

INCOME TAX ALLOWANCES AND DEDUCTIONS



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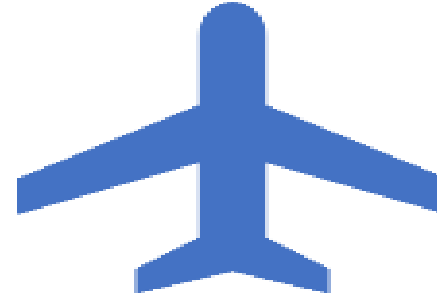
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HOUSE RENT ALLOWANCE (HRA)



- It is the salary component received towards the rent payment by employer to its employees.
- The deduction available will be **least** of the following:
 - a. Total HRA received from your employer
 - b. Rent paid less 10% of salary (Basic salary +DA)
 - c. 40% of salary (Basic salary +DA) for non-metro cities and 50% of salary (Basic salary + DA) for metros.
- Documents like rent receipts or rental agreements must be submitted to the employer to claim a house rent allowance deduction. If the payment of rent is more than Rs 1 lakh per annum, then the PAN of the landlord must be submitted along with Utility bill.
- Always make sure, if rent paid in cash then there must be Revenue stamp on rent receipts.

LEAVE TRAVEL ALLOWANCE (LTA)



- The income tax law also provides for an LTA exemption to salaried employees, restricted to travel expenses
- The mode of such travel must be either railway(1st class), air travel(Economy), or public transport(Bus).
- LTA only covers domestic travel and not the cost of international travel
- Exemption of LTA can be claimed twice in a block of 4 calendar year. The current block period is 2022 to 2025.
- Assesse can claim LTA exemption for spouse, maximum 2 children , parents or brothers and sisters dependent on him/her.
- LTA can be claimed by submitting proof of travel such as ticket, boarding pass, etc.

CHILDREN EDUCATION & HOSTEL ALLOWANCE



- In case of, Children education allowance it is received by the employee towards education cost of children.
 - Employee can claim maximum exemption of Rs. 100 per month per child i.e. Rs. 1200 per annum. The exemption is allowed for a maximum of 2 children.
- A parent can claim a deduction u/s 80C on the amount paid as **tuition fees** to a university, college, school or any other educational institution. Other components of fees like development fees and transport fees cannot be claimed.
- Hostel expenditure allowance received by the employee towards hostel expenditure of children is exempt from tax upto Rs.300 per month per child i.e. Rs. 3600 per annum. The exemption is allowed for a maximum of 2 children.

EMPLOYEE PROVIDENT FUND

Employee Provident Fund (EPF) is a retirement benefits scheme for salaried employees.

- Contribution to employee provident fund is exempt up to specified limit:
 - Employer's contribution - Exempt up to 12% of salary
 - Employee's contribution - Deduction u/s 80C
- Interest on employer's contribution - exempt up to 9.5% of interest
- Interest on employee's contribution - exempt up to 9.5% of interest maximum up to 250,000.
- Withdrawal on retirement/ termination - exempt u/s 10(12)
- It is an EEE benefit.

DEDUCTION ON INVESTMENT (80C)

Section 80C is one of the most popular and favorites investment amongst the taxpayers as it allows to reduce taxable income by making tax saving investments or incurring eligible expenses. It allows a maximum deduction of Rs 1.5 lakh every year from the taxpayers total income

- Payment towards life insurance policies.
- Investment in Sukanya Samriddhi yagna.
- 5 year FDR in bank and post office
- Subscription to Units of mutual fund.
Equity linked savings certificate.
- National savings certificate.
- Unit linked investment plans.
- Tuition fees paid for up to two children.
- Deposit under senior citizen savings scheme.
- Repayment of principal amount of housing loan etc.
- Contribution to statutory or recognised fund.

Here are some investment options that are allowed as deduction u/s 80C that not only help you with saving taxes but also help you grow your money.

A quick comparison for the options is tabulated below :

Investment	Returns	Lock-in Period	Risk factor
5-Year Bank Fixed Deposit	6% to 7%	5 years	Low
Public Provident Fund (PPF)	7% to 8%	15 years	Low
National Savings Certificate	7% to 8%	5 years	Low
National Pension System (NPS)	8% to 10%	Till the age of 60	Low
ELSS Funds	12% to 15%	3 years	High
Unit Linked Insurance Plan (ULIP)	Varies with Plan Chosen	5 years	Medium
Sukanya Samriddhi Yojana (SSY)	7.60%	Mature at the age of 21	Low
Senior Citizen Saving Scheme (SCSS)	7% to 8%	5 years	Low

CONTRIBUTION TO NATIONAL PENSION SCHEME (80CCD)

- 80CCD allows employees to claim deductions for any amount paid for national pension scheme.
- **Under 80CCD(1)** individual can claim deduction on own contribution
- Amount of deduction will be least of the following:
 - 10% of salary
 - Employee's contribution
- To claim deduction in this section, employee must submit certificate stating the contribution made during the year.

- **Under 80CCD(2)** deduction can be claimed on employer's contribution
- Amount of deduction will be least of the following:
 - Employer's contribution
 - 10% of salary

CONTRIBUTION TO PENSION FUND (80CCC)

- Amount paid or deposited for any annuity plan of Life Insurance Corporation of India (LIC) or any other insurer for receiving pension fund.

$$\begin{aligned} &80C + 80CCC + \\ &80CCD(1) \\ &= 150000 \end{aligned}$$

MEDICAL INSURANCE PREMIUM (80D)

Particulars	Self, spouse and dependent children are NSC* & Parents are NSC	Self, spouse and dependent children are NSC & Parents are SC	Self, spouse are SC, dependent children. AND Parents are SC
(A) Medical insurance premium (including preventive health check-up limit of Rs. 5000) of self, spouse and dependent children	Rs. 25,000	Rs. 25,000	Rs. 50,000
(B) Medical insurance premium and preventive health check-up taken for Parents	Rs. 25,000	Rs. 50,000	Rs. 50,000
Overall Limit under section 80D	Rs. 50,000	Rs. 75,000	Rs. 1,00,000

DEDUCTION FOR MEDICAL TREATMENT OF DEPENDENT RELATIVE(80DD)

- Deduction under this section of the income tax act is allowed to Resident Individuals or HUFs for a dependent relative-who is differently-abled **and**– is wholly dependent on the individual (or HUF) for support & maintenance.
- Relative means spouse, children, parents, brother or sisters dependent on him/her.
- The taxpayer is **not** allowed this deduction if the dependent has claimed a deduction under section 80U for himself/herself.
- Fixed amount of deductions are allowed under Section 80DD, irrespective of the actual expenditure. However, the amount of deduction depends on the severity of the disability:
 - Rs. 75,000(40% or more disability but up to 80%)
 - Rs. 1,25,000(80% or more disability)

MEDICAL TREATMENT OF SPECIFIED DISEASE (80DDB)

- Any amount paid for the medical treatment of specified diseases(AIDS, neurological disorder, Malignant Cancer etc.) for individual or dependent relative.
- Amount of deduction will be least of the following
 - Rs. 40,000
 - Expenditure incurred.
 - Rs. 100000 (in case of resident senior citizen)
- The intents to cover medical treatment for major illnesses and diseases and would not cover medical expenses which are more common in nature like a cataract or a C-section.
- To claim deduction under section 80DDB, it is mandatory for the assessee to provide a proof of the need for treatment and a proof that the treatment has been actually undertaken. Therefore, it is compulsory to obtain a prescription for such treatments from a qualified doctor.

DEDUCTION ON LOAN FOR HIGHER STUDIES (80E)

- An education loan helps you not only finance your domestic/foreign studies but it can save you a lot of tax as well. If you have taken an education loan and are repaying the same, then the interest paid on that education loan is allowed as a deduction from the total income under Section 80E.
- However, the deduction is provided only for the interest part of the EMI. **There is no tax benefit for the principal part of the EMI.**
- The loan should be taken for the higher education of **self, spouse or children** or for a student for whom the individual is a legal guardian.
- The benefit of the deduction is available for a maximum of 8 years or till the interest is paid, whichever is earlier.

INTEREST ON HOME LOAN (80EE)

Section 80EE allows homeowners to claim an additional deduction interest on residential property.

The value of the property must not be more than Rs 50 lakhs.

MAXIMUM DEDUCTION =
50000

The individual must not have any other property registered under his name at the time the loan is sanctioned.

The loan must not be for more than Rs 35 lakhs.

Loan should be sanctioned from 1 April 2016 to 31st March 2017.

INTEREST ON HOME LOAN (80EEA)

Section 80EEA allows homeowners to claim an additional deduction interest on residential property.

MAXIMUM DEDUCTION =
150000

The loan must not be for more than Rs 45 lakhs.

The individual must not have any other property registered under his name at the time the loan is sanctioned.

Loan should be sanctioned from 1 April 2019 to 31st March 2022..

DONATIONS (80G)



- Individual can claim a deduction under Section 80G of the Income Tax Act for contributions made to certain relief funds and charitable institutions. All donations, however, are not eligible for deductions under Section 80G.
- This deduction can only be claimed when the contribution is made via cheque & demand draft. In-kind contributions such as food, material, clothes, medicines etc., do not qualify for deduction under Section 80G.
- The various donations specified in Section 80G are eligible for a deduction of up to 100% or 50% with or without restriction
- Following is the list of donations eligible for 100% deduction without qualifying limit
 - Prime Minister's National Relief Fund
 - National Foundation for Communal Harmony
 - Swachh Bharat Kosh
 - Clean Ganga
 - National children's fund etc.

INTEREST ON DEPOSIT IN SAVINGS ACCOUNTS (80TTA/80TTB)



- Where the gross total income of an assessee includes any income by way of interest on deposits (not being time deposits) in a savings account with:
 - (a) a banking company
 - (b) a co-operative society
 - (c) a Post Office
- The deduction under Section 80TTA shall not be allowed for Interest from **fixed deposits**, Interest from **recurring deposits**, any other **time deposits**
- Amount of deduction will be least of the following
 - Interest earned OR
 - Rs.10,000/-/ Rs. 50,000/- (in case of Senior Citizen)

WHICH IS BETTER OLD TAX REGIME OR NEW TAX REGIME?

**FOR AY 2023-24
FY 2022-23**

Old tax regime

TAX SLAB	TAX RATE
Up to Rs. 2.5 lakh	0%
Above 2.5 lakh – 5 lakh	5%
Above 5 lakh – 10 lakh	20%
Above 10 lakh	30%

New tax regime

TAX SLAB	TAX RATE
Up to Rs. 2.5 lakh	0%
Above 2.5 lakh – Rs. 5 lakh	5%
Above Rs. 5 lakh – Rs. 7.5 lakh	10%
Above Rs. 7.5 lakh – Rs. 10 lakh	15%
Above Rs. 10 lakh – Rs. 15 lakh	20%
Above Rs. 15 lakh	30%

EXAMPLE:

	Old Regime	New Regime
Income from salary	700000	700000
Standard deduction	50000	-
Income under head salary after standard deduction	650000	700000
Less: deduction u/s 80c	(150000)	-
Total taxable income	500000	700000
Gross tax liability	12500	32500
Rebate u/s 87A	12500	-
Basic tax liability	-	32500

WHICH IS BETTER OLD TAX REGIME OR NEW TAX REGIME?

**FOR AY 2024-25
FY 2023-24**

Old tax regime

TAX SLAB	TAX RATE
Up to Rs. 2.5 lakh	0%
Above 2.5 lakh – 5 lakh	5%
Above 5 lakh – 10 lakh	20%
Above 10 lakh	30%

New tax regime

TAX SLAB	TAX RATE
Up to Rs. 3 lakh	0%
Above Rs. 3 lakh – Rs. 6 lakh	5%
Above Rs. 6 lakh – Rs. 9 lakh	10%
Above Rs. 9 lakh – Rs. 12 lakh	15%
Above Rs. 12 lakh – Rs. 15 lakh	20%
Above Rs. 15 lakh	30%

EXAMPLE:

	Old Regime	New Regime
Income from salary	750000	750000
Standard deduction	50000	50000
Income under head salary after standard deduction	700000	700000
Less: deduction u/s 80c	(150000)	-
Total taxable income	550000	700000
Gross tax liability	22500	25000
Rebate u/s 87A	-	25000
Basic tax liability	22,500	-

BUDGET HIGHLIGHTS

- **Standard deduction:**
 - **Salary income: ₹50,000** standard deduction under the new tax regime as well. Effectively, ₹7.5 lakhs is your tax-free income under the new regime.
 - **Family pension:** Standard deduction on such pension: ₹15,000 or 1/3rd of pension, whichever is lower.
- Highest **surcharge under the new tax regime has been reduced to 25% from 37%** for people earning more than ₹5 crore. This move brings down their tax rate from 42.74% to 39%.

BUDGET HIGHLIGHTS

- **Presumptive Taxation Limits Revised for FY 2023-24**

Category	Previous Limits	Revised Limits
Sec 44AD: For small businesses	₹2 crores	₹3 crores*
Sec 44ADA: For professionals like doctors, lawyers, engineers, etc.	₹50 lakhs	₹75 lakhs*

BUDGET HIGHLIGHTS

Start-ups

Start-ups	Previous limit	Revised limit
Date of incorporation for income tax benefits	31.03.2023	31.03.2024
Time limit for set-off and carry forward of losses	7 years from incorporation	10 years from incorporation

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