

Professional Tax in India

Professional Tax is a Tax which is levied by the State on the Income earned by way of profession, trade, calling or employment. This form of tax was first levied in India in the year 1949 and the power to levy Professional Tax has been given to the States by way of Clause (2) of Article 276 of the Constitution of India. This Tax is levied based on slab rates depending on the Income of the Individual. This Tax is just like Income Tax except for the fact that Income Tax is collected by the Central Govt. and Professional Tax is collected by the State Government. When this tax was first introduced in India, the maximum limit on the tax to be collected was Rs.250. However, this limit was raised from Rs.250 to Rs.2500 in the year 1988. For the past few years, State Governments have been requesting the Parliament to raise this ceiling from Rs.2500 to Rs.7500. However, their request has not been accepted and the maximum amount of Professional Tax that can be levied by any State is Rs.2,500 only.

Any amount paid as Professional Tax to the State Govt. is allowed as a deduction under Section 16 of the Income Tax Act and Income Tax on the Balance Amount is levied as per the Income Tax Slab Rates in force.

Employer from the Salary/Wages and the Employer is liable to deposit the same with the state government. In case of other class of Individuals, this tax is liable to be paid by the person himself.

Professional Tax in India is collected by some state governments themselves while in several other states which have active Panchayats, the local bodies themselves levy and this tax. Every person liable to pay this Tax (either on his own behalf or on behalf of its employee) shall apply for Professional Tax Registration in the prescribed form with the prescribed authority. As the states have been empowered to levy and collect this Tax.

Different states have different rates and methods of collection. In India, profession tax is imposed level. However, not all states impose this tax. The states which impose professional tax are Karnataka, Bihar, West Bengal, Andhra and Sikkim Pradesh, Telangana, Maharashtra, Tamil Nadu, Gujarat, Assam, Kerala, Meghalaya, Odisha, Tripura, Madhya Pradesh,. Business owners, working individuals, merchants and people carrying out various occupations come under the purview of this tax.

Profession tax is levied by particular Municipal Corporations and majority of the Indian states impose this duty. It is a source of revenue for the government. The maximum amount payable per year is INR 2,500 and in line with tax payer's salary, there are predetermined slabs. It is also payable by members of staff employed in private companies. It is deducted by the employer every month and sent to the Municipal Corporation. It is mandatory to pay professional tax. The tax payer is eligible for income tax deduction for this payment.

Applicability of Profession Tax as per the Constitution of India: Article 276 of the Constitution of India provides that "there shall be levied and collected a tax on professions, trades, callings and employments, in accordance with the provisions of this Act. Every person engaged in any profession, trade, calling or employment and falling under one or the other of the classes mentioned in the second column of the Schedule shall be liable to pay to the State Government tax at the rate mentioned against the class of such persons in the third column of the said Schedule. Provided that entry 23 in the Schedule shall apply only to such classes of persons as may be specified by the State Government by notification from time to time.

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Article 276 in Constitution of India, 1949:

Notwithstanding until provisions to the contrary is made by Parliament by law, and any law so made by Parliament may be made either generally or in relation to any specified States, municipalities, boards or authorities

The power of the Legislature of a State to make laws as aforesaid with respect to taxes on professions, trades, callings and employments shall not be construed as limiting in any way the power of Parliament to make laws with respect to taxes on income accruing from or arising out of professions, trades, callings and employments.

Amount:

The professional tax is a slab-amount based on the gross income of the professional and salaried and as well as the other states as may be decided employees. It is deducted from salary of the employee every month. In case of a company, directors of a company, partnership's, individual partners, self-employed professional or owner's of any business undertaken in the state, it is to be submitted depending upon their gross turnover in the preceding year. In some cases, the payment of tax is fixed and is to be paid irrespective of turnover. For example in state of West Bengal, owner of a factory has to pay professional tax only if the preceding year turnover is greater than 5 lac rupees and in case of companies there is a mandatory payment of rupees 2,500 /- each year as professional tax irrespective of turnover. For west Bengal professional tax slabs and rates on employee or otherwise click here.

Slab for professional tax varies across different states in India. Click here for the different slab rates.

Responsibility of Deduction:

The owner of a business is responsible to deduct professional tax from the salaries of his employees and pay the amount so collected to the appropriate government department. He/she has to furnish a return to the tax department in the prescribed form within the specified time limit.

Registration:

Apply for the Registration Certificate to your state tax department within 30 days of employing staff for your business. If you have more than one place of work, apply separately to each authority as regards the place of work coming under the jurisdiction of that authority.

Deposit of Amount Deducted:

Employers covered under the jurisdiction of "State Government" as designated authority shall pay in the treasury by Challan through the bank. Other employers shall pay at the place of payment declared by the Designated Authorities concerned.

If an employer has employed more than 20 employees, he is required to make payment within 15 days from the end of the month. However, if an employer has less than 20 employees, he is required to pay quarterly (i.e. by the 15th of next month from the end of the quarter).

Source - Professional Tax in India all Details

Penalties for Non-Compliance on Professional Tax Payment:

Delays in obtaining Registration Certificate, a penalty of Rs.5/- per day. In case of non/late payment of profession tax, penalty will be 10% of the amount of tax. In case of late filing of returns, a penalty of Rs. 1000 per return will be imposed if you filed after due date in 1 month. After 1 month, a penalty of Rs. 2000 will be imposed.

References:

https://www.bcasonline.org/Referencer2015-16/Taxation/maharashtra_profession_tax_act.html

<http://www.tn.gov.in/dtp/professional-tax.htm>