(6) Under Section 10(10C), any payment received or receivable (even if received in instalments) by an employee of the following bodies at the time of his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or in the case of public sector company, a scheme of voluntary separation, is exempted from income-tax to the extent that such amount does not exceed five lakh rupees:

a) A public sector company;
b) Any other company;
c) An Authority established under a Central, State or Provincial Act;
d) A Local Authority;
e) A Cooperative Society;
f) A university established or incorporated or under a Central, State or Provincial Act, or, an Institution declared to be a University under section 3 of the University Grants Commission Act, 1956;
g) Any Indian Institute of Technology within the meaning of Clause (g) of Section 3 of the Institute of Technology Act, 1961;
h) Such Institute of Management as the Central Government may by notification in the Official Gazette, specify in this behalf.

The exemption of amount received under VRS has been extended to employees of the Central Government and State Government and employees of notified institutions having importance throughout India or any State or States. It may also be noted that where this exemption has been allowed to any employee for any assessment year, it shall not be allowed to him for any other assessment year.

(7) Any sum received under a Life Insurance Policy, including the sum allocated by way of bonus on such policy or otherwise:

i) any sum received under sub-section (3) of section 80DD or sub-section (3) of section 80DDA or,
ii) any sum received under Keyman insurance policy or,
iii) any sum received under an Insurance policy issued on or after 1.4.2003 in respect of which the premium payable for any of the years during the term of the policy exceeds 20 percent of the actual capital sum assured. However, any sum received under such policy on the death of a person would still be exempt.

(8) Any payment from a Provident Fund to which the Provident Funds Act, 1925 (19 of 1925), applies or from any other provident fund set up by the Central Government and notified under it in this behalf in the Official Gazette.

(9) Under Section 10(13A) of the Income-tax Act, 1961, any special allowance specifically granted to an assessee by his employer to meet expenditure incurred on payment of rent (by whatever name called) in respect of residential accommodation occupied by the assessee is exempt from income-tax to the extent as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations. According to rule 2A of the Income-tax Rules, 1962, the quantum of exemption allowable on account of grant of special allowance to meet expenditure on payment of rent shall be:

(a) The actual amount of such allowance received by an employer in respect of the relevant period; or
(b) The actual expenditure incurred in payment of rent in excess of 1/10 of the salary due for the relevant period; or
(c) Where such accommodation is situated in Bombay, Calcutta, Delhi or Madras, 50% of the salary due to the employee for the relevant period; or
(d) Where such accommodation is situated in any other place, 40% of the salary due to the employee for the relevant period, whichever is the least.

For this purpose, "Salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

It has to be noted that only the expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee subject to the limits laid down in Rule 2A, qualifies for exemption from income-tax. Thus, house rent allowance granted to an employee who is residing in a house/flat owned by him is not exempt from income-tax. The disbursing authorities should satisfy themselves in this regard by insisting on production of evidence of actual payment of rent before excluding the House Rent Allowance or any portion thereof from the total income of the employee.

Though incurring actual expenditure on payment of rent is a pre-requisite for claiming deduction under section 10(13A), it has been decided as an administrative measure that salaried employees drawing house rent allowance up to Rs.3000/- per month will be exempted from production of rent receipt. It may, however, be noted that this concession is only for the purpose of tax-deduction at source, and, in the regular assessment of this employee, the Assessing Officer
will be free to make such enquiry as he deems fit for the purpose of satisfying himself that the employee has incurred actual expenditure on payment of rent.

(10) Clause (14) of section 10 provides for exemption of the following allowances:

(i) Any special allowance or benefit granted to an employee to meet the expenses incurred in the performance of his duties as prescribed under Rule 28B subject to the extent to which such expenses are actually incurred for that purpose.

(ii) Any allowance granted to an employee either to meet his personal expenses at the place of his posting or at the place he ordinarily resides or to compensate him for the increased cost of living, which may be prescribed and to the extent as may be prescribed.

However, the allowance referred to in (ii) above should not be in the nature of a personal allowance granted to the assessee to remunerate or compensate him for performing duties of a special nature relating to his office or employment unless such allowance is related to his place of posting or residence.

The CBDT has prescribed guidelines for the purpose of clauses (i) and (ii) of Section 10(14) vide notification No. SO 617(E) dated 7th July, 1995 (F.No.142/3/85-TPL), which has been amended vide notification SO No. 403(E) dt 24.4.2000 (F.No.142/34/89-TPL). The transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of duty is exempt to the extent of Rs. 800 per month vide notification S.O. No. 365(E) dated 13.5.98.

(11) Under Section 10(15)(iv)(i) of the Income-tax Act, interest payable by the Government on deposits made by an employee of the Central Government or a State Government or a public sector company out of his retirement benefits, in accordance with a scheme framed in this behalf by the Central Government and notified in the Official Gazette is exempt from income-tax. By notification No.F.2/14/69-NS-II dated 7.8.88, as amended by notification No.F.2/14/89-NS-II dated 12.10.89, the Central Government has notified a scheme called Deposit Scheme for Retiring Government Employees, 1989 for the purpose of the said clause.

(12) Any scholarship granted to meet the cost of education is not to be included in total income as per subsection (16) of section 10 of Income Tax Act.

(13) Clause (16) of Section 10 provides for exemption of any income by way of pension received by an individual who has been in the service of the Central Government or State Government and has been awarded "Param Vir Chakra" or "Mahar Vir Chakra" or "Vir Chakra" or such other gallantry award as may be specifically notified by the Central Government or family pension received by any member of the family of such individual. "Family" for this purpose shall have the meaning assigned to it in Section 10(5) of the Act. Such notification has been made vide Notifications No.S.O.1948(E) dated 24.11.2000 and 81(E) dated 29.1.2001, which are enclosed as per Annexures VA & VB.

(14) Under Section 17 of the Act, exemption from tax will also be available in respect of:

(a) the value of any medical treatment provided to an employee or any member of his family, in any hospital maintained by the employer;

(b) any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or of any member of his family:

(i) in any hospital maintained by the Government or any local authority or any other hospital approved by the Government for the purposes of medical treatment of its employees;

(ii) in respect of the prescribed diseases or ailments as provided in Rule 3A(2) of I.T. Rules 1962, in any hospital approved by the Chief Commissioner having regard to the prescribed guidelines as provided in Rule 3A(1) of I.T. Rule, 1962

(c) premium paid by the employer in respect of medical insurance taken for his employees (under any scheme approved by the Central Government or Insurance Regulatory and Development Authority) or reimbursement of insurance premium to the employees who take medical insurance for themselves or for their family members (under any scheme approved by the Central Government or Insurance Regulatory and Development Authority);

(d) reimbursement, by the employer, of the amount spent by an employee in obtaining medical treatment for himself or any member of his family from any doctor, not exceeding in the aggregate Rs. 15,000/- in an year.

(e) As regards medical treatment abroad, the actual expenditure on stay and treatment abroad of the employee or any member of his family, or, on stay abroad of one attendant who accompanies the patient, in connection with such treatment, will be excluded from perquisites to the extent permitted by the Reserve Bank of India. It may be noted that the expenditure incurred on travel abroad by the patient/attendant, shall be excluded from perquisites only if the employee's gross total income, as computed before including the said expenditure, does not exceed Rs.2 lakhs.
For the purpose of availing exemption on expenditure incurred on medical treatment, "hospital" includes a dispensary or clinic or nursing home, and "family" in relation to an individual means the spouse and children of the individual. Family also includes parents, brothers and sisters of the individual if they are wholly or mainly dependent on the individual.

5.3 Deductions from Income from Salaries u/s 16 of the Act

Entertainment Allowance:

A deduction is also allowed under clause (ii) of section 16 in respect of any allowance in the nature of an entertainment allowance specifically granted by an employer to the assessee, who is in receipt of a salary from the Government, a sum equal to one-fifth of his salary (exclusive of any allowance, benefit or other perquisite) or five thousand rupees whichever is less. No deduction on account of entertainment allowance is available to non-government employees.

Tax on Employment:

The tax on employment (Professional Tax) within the meaning of clause (2) of Article 276 of the Constitution of India, leviable by or under any law, shall also be allowed as a deduction in computing the income under the head "Salaries".

It may be clarified that "Standard Deduction" from gross salary income, which was being allowed up to financial year 2004-05 is not allowable from financial year 2005-06 onwards.

5.4 Deductions under chapter VI-A of the Act

In computing the taxable income of the employee, the following deductions under Chapter VI-A of the Act are to be allowed from his gross total income:

A. As per section 80C, an employee will be entitled to deductions for the whole of amounts paid or deposited in the current financial year in the following schemes, subject to a limit of Rs.1,00,000/-:

1. Payment of insurance premium to affect or to keep in force an insurance on the life of the individual, the spouse or any child of the individual.

2. Any payment made to affect or to keep in force a contract for a deferred annuity, not being an annuity plan as is referred to in item (7) here in below on the life of the individual, the spouse or any child of the individual, provided that such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of the annuity;

3. Any sum deducted from the salary payable by, or on behalf of the Government to any individual, being a sum deducted in accordance with the conditions of his service for the purpose of securing to him a deferred annuity or making provision for his spouse or children, in so far as the sum deducted does not exceed 1/5th of the salary;

4. Any contribution made:

   (a) by an individual to any Provident Fund to which the Provident Fund Act, 1925 applies;

   (b) to any provident fund set up by the Central Government, and notified by it in this behalf in the Official Gazette, where such contribution is in the form of standing in the name of an individual, or spouse or children;

   [The Central Government has since notified Public Provident Fund vide Notification S.O. No. 1559(E) dated 3.11.05.]

   (c) by an employee to a Recognized Provident Fund;

   (d) by an employee to an approved superannuation fund;

It may be noted that "contribution" to any Fund shall not include any sums in repayment of loan;

5. Any subscription:

   (a) to any such security of the Central Government or any such deposit scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf,

   (b) to any such saving certificates as defined under section 2(c) of the Government Saving Certificate Act, 1959 as the Government may, by notification in the Official Gazette, specify in this behalf;

   [The Central Government has since notified National Saving Certificate (Villum Issue) vide Notification S.O. No. 1560(E) dated 3.11.05.]

6. Any sum paid as contribution in the case of an individual, for himself, spouse or any child,

   (a) for participation in the Unit Linked Insurance Plan, 1971 of the Unit Trust of India;

   (b) for participation in any unit-linked insurance plan of the LIC Mutual Fund referred to in clause (23D) of section 10 and as notified by the Central Government;

   [The Central Government has since notified Unit Linked Insurance Plan (formerly known as Dhanraksha, 1989) of LIC Mutual Fund vide Notification S.O. No. 1561(E) dated 3.11.05.]

(7) Any subscription made to affect or keep in force a contract for such annuity plan of the Life Insurance Corporation or any other insurer as the Central Government may, by notification in the Official Gazette, specify;
[The Central Government has since notified New Jeavan Dhara, New Jeavan Dhara-I, New Jeavan Akhay, New Jeavan Akhay-I and New Jeavan Akhay-II vide Notification S.O. No. 1562(E) dated 3.11.05 and Jeavan Akhay-III vide Notification S.O. No. 847(E) dated 1.6.2006]

(8) Any subscription made to any units of any Mutual Fund, referred to in clause (23D) of section 10, or from the Administrator or the specified company referred to in Unit Trust of India (Transfer of Undertaking & Repeal) Act, 2002 under any plan formulated in accordance with any scheme as the Central Government, may, by notification in the Official Gazette, specify in this behalf;

[The Central Government has since notified the Equity Linked Saving Scheme, 2005 for this purpose vide Notification S.O. No. 1563(E) dated 3.11.05]

The investments made after 1.4.2006 in plans formulated in accordance with Equity Linked Saving Scheme, 1992 or Equity Linked Saving Scheme, 1998 shall also qualify for deduction under section 80C.

(9) Any contribution made by an individual to any pension fund set up by any Mutual Fund referred to in clause (23D) of section 10, or, by the Administrator or the specified company referred to in Unit Trust of India (Transfer of Undertaking & Repeal) Act, 2002, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

[The Central Government has since notified UTI-Retirement Benefit Pension Fund vide Notification S.O. No. 1564(E) dated 3.11.05.]

(10) Any subscription made to any such deposit scheme of, or, any contribution made to any such pension fund set up by, the National Housing Bank, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(11) Any subscription made to any such deposit scheme, as the Central Government may, by notification in the Official Gazette, specify for the purpose of being floated by (a) public sector companies engaged in providing long-term finance for construction or purchase of houses in India for residential purposes, or, (b) any authority constituted in India by, or, under any law, enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both.

[The Central Government has since notified the Public Deposit Scheme of HUDCO vide Notification S.O. No.37(E), dated 11.01.2007, for the purposes of Section 80C(2)(xvi)(i)].

(12) Any sums paid by an assessee for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head “income from house property” (or which would, if it has not been used for assessee's own residence, have been chargeable to tax under that head) where such payments are made towards or by way of any instalment or part payment of the amount due under any self-financing or other scheme of any Development Authority, Housing Board etc.

The deduction will also be allowable in respect of re-payment of loans borrowed by an assessee from the Government, or any bank or Life Insurance Corporation, or National Housing Bank, or certain other categories of institutions engaged in the business of providing long term finance for construction or purchase of houses in India. Any repayment of loan borrowed from the employer will also be covered, if the employer happens to be a public company, or a public sector company, or a university established by law; or a college affiliated to such university, or a local authority, or a cooperative society, or an authority, or a board, or a corporation, or any other body established under a Central or State Act.

The stamp duty, registration fee and other expenses incurred for the purpose of transfer shall also be covered. Payment towards the cost of house property, however, will not include, admission fee or cost of share or initial deposit or the cost of any addition or alteration to, or, renovation or repair of the house property which is carried out after the issue of the completion certificate by competent authority, or after the occupation of the house by the assessee or after it has been let out. Payments towards any expenditure in respect of which the deduction is allowable under the provisions of section 24 of the Income-tax Act will also not be included in payments towards the cost of purchase or construction of a house property.

Where the house property in respect of which deduction has been allowed under these provisions is transferred by the tax-payer at any time before the expiry of five years from the end of the financial year in which possession of such property is obtained by him or he receives back, by way of refund or otherwise, any sum specified in section 80C(2)(xviii), no deduction under these provisions shall be allowed in respect of such sums paid in such previous year in which the transfer is made and the aggregate amount of deductions of income so allowed in the earlier years shall be added to the total income of the assessee of such previous year and shall be liable to tax accordingly.

(13) Tuition fees, whether at the time of admission or thereafter, paid to any university, college, school or other educational institution situated in India, for the purpose of full-time education of any two children of the employee.

Full-time education includes any educational course offered by any university, college, school or other
educational institution to a student who is enrolled full-time for the said course. It is also clarified that full-time education includes play-school activities, pre-nursery and nursery classes.

It is clarified that the amount allowable as tuition fees shall include any payment of fees to any university, college, school or other educational institution in India except the amount representing payment in the nature of development fees or donation or capitation fees or payment of similar nature.

(14) Subscription to equity shares or debentures forming part of any eligible issue of capital made by a public company, which is approved by the Board or by any public finance institution.

(15) Subscription to any units of any mutual fund referred to in clause (23D) of Section 10 and approved by the Board, if the amount of subscription to such units is subscribed only in eligible issue of capital of any company.

(16) Investment as a term deposit for a fixed period of not less than five years with a scheduled bank, which is in accordance with a scheme framed and notified by the Central Government, in the Official Gazette for these purposes. [The Central Government has since notified the Bank Term Deposit Scheme, 2006 for this purpose vide Notification S.O. No. 1220(E) dated 28.7.2006]

(17) Subscription to such bonds issued by the National Bank for Agriculture and Rural Development, as the Central Government may, by such notification in the Official Gazette, specify in this behalf.


(19) Any investment in any year time deposit in an account under the Post Office Time Deposit Rules, 1981.

It may be clarified that the amount of premium or other payment made on an insurance policy [other than a contract for deferred annuity mentioned in sub-para (2)] shall be eligible for deduction only to the extent of 20 percent of the actual capital sum assured, in calculating any such actual capital sum, the following shall not be taken into account:

i) the value of any premiums agreed to be returned, or

ii) any benefit by way of bonus or otherwise over and above the sum actually assured which may be received under the policy.

B. As per section 80CCC, where an assessee being an individual has in the previous year paid or deposited any amount out of his income chargeable to tax to effect or keep in force a contract for any annuity plan of Life Insurance Corporation of India or any other insurer for receiving pension from the Fund referred to in clause (23AA) of section 10, he shall, in accordance with, and subject to the provisions of this section, be allowed a deduction in the computation of his total income, of the whole of the amount paid or deposited (excluding interest or bonus accrued or credited to the assessee's account, if any) as does not exceed the amount of one lakh rupees in the previous year.

Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a rebate/deduction with reference to such amount shall not be allowed under section 88 up to assessment year 2005-06 and under section 80C from assessment year 2006-07 onwards.

C. As per the provisions of section 80CCD, where an assessee, being an individual employed by the Central Government on or after the 1st day of January, 2004, has in the previous year paid or deposited any amount in his account under a pension scheme as notified vide Notification No. F.N. 577/2003- ECB&PR dated 22.12.2003, he shall be allowed a deduction in the computation of his total income, of the whole of the amount so paid or deposited as does not exceed ten per cent of his salary in the previous year.

The benefit of new pension scheme has been extended to any other employees (also self employed person) w.r.e.f. 1/04/09 and deduction is allowed to employees upto 10% of salary in the previous year and in other cases upto 10% of his gross total income in the previous year. Further it has been specified that w.r.e.f 1/04/09 any amount received by the assesse from the new pension scheme shall be deemed not to have received in the previous year if such amount is used for purchasing an annuity plan in the previous year.

Where any amount standing to the credit of the assessee in his account under such pension scheme, in respect of which a deduction has been allowed as per the provisions discussed above, together with the amount accrued thereon, if any, is received by the assessee or his nominee, in whole or in part, in any financial year,

(a) on account of closure of his opting out of such pension scheme; or

(b) as pension received from the annuity plan purchased or taken on such closure or opting out, the whole of the amount referred to in clause (a) or clause (b) above shall be deemed to be the income of the assessee or his nominee, as the case may be, in the financial year in which such amount is received, and shall accordingly be charged to tax as income of that financial year.

For the purposes of deduction under section 80CCD, "salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.
The aggregate amount of deduction under sections 80C, 80CCC and 80CCD shall not exceed Rs.1,00,000/- (Section 80CCE)

D. A new section 80CCF has been inserted by the Finance Act, 2010, w.e.f 01.04.2011. The section 80CCF provides for deduction available to an Individual or a HUF, the whole of the amount, to the extent such amount does not exceed Rs 20,000, paid or deposited during financial year 2010-11, as subscription to long-term infrastructure bonds as notified by the Central Govt for the purpose of this section.(Board Notification no 48/2010 dated 09.09.2010)

Deduction under this section can not exceed Rs 20,000 and are available only for current financial year 2010-11. The deduction under this section will be in addition to overall limit of deduction of upto Rs one lakh under section 80C, 80CCC and 80CCD.

E. Section 80D provides for deduction available for health premia paid etc. In computing the total income of an assessee, being an individual or a Hindu undivided family, there shall be deducted such sum, as specified below payment of which is made by any mode, other than cash, in the previous year out of his income chargeable to tax.

Where the assessee is an Individual, the sum referred to shall be the aggregate of the following, namely:-

(a) the whole of the amount paid to effect or to keep in force an insurance on the health of the assessee or his family or any contribution made to the CGHS as does not exceed in the aggregate fifteen thousand rupees; and

(b) the whole of the amount paid to effect or to keep in force an insurance on the health of the parent or parents of the assessee as does not exceed in the aggregate fifteen thousand rupees.

Explanation.-For the purposes of clause (a), “family” means the spouse and dependent children of the assessee.

Where the assessee is a Hindu undivided family, the sum referred to shall be the whole of the amount paid to effect or to keep in force an insurance on the health of any member of that Hindu undivided family as does not exceed in the aggregate fifteen thousand rupees.

Where the sum specified above is paid to effect or to keep in force an insurance on the health of any person specified therein, and who is a senior citizen, the deduction available is “twenty thousand rupees” rather than fifteen thousand as specified above.

Explanation.-For the above “senior citizen” means an individual resident in India who is of the age of sixty-five years or more at any time during the relevant previous year.

The insurance referred to above shall be in accordance with a scheme made in this behalf by-

(a) the General Insurance Corporation of India formed under section 9 of the General Insurance Business (Nationalisation) Act, 1972 (57 of 1972) and approved by the Central Government in this behalf; or

(b) any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);}

F. Under section 80DD, where an assessee, who is a resident in India, has, during the previous year,-

(a) incurred any expenditure for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability; or

(b) paid or deposited any amount under a scheme framed in this behalf by the Life Insurance Corporation or any other insurer or the Administrator of the specified company subject to the conditions specified in this regard and approved by the Board in this behalf for the maintenance of a dependant, being a person with disability,

the assessee shall be allowed a deduction of a sum of fifty thousand rupees from his gross total income of that year. However, where such dependant is a person with severe disability, an amount of one hundred thousand rupees shall be allowed as deduction subject to the specified conditions.

The deduction under clause (b) of sub-section (1) shall be allowed only if the following conditions are fulfilled:-

A.(i) the scheme referred to in clause (b) above provides for payment of annuity or lump sum amount for the benefit of a dependant, being a person with disability, in the event of the death of the individual in whose name subscription to the scheme has been made;

(ii) the assessee nominates either the dependant, being a person with disability, or any other person or a trust to receive the payment on his behalf, for the benefit of the dependant, being a person with disability.

However, if the dependant, being a person with disability, predeceases the assessee, an amount equal to the amount paid or deposited under sub-para(b) above shall be deemed to be the income of the assessee of the previous year in
which such amount is received by the assessee and shall accordingly be chargeable to tax as the income of the previous year.

B. The assessee, claiming a deduction under this section, shall furnish a copy of the certificate issued by the medical authority in the prescribed form and manner, along with the return of income under section 139, in respect of the assessment year for which the deduction is claimed:

In cases where the condition of disability requires reassessment of its extent after a period stipulated in the aforesaid certificate, no deduction under this section shall be allowed for any subsequent period unless a new certificate is obtained from the medical authority in the prescribed form and manner and a copy thereof is furnished along with the return of income.

For the purposes of section 80DD—

(a) "Administrator" means the Administrator as referred to in clause (a) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 (56 of 2002);

(b) "dependant" means—

(i) in the case of an individual, the spouse, children, parents, brothers and sisters of the individual or any of them;

(ii) in the case of a Hindu undivided family, a member of the Hindu undivided family, dependant wholly or mainly on such individual or Hindu undivided family for his support and maintenance, and who has not claimed any deduction under section 80U in computing his total income for the assessment year relating to the previous year;

(c) "disability" shall have the meaning assigned to it in clause (i) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996) and includes "autism", "cerebral palsy" and "multiple disability" referred to in clauses (a), (c), (h) and (l) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);

(d) "Life Insurance Corporation" shall have the same meaning as in clause (iii) of sub-section (8) of section 68;

(e) "medical authority" means the medical authority as referred to in clause (p) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996) or such other medical authority as may, by notification, be specified by the Central Government for certifying "autism", "cerebral palsy", "multiple disabilities", "person with disability" and "severe disability" referred to in clauses (a), (c), (h), (j) and (o) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);

(f) "person with disability" means a person as referred to in clause (l) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996) or clause (j) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);

(g) "person with severe disability" means—

(i) a person with eighty per cent or more of one or more disabilities, as referred to in sub-section (4) of section 56 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 (1 of 1996); or

(ii) a person with severe disability referred to in clause (o) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (44 of 1999);

(h) "specified company" means a company as referred to in clause (h) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 (58 of 2002).]

G. Under Section 80E of the Act a deduction will be allowed in respect of repayment of interest on loan taken for higher education, subject to the following conditions:

(i) in computing the total income of an assessee, being an individual, there shall be deducted, in accordance with and subject to the provisions of this section, any amount paid by him in the previous year, out of his income chargeable to tax, by way of interest on loan, taken by him from any financial institution or any approved charitable institution for the purpose of pursuing his higher education or for the purpose of higher education of his spouse or children.
(ii) The deduction specified above shall be allowed in computing the total income in respect of the initial assessment year and seven assessment years immediately succeeding the initial assessment year or until the interest referred to above is paid in full by the assessee, whichever is earlier.

For this purpose -

(a) "approved charitable institution" means an institution established for charitable purposes and approved by the prescribed authority under clause (2C) of section 10, or, an institution referred to in clause (a) of sub-section (2) of Section 80G.

(b) "financial institution" means a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act); or any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf;

(c) "higher education" means any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State Government or local authority or by any other authority authorised by the Central Government or State Government or local authority to do so;

(d) "initial assessment year" means the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan.

(e) "relative", in relation to an individual, means the spouse and children of that individual or the student for whom the individual is the legal guardian.

H. Section 80G provides for deductions on account of donation made to various funds, charitable organizations etc. Generally no deduction should be allowed by the D.D.O. from the salary income in respect of any donations made for charitable purposes. The tax relief on such donations as admissible under section 80G of the Act, will have to be claimed by the tax payer in the return of income. However in cases where employees make donations to the Prime Minister's National Relief Fund, the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund through their respective employers, it is not possible for such funds to issue separate certificates to every such employee in respect of donations made to such funds as contributions made to these funds are in the form of a consolidated cheque. An employee who makes donations towards these funds is eligible to claim deduction under section 80G. It is, thereby, clarified that the claim in respect of such donations as indicated above will be admissible under section 80G on the basis of the certificate issued by the Drawing and Disbursing Officer (DDO)/Employer in this behalf - Circular No. 2/2005, dated 12-1-2005.

I. Under Section 80GG of the Act an assessee is entitled to a deduction in respect of house rent paid by him for his own residence. Such deduction is permissible subject to the following conditions :-

(a) the assessee has not been in receipt of any House Rent Allowance specifically granted to him which qualifies for exemption under section 10(13A) of the Act;

(b) the assessee files the declaration in Form No.10BA. (Annexure-VI).

(c) He will be entitled to a deduction in respect of house rent paid by him in excess of 10 per cent of his total income, subject to a ceiling of 25 per cent thereof or Rs. 2,000/- per month, whichever is less. The total income for working out these percentages will be computed before making any deduction under section 80G.

(d) The assessee does not own:

(i) any residential accommodation himself or by his spouse or minor child or where such assessee is a member of a Hindu Undivided Family, by such family, at the place where he ordinarily resides or performs duties of his office or carries on his business or profession; or

(ii) at any other place, any residential accommodation being accommodation in the occupation of the assessee, the value of which is to be determined under clause (a) of sub-section (2) or, as the case may be, clause (a) of sub-section (4) of section 23:

The Drawing and Disbursing Authorities should satisfy themselves that all the conditions mentioned above are satisfied before such deduction is allowed to them to the assessee. They should also satisfy themselves in this regard by insisting on production of evidence of actual payment of rent.

J. Under section 80U, in computing the total income of an individual, being a resident, who, at any time during the
previous year, is certified by the medical authority to be a person with disability, there shall be allowed a deduction of a sum of fifty thousand rupees. However, where such individual is a person with severe dis-ability, a higher deduction of one lakh rupees shall be allowable.

Every individual claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority in the prescribed form and manner along with the return of income, in respect of the assessment year for which the deduction is claimed.

In cases where the condition of disability requires reassessment of its extent after a period stipulated in the aforesaid certificate, no deduction under this section shall be allowed for any subsequent period unless a new certificate is obtained from the medical authority in the prescribed form and manner and a copy thereof is furnished along with the return of income.

For the purposes of this section, the expressions "disability", "medical authority", "person with disability" and "person with severe disability" shall have the same meaning as given in section 80DD (sub-para E of para 5.4 of this Circular).

**DDOs to satisfy themselves of the genuineness of claim:**

The Drawing and Disbursing Officers should satisfy themselves about the actual deposits/ subscriptions/ payments made by the employees, by calling for such particulars/ information as they deem necessary before allowing the aforesaid deductions. In case the DDO is not satisfied about the genuineness of the employee's claim regarding any deposit/ subscription/payment made by the employee, he should not allow the same, and the employee would be free to claim the deduction/ rebate on such amount by filing his return of income and furnishing the necessary proof etc., therewith, to the satisfaction of the Assessing Officer.

**6. CALCULATION OF INCOME-TAX TO BE DEDUCTED:**

6.1 Salary income for the purpose of Section 192 shall be computed as follows:

(a) First compute the gross salary as mentioned in para 5.1 excluding all the incomes mentioned in para 5.2;
(b) Allow deductions mentioned in para 5.3 from the figure arrived at (a) above and compute the amount.
(c) Allow deductions mentioned in para 5.4 from the figure arrived at (b) above ensuring that the relevant conditions are satisfied. The aggregate of the deductions subject to the threshold limits mentioned in para 5.4 shall not exceed the amount at (b) above and if it exceeds, it should be restricted to that amount.

This will be the amount of income from salaries on which income tax would be required to be deducted. This income should be rounded off to the nearest multiple of ten rupees.

6.2 Income-tax on such income shall be calculated at the rates given in para 2 of this Circular keeping in view the age and gender of the employee, subject to the provisions of sec. 206AA, as discussed in para 4.9.

6.3 The amount of tax payable so arrived at shall be increased by educational cess as applicable (2% for primary and 1% for secondary education) to arrive at the total tax payable.

6.4 The amount of tax as arrived at para 6.3 should be deducted every month in equal installments. Any excess or deficit arising out of any previous deduction can be adjusted by increasing or decreasing the amount of subsequent deductions during the same financial year.

DDOs/PAs who fail to comply with the provisions of Section 192 of the Income-tax Act, 1961 would be liable to pay interest under section 201(1)(1A) of income Tax Act along with other penal consequences.

Hindi version will follow.

(\underline{Ajay Kumar})

Director (Budget)

**7. MISCELLANEOUS:**

7.1 These instructions are not exhaustive and are issued only with a view to help the employers to understand the various provisions relating to deduction of tax from salaries. Wherever there is any doubt, reference may be made to the provisions of the Income-tax Act, 1961, the Income-tax Rules, 1982, the Finance Act 2010 and the relevant circulars/ notifications.

7.2 In case any assistance is required, the Assessing Officer/the local Public Relation Officer of the Income-tax Department may be contacted.

7.3 These instructions may be brought to the notice of all Disbursing Officers and Undertakings including those under the control of the Central/ State Governments.
To

1. All State Governments (including Administration of Union Territories)
2. All Ministries/Departments of Government of India etc.
3. President's Secretariat
4. Vice-President's Secretariat
5. Prime Minister's Office
6. Lok Sabha Secretariat
7. Rajya Sabha Secretariat
8. Cabinet Secretariat
9. Secretary, U.P.S.C., Dholpur House, New Delhi
10. Secretary, Staff Selection Commission, Lodhi Complex, New Delhi
11. Supreme Court of India, New Delhi
12. Election Commission, New Delhi
13. Planning Commission, New Delhi
14. Secretariat of Governors/Lt. Governors of all States/Union Territories
15. All Integrated Financial Advisors to Ministries/Departments of Government of India
16. All Heads of Departments & Offices subordinate to the Department of Revenue CBDT, CBEC etc.
17. Army Headquarters, New Delhi
18. Air Headquarters, New Delhi
19. Naval Headquarters, New Delhi
20. Director-General of Posts & Telegraphs, New Delhi(10 copies)
21. Comptroller & Auditor General of India (50 copies)
22. Accountant General - I, Andhra Pradesh, Hyderabad
23. Accountant General-II, Andhra Pradesh, Hyderabad
24. Accountant General, Assam, Shillong
25. Accountant General-I, Bihar, Ranchi
26. Accountant General-II, Bihar, Patna
27. Accountant General-I, Gujarat, Ahmedabad
28. Accountant General-II, Gujarat, Rajkot
29. Accountant General, Kerala, Trivendrum
30. Accountant General, Madhya Pradesh, Gwallor
31. Accountant General, Tamil Nadu, Chennai
32. Accountant General-I, Maharashtra, Mumbai
33. Accountant General-II, Maharashtra, Nagpur
34. Accountant General, Karnataka, Bangalore
35. Accountant General, Orissa, Bhubneshwar
36. Accountant General, Punjab, Chandigarh
37. Accountant General, Himachal Pradesh, Simla
38. Accountant General, Rajasthan, Jaipur
39. Accountant General-I, II & III, Uttar Pradesh, Allahabad
40. Accountant General, West Bengal, Calcutta
41. Accountant General, Haryana, Chandigarh
42. Accountant General, Jammu & Kashmir, Srinagar
43. Accountant General, Manipur, Imphal
44. Accountant General, Tripura, Agartala
45. Accountant General, Nagaland, Kohima
46. Director of Audit (Central) Kolkata
47. Director of Audit (Central Revenue), New Delhi
48. Director of Audit (Central), Mumbai
49. Director of Audit, Scientific & Commercial Department, Mumbai
50. All Banks (Public Sector, Nationalised including State Bank of India)
51. Secretary, Reserve Bank of India Central Office P.B.No.406, Mumbai-400001 (25 copies for distribution to its Branches).
52. Accounts Officer, Inspector General of Assam Rifles, (Hqrs), Shillong
53. All Chambers of Commerce & Industry
54. Lok Sabha/ Rajya Sabha Secretariat Libraries (15 copies each)
55. All Officers and Sections in Technical Wing of CBOT
56. Controller of Accounts, Department of Economic Affairs, New Delhi
57. Manager, Reserve Bank of India, Public Debt Office, Ahmedabad/Bangalore/Bhubaneswar/Mumbai (Fort)/ Mumbai (Central)/Mumbai-8, Kolkata/Hyderabad/Kanpur/Jaipur/Chennai/Nagpur/New Delhi/Patna/Guwahati/ Thiruvananthapuram
58. Asst. Chief Inspector, R.B.I. Inspection Department Regional Audit Cell/Mumbai/Kolkata/Chennai/New Delhi/ Kanpur
59. Accountant General, Post & Telegraph, Simla
60. Controller General of Defence Accounts, New Delhi
61. Director, Defence Services, New Delhi
62. World Health Organisation, New Delhi
63. International Labour Office, India Branch, New Delhi
64. Secretary, Indian Red Cross Society, India, New Delhi
65. Atomic Energy Department, Mumbai
66. Secretary, Development Board, Ministry of Commerce & Industry, New Delhi
67. National Savings Organisation, Nagpur
68. Deputy Accountant General, Post & Telegraph, Kolkata
69. The Legal Adviser, Export - Import Bank of India, Post Box No.19969, Nariman Point, Mumbai-400021
70. The Deputy Finance Manager (Headquarters), Indian Airlines (H) - Airlines House, 11, Gurudwara Rakabganj Road, New Delhi-110001
71. Manager, State Bank of India, Local Head Office:
   i) Jeewan Deep Building, 1, Middelton Street, Kolkata
   ii) Circle Top House, Rajaji Salai, Chennai-600001
   iii) Lucknow, Uttar Pradesh
   iv) Bank Street, Hyderabad-500001
   v) Hamida Road, Bhopal-462001
   vi) Shop Nos. 101 to 105, Sector 17-B, Chandigarh
   vii) New Amn. Building, Madam Camp, Road, Mumbai-400021
   viii) 9, Parliament Street, New Delhi-110001
   ix) Bhedru, Ahmedabad-380001
   x) Judges Court Road, Post Box No. 103, Patna-800001
   xi) 59, Forest Park, Bhubaneswar and Guwahati, Assam
   xii) Guwahati, Assam
72. Chief Controller of Accounts, CBDT, Lok Nayak Bhawan, Khan Market, New Delhi
73. State Bank of Patiala, (Head Office), The Mail, Patiala
74. State Bank of Bikaner and Jalpur, Head Office, Tilak Marg, 'C' Scheme Jalpur
75. State Bank of Hyderabad, Head Office, Gun Factory, Hyderabad
76. State Bank of Indore, 5 Yashwanth Nivas Road, Indore.
77. State Bank of Mysore (Head Office), K.G.Road, Bangalore
78. State Bank of Saurashtra, Behind Satyanarayan Road, Bhavnagar, Gujarat
79. State Bank of Travancore, Post Box No.34, Trivandrum
80. N.S.Branch, Department of Economic Affairs, New Delhi
81. The Editor, 'The Income-tax Reporter' Company Law Institute of India (P) Ltd., 88, Thyagaraya Road, Thyagaraya Nagar, Chennai-600017
82. The Editor, Chartered Secretary, The Institute of Company Secretaries of India, ICSI House, 22, Institutional Area, Lodhi Road, New Delhi-110003
83. The Editor, "Taxation" 174, Jorbagh, New Delhi
84. The Editor, "The Tax Law Review" Post Box No.152, Jallandhar-144001
85. The Editor, "Taxmann" Allied Services (P) Ltd., 1871, Kucha Chelan, Khari Baoli, Delhi-110006
86. The Min. of Law (Depit. of Legal Affairs), Shastri Bhawan New Delhi.
87. Food Corporation of India, 16-17, Barakhamba Lane, New Delhi-110001
88. IFCI, Bank of Baroda Building, 16, Parliament Street, New Delhi
89. IDBI, IDBI Tower, Cuff Parade, Mumbai-400 005
90. ICICI, 163, Backbay Reclamation, Mumbai-20
91. NABARD, Poornam Chambers, Dr. Annie Besant Road; P.B.No.552, Worli, Mumbai
92. National Housing Bank, 3rd Floor, Bombay Life Building, 45, Veer Nariman Road, Mumbai
93. IRBI, 19, Natraj Subhash Road, Kolkata
94. All Foreign Banks operating in India
95. Air India, New Delhi
96. University Grants Commission, Bahadur Shah Jafar Marg, New Delhi
97. The Deputy Director(Admin.), NSSO (FOD), Mahaloni Bhavan, 6th Floor, 164, G.L.Tagore Road, Kolkata-700108.

[Signature]
Director (Budget)
Central Board of Direct Taxes
EXAMPLE - 1

For Assessment Year 2011-2012

Calculation of Income tax in the case of a male employee having gross salary income of:

i) Rs.1,50,000/-
ii) Rs.2,00,000/-
iii) Rs.5,00,000/-
iv) Rs.10,00,000/- and
v) Rs.20,00,000/-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(Rupees) (I)</th>
<th>(Rupees) (II)</th>
<th>(Rupees) (III)</th>
<th>(Rupees) (IV)</th>
<th>(Rupees) (V)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary Income (Including allowances)</td>
<td>1,50,000/-</td>
<td>2,00,000/-</td>
<td>5,00,000/-</td>
<td>10,00,000/-</td>
<td>20,00,000/-</td>
</tr>
<tr>
<td>Contribution to G.P.F.</td>
<td>10,000/-</td>
<td>45,000/-</td>
<td>50,000/-</td>
<td>1,00,000/-</td>
<td>1,00,000/-</td>
</tr>
</tbody>
</table>

Computation of Total income and tax payable thereon

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(Rupees) (I)</th>
<th>(Rupees) (II)</th>
<th>(Rupees) (III)</th>
<th>(Rupees) (IV)</th>
<th>(Rupees) (V)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>1,50,000</td>
<td>2,00,000</td>
<td>5,00,000</td>
<td>10,00,000</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Less: Deduction U/s 80C</td>
<td>10,000</td>
<td>45,000</td>
<td>50,000</td>
<td>1,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>1,40,000</td>
<td>1,55,000</td>
<td>4,50,000</td>
<td>9,00,000</td>
<td>19,00,000</td>
</tr>
<tr>
<td>(A) Tax thereon</td>
<td>Nil</td>
<td>Nil</td>
<td>29,000</td>
<td>1,24,000</td>
<td>4,24,000</td>
</tr>
<tr>
<td>Add</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education Cess @ 2%</td>
<td>40/-</td>
<td>820/-</td>
<td>3,420/-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| (I) Education Cess @ 2%            | Nil          | Nil          | 550           | 2480         | 8480        |
| (II) Secondary and Higher          | Nil          | Nil          | 280           | 1240         | 4240        |
| Education Cess @ 1%                | Nil          | Nil          | 29,870        | 1,27,720     | 4,36,720    |
| Total Income tax payable           | Nil          | Nil          | 90,000        | 1,80,000     | 4,36,720    |

(B) TDS under sec. 206AA in case
where PAN is not furnished by
the employee

| Nil          | Nil          | 90,000        | 1,80,000     | 4,36,720    |
EXAMPLE - 2

For Assessment Year 2011-2012

Calculation of Income Tax in the case of a male employee assessee having a handicapped dependent (With valid PAN furnished to employer).

Particulars:
1. Gross Salary
2. Amount spent on treatment of a dependant, being person with disability (but not severe disability)
3. Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability (but not severe disability)
4. GPF Contribution
5. LIC Paid

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>Rs. 3,20,000/-</td>
</tr>
<tr>
<td>Amount spent on treatment</td>
<td>Rs. 7,000/-</td>
</tr>
<tr>
<td>Amount paid to LIC</td>
<td>Rs. 50,000/-</td>
</tr>
<tr>
<td>GPF Contribution</td>
<td>Rs. 25,000/-</td>
</tr>
<tr>
<td>LIC</td>
<td>Rs. 10,000/-</td>
</tr>
</tbody>
</table>

Computation of Tax

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>Rs. 3,20,000/-</td>
</tr>
<tr>
<td>Less: Deduction U/s 80DD (Restricted to Rs.50,000/- only)</td>
<td>Rs. 50,000/-</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>Rs. 2,70,000/-</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C:</td>
<td></td>
</tr>
<tr>
<td>GPF</td>
<td>25,000/-</td>
</tr>
<tr>
<td>LIC</td>
<td>10,000/-</td>
</tr>
<tr>
<td>Total</td>
<td>35,000/-</td>
</tr>
<tr>
<td>Total Income</td>
<td>Rs. 2,35,000/-</td>
</tr>
<tr>
<td>Income Tax thereon/payable</td>
<td>Rs. 7,600/-</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>Rs. 150/-</td>
</tr>
<tr>
<td>Secondary and Higher Education cess @ 1%</td>
<td>Rs. 75/-</td>
</tr>
</tbody>
</table>

Total Income tax Payable

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. 7,725/-</td>
</tr>
<tr>
<td>Rs. 7,730/-</td>
</tr>
</tbody>
</table>
Calculating Income Tax in the case of a male employee where medical treatment expenditure was borne by the employer (With valid PAN furnished to employer).

### Particulars:

1. Gross Salary: Rs. 3,00,000/-
2. Medical Reimbursement by employer on the treatment of self and dependent family member: Rs. 30,000/-
3. Contribution of GPF: Rs. 20,000/-
4. LIC premium: Rs. 20,000/-
5. Repayment of House Building Advance: Rs. 25,000/-
6. Tuition fees for two children: Rs. 60,000/-
7. Investment in Unit-Linked Insurance Plan: Rs. 20,000/-

### Computation of Tax

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>Rs. 3,00,000/-</td>
</tr>
<tr>
<td>Add: Parquisites In respect of reimbursement of medical expenses in excess of Rs. 15,000/- in view of Sec.17(2)(v)</td>
<td>Rs. 15,000/-</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>Rs. 3,15,000/-</td>
</tr>
</tbody>
</table>

#### Less: Deduction u/s 80C:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GPF</td>
<td>20,000/-</td>
</tr>
<tr>
<td>LIC</td>
<td>20,000/-</td>
</tr>
<tr>
<td>Repayment of HBA</td>
<td>25,000/-</td>
</tr>
<tr>
<td>Tuition Fees</td>
<td>60,000/-</td>
</tr>
<tr>
<td>Investment in Unit-Linked Insurance Plan</td>
<td>20,000/-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,45,000/-</td>
</tr>
</tbody>
</table>

Total Income: Rs. 2,15,000/-

### Tax Payable:

Add: Education Cess @ 2%:

- Secondary and Higher Education Cess @ 1%

#### Total Income Tax Payable:

- Round off to: Rs. 5,670/-