Rs.26,600, which comes to Rs.51,600 for the current year's income, or Rs.4,300 per month for the current fiscal.

| **Income Tax Slab** | **TDS Deductions** | **Tax Payable** |
| --- | --- | --- |
| Up to Rs.3 lakhs | Nil | Nil |
| Rs. 3 lakhs to Rs.5 lakhs | 10% of(Rs.5,00,00-Rs.2,50,00 | Rs.25,000 |
| Rs.5 lakhs to Rs.6.33 lakhs | 20% of(Rs.6,33,00-Rs.5,00,00) | Rs.26,600 |