

DEDUCTIONS FROM GROSS TOTAL INCOME



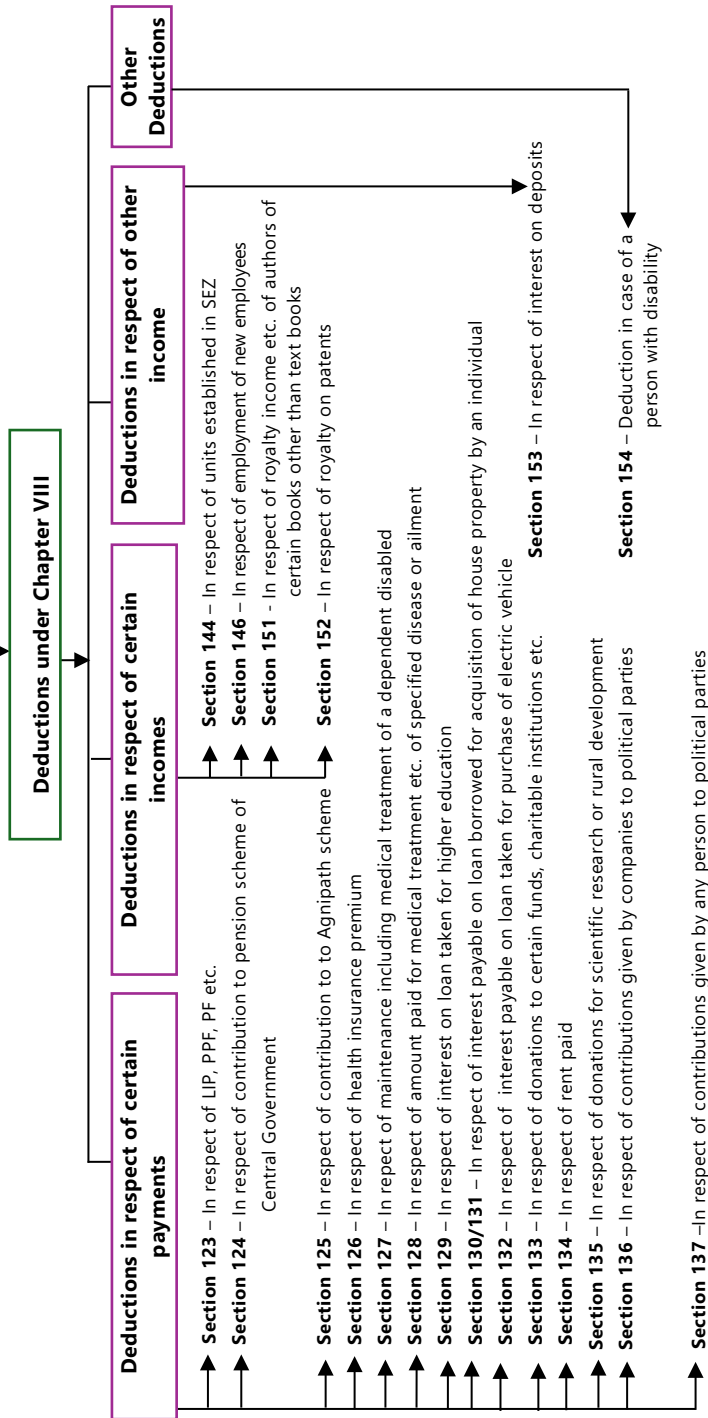
LEARNING OUTCOMES

After studying this chapter, you would be able to –

- ◆ **appreciate** the types of deductions allowable from gross total income under the default tax regime;
- ◆ **appreciate** the types of deductions allowable from gross total income, if the assessee has exercised the option of shifting out of the default tax regime and is paying tax under the optional tax regime as per the normal provisions of the Act;
- ◆ **identify** the assessees eligible for deduction under various sections;
- ◆ **compute** deductions in respect of payments, applying the provisions under the relevant sections;
- ◆ **compute** deductions in respect of certain income, applying the provisions under the relevant sections;
- ◆ **compute** the deduction allowable in the case of a person with disability.

CHAPTER OVERVIEW

Deductions from Gross Total Income under the optional tax regime (i.e., normal provisions of the Act)



Note – Only deductions u/s 124(1)/(2) [Employer's contribution to pension scheme of Central Government], 125(2) [Central Government's contribution to assessee's account in Agniveer Corpus Fund] and section 146 would be available if the eligible assessee pays tax at concessional rates of tax u/s 202(1) under the default tax regime.



1. STRUCTURED SECTIONAL LEARNING

Section	Particulars
122	Deductions to be made in computing total income
123	Deduction for life insurance premia, deferred annuity, contributions to provident fund, etc.
124	Deduction in respect of employer and assessee contribution to pension scheme of Central Government
125	Deduction in respect of contribution to Agnipath Scheme
126	Deduction in respect of health insurance premia
127	Deduction in respect of maintenance including medical treatment of a dependant who is a person with disability
128	Deduction in respect of medical treatment, etc.
129	Deduction in respect of interest on loan taken for higher education
130	Deduction in respect of interest on loan taken for residential house property
131	Deduction in respect of interest on loan taken for certain house property
132	Deduction in respect of purchase of electric vehicle
133	Deduction in respect of donations to certain funds, charitable institutions, etc.
134	Deductions in respect of rents paid
135	Deduction in respect of certain donations for scientific research or rural development
136	Deduction in respect of contributions given by companies to political parties
137	Deduction in respect of contributions given by any person to political parties

144	Special provisions in respect of units established in Special Economic Zones
146	Deduction in respect of additional employee cost
151	Deduction in respect of royalty income, etc., of authors of certain books other than text-books
152	Deduction in respect of royalty on patents
153	Deduction for interest on deposits
154	Deduction in case of a person with disability



2. GENERAL PROVISIONS

Section 11 provides that certain incomes specified in the schedules shall not be included in computing the total income of any person and do not enter into the computation process at all. These incomes are known as exempted incomes. **"Exemption"** means exclusion.

On the other hand, Chapter VIII contains deductions from gross total income. There are incomes which are included in gross total income but are wholly or partly allowed as deduction under Chapter VIII in computation of total income, if the assessee has exercised the option of shifting out of the default tax regime and pays tax as per the optional tax regime under the normal provisions of the Act.

Deduction is allowed on specific investments or expenses incurred by the taxpayer to promote the culture of savings and investments. This could include medical expenditure, donations made to charitable institutions, investments made in specific avenues such as Public Provident Fund (PPF), National Pension Scheme (NPS) etc.

However, if the assessee pays tax under default tax regime u/s 202(1), only deduction in respect of employer's contribution to NPS u/s 124(1)/(2), Central Government's contribution to Agnipath Scheme u/s 125(2) and deduction in respect of employment of new employees u/s 146 would be allowed to the assessee. He cannot claim deduction under any other provision in Chapter VIII under the default tax regime.

The tax liability is calculated on the "total income" which is arrived at after reducing permissible deductions from gross total income.

Students should note this very important difference between exemption under section 11 read with schedules and deduction under Chapter VIII.

Difference between Deduction under Chapter VIII and exemption under section 11 read with schedules		
Particulars	Deduction	Exemption
Meaning	Investments/ contributions in certain instruments (as prescribed under the Income-tax Act). Payments made for certain purposes.	The incomes which are specified under schedules will not be included in computing gross total income.
Relevant Sections	Sections 123 to 154 in Chapter VIII	Schedules II to VII
Manner of treatment	First included in the Gross Total Income and then deductions will be allowed from Gross Total Income.	Not included in the Gross Total Income.

The important point to be noted here is that if there is no gross total income, then no deductions will be permissible. This Chapter contains deduction under Chapter VIII which includes deductions in respect of certain payments, deductions in respect of certain incomes, deductions in respect of other income and other deductions.

Section 122

- (i) Section 122(1) provides that in computing the total income of an assessee, the deductions specified in Chapter VIII shall be allowed from his gross total income if the assessee has exercised the option of shifting out of the default tax regime.
- (ii) **Aggregate deductions under Chapter VIII cannot exceed Gross Total Income:** According to section 122(2), the aggregate amount of the deductions under this Chapter shall not, in any case, exceed the gross total income of the assessee. Therefore, the total income after deductions will either be positive or nil. It cannot be negative due to deductions.

An assessee cannot have a loss or negative income figure as a result of the deduction under Chapter VIII and claim to carry forward the same for the purpose of set-off against his income in the subsequent year.

- (iii) **No double deduction to member in respect of share of income from AOP/BOI:** Section 122(3) provides that in the case of AOP/BOI exercising the

option of shifting out of the default tax regime, if any deduction is admissible under section 133/135/137¹, no deduction under the same section shall be made in relation to the share of income of member of such AOP or BOI in computing the total income of such member.

- (iv) **Deduction under Part C of Chapter VIII not allowable again under any other provision:** The profits and gains allowed as deduction under Part "C - Deductions in respect of certain incomes" of Chapter VIII in any tax year, shall not be allowed as deduction under any other provision of the Act for such tax year.

The deduction shall not exceed the profits and gains of the undertaking or unit or enterprise or eligible business, as the case may be [Section 122(4)].

- (v) **Deduction under Part C of Chapter VIII allowed only if return of income is filed within due date and claim is made in return:** As per section 122(5), no deduction under any of the provisions referred to in (iv) above, shall be allowed if the assessee fails to -

- (a) furnish a return of income on or before the due date specified u/s 263(1); or
- (b) make a claim of deduction in the return furnished u/s 263(1).

Thus, if in case of failure to file return of income on or before the stipulated due date, the undertakings mentioned under Part C of Chapter VIII would lose the benefit of deduction under these sections.

Table showing the deductions contained in Part "C – Deductions in respect of certain income" of Chapter VIII

Section	Deduction
138	Deductions in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development etc.
139	Deduction in respect of profits and gains derived by an undertaking or enterprise engaged in development of SEZ
140	Deduction in respect of profits and gains derived by an eligible start-up from an eligible business

¹ 138/141/142/143 (these sections will be dealt with at the Final level)

141	Deduction in respect of profits and gains from the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains
142	Deduction in respect of profits and gains from housing projects/rental housing projects
143	Deduction in respect of profits and gains from manufacture or production of eligible articles or things, substantial expansion to manufacture or produce any eligible article or thing or carrying on of eligible business in North-Eastern States
144	Deduction in respect of units established in SEZs
145	Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste
146	Deduction in respect of additional employee cost
147	Deduction in respect of certain income of Offshore Banking Units and Units of International Financial Services Centre
148	Deduction in respect of certain inter-corporate dividends
149	Deduction in respect of income of co-operative societies
150	Deduction in respect of income of federal co-operative
151	Deduction in respect of royalty income, etc., of authors of certain books other than text books
152	Deduction in respect of royalty on patents

Note: The deductions under section 138 to 143, 145, 147 to 150 in respect of certain incomes will be dealt with in detail at the Final Level.

ILLUSTRATION 1

Examine the following statements with regard to the provisions of the Income-tax Act, 2025:

- For grant of deduction under section 146, filing of audit report in prescribed form is mandatory for a corporate assessee; filing of return within the due date laid down in section 263(1) is not required.
- Filing of belated return under section 263(4) of the Income-tax Act, 2025 will debar an assessee from claiming deduction under section 152 if the

assessee exercises the option of shifting out of the default tax regime (i.e., he pays tax under the optional tax regime).

SOLUTION

- (a) **The statement is not correct.** Section 122(5) stipulates compulsory filing of return of income on or before the due date specified under section 263(1), as a pre-condition for availing the benefit of deduction, *inter alia*, under section 146.
- (b) **The statement is correct.** As per section 122(5), the assessee has to furnish his return of income on or before the due date specified under section 263(1), to be eligible to claim deduction, *inter alia*, under section 152.
- (vi) **Transfer of goods or services between eligible business and other business to be at market value:** The transfer price of goods and services between such undertaking or unit or enterprise or eligible business and any other business of the assessee shall be determined at the market value of such goods or services as on the date of transfer [Section 122(6)].
- (vii) **Meaning of market value:** For this purpose, the expression "market value" has been defined to mean,-
 - (a) in relation to any goods or services sold or supplied, the price that such goods or services would fetch if these were sold by the undertaking or unit or enterprise or eligible business in the open market, subject to statutory or regulatory restrictions, if any;
 - (b) in relation to any goods or services acquired, the price that such goods or services would cost if these were acquired by the undertaking or unit or enterprise or eligible business from the open market, subject to statutory or regulatory restrictions, if any;
- (viii) **Deduction under section 46 and Part C of Chapter VIII not simultaneously available for specified business:** Where a deduction under Part C of Chapter VIII is claimed and allowed to an assessee exercising the option of shifting out of the default tax regime, in respect of the profits of a specified business for any tax year, no deduction is permissible for such specified business under section 46 for the same or any other tax year.

In short, once the assessee has claimed the benefit of deduction under section 46 for a particular year in respect of a specified business, he cannot claim benefit under Part C of Chapter VIII for the same or any other year for such specified business. Further, if the assessee pays tax under default tax regime under section 202(1), neither deduction under section 46 nor deductions under Part C of Chapter VIII would be available to him.

- (ix) **Deduction under Part C of Chapter VIII to be computed on net income included in gross total income:** For the purpose of computing the deductions under Part C of Chapter VIII, the amount of income computed under provisions of the Act (before making any deduction under Chapter VIII) shall alone be deemed to be the income which is derived or received by the assessee and which is included in his gross total income. Accordingly, the deductions specified in the aforesaid Part C will be calculated with reference to the net income as computed under provisions of the Act (before making deduction under Chapter VIII) and not with reference to the gross amount of such income. This is irrespective of anything contained in the respective sections of Part C of Chapter VIII.
- (x) **Meaning of Gross total income:** "Gross total income" means the total income computed as per the provisions of the Act before making deduction under Chapter VIII. "Computed as per the provisions of the Act" implies —
- (i) that deductions under appropriate computation section have already been given effect to;
 - (ii) that income of other persons, if includible under sections 96 to 99, has been included;
 - (iii) the intra head and/or inter head losses have been adjusted; and
 - (iv) that unabsorbed brought forward business losses, unabsorbed depreciation etc., have been set-off.

Where the gross total income of an assessee includes any capital gains referred to in section 196, 197, 198 or winning of lotteries etc., deductions under Chapter VIII shall be allowed from the gross total income as reduced by such incomes.



1.	ABC Ltd. filed its return of income after the due date under section 263(1). It wants to claim deduction under section 146 in respect of additional employee cost. Which of the following is correct?
(a)	Deduction is allowable since audit report was filed
(b)	Deduction is allowable if tax is paid before assessment
(c)	Deduction is not allowable due to delayed filing of return
(d)	Deduction is allowable at the discretion of the Assessing Officer
2.	A taxpayer had Gross Total Income of ₹ 4,80,000 and eligible deductions under Chapter VIII amounting to ₹ 5,50,000. How much deduction can he claim?
(a)	₹ 5,50,000
(b)	₹ 4,80,000
(c)	Nil
(d)	₹ 70,000

Deductions under Chapter VIII are allowable from Gross Total Income which are discussed in this chapter.

Let us first consider the deductions allowable under Part "B – Deductions in respect of certain payments".



3. DEDUCTIONS IN RESPECT OF CERTAIN PAYMENTS

(1) Deduction in respect of investment in specified assets [Section 123] [Available only if the individual/HUF exercises the option of shifting out of the default tax regime]

Section 123 provides for a deduction from the Gross Total Income, of amount deposited in specified modes of investments in a tax year, enumerated in Schedule XV. The deduction under section 123 is available only to an individual or HUF exercising the option of shifting out of the default tax regime. It is not allowable under the default tax regime under section 202(1). The maximum permissible deduction under section 123 is ₹ 1,50,000 in a tax year.

(i) **Sums qualifying as deduction** - The following are the investments/contributions eligible for deduction as enumerated in Schedule XV –

Premium paid for life insurance policy

Premium paid for a life insurance policy, in the case of an individual, on the life of the individual, spouse or any child (minor or major) and in the case of HUF, on the life of any member thereof.

This will include a life policy and an endowment policy, other than a contract for deferred annuity.

The following is a tabular summary of the deduction allowable under Schedule XV *vis-à-vis* the date of issue of such policies –



	Deduction under section 123 read with Schedule XV (Para 2)
In respect of policies issued on or before 31.3.2012	Premium paid as is up to 20% of the "actual capital sum assured"
In respect of policies issued on or after 1.4.2012 but before 1.4.2013	Premium paid as is up to 10% of the "actual capital sum assured"

In respect of policies issued on or after 1.4.2013	(a)	Where the policy covers the life of a person with a disability or severe disability as referred to in section 154 or a person suffering from a disease or ailment as specified under section 128.
		Premium paid as is up to 15% of the "actual capital sum assured"
	(b)	Where the insurance covers the life of any person, other than mentioned in (a) above
		Premium paid as is up to 10% of the "actual capital sum assured"
Meaning of actual capital sum assured - Minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking 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 is to be or may be received under the policy by any person.		

ILLUSTRATION 2

Compute the eligible deduction under section 123 for tax year 2026-27 in respect of life insurance premium paid by Mr. Ganesh during the T.Y.2026-27, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime –

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2026-27 (₹)
(i)	30/3/2012	Self	9,00,000	48,000
(ii)	1/5/2019	Spouse	1,50,000	20,000
(iii)	1/6/2022	Handicapped son (section 154 disability)	4,00,000	80,000

SOLUTION

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2026-27 (₹)	Deduction u/s 123 for T.Y.2026-27 (₹)	Remark (restricted to % of actual capital sum assured) (₹)
(i)	30/3/2012	Self	9,00,000	48,000	48,000	20%
(ii)	1/5/2019	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2022	Handicapped son (section 154 disability)	4,00,000	80,000	60,000	15%
	Total				1,23,000	

ILLUSTRATION 3

What would your answer if Mr. Ganesh pays tax under default tax regime under section 202(1)?

SOLUTION

If Mr. Ganesh pays tax under default tax regime under section 202(1), he would not be eligible for deduction under section 123.

Premium paid in respect of deferred annuity contract

Premium paid under a deferred annuity contract on the life of the individual, spouse or any child, and such contract does not contain an option to receive cash payments *in lieu* of the annuity.

It is pertinent to note here that a contract for a deferred annuity need not necessarily be with an insurance company. It follows therefore that such a contract can be entered into with any person.

Any sum deducted from the salary payable to the Government employee for securing a deferred annuity

Amount deducted from salary payable by or on behalf of the Government to an employee for securing deferred annuity or making provision for his spouse or children. The excess, if any, over 20% of the salary is to be ignored.

Contribution to SPF /RPF

Contributions to any provident fund to which the Provident Funds Act, 1925 applies and recognized provident fund qualifies for deduction under section 123.

Contribution to PPF

Contribution made to an account with any Provident Fund, set up and notified by the Central Government (i.e., the Public Provident Fund established under the Public Provident Fund Scheme, 1968) also qualifies for deduction under section 123. Such contribution can be made in the name of the individual, his/her spouse and any child of the individual, and any member of the family, in case of a HUF. The maximum limit for deposit in PPF is ₹ 1,50,000 in a year.

ILLUSTRATION 4

An individual assessee, resident in India, has made the following deposit/payment during the tax year 2026-27:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2021) (Assured value ₹ 2,20,000)	25,000

What is the deduction allowable under section 123 for T.Y.2026-27 if the assessee has exercised the option of shifting out of the default tax regime?

SOLUTION**Computation of deduction under section 123 for T.Y.2026-27**

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value of ₹ 2,20,000, as the policy is taken after 31.3.2012)	22,000
Total	1,72,000
However, the maximum permissible deduction u/s 123 is restricted to	1,50,000

Contribution to approved superannuation Fund

Contribution by an employee to an approved superannuation fund qualifies for deduction under section 123.

Any sum paid or deposited in Sukanya Samridhi Account

Subscription to any security or deposit scheme notified by the Central Government qualifies for deduction under section 123. Accordingly, Sukanya Samridhi Scheme has been notified to provide that any sum paid or deposited during the tax year in the said scheme, by an individual in the name of –

- (a) any girl child of the individual; or
 - (b) any girl child for whom such individual is the legal guardian
- would be eligible for deduction under section 123.

Exemption on payment from Sukanya Samridhi Account [Schedule II (Table: S. No. 5)]

Schedule II (Table: S. No. 5) provides that any payment from an account opened as per the Sukanya Samridhi Account Scheme, 2019 made under the Government Savings Promotion Act, 1873, shall **not** be included in the total income of the assessee. Accordingly, the interest accruing on deposits in, and withdrawals from any account under the said scheme would be exempt.

Subscription to National Savings Certificates VIII²

Subscription to Savings Certificates² notified by the Central Government (i.e. National Savings Certificate (VIII Issue) issued under the Government Savings Certificates Act, 1959) would qualify for deduction under section 123.

Contribution in Unit-linked Insurance Plan, 1971

Contributions in the name of the individual, spouse or any child of the individual for participation in the Unit-linked Insurance Plan 1971. In case of HUF, the contribution can be in the name of any member.

² as mentioned in section 3(k) of Government Savings Banks Act, 1873 to be read now as 'Government Savings Promotion Act, 1873'

Contribution in Unit-linked Insurance Plan of LIC Mutual Fund

Contributions in the name of the individual, spouse or any child of the individual for participation in any Unit linked Insurance Plan of the LIC Mutual Fund³. In case of a HUF, the contribution can be in the name of any member.

Contribution to approved annuity plan of LIC

Contributions to approved annuity plans of LIC (New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I and New Jeevan Akshay I, II and III) or any other insurer (Tata AIG Easy Retire Annuity Plan of Tata AIG Life Insurance Company Ltd.) as notified by the Central Government.

Subscription towards notified units of mutual fund or UTI

Subscription to any units of any mutual fund⁴ or from the Administrator or the specified company under any plan formulated in accordance with such scheme notified by the Central Government.

Contribution to notified pension fund set up by mutual fund or UTI

Contribution by an individual to a pension fund set up by any Mutual Fund or by the Administrator or the specified company as the Central Government may notify (i.e., UTI-Retirement Benefit Pension Fund set up by the specified company referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 as a pension fund).

Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008

Subscription to any deposit scheme or contribution to any pension fund, set up by the National Housing Bank i.e., National Housing Bank (Tax Saving) Term Deposit Scheme, 2008.

Subscription to notified deposit scheme

Subscription to any deposit scheme of

- a public sector company which is engaged in providing long-term finance for construction, or purchase of houses in India for residential purposes or

³ referred to in Schedule VII (Table: S. No. 20 or 21)

- an authority constituted in India by any law, 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 deposit scheme should be notified by the Central Government, for example, public deposit scheme of HUDCO.

Payment of tuition fees to any university, college, school or other educational institutions within India for full-time education for maximum 2 children

Payment of tuition fees by an individual at the time of admission or thereafter to any university, college, school or other educational institutions situated in India for full-time education of any **two children** of the individual. This benefit is only for the amount of tuition fees for full-time education and shall not include any development fees or donation or payment of similar nature and payment made for education to any institution situated outside India.

Repayment of housing loan including stamp duty, registration fee and other expenses

Any payment made for **purchase or construction** of a residential house property the income from which –

- (i) should be chargeable to tax under the head “Income from house property”;
- (ii) would have been chargeable to tax under the head “Income from house property” had it not been used for the assessee’s own residence.

The approved types of payments are as follows:

- (1) Any instalment or part payment of the amount due under any self-financing or other scheme of any development authority, Housing Board or other authority engaged in the construction and sale of house property on ownership basis; or
- (2) Any instalment or part payment of the amount due to any company or a co-operative society of which the assessee is a shareholder or member towards the cost of house property allotted to him; or

- (3) Repayment of amount borrowed by the assessee from:
- (a) the Central Government or any State Government;
 - (b) any bank including a co-operative bank;
 - (c) the Life Insurance Corporation;
 - (d) the National Housing Bank;
 - (e) any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is eligible for deduction under section 32(e);
 - (f) any company in which the public are substantially interested or any co-operative society engaged in the business of financing the construction of houses;
 - (g) the assessee's employer, where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act;
 - (h) the assessee's employer where such employer is a public company or public sector company or a university established by law or a college affiliated to such university or a local authority or a co-operative society.
- (4) Stamp duty, registration fee and other expenses for the purposes of transfer of such house property to the assessee.

Inadmissible payments: The following amounts, however, do not qualify for deduction:

- (1) admission fee, cost of share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming a shareholder or member; or
- (2) the cost of any addition or alteration to or renovation or repair of the house property carried out after the issue of completion certificate in respect of the house property by the authority competent to issue it or after the house has been occupied by the assessee or any person on his behalf or after it has been let out; or

- (3) any expenditure in respect of which deduction is allowable under section 22.

Investment in five year Term Deposit

Investment in term deposit -

- (1) for a fixed period of not less than five years with a scheduled bank; and
- (2) which is as per such scheme framed and notified by the Central Government

qualifies as an eligible investment for availing deduction under section 123.

The maximum limit for investment in term deposit is ₹ 1,50,000.

Subscription to notified bonds issued by NABARD

Subscription to such bonds issued by NABARD (as notified by the Central Government) qualifies for deduction under section 123.

Deposit in Senior Citizens Savings Scheme Rules, 2004

Deposit in an account under the Senior Citizens Savings Scheme Rules, 2004 qualifies for deduction under section 123.

Investment in five year term deposit Post Office

Investment in five year term deposit in an account under Post Office Time Deposit Rules, 1981 qualifies for deduction under section 123.

Contribution to additional account under NPS

Contribution by a **Central Government employee** to additional account under NPS for a fixed period of not less than 3 years and which is as per the scheme⁴ notified by the Central Government for this purpose qualifies for deduction under section 123.

There are two types of NPS account i.e., Tier I and Tier II, to which an individual can contribute. **Tier II account is the additional account under NPS, contribution to which would qualify for deduction under section 123 only in the hands of a Central Government employee.**

⁴ National Pension Scheme Tier II- Tax Saver Scheme, 2020 notified for this purpose.

Contribution for annuity plan of LIC

Contribution made from 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 Schedule VII (Table S. No. 3).

Contribution made by an individual to a pension scheme

Contribution made by an individual to a pension scheme notified by the Central Government (NPS Tier I account), to the extent of –

- (i) 10% of salary, including dearness allowance, if the terms of employment so provide, but excluding all other allowances and perquisites, during the tax year in the case of an employee of the Central Government or any other employer; or
- (ii) 20% of gross total income during the tax year in the case of any other individual.

Subscription to certain equity shares or debentures or units of mutual fund

Subscription to

- equity shares or debentures forming part of any eligible issue of capital approved by the Board on an application made by a public company or as subscription to any eligible issue of capital by any public financial institution in the prescribed form
- any units of any mutual fund⁵ and approved by the Board on an application made by such mutual fund in the prescribed form. It is necessary that such units should be subscribed only in the eligible issue of capital of any company.

Meaning of Eligible issue of capital

Eligible issue of capital means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the issue are utilised wholly and exclusively for the purposes of any business referred to in section 135(9) of the Income-tax Act, 2025 (Section 80-IA of the Income-tax Act, 1961).

⁵ referred to in Schedule VII (S. No 20 or 21)

(ii) Disallowance of deduction and taxation of deduction already allowed -

The deductions in respect of the payments specified in the Table below shall not be allowed in the tax year in which the mentioned conditions are fulfilled. Further, the total amount of such deductions allowed in the earlier tax year(s) shall be deemed to be the income of the assessee and shall be chargeable to tax in that tax year.

S. No.	Nature of payment	Conditions for disallowance of the deduction
1.	Premium paid for a life insurance policy	Where the assessee terminates his contract of insurance by notice to that effect or where the contract ceases to be in force by reason of failure to pay any premium, by not reviving contract of insurance, - (a) in case of any single premium policy, within 2 years after the date of commencement of insurance; or (b) in any other case, before premiums have been paid for 2 years.
2.	(a) Contribution for participation in the ULIP Unit-Linked Insurance Plan, 1971; (b) contribution for participation in the unit-linked insurance plan of Life Insurance Corporation Mutual Fund.	Where the assessee terminates his participation in such plan, by notice to that effect or where he ceases to participate by reason of failure to pay any contribution, by not reviving his participation, before contributions in respect of such participation have been paid for 5 years.
3.	Repayment of housing loan including stamp duty, registration fee and other expenses	Where the assessee (a) transfers the house property before the expiry of 5 years from the end of the tax year in which possession of such property is obtained by him; or (b) receives back, whether by way of refund or otherwise, any specified sum.

4.	Subscription to certain equity shares or debentures	(a) Where the assessee sells or otherwise transfers to any person at any time within a period of 3 years from the date of their acquisition; and (b) such shares or debentures shall be treated as having acquired by the person on the date on which his name is entered in relation to those shares or debentures in the register of members or of debenture-holders, as the case may be, of the public company.
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(iii) Taxation of receipts where deduction already allowed – Where deductions in respect of the payments specified in the Table below have already been allowed, and the mentioned conditions in the Table are fulfilled in any tax year, the amounts so received shall be taxed in that tax year in the manner specified in the table.

S. No.	Nature of payment	Conditions for taxation	Manner and amount of taxation in the tax year in which condition in column C is fulfilled
(A)	(B)	(C)	(D)
1.	(a) Deposit in Senior Citizens Savings Scheme Rules, 2004; (b) Investment in five year Post Office term deposit.	If any amount, including interest accrued, is withdrawn by the assessee, before the expiry of the period of 5 years from the date of its deposit.	(a) The amount so withdrawn shall be deemed to be the income of the assessee of the tax year in which the amount is withdrawn and shall be liable to tax in the said year. (b) the amount liable to tax shall not include – (i) any interest, which has been included in the

			total income of the assessee of the tax year or years preceding such tax year; and (ii) any amount received by the nominee or legal heir of the assessee, on the death of such assessee, other than interest, if any, accrued thereon, which was not included in the total income of the assessee for the tax year or years preceding such tax year.
2.	Contribution 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 Schedule VII	Where any amount standing to the credit of the assessee in the pension fund, in respect of which a deduction has been allowed, together with interest or bonus accrued or credited to the assessee's account is received by the assessee or his nominee, (a) on account of the surrender of the annuity plan whether in whole	An amount equal to the whole of the amount shall be deemed to be the income of the assessee or his nominee, in the tax year in which such withdrawal is made or, pension is received. It shall be liable to tax in the said year.

	(Table: Sl. No. 3).	or in part, in any tax year; or (b) as pension received from the annuity plan.	
3.	Contribution by an individual to a pension scheme notified by the Central Government	Where any amount standing to the credit of the assessee in the pension scheme, in respect of which a deduction has been allowed, together with the amount accrued thereon, if any, is received by the assessee or his nominee, in whole or in part, in any tax year, and if such amount is not used for purchasing an annuity plan in the same year— (a) on account of closure or his opting out of the pension scheme (except when received by the nominee on the death of the assessee); or (b) as pension received from the annuity plan purchased or taken on such closure or opting out.	The whole of the amount shall be deemed to be the income of the assessee or his nominee, in the tax year in which such amount is received, and it shall be liable to tax in the said year.

Summary of investment/ contributions eligible for deduction u/s 123

S. No.	Investment/ contributions
(i)	Premium paid in respect of Life Insurance policy In case of individual – on the life of individual, his or her spouse or any child of the individual In case of HUF – on the life of any member of HUF
(ii)	Premium paid in respect of a contract for deferred annuity In case of individual – on the life of individual, his or her spouse or any child of the individual
(iii)	Any sum deducted from the salary payable to the Government employee for securing a deferred annuity [Excess over 1/5 th of the salary to be ignored]
(iv)	Contribution to SPF/RPF
(v)	Contribution to PPF In case of individual – in the name of Individual, his or her spouse or any child of the individual In case of HUF – In the name of any member of HUF
(vi)	Contribution to approved superannuation Fund
(vii)	Paid or deposited in Sukanya Samriddhi Account (a) for any girl child of the individual; or (b) for any girl child for whom such individual is the legal guardian
(viii)	Subscription to National Savings Certificates VIII
(ix)	Contribution in Unit-linked Insurance Plan 1971 In case of individual – in the name of individual, his or her spouse or any child of the individual In case of HUF – in the name of any member of HUF
(x)	Contribution in Unit-linked Insurance Plan of LIC Mutual Fund In case of individual – In the name of individual, his or her spouse or any child of the individual In case of HUF – In the name of any member of HUF

(xi)	Contribution to approved annuity plan of LIC or any other notified insurer
(xii)	Subscription towards notified units of mutual fund or UTI [ELSS]
(xiii)	Contribution to notified pension fund set up by mutual fund or UTI
(xiv)	Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008
(xv)	Subscription to notified deposit scheme of public sector co. or authority constituted in India in relation to housing. For example, public deposit scheme of HUDCO.
(xvi)	Tuition fees to by an individual to any university, college, school or other educational institution within India for full-time education for maximum 2 children of the individual.
(xvii)	Repayment of housing loan for purchase/ construction of house property including stamp duty, registration fee and other expenses for transfer
(xviii)	Investment in five year term deposit with a scheduled bank
(xix)	Subscription to notified bonds issued by NABARD
(xx)	Deposit in Senior Citizens Savings Scheme Rules, 2004
(xxi)	Investment in five year Post Office term deposit
(xxii)	Contribution to additional account under NPS (Tier II account), in case of Central Government employee
(xxiii)	Contribution for annuity plan of LIC
(xxiv)	Contribution made by an individual to a pension scheme - 10% of salary, in case of salaried individuals - 20% of gross total income, in the case of any other individual
(xxv)	Subscription to certain equity shares or debentures forming part of any approved eligible issue of capital by a public company or by any public financial institution or units of mutual fund subscribed only in eligible issue of capital of any company

(2) Deduction in respect of contribution to pension scheme notified by the Central Government [Section 124]

- (i) **Pension Scheme of Central Government:** As per the “Restructured Defined Contribution Pension System” applicable to new entrants to Government service, it is mandatory for persons entering the service of the Central Government on or after 1st January, 2004, to contribute 10% of their salary every month towards their pension account. A matching contribution is required to be made by the Government to the said account. The benefit of this scheme is also available to individuals employed by any other employer as well as to self-employed individuals.

The Central Government has notified the ‘Atal Pension Yojana (APY)’ as a pension scheme, contribution to which would qualify for deduction under section 123 (schedule XV Para 1(y)) and section 124 in the hands of the individual.

- (ii) **Deduction:** The deduction of employee’s or assessee’s contribution to NPS Scheme has been discussed in section 123 (schedule XV Para 1(y)). The deduction of employer’s contribution to NPS Scheme has been dealt with in section 124.

- (iii) **Quantum of deduction of employer’s contribution:** As per section 124(1), where in the case of an **assessee, being an individual employed by any employer**, if the employer makes any contribution in his account under a pension scheme, the assessee shall be allowed a deduction in the computation of his total income, of the whole of the amount contributed by such employer. However, the deduction should not exceed -

- ◆ **14% of his salary in the tax year**, where such contribution is made by the **employer, being the Central Government or the State Government**; and
- ◆ **10% of his salary in the tax year**, where such contribution is made by any **other employer (14%, in case assessee is chargeable to tax under section 202(1))**.

- (iv) **Quantum of deduction of employee’s or assessee’s contribution:** Section 124(3) provides for a deduction of up to ₹ 50,000 in respect of the whole of

the amount paid or deposited by an individual assessee under NPS in the tax year.

Where a deduction has been claimed and allowed under section 123, no deduction for the same amount would be allowed under section 124(3) or *vice versa*.

(v) Quantum of deduction for contribution made to NPS Vatsalya Scheme:

NPS Vatsalya is a NPS Scheme designed for minor Indian citizen up to the age of 18 years. The account will be opened and operated by the guardian on behalf of the minor. When the minor attains the age of 18 years, the account will continue to be operational and will be shifted into a NPS Tier-I Account.

Deduction under section 124(4) is allowed for any amount paid or deposited made to the account of a minor under the said pension scheme by the assessee, being the parent or guardian of such minor. The aggregate amount of deduction under section 124(3) and 124(4) shall not exceed ₹ 50,000.



1. Deduction u/s 124(1)/ (2) would be available to an individual irrespective of the regime under which he pays tax.

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

(v) Deemed income: Any amount standing to the credit of the assessee or a minor, in his account or the account of a minor, as the case may be, as referred to in section 124(1), 124(3), 124(4) and para 1y of Schedule XV (for which deduction has been allowed together with the amount accrued thereon), received by the assessee or his nominee, in whole or in part, in any tax year,-

- (a) on closure of the account or
- (b) on his opting out of the said scheme or
- (c) as pension received from the annuity plan purchased or taken on such closure or opting out.

the whole of the amount so received shall be deemed to be the income of the individual or his nominee, in the tax year in which such amount is received, and shall accordingly be charged to tax as income of that tax year.

The amount received by the nominee on the death of the assessee under the circumstances referred to in (a) and (b) above, shall not be deemed to be the income of the nominee.

It is further provided that the amount received by a person, being the parent or guardian or nominee of a minor on account of closure of pension scheme, due to the death of minor, shall not be deemed to be the income of such person.

Further, the assessee shall not be deemed to have received any amount in the tax year, if such amount is used for purchasing an annuity plan in the same tax year.

- (vi) **Unified Pension Scheme:** The Unified Pension Scheme (UPS) has been introduced **as an option** under the National Pension System (NPS) by the Central Government for the Central Government employees covered under NPS so that they may receive an assured payout after their retirement.

It is a 'fund-based' payout system which relies on the regular and timely accumulation and investment of applicable contributions (from both the employee and the employer (the Central Government) for grant of monthly payout to the retiree.

Section 124(11) provides that any amount standing to the credit of the assessee, being a subscriber to the UPS, in his account referred to in section 124(1) or 124(3) and Para 1(y) of Schedule XV (for which deduction has been allowed together with the amount accrued thereon), received by the assessee or his nominee, in whole or in part, in any tax year on account of his superannuation or voluntary retirement or retirement under Fundamental Rules 56(j) (not treated as penalty), the whole of the amount shall be deemed to be the income of the assessee or his nominee, as the case may be, in the tax year in which such amount is received, and shall accordingly be charged to tax as income of that tax year.

However, the assessee shall be deemed not to have received any amount in the tax year if such amount is transferred to the pool corpus from individual corpus on account of his superannuation, voluntary retirement or retirement under Fundamental Rules 56(j) (not treated as penalty) [Section 124(12)].

(vii) Exemptions: In computing the total income of a person for a tax year, the following incomes shall not be included, subject to the satisfaction of the conditions specified.

Schedule with S. No.	Income not to be included in total income	Eligible persons	Conditions
Schedule II (Table S. No. 6)	Any payment from NPS Trust	Any assessee	(a) such payment is on closure of account of the assessee or on his opting out of the pension scheme and (b) the said payment does not exceed 60% of the total amount payable at the time of such closure or his opting out of the scheme
Schedule II (Table S. No. 15)	Any payment from NPS Trust received by an assessee, who is a subscriber to the Unified Pension Scheme	Any assessee, who is a subscriber to the Unified Pension Scheme	(a) such payment received at the time of his superannuation or voluntary retirement or retirement under rule 56(j) of the Fundamental Rules (not treated as penalty) and (b) the said payment does not exceed

			60% of the total individual corpus.
Schedule II (Table S. No. 16)	Any sum received as "lump sum amount" from NPS Trust by an assessee, being a subscriber to the Unified Pension Scheme	Any assessee, who is a subscriber to the Unified Pension Scheme	The said "lump sum amount" is as per clause (vi) of paragraph 2 of the notification number FX-1/3/2024-PR, dated 24th January, 2025, of the Department of Financial Services.
Schedule III (Table: S. No. 4)	Any payment from NPS Trust under the pension scheme	(i) An employee or (ii) an assessee, being the guardian or parent of a minor.	(a) Such payment is on partial withdrawal made out of his account or the account of the minor, as the case may be, as per the terms and conditions specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made thereunder; and (b) exclusion shall not exceed 25% of the amount of contributions made by him.



3.	Ms. Kavya invested ₹ 1,50,000 in PPF and paid insurance premium of ₹ 30,000 for a policy issued on 1.5.2020 with actual capital sum assured of ₹ 2,50,000. What would be the deduction allowable under section 123 to her if she has shifted out of the default tax regime?
(a)	₹ 1,75,000
(b)	₹ 1,80,000
(c)	₹ 1,50,000
(d)	₹ 1,55,000
4.	Mr. Rahul repaid housing loan principal of ₹ 1,40,000 and incurred ₹ 45,000 towards renovation of the house after obtaining completion certificate. What amount qualifies for deduction under section 123 under optional tax regime?
(a)	₹ 1,85,000
(b)	₹ 45,000
(c)	₹ 1,40,000
(d)	Nil
5.	Mr. Aryan claimed deduction under section 123 in respect of repayment of housing loan. He sold the house property within 3 years from the end of the tax year in which possession was obtained. Which of the following is correct?
(a)	Earlier deduction remains unaffected
(b)	Earlier deduction allowed shall become taxable
(c)	Only 50% of deduction becomes taxable
(d)	Deduction will be withdrawn prospectively only

6.	<i>Mr. Raj received employer's contribution of 13% of salary towards NPS from a private company. He pays tax under the default tax regime under section 202(1). What deduction would be allowable to him under section 124(1)?</i>	
	(a)	Nil
	(b)	10% of salary
	(c)	13% of salary
	(d)	14% of salary

ILLUSTRATION 5

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme notified by the Central Government. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime.

What would be your answer if Mr. A pays tax under the default tax regime under section 202(1)?

SOLUTION

(i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme, where Mr. A has exercised the option of shifting out of the default tax regime [i.e., where Mr. A pays tax under the normal provisions of the Act]

- Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 16(k). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.
- Mr. A's contribution to pension scheme is allowable as deduction under section 123 read with Schedule XV para 1(y). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, deduction under section 123 read with Schedule XV para 1(y) for Mr. Arjun would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 123	14,40,000
Deduction under section 123 read with Schedule XV para 1(y) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 124(3), a further deduction of up to ₹ 50,000 is allowable. Therefore, deduction under section 124(3) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

In the alternative, ₹ 50,000 can be claimed as deduction under section 124(3). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 123 read with Schedule XV para 1(y).

- (c) Employer's contribution to pension scheme would be allowable as deduction under section 124(1), subject to a maximum of 10% of salary. Therefore, deduction under section 124(1), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 16(k).

(ii) Where Mr. A pays tax under the default tax regime under section 202(1)

Mr. A would not be eligible for deduction under section 123 read with Schedule XV para 1(y)/124(3) in respect of his contribution to pension scheme under the default tax regime under section 202(1). However, he would be allowed deduction of upto ₹ 2,01,600, being 14% of salary [₹ 14,40,000, computed in (i) above] under section 124(1)/(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contributions of ₹ 1,80,000 would be allowed as deduction under section 124(1)/(2).

ILLUSTRATION 6

The gross total income of Mr. X for the T.Y.2026-27 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2026-27 –

Particulars		₹
(1)	Contribution to PPF	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under section 123 for the T.Y.2026-27 if Mr. X exercises the option of shifting out of the default tax regime.

SOLUTION

Computation of deduction under Chapter VIII for the T.Y.2026-27

Particulars	₹
Deduction under section 123	
- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
- Contribution to approved pension fund of LIC	1,05,000
	2,85,000
As per section 123, the aggregate deduction has to be restricted to ₹ 1,50,000	1,50,000

(3) Deduction in respect of contribution to Agnipath Scheme [Section 125]

- (i) **Meaning of Agnipath Scheme:** Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces.
- (ii) **Meaning of Agniveer Corpus Fund:** The Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.

(iii) Features of the Agnipath Scheme: Each Agniveer is to contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. Further, the Government will also contribute a matching amount to the 'Agniveer Corpus Fund'. The Government will also pay the subscriber interest as approved from time to time on the contributions standing in his account.

(iv) Quantum of deduction:

- (a) Section 125(1) provides a deduction for the amount paid or deposited by an assessee, being an individual who has enrolled in the Agnipath Scheme and subscribes to the Agniveer Corpus Fund on or after 1.11.2022, in his account in the Agniveer Corpus Fund.



Deduction u/s 125(1) would be available to an individual only if he has exercised the option of shifting out of the default tax regime.

- (b) Under section 125(2), the whole amount of contribution made by the Central Government to the said account of an assessee in the Agniveer Corpus Fund, is allowed as a deduction in computation of the total income of the assessee.
- (e) The entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee. However, deduction under section 125(2) would be available for the same.



Deduction u/s 125(2) would be available to an individual irrespective of the regime under which he pays tax

Exemption on payment from Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee [Schedule II (Table: S. No. 7)]

Any payment from the Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee would be exempt from tax.

(4) Deduction in respect of health insurance premium [Section 126] [Available only if the individual/HUF exercises the option of shifting out of the default tax regime]

(i) **Eligible assessee:** Section 126 provides a deduction out of income chargeable to tax in the tax year to an assessee, being an individual or a HUF for payment of health insurance premium.

(ii) **Quantum of deduction in case of an Individual**

(a) **Deduction in respect of insurance premium paid for self and family:**

A deduction up to ₹ 25,000 in aggregate is allowed in respect of the following payments –

- (1) whole of the amount paid to effect or keep in force insurance on the health of self, spouse and dependant children or
- (2) any contribution made to the Central Government Health Scheme or such other health scheme as may be notified by the Central Government Health Scheme or such other scheme notified by the Central Government or
- (3) payment made for preventive health check up of self, spouse or dependant children

(b) **Deduction in respect of medical expenditure incurred on health of self, spouse or dependant children –** A deduction up to ₹ 50,000 on account of medical expenditure incurred on the health of self, spouse or dependant children.

The aggregate of sum referred to in (a) and (b) above shall not exceed ₹ 50,000.

(c) **Deduction in respect of insurance premium paid for parents:** A deduction up to ₹ 25,000 in aggregate is allowed in respect of the following payments –

- (1) whole of the amount paid to effect or keep in force the health insurance for parent or parents of the assessee or
- (2) any payment made for preventive health check-up of parent or parents of the assessee.

- (d) **Deduction in respect of medical expenditure incurred on health of parent of assessee** – A deduction up to ₹ 50,000 on account of medical expenditure incurred on the health of any parent of the assessee.

The aggregate of sum referred to in (c) and (d) above shall not exceed ₹ 50,000.

Deduction for medical expenditure shall be allowed to an individual, if such amount is incurred on health of self, spouse or dependant children or parent who are senior citizen and no amount has been paid for the health insurance of such person.

The payment made on account of preventive health check-up of self, spouse, dependant children or parents made during the tax year shall be allowed up to ₹ 5,000 in aggregate.



Quantum of deduction in case of senior citizen: An increased deduction in (a) and (c) above shall be **₹ 50,000** (instead of ₹ 25,000) in case any of the persons mentioned above is a **senior citizen**

(iii) Quantum of deduction in case of a HUF

- (a) Deduction under section 126 is allowed to a HUF up to ₹ 25,000 in aggregate in respect of the whole of the amount paid to effect or keep in force an insurance on the health of any member of such HUF.
- (b) A deduction up to ₹ 50,000 in aggregate is allowed to HUF of the whole of the amount paid on account of medical expenditure incurred on the health of any member of such HUF.

Deduction for medical expenditure shall be allowed, if incurred on the health of a senior citizen and no amount has been paid for the health insurance of such person.

The aggregate of sum allowed to HUF shall not exceed ₹ 50,000.



Quantum of deduction in case of senior citizen: An increased deduction in (a) above shall be **₹ 50,000** (instead of ₹ 25,000) in case any of the person mentioned above is a **senior citizen**

(iv) Deduction where premium for health insurance is paid in lump sum [Section 126(8)(b)]

Where the sum is paid to effect or keep in force the health insurance and such sum is paid in lump sum in the tax year for more than a year, a deduction shall be allowed for each of the relevant tax year equal to the appropriate fraction of such amount.

Meaning of certain terms

Term	Meaning
Appropriate fraction	$1 \div \text{Total number of relevant tax years}$
Relevant tax year	The tax year beginning with the tax year in which such lump sum amount is paid and the subsequent tax year(s) during which the insurance would be in force.

(v) Mode of payment: For claiming such deduction under section 126, the payment can be made by any mode:

- (1) including cash, in respect of any sum paid on account of preventive health check-up; or
- (2) other than cash in all other cases.

(vi) Other conditions

The health insurance should be as per the scheme made in this behalf by -

- (a) the General Insurance Corporation of India and approved by the Central Government in this behalf; or
- (b) any other insurer and approved by the Insurance Regulatory and Development Authority.

Summary

The following table summarizes the provisions of section 126 –

S. No.	Nature of payment/ expenditure	Expenditure on behalf of		Deduction
I	(i) Any premium paid, otherwise than by way of cash, to keep in force an	In case of individual	Self, spouse and dependent children	₹ 25,000

	insurance on the health (ii) Contribution to Central Government Health Scheme (CGHS) (iii) Preventive health check up expenditure	In case of HUF	Family member	
		In case any of the above persons is senior citizen		₹ 50,000
III	Amount paid on account of medical expenditure	For senior citizen, being self/spouse/ dependent children or in case of HUF, any member of HUF who is not covered under health insurance		₹ 50,000

Note: The aggregate of deduction to an individual or HUF, in respect of payment of premium, contribution to CGHS, preventive health check up and medical expenditure incurred, as specified in (I) & (II) above, cannot exceed **₹ 50,000**.

III	(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health (ii) Preventive health check up	Parents		₹ 25,000
		In case either or both the parents is senior citizen		₹ 50,000
IV	Amount paid on account of medical expenditure	Senior citizen parents who is not covered under health insurance		₹ 50,000

Note: The aggregate of deduction to an individual or HUF, in respect of payment of premium, preventive health check-up and medical expenditure incurred, as specified in (III) & (IV) above, cannot exceed **₹ 50,000**.

Maximum ₹ 5,000 allowed as deduction for aggregate of preventive health check-up expenditure, by any mode including cash, mentioned in I and II (Subject to overall limit of ₹ 25,000 or ₹ 50,000, as the case may be)



7.	<i>Ms. Pooja, aged 38 years, paid ₹ 28,000 as health insurance premium for her mother aged 66 years and incurred ₹ 18,000 on medical expenditure for her father aged 70 years, who was not covered under any health insurance policy.</i> <i>What is the amount of deduction allowable to her under section 126 under optional tax regime?</i>
(a)	₹ 28,000
(b)	₹ 18,000
(c)	₹ 46,000
(d)	₹ 50,000
8.	<i>Mr. A paid ₹ 60,000 in lump sum on 12.8.2026 for a 3-year health insurance policy covering himself. How much deduction is allowable to him under section 126 for the Tax Year 2026-27 under optional tax regime?</i>
(a)	₹ 60,000
(b)	₹ 20,000
(c)	₹ 15,000
(d)	No deduction allowed for lump sum payment

ILLUSTRATION 7

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the T.Y. 2026-27 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 126 for the T.Y. 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime.

SOLUTION

Deduction allowable under section 126 for the T.Y.2026-27

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 126 (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

ILLUSTRATION 8

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the T.Y. 2026-27 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 126 for the T.Y. 2026-27 if Mr. Y has exercised the option of shifting out of the default tax regime.

SOLUTION**Deduction allowable under section 126 for the T.Y.2026-27**

Particulars	₹	₹
(i) Medical insurance premium paid for self, spouse and dependent children	22,000	25,000
(ii) Contribution to CGHS	6,000	
restricted to	28,000	
(iii) Mediclaim premium paid for mother, who is over 60 years of age	33,000	
(iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	50,000
restricted to	53,000	
		75,000

(5) Deduction in respect of maintenance including medical treatment of a dependant disabled [Section 127] [Available only if the individual/HUF exercises the option of shifting out of the default tax regime]

- (i) **Eligible assessee:** Section 127 provides deduction to an assessee, who is a resident in India, **being an individual or Hindu undivided family.**

(ii) Payment qualifying for deduction:

(a) Any amount –

- incurred for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability, or
- paid or deposited under a scheme framed by the Life Insurance Corporation or any other insurer or the Administrator or the Specified Company, for the maintenance of a dependant, being a person with disability

qualifies for deduction.

(b) The benefit of deduction under this section is also available to assessee incurring expenditure on maintenance including medical treatment of persons suffering from autism, cerebral palsy, Mental Retardation and multiple disabilities.

(iii) Quantum of deduction: The quantum of deduction of up to ₹ 75,000 and in case of severe disability (i.e., person with 80% or more disability) the deduction shall be up to ₹ 1,25,000⁶.

(iv) Conditions:

- (a) The scheme should provide for payment of annuity or a lump sum amount for the benefit of a dependant, being a person with disability,
- I on the death of the individual or member of the HUF, in whose name scheme was subscribed; or
 - II on attaining the age of 60 years or more by such individual or the member of the HUF, and the payment or deposit to such scheme has been discontinued

and the assessee must nominate the dependant, being a person with disability or any other person or a trust to receive the payments on behalf of and for the benefit of such dependant.

⁶ Section 80DD of the Income-tax Act, 1961 provides for a flat deduction of ₹ 75,000 or ₹ 1,25,000, as the case may be. However, as per plain reading of section 127 of the Income-tax Act, 2025, it provides for a deduction of up to ₹ 75,000 or ₹ 1,25,000, as the case may be.

- (b) The assessee claiming deduction under this section have to furnish a copy of the medical certificate issued by the medical authority in prescribed form and manner, along with the return of income under section 263 for the tax year in which the deduction is claimed.
- (c) If the certificate specifies that the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.
- (v) **Deemed income:** In the event of death of the dependent, being a person with disability, before the individual or the member of HUF, in whose name the scheme was subscribed, the amount paid or deposited under the said scheme would be deemed to be the income of the assessee of the tax year in which it is received by him and shall accordingly be chargeable to tax.

However, such deeming provisions would not apply to the amount received by the dependant, being a person with disability, before his death, as an annuity or lump sum by application of the condition referred to in II of (a) above i.e., when the individual or member of HUF attains the age of 60 years or more, and the payment or deposit to such scheme has been discontinued.

(vi) **Meaning of “Dependent”:**

	Assessee	Dependant
(1)	Individual	the spouse, children, parents, brothers or sisters of the individual or any of them dependant wholly or mainly on such individual for his support and maintenance and shall not include a person who has claimed deduction under section 154 in the computing his total income for the tax year.
(2)	HUF	a member of the HUF dependant wholly or mainly on such individual for his support and maintenance and shall not include a person who has claimed deduction under section 154 in the computing his total income for the tax year.

ILLUSTRATION 9

Mr. X is a resident individual. He deposits a sum of ₹ 1,50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly

dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 127 for the T.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime.

SOLUTION

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 127. The deduction is available if the individual assessee incurs any expense for a "dependant" disabled person. Grandfather does not come within the meaning of "dependant" as defined under section 127.

ILLUSTRATION 10

What will be the deduction if Mr. X had made this deposit for his dependant father?

SOLUTION

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 127. In case his father has severe disability, the deduction would be ₹ 1,25,000.

(6) Deduction in respect of medical treatment etc. [Section 128] [Available only if the individual/HUF exercises the option of shifting out of the default tax regime]

- (i) **Eligible assessee:** This section provides deduction to an assessee, who is resident in India, being an individual or Hindu undivided family. The deduction is available to an individual for medical expenditure incurred on himself or a dependant. It is also available to a Hindu undivided family (HUF) for such expenditure incurred on any of its members.
- (ii) **Meaning of "Dependent":**

	Assessee	Dependent
(1)	Individual	the spouse, children, parents, brothers and sisters of the individual or any of them dependant wholly or mainly on such individual for his support and maintenance.
(2)	HUF	a member of the HUF dependant wholly or mainly on such HUF for his support and maintenance.

(iii) **Payment qualifying for deduction:** Any amount actually paid during the tax year for the medical treatment of such disease or ailment as may be prescribed for himself or a dependant, in case the assessee is an individual or for any member of a HUF, in case the assessee is a HUF will qualify for deduction.

(iv) **Quantum of deduction:** The amount of deduction under this section shall be equal to the amount actually paid or ₹ 40,000, whichever is less, in respect of that tax year in which such amount was actually paid.

In case the amount is paid in respect of a senior citizen, then the deduction would be the amount actually paid or ₹ 1,00,000, whichever is less.

The deduction under this section shall be reduced by any amount received under an insurance from an insurer, or reimbursed by an employer, for the medical treatment of the assessee or the dependant or any member of HUF.

(v) **Maximum deduction:** The maximum limit of deduction under section 128 for the various categories of assessee/ dependant in whose respect the payment is made are summarized hereunder:

	Assessee/ Dependant	Maximum limit (₹)
(1)	A senior citizen	1,00,000
(2)	Other than a senior citizen	40,000

(vi) **Condition:** A deduction shall be allowed only if the assessee obtains the prescription for the medical treatment from a neurologist, an oncologist, a urologist, a hematologist, an immunologist or any other specialist, as may be prescribed.

(7) Deduction in respect of interest loan taken for higher education [Section 129] [Available only if the individual exercises the option of shifting out of the default tax regime]

(i) **Eligible assessee:** Section 129 provides deduction to an individual assessee in respect of any interest paid by him during the tax year on loan taken by him from any financial institution or approved charitable institution.

- (ii) **Conditions:** The loan must have been taken for the purpose of pursuing higher education of himself or his/her relative. The actual payment of interest must be out of his income chargeable to tax.



- (iii) **Period of deduction:** The deduction is allowed in computing the total income in respect of the initial tax year (the tax year in which the assessee starts paying the interest on the loan) and seven tax years immediately succeeding the initial tax year or until the interest is paid in full by the assessee, whichever is earlier.

- (iv) **Meaning of certain terms:**

	Term	Meaning
(a)	Relative	Spouse and children of the individual or the student for whom the individual is the legal guardian
(b)	Higher education	It means any course of study pursued after passing the Senior Secondary Examination or its equivalent from a school, board or University recognised by the Central Government or State Government or local authority or by any other authority authorized by the Central Government or State Government or local authority to do so. Therefore, interest on loan taken for pursuing any course after Class XII or its equivalent, will qualify for deduction under section 129. Even education abroad is eligible for deduction but it must be a recognized course.
(c)	Approved charitable institution	It means an institution means a registered non-profit organisation where it was approved earlier under the provisions of section 10(23C) of the Income-tax Act, 1961, or an institution referred to in section 80G(2)(a) of the Income-tax Act, 2025;
(d)	Financial institution	It means – (a) a banking company to which the Banking Regulation Act, 1949 applies (including a bank or banking institution referred to in section 51 of the Act); or (b) any other financial institution which the Central Government may, by notification, specify.

ILLUSTRATION 11

Mr. B has taken three education loans on April 1, 2026, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible under section 129 for the T.Y.2026-27 if Mr. B has exercised the option of shifting out of the default tax regime under section 202(1).

SOLUTION

Deduction under section 129 is available to an individual assessee exercising the option of shifting out of the default tax regime, in respect of any interest paid by him in the tax year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

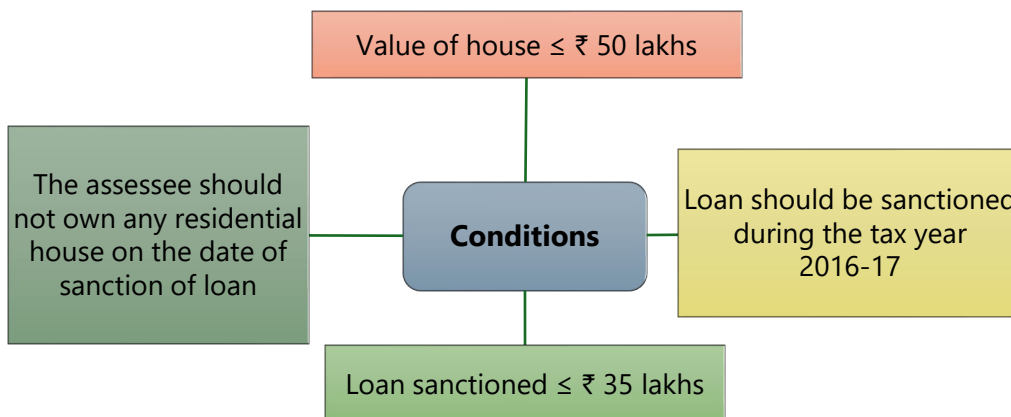
Deduction under section 129 = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

(8) Deduction for interest on loan borrowed for acquisition of residential house property by an individual [Section 130] [Available only if the individual exercises the option of shifting out of the default tax regime]

- (i) **Eligible assessee:** An individual who has taken a loan from any financial institution for purpose of acquisition of a residential house property. Interest payable on such loan would qualify for deduction under this section. It is deductible even if it is not actually paid.



- (ii) **Conditions:** The conditions to be satisfied for availing this deduction are as follows –



- (iii) **Period of benefit:** The benefit of deduction under this section would be available till the repayment of loan continues.
- (iv) **Quantum of deduction:** The maximum deduction allowable is ₹ 50,000. The deduction of up to ₹ 50,000 under section 130 is over and above the deduction of up to ₹ 2,00,000 available under section 22 for interest paid in respect of loan borrowed for acquisition of a self-occupied property.
- (v) **No deduction under any other provision:** The interest allowed as deduction under section 130 will not be allowed as deduction under any other provision of the Act for the same or any other tax year.
- (vi) **Meaning of certain terms:**

	Term	Meaning
(a)	Financial institution	♦ A banking company to which the Banking Regulation Act, 1949 applies; or ♦ Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or ♦ A housing finance company.
(b)	Housing finance company	A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

ILLUSTRATION 12

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for tax year 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime, assuming that the entire loan was outstanding as on 31.3.2027 and he does not own any other house property.

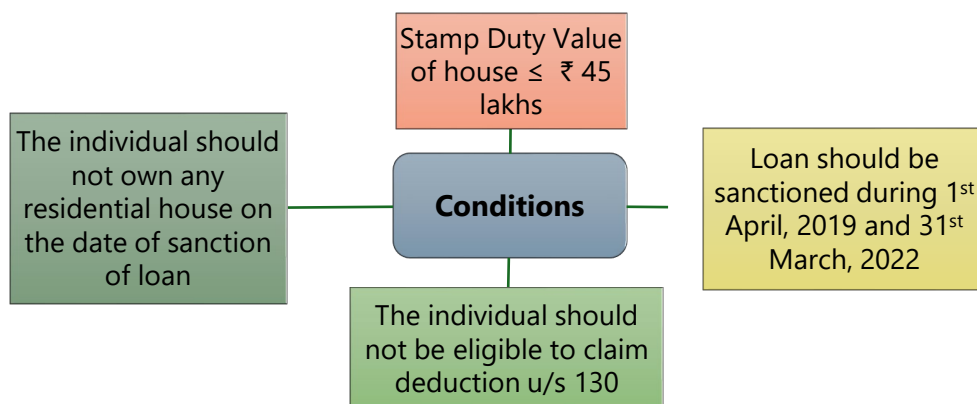
SOLUTION

Particulars	₹
Interest deduction for T.Y.2026-27	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction under section 22	
₹ 3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VIII from Gross Total Income	
Deduction under section 130 ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000)	
Restricted to	50,000

(9) Deduction in respect of interest payable on loan taken for acquisition of residential house property [Section 131] [Available only if the individual exercises the option of shifting out of the default tax regime]

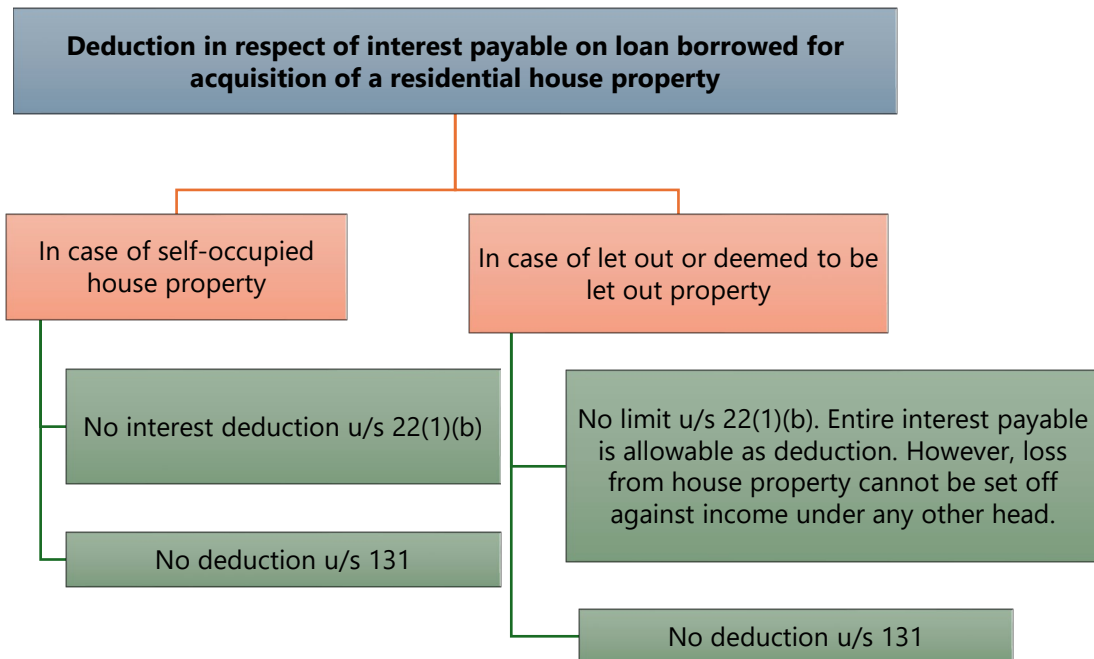
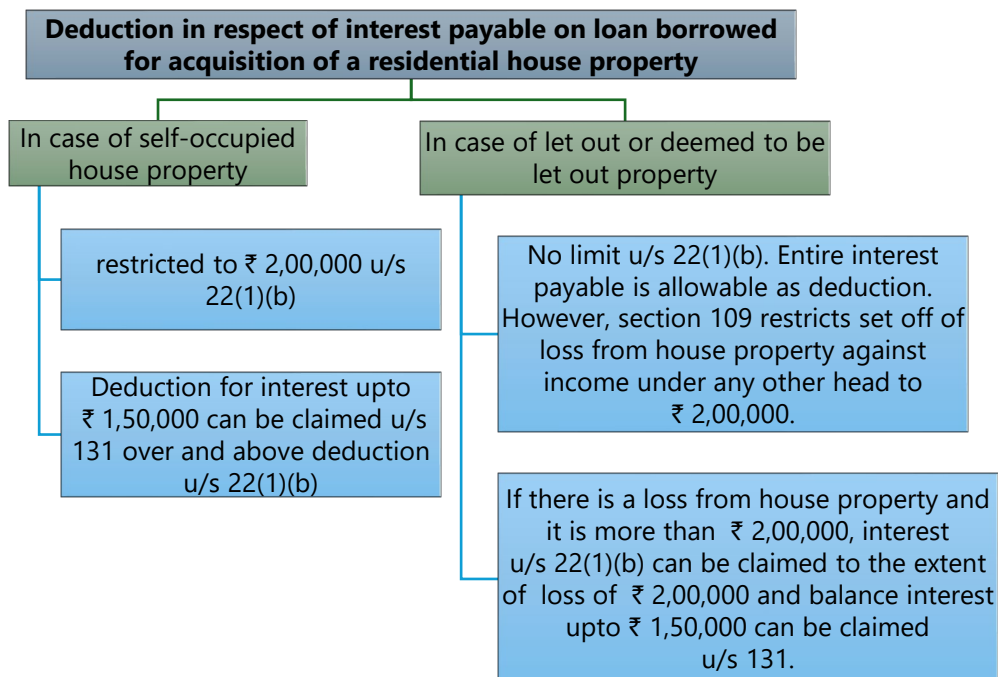
- (i) Eligible assessee:** An individual who has taken a loan from any financial institution for the purpose of acquisition of residential house property. Interest payable on such loan would qualify for deduction under this section.

- (ii) **Conditions:** The conditions to be satisfied for availing this deduction are as follows –



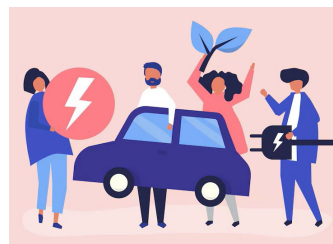
- (iii) **Period of benefit:** The benefit of deduction under this section would be available till the loan continues. It is with reference to interest payable for each tax year and on not actual payment basis.
- (iv) **Quantum of deduction:** The maximum deduction allowable is ₹ 1,50,000 in a tax year. The deduction of up to ₹ 1,50,000 under section 131 is over and above the deduction available under section 22 in respect of interest payable on loan borrowed for acquisition of a residential house property.
- (v) **No deduction under any other provision:** The interest allowed as deduction under section 131 will not be allowed as deduction under any other provision of the Act for the same or any other tax year.
- (vi) **Meaning of certain terms:**

	Term	Meaning
(a)	Financial institution	♦ A banking company to which the Banking Regulation Act, 1949 applies; or ♦ Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or ♦ A housing finance company.
(b)	Housing finance company	A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

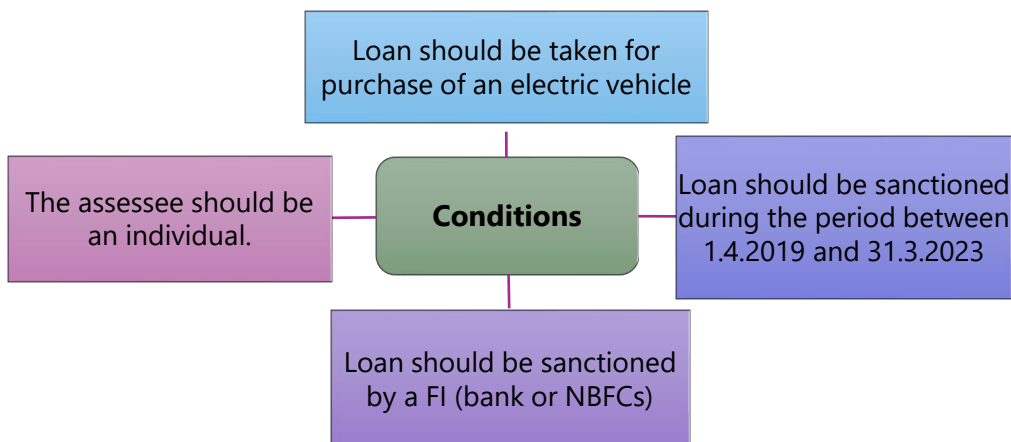
In case the assessee pays tax under default tax regime under section 202(1)**In case the assessee has exercised the option of shifting out of the default tax regime**

(10) Deduction in respect of interest payable on loan taken for purchase of electric vehicle [Section 132] [Available only if the individual exercises the option of shifting out of the default tax regime]

- (i) **Eligible Assessee:** An individual who has taken a loan by him from any financial institution for the purchase of an electric vehicle. Interest payable on such loan would qualify for deduction under this section.



- (ii) **Conditions:** The conditions to be satisfied for availing this deduction are as follows –



- (iii) **Period of benefit:** The benefit of deduction under this section would be available for interest payable for each tax year till the loan is repaid.
- (iv) **Quantum of deduction:** Interest payable, subject to a maximum of ₹ 1,50,000.
- (v) **No deduction under any other provision:** The interest allowed as deduction u/s 132 will not be allowed as deduction under any other provision of the Act for the same or any other tax year.

(vi) Meaning of certain terms:

	Term	Meaning
(a)	Financial institution	• A banking company to which the Banking Regulation Act, 1949 applies; or • Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or • Any NBFC
(b)	Electric Vehicle	A vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle. The vehicle should have electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy.

ILLUSTRATION 13

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for T.Y. 2026-27 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value	₹ 45 lakhs	₹ 48 lakhs	-	-

of house property				
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 2025 for T.Y.2026-27 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime. Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2027.

SOLUTION

Particulars	₹
Mr. A	
Interest deduction for T.Y.2026-27	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 22(1)(b)	
₹ 3,87,000 [$₹ 43,00,000 \times 9\%$]	
Restricted to	2,00,000
(ii) Deduction under Chapter VIII from Gross Total Income	
Deduction u/s 131	
₹ 1,87,000 ($₹ 3,87,000 - ₹ 2,00,000$)	1,50,000
Restricted to	
Mr. B	
Interest deduction for T.Y.2026-27	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 22(1)(b)	
₹ 4,05,000 [$₹ 45,00,000 \times 9\%$]	
Restricted to	2,00,000
(ii) Deduction under Chapter VIII from Gross Total Income	
Deduction u/s 131 is not permissible since:	Nil
(i) loan is taken from NBFC and not a housing finance company.	

(ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 131 would not be permissible due to either violation listed above. Mr. C Deduction under Chapter VIII from Gross Total Income Deduction u/s 132 for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs x 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction] Mr. D Deduction under Chapter VIII from Gross Total Income Deduction u/s 132 is not permissible since loan was sanctioned before 1.4.2019.	1,50,000 Nil
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(11) Deduction in respect of donations to certain funds, charitable institutions etc. [Section 133]

- (i) **Eligible assessee:** Where an assessee pays any sum as donation to eligible funds or institutions, he is entitled to a deduction, subject to certain limitations, from the gross total income.

In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction u/s 133 would be available only if they have exercised the option of shifting out of the default tax regime. It would not be available if they pay concessional rates of tax under the default tax regime u/s 202(1).

In case of companies and co-operative societies, deduction would not be available if they opt for the special provisions contained in section 200/201 and section 203/204, respectively. In other words, deduction would be available only if they pay tax under the normal provisions of the Act.

- (ii) **Quantum of deduction:** There are four categories of deductions. The following table gives the details of the institutions and funds to which donations can be made for the purpose of claiming deduction under section 133, –

I	Whole of the aggregate of sum paid in the tax year allowed as deduction
(1)	The National Defence Fund set up by the Central Government
(2)	Prime Minister's National Relief Fund

(3)	Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND)
(4)	Prime Minister's Armenia Earthquake Relief Fund
(5)	The Africa (Public Contributions-India) Fund
(6)	The National Children's Fund
(7)	The National Foundation for Communal Harmony
(8)	Approved University or educational institution of national eminence
(9)	Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat
(10)	Any <i>Zila Saksharta Samiti</i> for improving primary education in villages and towns and for literacy and post-literacy activities
(11)	National Blood Transfusion Council or any State Blood Transfusion Council which has its sole object the control, supervision, regulation or encouragement in India of the services related to operation and requirements of blood banks
(12)	Any fund set up by a State Government to provide medical relief to the poor
(13)	The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of the past and present members of such forces or their dependants
(14)	The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
(15)	The National Illness Assistance Fund
(16)	The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund
(17)	The National Sports Development Fund set up by the Central Government
(18)	The National Cultural Fund set up by the Central Government
(19)	The Fund for Technology Development and Application set up by the Central Government
(20)	National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
(21)	The Swachh Bharat Kosh, set up by the Central Government, other than the sum spent by the assessee in pursuance of CSR u/s 135(5) of the Companies Act, 2013
(22)	The Clean Ganga Fund, set up by the Central Government, where such assessee is a resident and such sum is other than the sum spent

	by the assessee in pursuance of CSR u/s 135(5) of the Companies Act, 2013
(23)	The National Fund for Control of Drug Abuse constituted under section 7A of the Narcotic Drugs and Psychotropic Substances Act, 1985
II	Whole of the aggregate of sum paid in the tax year allowed as deduction, subject to qualifying limit
(1)	The Government or to any approved local authority, institution or association as may be approved to be utilized for the purpose of promoting family planning
(2)	Sum paid by a company as donation to the Indian Olympic Association or any other association/institution established in India, as may be notified by the Government established – ♦ for the development of infrastructure for sports or games in India, or ♦ the sponsorship of sports and games in India
III	Amount of 50% of aggregate of sum paid in the tax year
(1)	Prime Minister's Drought Relief Fund
IV	Amount of 50% of aggregate of sum paid in the tax year, subject to qualifying limit
(1)	Any fund or any Institution which is established in India for a charitable purpose and is a registered non-profit organization or an institution or fund mentioned in Schedule VII (Table S. No. 1) and approved under section 354.
(2)	The Government or any local authority, to be utilised for any charitable purpose other than the purpose of promoting family planning.
(3)	An 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 ♦ of planning, development or improvement of cities, towns and villages, or for both.
(4)	A Corporation established by the Central Government or any State Government for promoting the interests of the members of such minority community as notified by Central Govt.

(5)	Any entity, for the renovation or repair of any temple, mosque, gurdwara, church or other place which is notified by the Central Government to be of historic, archaeological or artistic importance or to be a place of public worship of renown throughout any State or States.
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- (iii) **Qualifying limit:** The eligible donations referred to in II and IV should be aggregated and the sum total should be limited to 10% of the adjusted gross total income. This would be the maximum permissible deduction.

The donations qualifying for 100% deduction would be first adjusted from the maximum permissible deduction and thereafter 50% deduction of the balance would be allowed.

Steps for computation of qualifying limit

Step 1:	Compute adjusted total income i.e., the GTI as reduced by the following: (i) Deductions under Chapter VIII, except under section 133 (ii) Short-term capital gain taxable under section 196 (iii) Long-term capital gains taxable under sections 197 & 198 (iv) Any income on which income-tax is not payable
Step 2:	Calculate 10% of adjusted total income
Step 3:	Calculate the actual donation, which is subject to qualifying limit (Total of Category II and IV donations, shown in the table above)
Step 4:	Lower of Step 2 or Step 3 is the maximum permissible deduction.
Step 5:	The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., Category II donations). Thereafter, 50% of balance qualifies for deduction under section 133.

- (iv) **Conditions:** Any claim of deduction by the assessee in the return of income for any tax year filed for any tax year in case of a donation made to an institution or fund is allowed

- only on the basis of information relating to such donation furnished by such institution or fund to the prescribed authority or person authorised by such authority

- subject to verification as per the risk management strategy formulated by the Board from time to time.

(v) Other points:

- (1) Where an assessee has claimed and allowed any deduction under this section for any tax year in respect of any amount of donation, the same amount will not qualify for deduction under any other provision of the Act for the same or any other tax year [Section 133(3)].
- (2) Deduction for donations is allowed only for donations made as a sum of money.
- (3) Any deduction for a donation over ₹ 2,000 shall be allowed only if the payment is made by a mode other than cash [Section 133(5)].
- (4) The deduction under section 133 can be claimed whether it has any nexus with the business of the assessee or not.
- (5) As per *Circular No.2/2005 dated 12.1.2005*, 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 certificate 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 133. It is, hereby, clarified that the claim in respect of such donations as indicated above will be admissible under section 133 on the basis of the certificate issued by the Drawing and Disbursing Officer (DDO)/ Employer in this behalf.
- (6) Charitable purpose does not include any purpose the whole or substantially the whole of which is of a religious nature.
- (7) An association or institution having as its object the control, supervision, regulation or encouragement in India of such games or sports as may be notified by the Central Government, shall be deemed to be an institution established in India for a charitable purpose.

ILLUSTRATION 14

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2019) (Assured value ₹ 1,80,000) – ₹ 20,000.
- (ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- (iii) Donation to a public charitable institution, a registered NPO - ₹ 50,000 by way of cheque.
- (iv) LIC Pension Fund – ₹ 60,000.
- (v) Donation to National Children's Fund - ₹ 25,000 by way of cheque
- (vi) Donation to PM CARES Fund - ₹ 25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- (viii) Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for T.Y. 2026-27 if he exercises the option of shifting out of the default tax regime.

SOLUTION**Computation of Total Income of Mr. Shiva for T.Y. 2026-27**

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 123		
Deposit in PPF	1,00,000	
LIC pension fund	60,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value of ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,78,000	
As per section 123, deduction is restricted to		1,50,000

Deduction under section 126		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 133 (See Working Note below)		1,00,000
Total income		5,00,000

Working Note: Computation of deduction under section 133

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 133 (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	PM Cares Fund	25,000	100%	25,000
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
				1,00,000

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 123 to 154 except section 133 i.e., ₹ 6,00,000, in this case.

₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to ₹ 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 133. Therefore, the deduction under section 133 in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

(12) Deduction in respect of rent paid [Section 134] [Available only if the individual/HUF exercises the option of shifting out of the default tax regime]

- (i) **Eligible assessee:** Assessee, who is not in receipt of HRA qualifying for exemption under Schedule III (Sl. No. 11) from employer and who pays rent for accommodation (whether furnished or unfurnished) occupied by him for the purposes of his own residence.
- (ii) **Conditions:** The following conditions have to be satisfied for claiming deduction under section 134 -
- (1) The assessee should not receive any income falling in Schedule III (Sl. No. 11) i.e., house rent allowance.
 - (2) The accommodation should be occupied by the assessee for the purposes of his own residence.
 - (3) The assessee should fulfill such other conditions or limitations as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations.
 - (4) The assessee or his spouse or his minor child or an HUF of which he is a member should not own any residential accommodation at the place where he ordinarily resides or performs duties of his office or employment or carries on his business or profession; or
 - (5) If the assessee owns any residential accommodation at any other place, such accommodation should not be in the occupation of the assessee and its annual value is not required to be determined under section 21(6) or section 21(7)(a).
- (iii) **Quantum of deduction:** The deduction admissible will be the least of the following:
- (1) Actual rent paid *minus* 10% of the total income of the assessee before allowing the deduction, or
 - (2) 25% of such total income (arrived at after making all deductions under Chapter VIII but before making any deduction under this section), or
 - (3) Amount calculated at ₹ 5,000 p.m.

ILLUSTRATION 15

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 134) for T.Y.2026-27 is ₹4,60,000, paid house rent at ₹12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 134 for T.Y.2026-27 if he has exercised the option of shifting out of the default tax regime.

SOLUTION

The deduction under section 134 will be computed as follows:

- (i) Actual rent paid less 10% of total income

$$₹ 1,44,000 (-) \frac{(10 \times 4,60,000)}{100} = ₹ 98,000$$

- (ii) 25% of total income = $\frac{25 \times 4,60,000}{100} = ₹ 1,15,000$

- (iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000

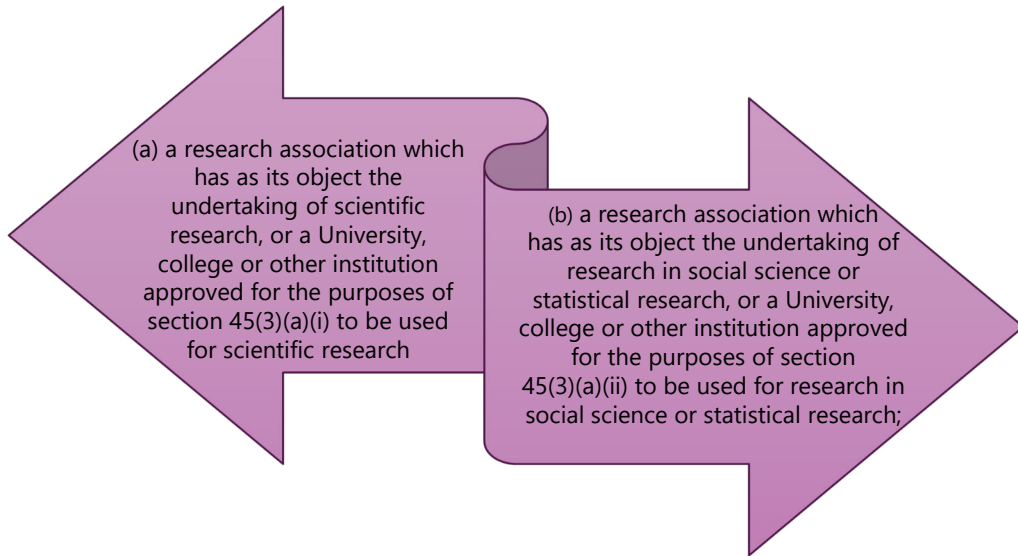
Deduction allowable u/s 134 [least of (i), (ii) and (iii)] = ₹ 60,000

(13) Deduction in respect of donations for scientific research [Section 135] [Available only if the individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person exercise the option of shifting out of the default tax regime]

- (i) **Eligible assessee:** Section 135 grants deduction in respect of the donations made for scientific research by any assessee not having income chargeable under the head "Profits and gains of business or profession".

- (ii) **Donations qualifying for deduction:**

In computing the total income of an assessee, there shall be deducted any sum paid by the assessee in the tax year to –



Further, the deduction under (a) and (b) above shall not be denied merely on the ground that subsequent to the payment of such sum by the assessee, the approval granted to any of the aforesaid entities has been withdrawn.

(iii) Restrictions on deduction:

- (1) No deduction under this section would be allowed in the case of an assessee whose gross total income includes income which is chargeable under the head "Profits and gains of business or profession".
- (2) Where a deduction under this section is claimed and allowed for any tax year, deduction shall not be allowed in respect of such payment under any provision of this Act for the same or any other tax year.
- (3) No deduction shall be allowed in respect of contribution made in cash exceeding **₹ 2,000**.
- (4) Deduction under this section claimed by the assessee in the return of income for any tax year would be allowable on the basis of the information relating to donation furnished by the payee to the prescribed income-tax authority or person specified by such authority, subject to verification as per the risk management strategy formulated by the CBDT from time to time.

(14) Deduction in respect of contributions given by companies to political parties [Section 136]

- (i) **Deduction & Conditions:** This section provides for deduction of the amount contributed during the tax year by an Indian company not opting for section 200/ 201 to any political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.
- (ii) **Meaning of “Contribute”:** For the purposes of this section, the word “contribute” has the same meaning assigned to it under section 182 of the Companies Act, 2013, which provides that -
- (a) a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to affect public support for a political party shall also be deemed to be contribution for a political purpose;
 - (b) the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.
- (iii) **Meaning of “Political party”:** It means a political party registered under section 29A of the Representation of the People Act, 1951.

ILLUSTRATION 16

During the T.Y. 2026-27, ABC Ltd., an Indian company,

- (1) *contributed a sum of ₹2 lakh to an electoral trust; and*
- (2) *incurred expenditure of ₹25,000 on advertisement in a brochure of a political party.*

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 200.

SOLUTION

An Indian company is eligible for deduction under section 136 in respect of any sum contributed by it during the tax year to any political party or an electoral trust. Further, the word “contribute” in section 136 has the meaning assigned to it in

section 182 of the Companies Act, 2013, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 136 in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 34(2)(c) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 136.

(15) Deduction in respect of contributions given by any person to political parties [Section 137]

- (i) **Deduction & Conditions:** This section provides for deduction of any amount contributed during the tax year by any person to a political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.
- (ii) **Persons not eligible for deduction:** This deduction will, however, not be available to a local authority and an artificial juridical person, wholly or partly funded by the Government.
- (iii) **Meaning of “Political party”:** It means a political party registered under section 29A of the Representation of the People Act, 1951.



An individual, HUF, AoP (other than a co-operative society) or BoI would be eligible for deduction u/s 137 only if they have exercised the option of shifting out of the default tax regime. A co-operative society will not be eligible for deduction if it opts for special provisions of section 203/204.



9.	Mr. Rohan made the following payments during T.Y. 2026-27:
1.	Contribution of ₹ 1,50,000 by cheque to an electoral trust; and
2.	Expenditure of ₹ 25,000 on advertisement in a brochure published by a political party.
	What deduction is allowable to him in respect of the above payments under optional tax regime?
(a)	Nil
(b)	₹ 1,75,000
(c)	₹ 1,50,000
(d)	₹ 25,000



4. DEDUCTIONS IN RESPECT OF CERTAIN INCOMES

(1) Special provisions in respect of units established in Special Economic Zones [Section 144]

Section 144 provides that where the assessee is eligible to claim deduction from profits and gains derived from business referred to in section 10AA of Income-tax Act, 1961, he shall be allowed deduction under this section provided the deduction is calculated as per provisions of section 10AA of Income-tax Act, 1961 and deduction would be allowed only for such tax years as would have been allowed under section 10AA of Income-tax Act, 1961, as if the said Act had not been repealed.

The provisions of section 10AA of Income-tax Act, 1961 are discussed as follows:

A deduction of profits and gains which are derived by an assessee being an entrepreneur from the export of articles or things or providing any service, shall be allowed from the total income of the assessee.

In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction would be available only if they have exercised the option of shifting out of the default tax regime. The deduction would be available only under the optional tax regime, where they pay tax under the normal provisions of the Act.

In case of companies and co-operative societies, deduction would not be available if they opt for the special provisions contained in section 200/ 201 and section 203/ 204, respectively. The deduction would be available if they pay tax under the normal provisions of the Act.

(1) Assesseees who are eligible for deduction

Deduction is available to all categories of assesseees who derive any profits or gains from an undertaking, being a unit, engaged in the manufacturing or production of articles or things or provision of any service. Such assessee should be an entrepreneur referred to in section 2(j) of the SEZ Act, 2005 i.e., a person who has been granted a letter of approval by the Development Commissioner under section 15(9) of the said Act.

(2) Essential conditions to claim deduction

The deduction would be available to an undertaking which fulfils the following conditions:

- (i) It has begun to manufacture or produce articles or things or provide any service in any SEZ during the tax year 2005-06 or any subsequent tax year but not later than tax year 2019-20.

However, in case where letter of approval, required to be issued in accordance with the provisions of the SEZ Act, 2005, has been issued on or before 31st March, 2020 and the manufacture or production of articles or things or providing services has not begun on or before 31st March, 2020 then, the date for manufacture or production of articles or things or providing services has been extended to 31st March, 2021 or such other date after 31st March, 2021, as notified by the Central Government.



If SEZ unit has received the necessary approval by 31.3.2020 and begins manufacture or production of articles or things or providing services on or before 31st March, 2021, then it would be deemed to have begun

manufacture or production of articles or things or providing services during the tax year 2019-20 and would be eligible for deduction under section 144 of Income-tax Act, 2025.⁷

- (ii) The assessee should furnish in the prescribed form, before the date specified in section 63 i.e., one month prior to the due date for furnishing return of income u/s 263(1), the report of a chartered accountant certifying that the deduction has been correctly claimed.
- (iii) **No deduction** under section 144 of Income-tax Act, 2025 would be allowed to an assessee **who does not furnish a return of income on or before the due date specified u/s 263(1).**



An individual, subject to tax audit u/s 63, claiming deduction u/s 144 of Income-tax Act, 2025 is required to furnish return of income on or before 31.10.2027 for tax year 2026-27 and the report of a chartered accountant before 30.9.2027, certifying the deduction claimed u/s 144.

- (iv) Deduction under section 144 of Income-tax Act, 2025 would be available to a Unit, if the proceeds from sale of goods or provision of services is received in, or brought into, India by the assessee in convertible foreign exchange, within a period of 6 months from the end of the tax year or, within such further period as the competent authority may allow in this behalf.

The export proceeds from sale of goods or provision of services shall be deemed to have been received in India where such export turnover is credited to a separate account maintained for that purpose by the assessee with any bank outside India with the approval of the Reserve Bank of India.

Meaning of Competent authority – Competent authority means RBI or such authority as is authorized under any law for the time being in force for regulating payments and dealings in foreign exchange.

⁷ *The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020*

(3) Period for which deduction is available

The unit of an entrepreneur, which begins to manufacture or produce any article or thing or provide any service in a SEZ on or after 1.4.2005, shall be allowed a deduction of:

- (i) 100% of the profits and gains derived from the export, of such articles or things or from services for a period of 5 consecutive tax years beginning with the tax year in which the Unit begins to manufacture or produce such articles or things or provide services, and
- (ii) 50% of such profits and gains for further 5 tax years.
- (iii) so much of the amount not exceeding 50% of the profit as is debited to the profit and loss account of the year in respect of which the deduction is to be allowed and credited to a reserve account (to be called the "Special Economic Zone Re-investment Reserve Account") to be created and utilised in the manner laid down for next 5 consecutive tax years.



An undertaking is set up in a SEZ and begins manufacturing on 15.10.2012. The deduction under section 10AA of the Income-tax Act, 1961/ 144 of the Income-tax Act, 2025 shall be allowed as under:

- (a) *100% of profits of such undertaking from exports from tax year 2012-13 to tax year 2016-17.*
- (b) *50% of profits of such undertaking from exports from tax year 2017-18 to tax year 2021-22.*
- (c) *50% of profits of such undertaking from exports from tax year 2022-23 to tax year 2026-27 provided certain conditions are satisfied.*

(4) Conditions to be satisfied for claiming deduction for further 5 years (after 10 years)

The deduction under (3)(iii) above shall be allowed only if the following conditions are fulfilled, namely:-

- (a) the amount credited to the Special Economic Zone Re-investment Reserve Account is utilized -

- (1) for the purposes of acquiring machinery or plant which is first put to use before the expiry of a period of three years following the tax year in which the reserve was created; and
- (2) until the acquisition of the machinery or plant as aforesaid, for the purposes of the business of the undertaking. However, it should not be utilized for
 - (i) distribution by way of dividends or profits; or
 - (ii) for remittance outside India as profits; or
 - (iii) for the creation of any asset outside India;
- (b) the particulars, as may be specified by the CBDT in this behalf, have been furnished by the assessee in respect of machinery or plant. Such particulars include details of the new plant/machinery, name and address of the supplier of the new plant/machinery, date of acquisition and date on which new plant/machinery was first put to use. Such particulars have to be furnished along with the return of income for the tax year in which such plant or machinery was first put to use.

(5) Consequences of mis-utilisation / non-utilisation of reserve

Where any amount credited to the Special Economic Zone Re-investment Reserve Account -

- (a) has been utilised for any purpose other than those referred to in (4) above, the amount so utilized shall be deemed to be the profits in the year in which the amount was so utilised and charged to tax accordingly; or
- (b) has not been utilised before the expiry of the said period of 3 years, the amount not so utilised, shall be deemed to be the profits in the year immediately following the said period of three years and be charged to tax accordingly.

(6) Computation of profits and gains from exports of such undertakings

The profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the unit, the same proportion as the export turnover in respect of such articles or things or computer software bears to the total turnover of the business carried on by the undertaking i.e.

$$\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit SEZ}}{\text{Total turnover of Unit SEZ}}$$

Clarification on issues relating to export of computer software

The profits and gains derived from the on-site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

Meaning of Export turnover: It means the consideration in respect of export by the undertaking, being the unit of articles or things or services received in India or brought into India by the assessee in convertible foreign exchange within 6 months from the end of the tax year or within such further period as the competent authority may allow in this behalf.

However, it does not include

- freight
- telecommunication charges
- insurance

attributable to the delivery of the articles or things outside India or expenses incurred in foreign exchange in rendering of services (including computer software) outside India.



Clarification on issues relating to deduction of freight, telecommunication charges and other expenses from total turnover

"Export turnover", *inter alia*, does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

CBDT has, vide circular No. 4/2018, dated 14/08/2018, clarified that freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover", while working out deduction admissible under section 144 of the Income-tax Act, 2025 to the extent they are attributable to the delivery of articles or things outside India.

Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 144 of Income-tax Act, 2025.

(7) *Restriction on other tax benefits*

- (i) During the period of deduction, depreciation is deemed to have been allowed on the assets. Written Down Value shall accordingly be reduced.
- (ii) No deduction under section 138 and 141 shall be allowed in relation to the profits and gains of the undertaking.
- (iii) Any unabsorbed depreciation under section 33(11) or business loss under section 112(1) or loss under the head "Capital gains" under section 111 of the undertaking, being the Unit shall be allowed to be carried forward or set off.
- (iv) Where any goods or services held for the purposes of eligible business are transferred to any other business carried on by the assessee, or where any goods or service held for any other business carried on by the assessee are transferred to the eligible business and, in either case, if the consideration for such transfer as recorded in the accounts of the eligible business does not correspond to the market value thereof, then the profits eligible for deduction shall be computed by adopting market value of such goods or services on the date of transfer.

In case of exceptional difficulty in this regard, the profits shall be computed by the Assessing Officer on a reasonable basis as he may deem fit. Similarly, Where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profits of eligible business are increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits of such eligible business on a reasonable basis for allowing the deduction.

- (v) Where a deduction under this section is claimed and allowed in relation to any specified business eligible for investment-linked deduction under section 46, no deduction shall be allowed under section 46 in relation to such specified business for the same or any other tax year.

(8) Deduction allowable in case of amalgamation and demerger

In the event of any undertaking, being the Unit which is entitled to deduction under this section, being transferred, before the expiry of the period specified in this section, to another undertaking, being the Unit in a scheme of amalgamation or demerger, -

- (a) no deduction shall be admissible under this section to the amalgamating or the demerged Unit for the tax year in which the amalgamation or the demerger takes place; and
- (b) the provisions of this section would apply to the amalgamated or resulting Unit, as they would have applied to the amalgamating or the demerged Unit had the amalgamation or demerger had not taken place.



10.	Mr. Kamal commenced operations in SEZ in tax year 2018-19. He had the following details for T.Y. 2026-27: Profit of SEZ unit: ₹ 2 crore Export turnover (received in convertible foreign exchange): ₹ 12 crore Total turnover: ₹ 15 crore Freight attributable to exports included in turnover: ₹ 1 crore Compute the amount of deduction allowable to Mr. Kamal for the tax year 2026-27 under optional tax regime.
(a)	₹ 1.6 crore
(b)	₹ 1.57 crore
(c)	₹ 2 crore
(d)	₹ 0.785 crore
11.	An SEZ unit transferred to another company under a scheme of amalgamation during T.Y. 2026-27. Who can claim deduction under section 144 for that tax year?
(a)	Amalgamating company only
(b)	Both companies proportionately
(c)	Amalgamated company only
(d)	Neither company

ILLUSTRATION 17

Mr. Y furnishes you the following information for the year ended 31.3.2027:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2027	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 144 for the T.Y. 2026-27, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime.

SOLUTION

Deduction under section 144 shall be calculated as per section 10AA of the Income-tax Act, 1961, as if the said Act has not been repealed.

50% of the profit derived from export of articles or things or services is eligible for deduction under section 144, since tax year 2026-27 is the eighth year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. The profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

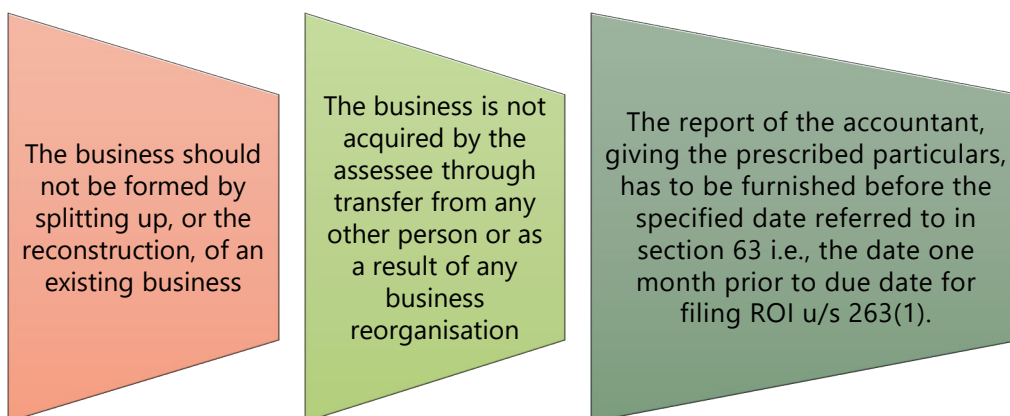
Deduction under section 144 of Income-tax Act, 2025

$$\begin{aligned}
 &= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\% \\
 &= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 50\% = ₹ 7.5 \text{ lakhs}
 \end{aligned}$$

Note – No deduction under section 144 is allowable in respect of profits of business of Unit B located in DTA.

(2) Deduction in respect of additional employment cost [Section 146]

- (i) **Quantum and period of deduction:** Where the gross total income of an assessee to whom section 63 applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the tax year, would be allowed for three consecutive tax years beginning from the tax year in which the employment is provided.
- (ii) **Conditions to be fulfilled:** The deduction would be allowed only subject to fulfilment of the following conditions:



- (iii) **Meaning of certain terms:**

	Term	Meaning
(a)	Additional employee cost	Total emoluments paid or payable to additional employees employed during the tax year.
		In the case of an existing business The additional employee cost shall be Nil, if— (a) there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding tax year; or (b) emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by

			use of electronic clearing system through a bank account or through any other prescribed electronic mode [As per Rule 48, Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), BHIM (Bharat Interface for Money) Aadhaar Pay, and Tier-III: Full KYC Central Bank Digital Currency wallets, P-CBDC, Wholesale/Cross-border CBDC].
		In the first year of a new business	The emoluments paid or payable to employees employed during the tax year.
(b)	Additional employee	An employee who has been employed during the tax year and whose employment increases the total number of employees employed by the employer as on the last day of the preceding tax year. <u>Exclusions from the definition:</u> (a) an employee whose total emoluments exceed ₹ 25,000 per month; or (b) an employee for whom the Government pays the entire contribution under the Employees' Pension Scheme notified as per the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952; or (c) an employee employed for less than 150 days in case of an assessee who is engaged in the business of manufacturing of apparel or footwear or leather products, except where such employee is employed for said number of days in the immediately succeeding tax year, he shall be deemed as an additional employee of the succeeding tax year;	

		(d) an employee employed for less than 240 days during the tax year in case of any other assessee, except where such employee is employed for said number of days in the immediately succeeding tax year, he shall be deemed as an additional employee of the succeeding tax year; (e) an employee who does not participate in the recognised provident fund.
(c)	Emoluments	any sum paid or payable to an employee <i>in lieu</i> of his employment by whatever name called. <u>Exclusions from the definition:</u> (a) employer contributions paid or payable to any pension or provident fund or any other fund for the benefit of the employee as mandated by any law; and (b) lump-sum payments paid or payable to an employee at the time of termination of his service, superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.



Deduction u/s 146 would be available to an assessee irrespective of the regime under which such assessee pays tax

Quiz Time

12. ABC Ltd. employed 20 new employees during T.Y. 2026-27. However, total employees as on 31.03.2027 remained the same as on 31.03.2026 due to resignation of existing employees.

What would be the additional employee cost?

(a) Actual emoluments paid

	(b)	50% of emoluments paid
	(c)	Nil
	(d)	30% of emoluments paid
13.	Mr. A operates a footwear manufacturing business. His turnover for T.Y. 2026-27 exceeds ₹ 10 crores. 50 employees were employed for 120 days during T.Y. 2026-27 and continued employment for more than 150 days in T.Y. 2027-28. When would such employee be treated as an additional employee?	
	(a)	In T.Y. 2026-27 only
	(b)	In T.Y. 2027-28 only
	(c)	In both years
	(d)	Never

ILLUSTRATION 18

Mr. A has commenced the business of manufacture of computers on 1.4.2026. He employed 350 new employees during the T.Y. 2026-27, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2026	Regular	24,000
(ii)	125	1.5.2026	Regular	26,000
(iii)	50	1.8.2026	Casual	24,500
(iv)	100	1.9.2026	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for T.Y. 2026-27, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2026?

SOLUTION

Mr. A is eligible for deduction under section 146 since he is subject to tax audit under section 63 for T.Y. 2026-27 and he has employed "additional employees" during the T.Y. 2026-27.

I If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below]
= ₹ 2,16,00,000

Deduction under section 146 = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:**Number of additional employees**

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2026 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2026, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2026 since they have been employed for less than 240 days in the tax year 2026-27.	100	275
Number of "additional employees"		75

Notes –

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2026 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2026 do not qualify as additional employees for the tax year 2026-27, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2026 qualify as additional employees, and the total emoluments paid or payable to them during the tax year 2026-27 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2026, they would be treated as additional employees for tax year 2027-28, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 146 in the hands of Mr. A for the tax year 2027-28.

II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 146 in respect of employee cost of regular employees employed on 1.9.2026, since they have been employed for more than 150 days in the tax year 2026-27.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

Deduction under section 146 = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000.

(3) Deduction in respect of royalty income, etc., of authors of certain books other than text books [Section 151] [Available only if the individual exercises the option of shifting out of the default tax regime]

- (i) **Eligible assessee & Quantum of deduction:** Under section 151, deduction of up to a maximum ₹ 3,00,000 is allowed to an individual resident in India, being an author including a joint author in respect of income derived by him in the exercise of his profession i.e., the deduction shall be the income derived as author or **₹ 3,00,000**, whichever is less.



(ii) Eligible Income:

- (a) This income may be received either by way of a lumpsum consideration for the assignment or grant of any of his interests in the copyright of any book. Lumpsum consideration in regard to royalties or copyright fees, includes an advance payment on account of such royalties or copyright fees which is not returnable.
- (b) Such book should be a work of literary, artistic or scientific nature, or of royalty or copyright fees (whether receivable in lump sum or otherwise) in respect of such book.

- (c) This deduction shall not, however, be available in respect of royalty income from brochures, commentaries, diaries, guides, journals, magazines, newspapers, pamphlets, textbook for schools, tracts and other publications of similar nature.
- (ii) **No deduction under any other section:** Where a deduction for any tax year has been claimed and allowed in respect of any income under this section, no deduction in respect of such income shall be claimed under any other provision of the Act in any other tax year.
- (iii) **Manner of computation of deduction:** For the purpose of calculating the deduction under this section, the amount of eligible income (royalty or copyright fee received otherwise than by way of lumpsum) before allowing expenses attributable to such income, shall not exceed 15% of the value of the books sold during the relevant tax year.

However, this condition is not applicable where the royalty or copyright fees is receivable in lump sum in lieu of all rights of the author in the book.

(iv) **Conditions:**

- (a) **Furnishing of certificate in prescribed form:** For claiming the deduction, the assessee shall have to furnish a certificate in the prescribed manner in the prescribed format, duly verified by the person responsible for making such payment to the assessee along with the return of income, setting forth such particulars as may be prescribed.
- (b) **Period for repatriation of income earned outside India:** Where the assessee earns any income from any source outside India, he should bring such income into India in convertible foreign exchange within a period of six months from the end of the tax year in which such income is earned or within such further period as the competent authority may allow in this behalf for the purpose of claiming deduction under this section. The assessee has to furnish a certificate, in the prescribed form from the prescribed authority, along with the return of income in the prescribed manner.

The competent authority shall mean the Reserve Bank of India or such other authority as is authorised under any law for the time being in force for regulating payments and dealings in foreign exchange.

ILLUSTRATION 19

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2027 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2028. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 151 if he has exercised the option of shifting out of the default tax regime.

SOLUTION

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction under section 151 would be ₹ 1,90,000 as calculated hereunder –

Particulars	₹
Royalty ₹ 2,88,000 × 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction under section 151	1,90,000

(4) Deduction in respect of royalty on patents [Section 152]
[Available only if the individual exercises the option of shifting out of the default tax regime]

- (i) **Eligible assessee:** This deduction shall be available only to a resident individual who is
- A patentee i.e., the true and first inventor recorded as the patentee under the Patents Act, 1970, including joint patentees recorded as such true and first inventors.

- in receipt of income by way of royalty in respect of a patent registered on or after 1st April, 2003 under the Patents Act, 1970; and
- having gross total income for the tax year which includes royalty.



- (ii) **Quantum of deduction:** This section allows deduction to a resident individual in respect of income by way of royalty of a patent registered on or after 1.4.2003 up to an amount of **₹ 3 lakhs**.
- (iii) **No deduction under any other section:** Where a deduction for any tax year has been claimed and allowed in respect of any income under this section, no deduction in respect of such income shall be claimed under any other provision of the Act in any other tax year.
- (iv) **Eligible income:** This deduction shall be restricted to the royalty income including consideration for transfer of rights in the patent or for providing information for working or use of a patent, use of a patent or the rendering of any services in connection with these activities.
- The deduction shall not be available on any consideration for sale of product manufactured with the use of the patented process or patented article for commercial use or consideration which would be income of the recipient chargeable under the head "Capital Gains".
- (v) **Conditions:**
- Furnishing of certificate in prescribed form:** For claiming the deduction, the assessee shall have to furnish a certificate in the prescribed form, duly signed by the prescribed authority along with the return of income, setting forth such particulars as may be prescribed.
 - Period for repatriation of income earned outside India:** In respect of any such income which is earned from sources outside India, the deduction shall be restricted to such sum as is brought to India in convertible foreign exchange within a period of 6 months from the end of the tax year in which such income is earned or within such further

period as the competent authority may allow in this behalf for the purpose of claiming deduction under this section. The assessee has to furnish a certificate, in the prescribed form from the prescribed authority, along with the return of income in the prescribed manner.



14.	<i>Mr. R, a resident individual, earned ₹ 5 lakhs from sale of products manufactured using his patented process.</i> <i>How much deduction is allowable to him under section 152 under optional tax regime?</i>
(a)	₹ 5 lakh
(b)	₹ 3 lakh
(c)	₹ 2 lakh
(d)	Nil
15.	<i>Mr. Z earned ₹ 2,50,000 during the T.Y. 2026-27 for rendering technical services connected with use of his patented invention registered after 1.4.2003. He pays tax under optional tax regime.</i> <i>Which of the following statements is correct?</i>
(a)	Such income is not royalty income
(b)	Deduction under section 152 is available
(c)	Deduction under section 152 is available only if service is rendered in India
(d)	Deduction under section 152 is restricted to ₹ 1 lakh



5. DEDUCTION IN RESPECT OF OTHER INCOME

**Deduction in respect of interest on deposits [Section 153]
[Available only if the individual/HUF exercises the option of shifting out of the default tax regime]**

(i) **Eligible assessee:** Section 153 provides as assessee being an individual or a Hindu Undivided Family, shall be allowed a deduction under section 153 where the gross total income of an assessee, includes any income by way of an interest on deposits with:

- (1) a banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act);
- (2) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
- (3) a post office.

(ii) **Quantum of deduction**

- (1) In case of assessee being an individual (not being a senior citizen) or an HUF, the whole of interest upto a maximum amount of ₹ 10,000 on deposits in a savings account (excluding time deposits)
- (2) In case of an individual who is a senior citizen, the whole of interest upto a maximum amount of ₹ 50,000 on deposits in any account (including time deposits);

Assessee	Maximum deduction (₹)	Eligible Deposits
Individual (Non-Senior Citizen)	10,000	Interest on savings account deposits only
Individual (Senior Citizen)	50,000	Interest on all types of deposits , including savings and time/term deposits
HUF	10,000	Interest on savings account deposits only

- (iii) **Restriction:** If the aforesaid income is derived from any deposit in a bank account held by, or on behalf of, a firm, an AOP/BOI, no deduction shall be allowed in respect of such income in computing the total income of any partner of the firm or any member of the AOP or any individual of the BOI.

In effect, the deduction under this section shall be allowed only in respect of the income derived in form of the interest on the deposits made by the individual or Hindu Undivided Family directly.

ILLUSTRATION 20

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the T.Y. 2026-27. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the T.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime?

SOLUTION

Computation of total income of Mr. A for T.Y.2026-27

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIII [See Note below]		
Under section 123		
- Deposit in Public Provident Fund	1,50,000	
Under section 153		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

Note: In case of senior citizen, interest on bank fixed deposits qualifies for deduction upto ₹50,000 under section 153.

Though the aggregate of deductions under Chapter VIII is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long-term capital gains taxable under section 197 and section 198, short-term capital gains covered under section 196 and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VIII = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000.

ILLUSTRATION 21

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the tax year ended 31.03.2027. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the tax year 2026-27 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime:

- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2022 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- (ii) Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is ₹ 2,00,000.
- (iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- (v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 133 for promoting family planning.

SOLUTION

**Computation of total income of Mr. Gurnam for the
tax year 2026-27**

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: Deduction under Chapter VIII			
Under section 123 (See Note 1)			
- major son	19,500		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	39,500	
Under section 126 (See Note 2)			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 129			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 153 (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	85,500
Total Income			4,79,000

Notes:

- (1) As per section 123, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only upto 10% of actual capital sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of actual capital sum assured.

Therefore, in the present case, deduction of ₹ 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 126, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 126, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.

- (3) No deduction shall be allowed under section 133 in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 133 is not allowable in respect of **cash donation** of ₹ 5,000 made to an institution approved for the purpose of section 133 for promotion of family planning.
- (4) As per section 153, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.



6. OTHER DEDUCTIONS

**Deduction in the case of a person with disability [Section 154]
[Available only if the individual exercises the option of shifting out
of the default tax regime]**

- (i) **Eligible assessee:** This section is applicable to a resident individual, who, at any time during the tax year, is certified by the medical authority to be a person with disability.

The benefit of deduction under this section is also available to persons suffering from autism, cerebral palsy and multiple disabilities.

- (ii) **Quantum of deduction:** A deduction of ₹ 75,000 in respect of a person with disability and ₹ 1,25,000 in respect of a person with severe disability (having disability over 80%) is allowable under this section.

(iii) **Conditions:**

- (a) The assessee claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority.
- (b) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.
- (c) The certificate has to be furnished in the form and manner, as may be prescribed, along with the return of income under section 263, for the tax year in which the deduction is claimed.



LET US RECAPITULATE

Deductions in respect of certain payments

Section	Eligible Assessee	Eligible Payments	Permissible Deduction
123	Individual or HUF	Contribution to PPF, Payment of LIC premium, etc. Sums paid or deposited in the tax year by way of - Life insurance premium - Contribution to PPF/SPF/RPF and approved superannuation fund - Repayment of housing loan taken from Govt., bank, LIC, specified employer etc. - Tuition fees to any Indian university, college, school for full-time education of any two children - Term deposit for a fixed period of not less than 5 years with schedule bank - Subscription to notified bonds of NABARD - Five year post office term deposit - Senior Citizen's Savings Scheme Account etc. - Contribution by Central Govt. employee	Sum paid or deposited, subject to a maximum of ₹ 1,50,000 [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime]

		to additional account (Tier II A/c) of NPS referred to u/s 124 - amount paid or deposited to keep in force a contract for any annuity plan of LIC of India or any other insurer for receiving pension from the fund - Employer's contribution to the extent of 10% of salary; in any other, individual's contribution to the extent of 20% of gross total income	
124	Individuals employed by the Central Govt or any other employer; Any other individual assessee.	Contribution to Pension Scheme of Central Government An individual employed by the Central Government on or after 1.1.2004 or any other employer or any other assessee, being an individual, who has paid or deposited any amount in his account under a notified pension scheme [to his individual pension account [Tier I A/c] under National Pension Scheme & Atal Pension Yojana]	Employer's Contribution The entire employer's contribution would be included in the salary of the employee. The deduction of employer's contribution under section 124(1)/(2) would be restricted to 14% of salary, where the employer is the Central Government or State Government; and 10% of salary (14% under default tax regime), in case of any other employer. [Deduction u/s 124(1)/(2) would be available irrespective of the regime under which he pays tax.]

			Employee's Contribution/ Individual' Contribution Additional deduction of upto ₹ 50,000 is available u/s 124(3). [Deduction u/s 124(3) would be available only if the individual exercises the option of shifting out of the default tax regime].
		Amount paid or deposited in the minor's account under the pension scheme by parents or guardian	In case of amount paid or deposited in minor's account, the deduction is available under section 124(4). However, the aggregate deduction under section 124(3) and 124(4) cannot exceed ₹ 50,000.
125	Individual	Contribution to Agniveer Corpus Fund An individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after 1.11.2022, who has paid or deposited any amount in his account in the Agniveer Corpus Fund	Individual' Contribution Whole of the amount paid or deposited [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]
			Central Government's Contribution The entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee.

			Thereafter, deduction u/s 125(2) would be available for the same. [Deduction u/s 125(2) would be available irrespective of the regime under which he pays tax]			
126	Individual and HUF	Medical Insurance Premium (1) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health of –<table><tr><td>in case of an individual</td><td>self, spouse and dependent children</td></tr><tr><td>in case of HUF</td><td>family member</td></tr></table> (2) In case of an individual, contribution, otherwise than by way of cash, to CGHS or any other scheme as notified by Central Government. (3) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health of parents, whether or not dependent on the individual. Notes: (i) Any amount paid, otherwise than by way of cash, on account of Maximum ₹ 25,000 (₹ 50,000, in case the individual or his or her spouse is a senior citizen) Maximum ₹ 25,000 (₹ 50,000, in case either or both of the parents are senior citizen(s)) Amount paid subject to a cap of ₹ 50,000 (in case one parent is a senior	in case of an individual	self, spouse and dependent children	in case of HUF	family member
in case of an individual	self, spouse and dependent children					
in case of HUF	family member					

		medical expenditure incurred on the health of the assessee or his family member or his parent, who is a senior citizen and no amount has been paid to effect or to keep in force an insurance on the health of such person. (ii) Payment, including cash payment, for preventive health check up of himself, spouse, dependent children and parents.	citizen, in respect of whom insurance premium is paid, and the other is a senior citizen on whom medical expenditure is incurred, the total deduction cannot exceed ₹ 50,000) Amount paid subject to a cap of ₹ 5,000, in aggregate (subject to the overall individual limits of ₹ 25,000/₹ 50,000, as the case may be) [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime]
127	Resident Individual or HUF	Maintenance including medical treatment of a dependent disabled Any amount incurred for the medical treatment (including nursing), training and rehabilitation of a dependent disabled and / or Any amount paid or deposited under the scheme framed in this behalf by the LIC or any other insurer or Administrator or Specified Company and approved by Board.	Deduction of up to ₹ 75,000. In case of severe disability (i.e. person with 80% or more disability) the flat deduction shall be up to ₹ 1,25,000. [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime]

		<table><tr><th colspan="2">Meaning of Dependant</th></tr><tr><th>(1) In case of</th><th>(2) Dependent</th></tr><tr><td>An individual</td><td>Spouse, children, parents, brothers, sisters</td></tr><tr><td>A HUF</td><td>Any member</td></tr></table> Persons mentioned in column (2) should be wholly or mainly dependant on the person mentioned in corresponding column (1) for support and maintenance. Such persons should not have claimed deduction under section 154 in computing total income of that year.	Meaning of Dependant		(1) In case of	(2) Dependent	An individual	Spouse, children, parents, brothers, sisters	A HUF	Any member			
Meaning of Dependant													
(1) In case of	(2) Dependent												
An individual	Spouse, children, parents, brothers, sisters												
A HUF	Any member												
128	Resident Individual or HUF	<table><tr><th colspan="2">Deduction for medical treatment of specified diseases or ailments</th></tr><tr><td colspan="2">Amount paid for specified diseases or ailment</td></tr><tr><th>Assessee</th><th>Amount spent</th></tr><tr><td>An individual</td><td>For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance</td></tr><tr><td>A HUF</td><td>For any member wholly or mainly dependant on the individual for support and maintenance</td></tr></table>	Deduction for medical treatment of specified diseases or ailments		Amount paid for specified diseases or ailment		Assessee	Amount spent	An individual	For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance	A HUF	For any member wholly or mainly dependant on the individual for support and maintenance	Actual sum paid or ₹ 40,000 (₹ 1,00,000, if the payment is for medical treatment of a senior citizen), whichever is less, <i>minus</i> the amount received from the insurance company or reimbursed by the employer. [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime]
Deduction for medical treatment of specified diseases or ailments													
Amount paid for specified diseases or ailment													
Assessee	Amount spent												
An individual	For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance												
A HUF	For any member wholly or mainly dependant on the individual for support and maintenance												

129	Individual	Interest on loan taken for higher education Interest on loan taken from any financial institution or approved charitable institution. Such loan is taken for pursuing his higher education or higher education of his or her relative i.e., spouse or children of the individual or the student for whom the individual is the legal guardian.	The deduction is available for interest payment in the initial tax year (year of commencement of interest payment) and seven tax years immediately succeeding the initial tax year (or) until the interest is paid in full by the assessee, whichever is earlier. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]
130	Individuals	Deduction for interest on loan borrowed from any financial institution [bank/housing finance company (HFC)] for acquisition of residential house property	Deduction of upto ₹ 50,000 would be allowed in respect of interest on loan taken from a FI. Conditions: Loan should be sanctioned during T.Y.2016-17 Loan sanctioned $\leq$ ₹ 35 lakhs Value of house $\leq$ ₹ 50 lakhs The assessee should not own any residential house on the date of sanction of loan. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]

131	Individual	Deduction in respect of interest payable on loan taken from a FI (bank or HFC) for acquisition of residential house property	Deduction of upto ₹ 1,50,000 would be allowed in respect of interest payable on loan taken from a FI for acquisition of house property. Conditions: • Loan should be sanctioned by a FI during the period between 1st April 2019 to 31st March 2022. • Stamp Duty Value of house ≤ ₹ 45 lakhs • The individual should not own any residential house on the date of sanction of loan. • The individual should not be eligible to claim deduction u/s 130. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]
132	Individual	Deduction in respect of interest payable on loan taken from a FI (bank or certain NBFCs) for purchase of electric vehicle	Deduction of upto ₹ 1,50,000 would be allowed in respect of interest payable on loan taken for purchase of electric vehicle. Loan should be sanctioned by a FI during the period from 1.4.2019 to 31.3.2023.

			[Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]																					
133	All assesseees	Donations to certain funds, charitable institutions etc. There are four categories of deductions – <table><tr><th></th><th>Category</th><th>Donee</th></tr><tr><td>(I)</td><td>100% deduction of amount donated, without any qualifying limit</td><td>Prime Minister’s National Relief Fund, National Children’s Fund, Swachh Bharat Kosh, National Defence Fund, PM CARES Fund etc.</td></tr><tr><td>(II)</td><td>100% deduction of amount donated, subject to qualifying limit</td><td>Government or local authority, institution for promotion of family planning etc.</td></tr><tr><td>(III)</td><td>50% deduction of amount donated, without any qualifying limit</td><td>Prime Minister’s Drought Relief Fund.</td></tr><tr><td>(IV)</td><td>50% deduction of amount donated, subject to qualifying limit.</td><td>Government or any local authority to be used for charitable purpose, other than promotion of family planning notified temple, church, gurudwara, mosque etc.</td></tr></table> Calculation of Qualifying limit for Category II & IV donations: Step 1: Compute adjusted total income, i.e., the gross total income as reduced by the following: <table><tr><td>1.</td><td>Deductions under Chapter VIII, except u/s 133</td></tr><tr><td>2.</td><td>Short term capital gains taxable u/s 196</td></tr><tr><td>3.</td><td>Long term capital gains taxable u/s 197 & 198</td></tr></table> Step 2: Calculate 10% of adjusted total income. Step 3: Calculate the actual donation, which is subject			Category	Donee	(I)	100% deduction of amount donated, without any qualifying limit	Prime Minister’s National Relief Fund, National Children’s Fund, Swachh Bharat Kosh, National Defence Fund, PM CARES Fund etc.	(II)	100% deduction of amount donated, subject to qualifying limit	Government or local authority, institution for promotion of family planning etc.	(III)	50% deduction of amount donated, without any qualifying limit	Prime Minister’s Drought Relief Fund.	(IV)	50% deduction of amount donated, subject to qualifying limit.	Government or any local authority to be used for charitable purpose, other than promotion of family planning notified temple, church, gurudwara, mosque etc.	1.	Deductions under Chapter VIII, except u/s 133	2.	Short term capital gains taxable u/s 196	3.	Long term capital gains taxable u/s 197 & 198
	Category	Donee																						
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1.	Deductions under Chapter VIII, except u/s 133																							
2.	Short term capital gains taxable u/s 196																							
3.	Long term capital gains taxable u/s 197 & 198																							

		to qualifying limit Step 4: Lower of Step 2 or Step 3 is the maximum permissible deduction. Step 5: The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., Category II donations). Thereafter, 50% of balance qualifies for deduction under section 133. Note - <i>No deduction shall be allowed for donation in excess of ₹ 2,000, if paid in cash.</i> [In case of individuals, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction would be available only if they exercise the option of shifting out of the default tax regime]
134	Individual not in receipt of house rent allowance	Rent paid for residential accommodation Least of the following is allowable as deduction: (1) 25% of total income; (2) Rent paid – 10% of total income (3) ₹ 5,000 p.m. No deduction if any residential accommodation is owned by the assessee/his spouse/minor child/HUF at the place where he ordinarily resides or performs the duties of his office or employment or carries on his business or profession. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]

135	Any assessee not having income chargeable under the head "Profits and gains of business or profession"	Donations for scientific research and rural development	Actual donation [No deduction shall be allowed for donation in excess of ₹ 2,000, if paid in cash] [Deduction would be available to individual, HUF, AoP (other than a co-operative society) or Bol or an artificial juridical person only if they exercise the option of shifting out of the default tax regime]
136	Indian company (not opting for section 200/ 201)	Contributions to political parties Any sum contributed by it to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash)
137	Any person, other than local authority and an artificial juridical person funded by the Government.	Contributions to political parties Amount contributed to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash) [An individual, HUF, AoP (other than a co-operative society) or Bol would be eligible for deduction u/s 137 only if the assessee exercises the option of shifting out of the default tax regime]

Deductions in respect of Certain Incomes

As per section 122, furnishing return of income on or before due date is mandatory for claiming deduction in respect of certain incomes.

Section	Eligible Assessee	Eligible Income	Permissible Deduction
144	An assessee who derives profits from an under-taking, being a Unit established in SEZ, which begins to manufacture or produce articles or things or provide any service on or after 1.4.2005 but before 1.4.2020	Profits derived from exports of such articles or things or export of services (including computer software). <u>Conditions for deduction</u> 1. Proceeds to be received in convertible foreign exchange within 6 months from the end of the T.Y. or such further period as the competent authority may allow in this behalf. 2. The report of chartered accountant certifying that the deduction has been correctly claimed should be furnished before the date specified in section 63. 3. Return of income to be filed on or before due date u/s 263(1).	Deduction for 15 consecutive tax years Amount of deduction = $\frac{\text{Profits of Unit in SEZ} \times \text{Export turnover of Unit SEZ}}{\text{Total turnover of Unit SEZ}}$ Years 1 to 5 - 100% of such profits would be exempt in the first five years; Years 6 to 10 - 50% of such profits in the next five years; and Years 11 to 15 - In the last five years, 50% of such profits subject to transfer to SEZ Re-investment Reserve Account. [In case of individuals, HUF, AoP (other than a co-operative society), BoI or an artificial juridical person, deduction would be available only if they exercise the option of shifting out of the default tax regime]
146	An assessee to whom section 63 applies, whose	Deduction in respect of employment of new employees	30% of additional employee cost incurred in the tax year. Deduction is allowable for 3 consecutive tax

	Gross total income includes profits and gains derived from business		years beginning from the tax year in which the employment is provided. [Deduction would be available irrespective of the regime under which the employer pays tax]
151	Resident individual, being an author	Royalty income, etc., of authors of certain books other than text books Consideration for assignment or grant of any of his interests in the copyright of any book, being a work of literary, artistic or scientific nature or royalty or copyright fee received as lumpsum or otherwise.	Income derived in the exercise of profession or ₹ 3,00,000, whichever is less. In respect of royalty or copyright fee received otherwise than by way of lumpsum, income to be restricted to 15% of value of books sold during the relevant tax year. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]
152	Resident individual, being a patentee	Royalty on patents Any income by way of royalty on patents registered on or after 1.4.2003	Whole of such income or ₹ 3,00,000, whichever is less. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]

Deductions in respect of Other Income			
Section	Eligible Assessee	Eligible Income	Permissible Deduction
153	Individual other than a senior citizen, individual, being a senior citizen or a HUF	Interest on deposits Interest on deposits with a bank, a co-operative society engaged in carrying on the business of banking or a post office	Individual other than a senior citizen or a HUF Actual interest subject to a maximum of ₹ 10,000 on deposits in savings account excluding time deposits. Individual, being a senior citizen Actual interest subject to a maximum of ₹ 50,000 on deposits in any account, including time deposits. [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime]
Other Deductions			
Section	Eligible Assessee	Condition for deduction	Permissible Deduction
154	Resident Individual	Deduction in case of a person with disability Any person, who is certified by the medical authority to be a person with disability.	Flat deduction of ₹ 75,000, in case of a person with disability. Flat deduction of ₹ 1,25,000, in case of a person with severe disability (80% or more disability). [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime]



TEST YOUR KNOWLEDGE

1. Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Prakash for the tax year 2026-27 under normal provisions of the Act from the following particulars:

- (i) Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2020 and the actual capital sum assured is ₹ 2,00,000.
 - (ii) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
 - (iii) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.
 - (iv) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
 - (v) A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 133 for promoting family planning.
2. Examine the following statements with regard to the provisions of the Income-tax Act, 2025:
- (i) During the tax year 2026-27, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 129.
 - (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 123.
 - (iii) In order to be eligible to claim deduction under section 123, investment/contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

- (iv) *Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 129 is ₹ 44,000 irrespective of the tax regime.*
 - (v) *Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2026, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 124 to Mr. Satish in the earlier tax years. Such amount received by her as a nominee on closure of the account is deemed to be her income for T.Y.2026-27.*
 - (vi) *Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 124. He has exercised the option of shifting out of the default tax regime.*
3. *Examine the allowability of the following if the assessee has exercised the option of shifting out of the default tax regime:*
- (i) *Rajan, a resident individual, has to pay to a hospital for treatment ₹ 1,62,000 and spent nothing for life insurance or for maintenance of dependent disabled.*
 - (ii) *Varun, a resident Indian, has spent nothing for treatment in the tax year and deposited ₹ 2,50,000 with LIC for maintenance of dependant disabled.*
 - (iii) *Hari, a resident individual, has incurred ₹ 1,20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.*
4. *Ms. Jyoti purchased a house property costing ₹ 42 lakhs on 1st May, 2021. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of ₹ 35 lakhs bearing interest @ 14% p.a. on 1st April, 2021. She does not own any other house.*
- State with brief reasons the deductions that can be claimed by Ms. Jyoti in respect of interest on loan for Tax Year 2026-27 if she has opted out of the default tax regime. No repayment of loan has been made so far.*
5. *For the T.Y. 2026-27, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 15,18,240 which includes long-term capital gain of ₹ 2,45,000*

taxable under section 197 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 133 by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2027, in a tax efficient manner.

6. Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the tax year 2026-27, furnishes you the following information:
- (i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.
 - (ii) Five year post office time deposit - ₹ 20,000.
 - (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 133 at the applicable rate.
 - (iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the T.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime.

7. Compute the eligible deduction under Chapter VIII for the T.Y. 2026-27 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the T.Y. 2026-27 and has exercised the option of shifting out of the default tax regime. She provides the following information about her investments/ payments during the T.Y. 2026-27:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,70,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000

5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

8. Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the tax year 2026-27.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2027 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime. Calculate the eligible deduction under section 144, for the Tax Year 2026-27 if both the units were set up and started manufacturing from 22-05-2017.

ANSWERS

1. **Computation of total income of Mr. Prakash for T.Y.2026-27**

Particulars	₹	₹	₹
Income under the head "Salaries"			
Pension	6,60,000		
Less: Standard deduction u/s section 19(1) (Table: Sl. No. 2)	50,000		6,10,000
Lower of ₹ 50,000 or actual salary/pension			
Income from Other Sources			
Interest from bank on fixed deposit (Gross)			55,000
Gross Total Income			6,65,000

Less: Deduction under Chapter VIII			
Deduction under section 123			
LIC premium of ₹ 22,500 (restricted to 10% of ₹ 2,00,000, being the actual capital sum assured, as the policy is taken after 31.3.2012)		20,000	
Deduction under section 126			
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Prakash is a senior citizen	26,000		
Preventive health check-up for self, ₹ 1,500, and for his parents, ₹ 4,500, restricted to ₹ 5,000 i.e., aggregate preventive health check-up deduction = ₹ 5,000. (deduction allowed even if the same is paid in cash)	5,000		
		31,000	
Deduction under section 129			
Interest on loan taken from bank for MBA course pursued by his daughter		6,500	
Deduction under section 133			
Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹ 2,000 is paid in cash		Nil	
Deduction under section 153			
Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr. Prakash is a senior citizen		50,000	1,07,500
Total Income			5,57,500

2. (i) **The statement is correct.** The deduction under section 129 is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime. For this purpose,

relative means, *inter alia*, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 129 in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 129.

- (ii) **The statement is correct.** Subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 123, if the assessee has exercised the option of shifting out of the default tax regime.
 - (iii) **The statement is not correct.** There is no stipulation under section 123 that the investment, subscription, etc. should be made from out of income chargeable to tax.
 - (iv) **The statement is not correct.** An individual would not be eligible for deduction u/s 129 if he pays tax under default tax regime under section 202(1). If he has exercised the option of shifting out of the default tax regime, deduction under section 129 would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of ₹ 14,000, if he has exercised the option of shifting out of the default tax regime.
 - (v) **The statement is not correct.** Section 124(7) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for T.Y. 2026-27.
 - (vi) **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction under section 123 and not section 124.
3. (i) The deduction of ₹ 75,000 under section 127 is allowable to Rajan. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Varun has deposited ₹ 2,50,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of up to ₹ 75,000 is allowed. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (iii) Section 127 allows a deduction of up to ₹ 75,000 for amount spent on maintenance of a dependent disabled and/or amount deposited with

LIC. Therefore, the deduction will be ₹ 75,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

4. Ms. Jyoti can claim the following deductions for the T.Y. 2026-27 in respect of the interest of ₹ 4,90,000 (₹ 35,00,000 x 14%) payable on loan taken for acquisition of residential house property for self-occupation:

Deduction under section 22(1)(b) while computing income under the head "Income from house property": Interest on housing loan taken for acquisition of residential house property for self-occupation, would be eligible for deduction under section 22(1)(b) while computing income from house property, subject to a maximum of ₹ 2,00,000	2,00,000
Deduction under section 131 (while computing deduction under Chapter VIII from gross total income): Interest payable on housing loan taken by Ms. Jyoti qualifies for deduction under section 131, subject to a maximum of ₹ 1,50,000, since – (i) The loan is sanctioned by the Financial Institution between 1.4.2019 to 31.3.2022 (ii) Stamp duty value of the house (₹ 42 lakhs) does not exceed ₹ 45 lakhs (iii) She is not eligible to claim deduction u/s 130 (iv) She does not own any residential house on the date of sanction of loan	1,50,000
Therefore, out of the interest of ₹ 4,90,000, ₹ 2 lakhs is allowable as deduction under section 22(1)(b); and out of the balance of ₹ 2,90,000, ₹ 1,50,000 is allowable as deduction under section 131 from gross total income.	

5. **Computation of total income and tax liability of Mr. Chaturvedi for the T.Y. 2026-27 under default tax regime**

Particulars	₹
Gross total income incl. long term capital gain	15,18,240
Less: Deductions under Chapter VIII	-
No deduction would be available under default tax regime u/s 202	
Total income	15,18,240

Tax on total income	
LTCG ₹ 2,45,000 x 12.5%	30,625
Balance total income ₹ 12,73,240	70,986
	1,01,611
Add: Health and Education cess @4%	4,064
Total tax liability	1,05,675
Total tax liability (Rounded off)	1,05,680

**Computation of total income and tax liability of
Mr. Chaturvedi for the T.Y. 2026-27 under the optional tax regime
(i.e., the normal provisions of the Act)**

Particulars	₹	₹
Gross total income incl. long term capital gain		15,18,240
Less: Long term capital gain		2,45,000
		12,73,240
Less: Deductions under Chapter VIII		
Under section 123 in respect of PPF deposit	1,20,000	
Under section 126 (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 133 (See Notes 1 & 2 below)	25,000	
Under section 153 (See Note 3 below)	50,000	2,45,000
Total income (excluding long term capital gains)		10,28,240
Total income (including long term capital gains)		12,73,240
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 12.5%		30,625
Balance total income ₹ 10,28,240 (See Note 4 below)		1,18,472
		1,49,097
Add: Health and Education cess @4%		5,964
Total tax liability		1,55,061
Total tax liability (Rounded off)		1,55,060

Since the tax liability is lower under the default tax regime as compared to the optional tax regime, Mr. Chaturvedi should not exercise the option of shifting out of the default tax regime.

Notes:

1. Computation of deduction under section 133:

Particulars	₹
Gross total income (excluding long term capital gains)	12,73,240
Less: Deduction under section 123, 126 & 153	2,20,000
	10,53,240
10% of the above	1,05,324
Contribution made	50,000
Lower of the two eligible for deduction under section 133	50,000
Deduction under section 133 – 50% of ₹ 50,000	25,000

- Deduction under section 133 is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto ₹ 50,000 under section 153 is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
- Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

6. Computation of total income of Mr. Rajmohan for the T.Y.2026-27

Particulars	₹	₹
Gross Total Income		6,40,000
Less: Deduction under Chapter VIII		
<u>Under section 123</u>		
Repayment of loan taken for acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	

<u>Under section 129</u>		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
<u>Under section 133 (See Note below)</u>		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
Total Income		5,47,500

Note: In case of deduction under section 133 in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VIII except 133. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction under section 133 would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

7. Computation of eligible deduction under Chapter VIII of Ms. Roma for T.Y. 2026-27

Particulars	₹	₹
Deduction under section 123		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the actual capital sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
Payment towards LIC pension fund	1,40,000	
	3,45,000	
Restricted to a maximum of ₹ 1,50,000		1,50,000
Deduction under section 128		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VIII		2,25,000

8. Computation of deduction u/s 144

As per section 144, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services on or after 1.4.2005 but before 01.04.2020, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive tax years beginning with the tax year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five tax years.

Since Mr. Rudra has exercised the option of shifting out of the default tax regime, he would be eligible for deduction u/s 144.

The deduction u/s 144 would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 63 and files return of income on or before due date u/s 263(1).

Since T.Y. 2026-27 is the 10th tax year from tax year 2017-18, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 144 are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs}
 \end{aligned}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2027 which is ₹ 3,00,00,000.

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 144 in respect of its export profits, in both the situations.

Working Note:**Computation of total sales, export sales and net profit of unit in SEZ**

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000



Q. No.	ANSWERS	
1.	(c)	Deduction is not allowable due to delayed filing of return
2.	(b)	₹ 4,80,000
3.	(c)	₹ 1,50,000
4.	(c)	₹ 1,40,000
5.	(b)	Earlier deduction allowed shall become taxable
6.	(c)	13% of salary
7.	(c)	₹ 46,000
8.	(c)	₹ 15,000
9.	(c)	₹ 1,50,000
10.	(d)	₹ 0.785 crore
11.	(c)	Amalgamated company only
12.	(c)	Nil
13.	(b)	In T.Y. 2027-28 only
14.	(d)	Nil
15.	(b)	Deduction under section 152 is available



OVERVIEW OF SECTION IV

Section IV comprises of the procedural and compliance provisions of income-tax law.

This Section of the syllabus comprises of the following two chapters –

Chapter 7 Tax deduction or collection at source and Advance tax

Chapter 8 Provisions for filing return of income and self-assessment.

The provisions relating to tax deduction at source (TDS), tax collection at source (TCS) and advance tax enable the Government to garner tax revenue at an earlier point of time i.e., in the relevant tax year itself. These provisions are discussed in Chapter 7. TDS and TCS provisions ensure that transactions do not escape the tax net and thus, help in maintaining an audit trail. Also, taxpayers are required to pay advance tax in four instalments in the relevant tax year. Failure to remit advance tax as required under the Act will attract interest for deferment and for default in payment. Also, for failure to deduct tax at source/collect tax at source or remit the same within the prescribed time, the deductor/collector will be deemed as an assessee-in-default. For such failure, penal consequences would be attracted.

Chapter 8 contains the provisions relating to filing return of income and self-assessment. Here, you will get to understand the assesseees for whom filing of return of income is mandatory and the due dates for filing of return of income for different persons. Persons who do not file return within the due date can file a belated return within the extended time allowed. Also, persons who have filed their return on time or a belated return can file a revised return within the prescribed time. In this chapter, you will also understand the persons who are mandatorily required to apply for permanent account number (PAN) and the transactions/documents in which PAN has to be compulsorily quoted. This chapter also discusses the provisions for self-assessment.



Read the Scenario below including its different components described in the table below and the “Points to Ponder” indicated in respect thereof. Thereafter, read the chapter, comprehend the TDS, TCS and return filing provisions and write your responses in the last column of the table. Finally, solve the Crossword Puzzle given at the end.

SCENARIO

Prem, a resident Indian aged 48 years, is carrying on the sole-proprietary business of retail trade, the annual turnover of which is around ₹ 4.50 crores in the last few years including the current year. Prem’s wife Ramya, a resident Indian aged 45 years, is employed with an Art Gallery at a salary of ₹ 2,00,000 p.m. Their son, Siddhant, is studying MS in Data Sciences and Artificial Intelligence in an Ivy League University in the USA. Prem’s father is a retired professor aged 78 years and his mother is a house-wife aged 75 years. Both of them are resident Indians. Prem’s brother Ram, a resident Indian aged 46 years and an interior decorator, is a partner in Ram & Co. Ram’s wife, Harini, is a commerce graduate employed in Ram’s firm as a junior accountant. Their daughter, Mega, is also studying in an Ivy League University in the USA. Prem opts out of the default tax regime and pays tax under the optional tax regime as per the regular provisions of the Act. Prem and Ramya have been filing their return of income regularly on or before the due date under section 263(1).

The scenario is continued below and divided into components depicting the different types of transactions entered into by the family members, and “Points to Ponder” are raised in respect of each component in order to urge you to put your thinking caps on and give your responses after reading the chapters and comprehending and analysing the TDS/TCS and other tax consequences of the different transactions.

Read the Scenario and each component thereof described in Column (1) of the table below and the “Points to Ponder” raised in the corresponding row of Column (2). Thereafter, read the relevant chapter and give your responses thereto in Column (5) of the table. Reference to the section number is mentioned in Column (4) to enable you to give your response after reading and understanding the relevant provision of law.

(1)	(2)	(3)	(4)	(5)
Scenario Component	Point(s) to Ponder	Relevant Chapter	Relevant Provision of law	Write your response after reading the Chapter
(1) Prem has to pay to Ravi, a contractor, ₹ 25,000 in June 2026, ₹ 24,000 in July 2026, ₹ 28,000 in August 2026 and ₹ 26,000 in September 2026 in connection with his business. His contract payments in the earlier years in total to any one contractor were in	Prem has been splitting up contract payments to every contractor in order to avoid deduction of tax therefrom. By doing so, he was able to avoid tax deduction on contract payments in the earlier years without attracting interest or penalty. He is of the opinion that this year also, he need not deduct tax in respect of contract payments to Ravi since each payment does not exceed the individual threshold limit.	7	393(1) [Table: Sl. No. 6(i)]	

	the range of ₹ 50,000 to ₹ 60,000 and individual installments were in the range of ₹ 15,000 to ₹ 25,000.	(i) (ii)	Is he correct? If not, why? If tax has to be deducted, how much and at what point of time?			
(2)	Prem's own business premises is under major renovation. Therefore, he rented a premises for carrying on his business from May, 2026 for which he has to pay rent of ₹ 40,000 per month to Hari.		Prem wants to know whether he is liable to deduct tax at source on such rental payment to Hari. If so, how much?	7	393(1) [Table: Sl. No. 2(ii)]	
	Ramya thinks she does not have to deduct tax in respect of transactions in (3), (4), (5) and (6) below, since she is a salaried employee and is not carrying on business or profession. Is she correct?					
(3)	Ramya has to pay ₹ 51 lakhs to a contractor for reconstruction of her residential house in January 2027.		Is Ramya liable to deduct tax at source and if so, how much?	7	393(1) [Table: Sl. No. 6(ii)]	

(4)	Ramya has to pay ₹ 2 lakhs as brokerage for purchase of land in Coimbatore in April 2026 from Meena for ₹ 40 lakhs. Stamp duty value of land at that time is ₹ 42 lakhs	(i)	Is she liable to deduct tax at source on payment of brokerage? If so, at what rate?	7	393(1) [Table: Sl. No. 6(ii)]	
		(ii)	Is she liable to deduct tax at source on the amount payable to Meena?		393(1) [Table: Sl. No. 3(i)]	
		(iii)	Is she required to quote PAN in the documents related to the purchase transaction?	8	262	
(5)	Ramya transferred the land in Coimbatore for ₹ 52 lakhs to her friend Sheela in December 2026, when the stamp duty value was ₹ 55 lakhs.	(i)	Is tax deductible at source by Sheela on the amount payable to Ramya? If so, at what rate?	7	393(1) [Table: Sl. No. 3(i)]	
		(ii)	Is Ramya required to quote PAN in the documents related to the sale transaction?	8	262	
(6)	Ramya is due to receive ₹ 10 lakhs on 31.12.2026 from a life insurance policy for which the sum assured was ₹ 8 lakh	Is tax deductible at source on proceeds of life insurance policy received by Ramya? If so, how much?		7	393(1) [Table: Sl. No. 8(i)]	

	and the annual premium was ₹ 85,000. The policy was taken on 1.1.2018.				
(7)	Prem owns a house which he has given on rent to Shyam, who is employed with a multi-national firm, for ₹ 55,000 per month during T.Y. 2026-27.	Is Shyam liable to deduct tax at source on rent payable to Prem? If so, how much and at what point of time?	7	393(1) [Table: Sl. No. 2(i)]	
(8)	Ram renders consultancy services to ABC Ltd. for ₹ 60,000.	Is ABC Ltd. liable to deduct tax on the amount payable to Ram? If so, at what rate?	7	393(1) [Table: Sl. No. 6(iii)]	
(9)	Prem's father gets pension of ₹ 80,000 every month which is credited to Bank of India, Tambaram branch. His father's only other source of income is interest of ₹ 14,000 from	Prem's father wants to know whether he is exempted from filing return of income. Is he eligible for exemption?	7	393(1) [Table: Sl. No. 8(iii)] and 263(8)	

	savings bank account with the said bank.				
(10)	Prem purchases an overseas tour package from Thomas Cook Travels for travel to Singapore with family for ₹ 6 lakh.	Prem thinks that since the value of overseas tour package is less than ₹ 7 lakh, there would be no TCS liability. Is he correct?	7	394(1) [Table: Sl. No. 8]	
(11)	Prem remits ₹ 4 lakh under the LRS of RBI towards tuition fees of Siddhant. He remits the same through SBI, an authorized dealer.	Prem is not sure whether TCS is attracted in respect of this remittance. Is SBI required to collect tax at source on such remittance? If so, how much?	7	394(1) [Table: Sl. No. 7]	
(12)	Ram remits ₹ 18 lakh under the LRS of RBI towards tuition fees of Mega out of loan taken from Indian bank. He remits the same through Indian bank itself, which is an authorized dealer.	Ram wants to know whether the transaction attracts TCS and if so, whether he is entitled for any concessional rate, since the remittance is for the purpose of education. Is Indian bank required to collect tax at source on such remittance? If so, how much?	7	394(1) [Table: Sl. No. 7]	

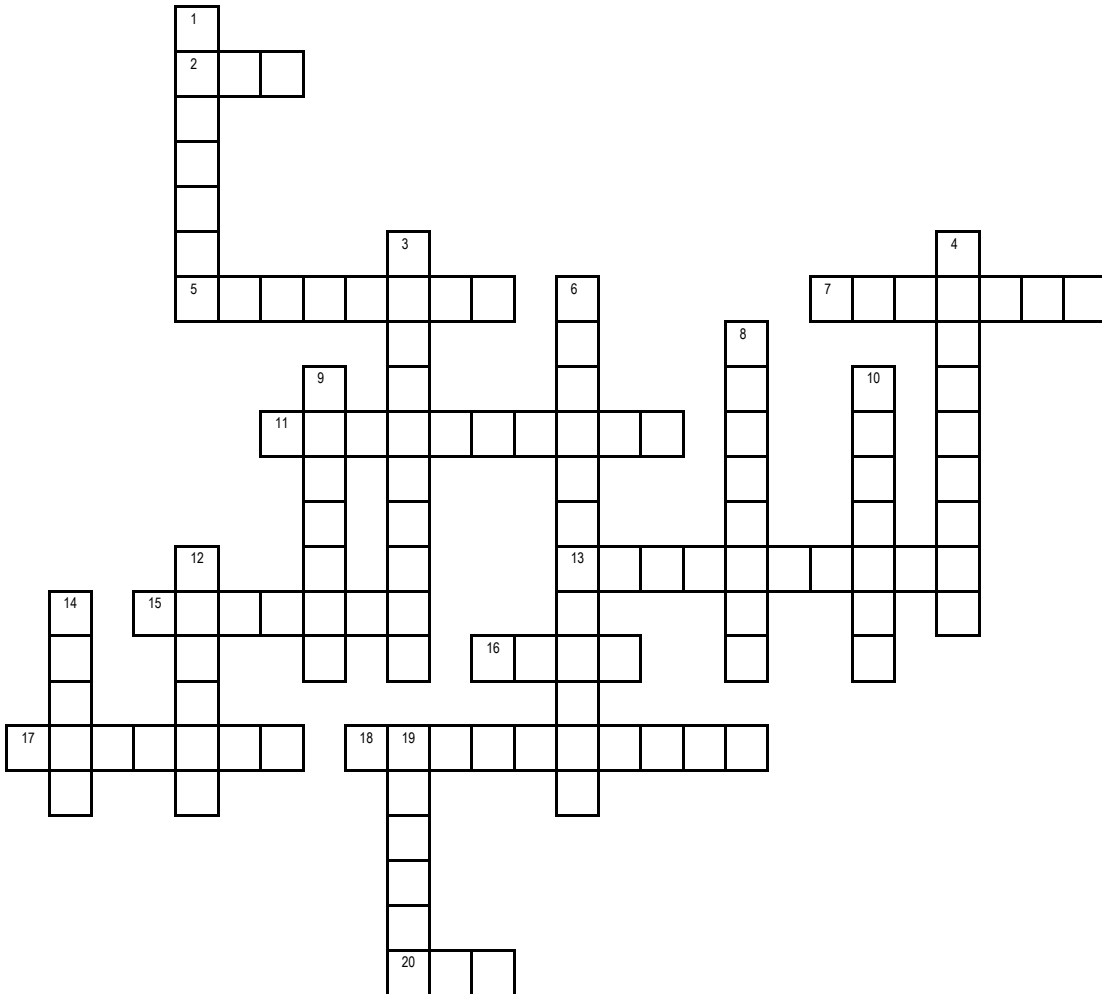
(13)	Prem purchases goods aggregating to ₹ 60 lakhs this year from MNO Ltd., whose turnover has been around ₹ 12 crores in the last couple of years. In the last two years, he had purchased goods aggregating to ₹ 35 lakhs from MNO Ltd. Purchases of goods from other vendors are to the tune of ₹ 10 lakhs to ₹ 15 lakhs.	Prem is of the opinion that since there was no TDS liability in respect of purchases made by him last year and prior to that, there would be no TDS liability this year also. Is he correct?	7	393(1) [Table: Sl. No. 8(ii)]	
(14)	Prem purchased a Honda City car from Unipro, a dealer, for ₹ 15 lakhs.	Prem is not sure whether this purchase has any TDS/TCS implications.			
		(i) Is Prem required to deduct tax at source on payment made to Unipro?	7	393(1) [Table: Sl. No. 8(ii)]	

		(ii)	Is Unipro required to collect tax at source on such receipt from Prem?		394(1) [Table: Sl. No. 6]	
		(iii)	Is Prem required to quote PAN?	8	262	
(15)	Prem's mother incurs an expenditure of ₹ 2.20 lakhs for travel to USA to stay with her daughter. She does not have any other income other than interest on fixed deposits of ₹ 3 lakhs.		Prem's mother thinks that she is not required to file her return of income since her income does not exceed the basic exemption limit. Is she correct?	8	263(1)	
(16)	Ram paid ₹ 1,60,000 by account payee cheque to a hotel in Manali for a week's stay with his family.		Is Ram required to quote PAN in the documents?	8	262	
(17)	In November, 2027, Ram realized that he has not filed his return of income for T.Y.2026-27.		Ram wants to file his return now (i.e., in November, 2027). Can he do so?	8	263(4)	

(18)	Prem has filed his return of income for T.Y.2026-27 in July, 2027. In November, 2027, he realizes that he has not claimed deduction under section 123 in respect of deposit in PPF.	(i) Prem wants to revise his return and claim the deduction now (i.e., in November, 2027). Can he do so?	8	263(5)	
		(ii) If so, by what date should he file his revised return?			
(19)	Harini made a fixed deposit of ₹ 80,000 with ICICI bank on 3 rd October.	Is Harini required to quote her PAN in the documents related to fixed deposit?	8	262	



CROSSWORD PUZZLE



ACROSS

2. Higher rate of TDS is attracted for non-furnishing of (acronym)
5. Under section 393(1) [Table: Sl. No. 7], tax is deductible on
7. Under section 393(1) [Table: Sl. No. 6(iii)], tax is deductible in respect of, *inter alia*,
11. Section 393(1) [Table: Sl. No. 5(i)] provides for tax deduction at source on interest on

13. A person authorised to verify return of a company which is being wound up.
15. Tax under section 392 is deductible at the time of of salaries.
16. Advance tax is generally payable in installments
17. Section 262(6) requires linking of Number with Permanent Account Number
18. Section 393(1) [Table: Sl. No. 6(i)] provides for TDS on payment to a
20. Section 392(7) requires tax to be deducted on premature withdrawals from(acronym)

DOWN

1. A return filed under section 263(6) is an return.
3. TDS under section 393(1) [Table: Sl. No. 8(iv)] is attracted on benefit or in respect of business.
4. Under section 393(1) [Table: Sl. No. 2(ii)], tax is deductible at source@2% in respect of rent for, *inter alia*,
6. Section 393(1) [Table: Sl. No. 3(i)] is not attracted on transfer of land.
8. The definition of "work" includes, *inter alia*,
9. A return filed under section 263(5) is a return
10. A return filed under section 263(4) is a return.
12. Tax is deductible at source@30% in respect of income.
14. Under section 394(1), TCS@2% is attracted on sale of, *inter alia*,
19. Tax is deductible at source@30% in respect of winnings from games.

Find the answers to the Scenario and Crossword puzzle at the end of Module 2.

