CHAPTER 8

DEDUCTIONS FROM GROSS TOTAL INCOME



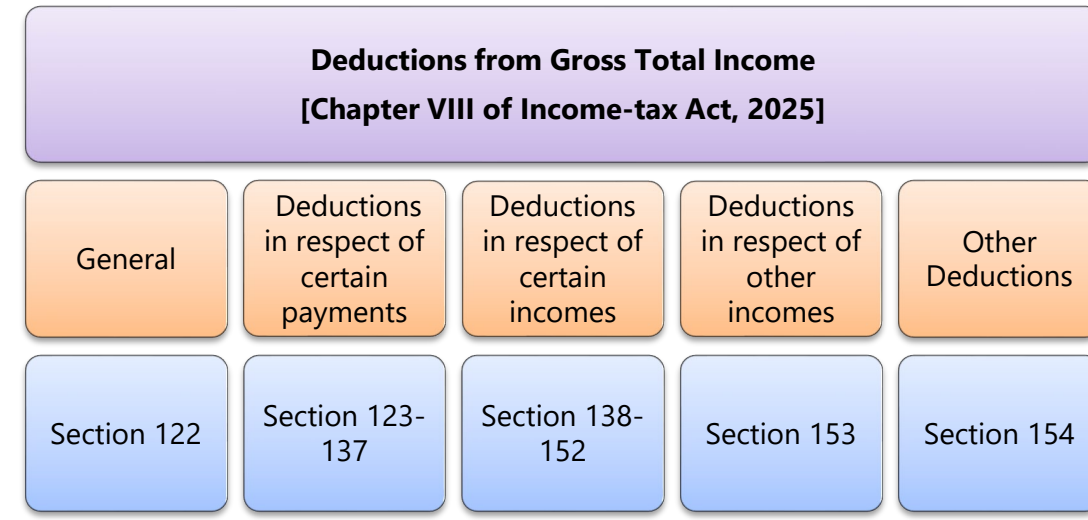
LEARNING OUTCOMES

After studying this chapter, you would be able to:

- **appreciate** the general provisions contained in Part "A – General" of Chapter VIII relating to deductions to be made in computing total income;
- **analyse and apply** the provisions of Chapter VIII contained in Part "B – Deductions in respect of certain payments" in problem solving and addressing related issues;
- **appreciate** the provisions of Chapter VIII contained in Part "C – Deductions in respect of certain incomes" and "D – Deductions in respect of other incomes", and **analyse and apply** the provisions in problem solving and addressing related issues;
- **compute** the deduction allowable in Part "E – other deductions in the case of a person with disability under section 154;
- **compute** the aggregate deduction available under Chapter VIII to an assessee, if available, and thereafter, arrive at the total income of the assessee.

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CHAPTER OVERVIEW



8.1 GENERAL PROVISIONS

As we have seen earlier, section 11 exempts certain incomes specified under schedules II to VII. Such incomes are excluded from the total income and do not enter into the computation process at all. On the other hand, Chapter VIII contains deductions from 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 deductions in respect of certain payments, deductions in respect of certain incomes, deductions in respect of other income and other deductions.

Deductions to be made in computing total income (Section 122)

(1) 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.

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(2) **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.

(3) **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, if any deduction is admissible under section 133/135/137/138/141/142/143, 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.

(4) **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)].

(5) **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 (4) above, shall be allowed if 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 the Part C of Chapter VIII would lose the benefit of deduction under these sections.

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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
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 article or thing, 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 newly established Units 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 cooperative
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

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ILLUSTRATION 1

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

(a) For grant of deduction u/s 141, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 263(1) is not required.

(b) Filing of belated return under section 263(4) of the Income-tax Act, 2025 will debar a company from claiming deduction under section 143.

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 141.

(b) The statement is correct. As per section 122(5), the company has to furnish its return of income on or before the due date specified under section 263(1), to be eligible to claim deduction, *inter alia,* under section 143.

(6) **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. This is irrespective of anything contrary contained in Part C of Chapter VIII [Section 122(6)].

(7) **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;

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(c) if it is a specified domestic transaction referred to in section 164, in relation to any goods or services sold, supplied or acquired, the arm's length price as defined in section 173(a).

(8) **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 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.

(9) **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.

(10) **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 business losses, unabsorbed depreciation etc., have been set off.

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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.

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".

8.2 DEDUCTIONS IN RESPECT OF PAYMENTS

Deduction in respect of investment in specified assets [Section 123]

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. **The maximum permissible deduction under section 123 is ₹ 1,50,000 in a tax year.**



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 available under the default tax regime under section 202(1).

(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.

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

<table>
<tr><th></th><th colspan="2">Deduction under section 123 read with Schedule XV (Para 2)</th></tr>
<tr><td>In respect of policies issued on or before 31.3.2012</td><td colspan="2">Premium paid as is upto 20% of the "actual capital sum assured"</td></tr>
<tr><td>In respect of policies issued on or after 1.4.2012 but before 1.4.2013</td><td colspan="2">Premium paid as is upto 10% of the "actual capital sum assured"</td></tr>
<tr><td rowspan="4">In respect of policies issued on or after 1.4.2013</td><td rowspan="2">(a)</td><td>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.</td></tr>
<tr><td>Premium paid as is upto 15% of the "actual capital sum assured"</td></tr>
<tr><td rowspan="2">(b)</td><td>Where the insurance covers the life of any person, other than mentioned in (a) above</td></tr>
<tr><td>Premium paid as is upto 10% of the "actual capital sum assured"</td></tr>
<tr><td colspan="3">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.</td></tr>
</table>

ILLUSTRATION 2

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

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	Date of issue of policy	*Person insured*	*Actual capital sum assured (₹)*	*Insurance premium paid during tax year 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 tax year 2026-27 (₹)	Deduction u/s 123 for tax year 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. Hari pays tax under default tax regime under section 202(1)?

SOLUTION

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

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Premium paid in respect 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 1.4.2019) (Sum Assured ₹3,00,000)	*36,000*

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

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SOLUTION

Computation of deduction under section 123 for tax year 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 ₹ 3,00,000, as the policy is taken after 31.3.2012)	30,000
Total	**1,80,000**
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 Samriddhi 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 Samriddhi 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 Samriddhi 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.

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Subscription to National Savings Certificates VIII

Subscription to Savings Certificates[1] 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.

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 Fund[2]. 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 fund 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).

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[1] as mentioned in section 3(k) of Government Savings Bank,1873 to be read now as 'Government Savings Promotion Act, 1873'

[2] referred to in Schedule VII (Table: S. No. 20 or 21)

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"Specified company" means a company to be formed and registered under the Companies Act, 2013 and whose entire capital is subscribed by such financial institutions or banks as may be specified by the Central Government, by notification in the Official Gazette, for the purpose of transfer and vesting of the undertaking

"Administrator" means a person or a body of persons appointed as Administrator by the Central Government. The Central Government shall appoint a person or a body of persons, as the "Administrator of the specified undertaking of the Unit Trust of India" for the purpose of taking over the administration thereof and the Administrator shall carry on the management of the specified undertaking of the Trust for and on behalf of the Central Government.

"Specified undertaking" includes all business, assets, liabilities and properties of the Trust representing and relatable to the schemes and Development Reserve 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
- 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.

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Payment of tuition fees

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

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

(1) should be chargeable to tax under the head "Income from house property";

(2) 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 cooperative 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);

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(f) any company in which the public are substantially interested or any cooperative 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.

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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 with 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 scheme[3] 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.**

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, 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

[3] *National Pension Scheme Tier II- Tax Saver Scheme, 2020 notified for this purpose.*

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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 fund[4] 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.

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).

ILLUSTRATION 5

Mr. Binu, aged about 40 years, has earned a lottery income of ₹ 1,30,000 (gross) during the tax year 2026-27. He also has interest on Fixed Deposit of ₹ 35,000. He invested an amount of ₹ 20,000 in Public Provident Fund account and ₹ 34,000 in five year term deposit with Post Office. What is the total income of Mr. Binu for the tax year 2026-27 if he has exercised the option of shifting out of the default tax regime?

SOLUTION

Computation of total income of Mr. Binu for tax year 2026-27

Particulars	₹	₹
Income from Other Sources		
- Interest on Fixed Deposit		35,000

[4] *referred to in Schedule VII (S. No 20 or 21)*

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- Lottery income		1,30,000
Gross Total Income		**1,65,000**
Less: **Deductions under Chapter VIII [See Note below]**		
Under section 123		
- Deposit in Public Provident Fund	20,000	
- Investment in five years term deposit with Post Office	34,000	
	54,000	
Restricted to		35,000
Total Income		**1,30,000**

Note - *Though the value of eligible investments is ₹ 54,000, however, deduction under Chapter VIII cannot exceed the gross total income exclusive of long term capital gains u/s 197/198, short-term capital gains covered under section 196, winnings of lotteries etc. of the assessee.*

Therefore, the maximum permissible deduction u/s 123 = ₹ 1,65,000 – ₹ 1,30,000 = ₹ 35,000.

(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, -

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		(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 conditions mentioned 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 (B)	Conditions for taxation (C)	Manner and amount of taxation in the tax year in which condition in column C is fulfilled (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

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			(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 (Table: Sl. No. 3).	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	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.

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		whether in whole 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.

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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))**.

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(iv) Quantum of deduction of employee'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 a versa*.

(v) Quantum of deduction for contribution made to NPS Vatsalya Scheme: NPS Vatsalya is a NPS Scheme designed for minor Indian citizen upto 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) read with section 124(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.

(vi) 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

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(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.

(vii) 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

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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)].

(viii) 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

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			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

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			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.

ILLUSTRATION 6

The basic salary of Mr. Arjun 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. Arjun and his employer contribute 15% of basic salary to the pension scheme notified by the Central Government. Examine the tax treatment in respect of such contribution in the hands of Mr. Arjun if he has exercised the option of shifting out of the default tax regime.

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

SOLUTION

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

(a) 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. Arjun's salary.

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(b) Mr. Arjun'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 for retirement benefits.

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).

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

Mr. Arjun would not be eligible for deduction under section 123 read with Schedule XV para 1(y), or under section 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) read with section 124(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contribution of ₹ 1,80,000 would be allowed as deduction under section 124(1)/(2).

ILLUSTRATION 7

The gross total income of Mr. Neeraj for the tax year 2026-27 is ₹ 9,00,000. He has made the following investments/ payments during the tax year 2026-27 –

	Particulars	*₹*
(1)	*Contribution to PPF*	*1,30,000*
(2)	*Payment of tuition fees to Sunrise School, Mumbai, for education of his son studying in Class X*	*95,000*
(3)	*Repayment of housing loan taken from Canara Bank*	*30,000*
(4)	*Contribution to approved pension fund of LIC*	*1,05,000*

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

SOLUTION

Computation of deduction under section 123 for the tax year 2026-27

Particulars	₹
Deduction under section 123	
- Contribution to PPF	1,30,000
- Payment of tuition fees to Sunrise School, Mumbai, for education of his son studying in Class X	95,000
- Repayment of housing loan	30,000
- Contribution to approved pension fund of LIC	1,05,000
	3,60,000
As per section 123, the aggregate deduction has to be restricted to ₹ 1,50,000	1,50,000

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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 to 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.

(c) 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.

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

(v) 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.

Deduction in respect of health insurance premium [Section 126]

(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 upto ₹ 25,000 in aggregate is allowed in respect of the following payments–

(1) whole of the amount paid to effect or keep in force an 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 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 upto ₹ 50,000 on account of medical expenditure incurred on the health of self, spouse or dependant children.

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

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(c) Deduction in respect of insurance premium paid for parents: A deduction upto ₹ 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 upto ₹ 50,000 on account of medical expenditure incurred on the health of any parent of the assessee.

The aggregate of sum referred 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 upto ₹ 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 is a **senior citizen**.

(iii) Quantum of deduction in case of a HUF

(a) Deduction under section 126 is allowed to a HUF upto ₹ 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 upto ₹ 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.

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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 persons 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 ÷ 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.

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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 the health insurance (ii) Contribution to Central Government Health Scheme (CGHS) (iii) Preventive health check up expenditure	In case of individual: Self, spouse and dependent children In case of HUF: Family member In case any of the above persons is senior citizen	₹ 25,000 ₹ 50,000
II	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	In case either or both the parents is senior citizen Parents	₹ 25,000 ₹ 50,000
IV	Amount paid on account of medical expenditure	Senior citizen parents who is not covered under health insurance	₹ 50,000

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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 III (Subject to overall limit of ₹ 25,000 or ₹ 50,000, as the case may be)



Deduction under section 126 would be available to an individual/ HUF only if he/it exercises the option of shifting out of the default tax regime.

ILLUSTRATION 8

Mr. Ravi, aged 45 years, paid medical insurance premium of ₹ 22,000 during the tax year 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 65 years, who is not dependant on him. He contributed ₹ 4,600 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 ₹ 4,500 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 126 for the tax year 2026-27 if Mr. Ravi has exercised the option of shifting out of the default tax regime.

SOLUTION

Deduction allowable under section 126 for the tax year 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	22,000	22,000
	(ii) Contribution to CGHS	4,600	3,000
	(iii) Exp. on preventive health check-up of self & spouse	3,000	Nil
		29,600	**25,000**

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B.	**Exp. on preventive health check-up and medical expenditure incurred for father, who is a senior citizen**		
	(i) Mediclaim premium paid for father, who is over 60 years of age	47,000	47,000
	(ii) Expenditure on preventive health check-up of father	4,500	3,000
		51,500	**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 contribution to CGHS would be restricted to ₹ 3,000 [₹ 25,000 (-) ₹ 22,000] and expenditure on preventive health check-up for self and spouse would be Nil [₹ 25,000 (-) ₹ 22,000 (-) ₹ 3,000].

(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 ₹ 3,000, which is less than the maximum permissible limit of ₹ 5,000.

ILLUSTRATION 9

Mr. Yatin, aged 48 years, paid medical insurance premium of ₹ 23,000 during the tax year 2026-27 to insure his health as well as the health of his spouse and dependant children. He also paid medical insurance premium of ₹ 35,000 during the year to insure the health of his mother, aged 71 years, who is not dependant on him. He incurred medical expenditure of ₹ 24,000 on his father, aged 78 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,500 to Central Government Health Scheme during the year. Compute the deduction allowable under section 126 for the tax year 2026-27 if Mr. Yatin has exercised the option of shifting out of the default tax regime.

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SOLUTION

Deduction allowable under section 126 for the tax year 2026-27

Particulars			₹
(i)	Medical insurance premium paid for self, spouse and dependent children	₹ 23,000	
(ii)	Contribution to CGHS	₹ 6,500	
		₹ 29,500	
	restricted to		25,000
(iii)	Mediclaim premium paid for mother, who is over 60 years of age	₹ 35,000	
(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	₹ 24,000	
		₹ 59,000	
	restricted to		50,000
			75,000

Deduction in respect of maintenance including medical treatment of a dependant disabled [Section 127]

(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.

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(b) The benefit of deduction under this section is also available to assessees 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 **₹ 1,25,000**[5].

(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.

(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

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[5] *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.*

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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 "Dependant":

	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 Hindu undivided family for his support and maintenance and shall not include a person who has claimed deduction under section 154 in computing his total income for the tax year.



Deduction under section 127 would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime.

Deduction in respect of medical treatment etc. [Section 128]

(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.

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(ii) Meaning of "Dependant":

	Assessee	Dependant
(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) 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.



Deduction under section 128 would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime.

Deduction in respect of interest on loan taken for higher education [Section 129]

(i) Eligible assessee: Section 129 provides deduction to an individual-assessee in respect of any interest paid by him during the tax year on

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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 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, 1961;

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(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.



Deduction under section 129 would be available to an individual only if he exercises the option of shifting out of the default tax regime.

ILLUSTRATION 10

Mr. Gopal 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	Gopal	Son of Gopal	Daughter of Gopal
Purpose of loan	MBA	B. Tech.	B.Tech.
Amount of loan (₹)	6,00,000	3,00,000	4,50,000
Annual repayment of loan (₹)	1,20,000	48,000	88,000
Annual repayment of interest (₹)	24,000	12,000	16,000

Compute the amount deductible under section 129 for the tax year 2026-27 if Mr. Gopal has exercised the option of shifting out of the default tax regime.

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

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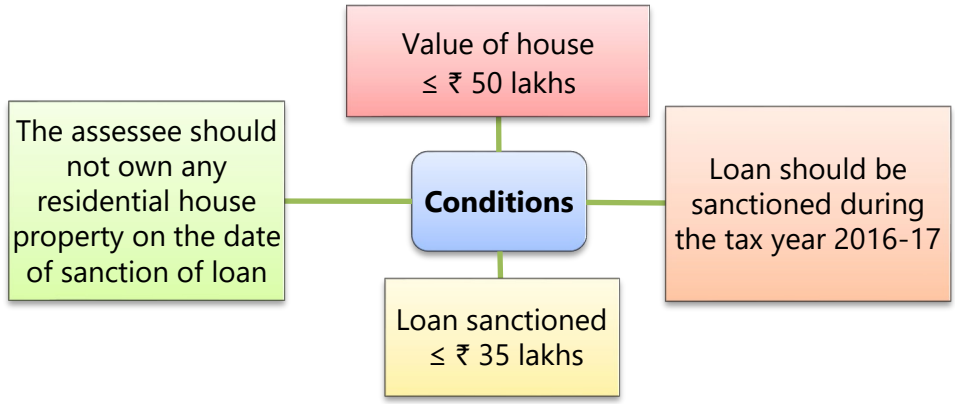
in respect of all the above loans would be eligible for deduction.

Deduction under section 129 = ₹ 24,000 + ₹ 12,000 + ₹ 16,000 = ₹ 52,000.

Deduction for interest on loan borrowed for acquisition of residential house property [Section 130]

(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 upto ₹ 50,000 under section 130 is over and above the deduction of upto ₹ 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.

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(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.



Deduction under section 130 would be available to an individual only if he exercises the option of shifting out of the default tax regime.

ILLUSTRATION 11

Mr. Ankur purchased a residential house property for self-occupation at a cost of ₹ 48 lakhs on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakhs from Bank of India @11% p.a. on the same date. The loan was sanctioned on 10th March, 2017. Compute the eligible deduction in respect of interest on housing loan for tax year 2026-27 if Mr. Ankur 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 tax year 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

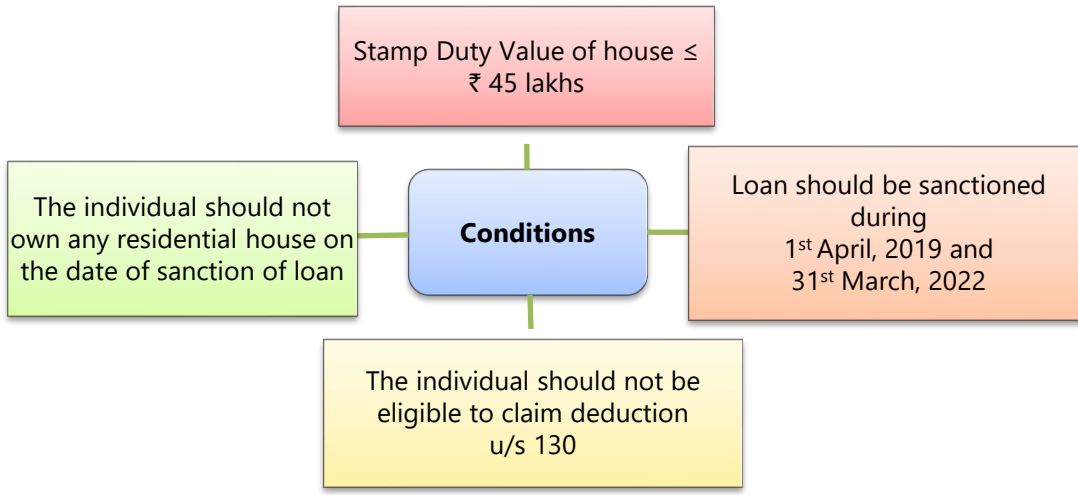
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(ii)	**Deduction under Chapter VIII from Gross Total Income**	
	Deduction under section 130 ₹ 1,85,000 (₹ 3,85,000 - ₹ 2,00,000)	
	Restricted to	50,000

Deduction in respect of interest payable on loan taken for acquisition of residential house property [Section 131]

(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.

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(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:

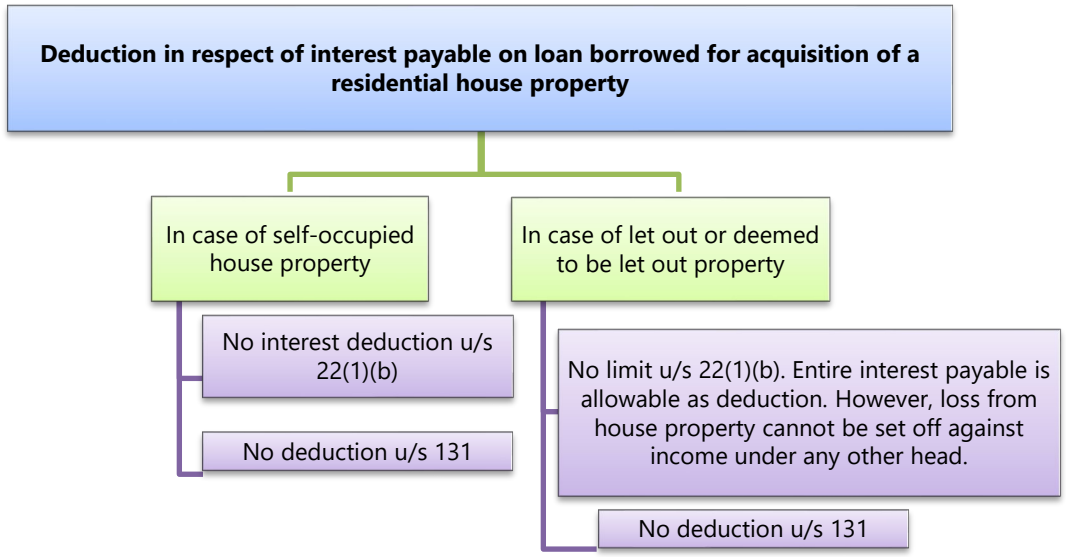
	Term	Meaning
(a)	Financial institution	• A banking company to which the Banking Regulation Act, 1949 applies; or • Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or • A housing finance company.
(b)	Housing finance company	A public company formed or registered 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.



Deduction under section 131 would be available to an individual only if he exercises the option of shifting out of the default tax regime.

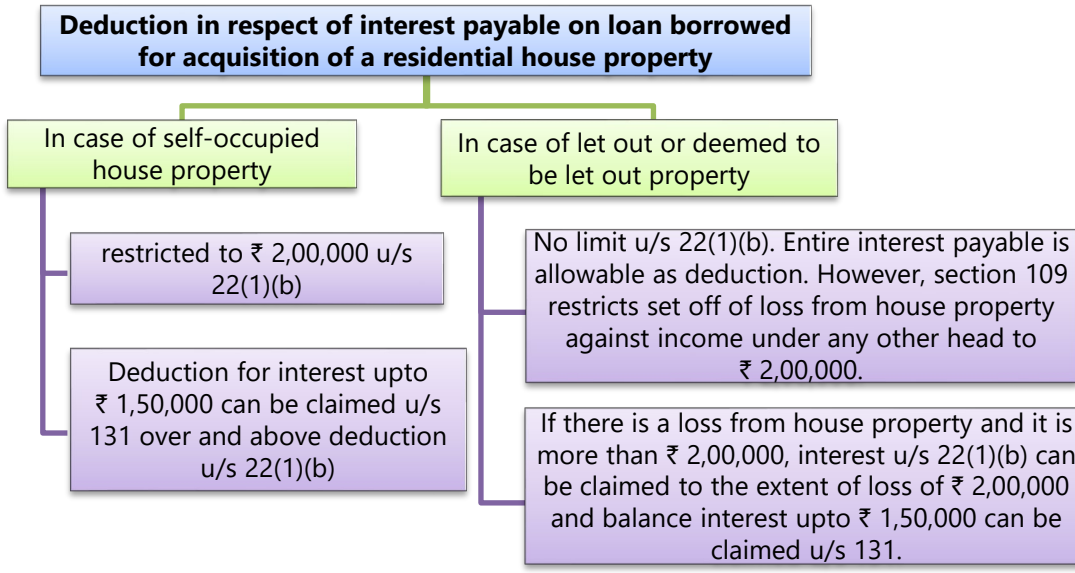
Summary

I. In case the individual assessee pays tax under default tax regime u/s 202(1)



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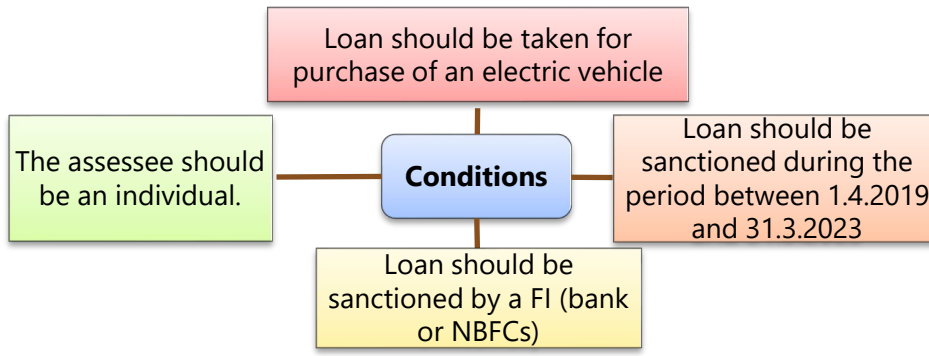
II. In case the individual assessee has exercised the option of shifting out of the default tax regime



Deduction in respect of interest payable on loan taken for purchase of electric vehicle [Section 132]

(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 for availing this deduction are as follows:



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(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 • A Non-Banking Financial Company (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.



Deduction under section 132 would be available to an individual only if he exercises the option of shifting out of the default tax regime.

ILLUSTRATION 12

The following are the particulars relating to Mr. Arun, Mr. Barun, Mr. Chetan and Mr. Dinesh, salaried individuals, for tax year 2026-27 –

Particulars	*Mr. Arun*	*Mr. Barun*	*Mr. Chetan*	*Mr. Dinesh*
Amount of loan taken	*₹ 43 lakhs*	*₹ 45 lakhs*	*₹ 20 lakhs*	*₹ 12 lakhs*
Loan taken from	*HFC*	*Deposit taking NBFC*	*Deposit taking NBFC*	*Public sector bank*

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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 of house property	*₹ 45 lakhs*	*₹ 48 lakhs*	*-*	*-*
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 tax year 2026-27 in the hands of Mr. Arun, Mr. Barun, Mr. Chetan and Mr. Dinesh 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. Arun		
Interest deduction for tax year 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 × 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)	
	Restricted to	1,50,000

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Mr. Barun		
Interest deduction for tax year 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 × 9%]	
	Restricted to	2,00,000
(ii)	**Deduction under Chapter VIII**	
	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 of the above violations.	
Mr. Chetan		
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]		1,50,000
Mr. Dinesh		
Deduction under Chapter VIII from Gross Total Income		
Deduction u/s 132 is not permissible since loan was sanctioned before 1.4.2019.		Nil

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.

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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 not be available under the default tax regime under section 202(1). Deduction under section 133 would be available only if such person has exercised the option of shifting out of the default tax regime and pays tax as per the optional tax regime under the regular provisions of the Act.

In case of companies and co-operative societies, deduction would not be available if they opted for the special provisions u/s 200/201 and section 203/204, respectively. In other words, deduction would be available only if companies and co-operative societies 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 Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district for improving primary education in villages and towns having a population up to one lakh according to the last census of which figures are published before the first day of the relevant tax year, in such district and for literacy and post-literacy activities; or
(11)	National Blood Transfusion Council or any State Blood Transfusion Council which has its sole object the control, supervision, regulation

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	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 the Lieutenant Governor's Relief Fund, if the fund meets all the following conditions:— (A) it is the only fund of its kind established in the State or the Union territory; (B) it is under the overall control of the Chief Secretary or the Department of Finance of the respective State or the Union territory; (C) it is administered in a manner specified by the State Government or the Lieutenant Governor; or
(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

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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 gross total income i.e., the gross total income 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 (v) Income referred to in section 207(1), 208, 209, 210 and 213
Step 2:	Calculate 10% of adjusted gross 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 and
- subject to verification as per the risk management strategy formulated by the Board from time to time.

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(v) Other points:

(a) 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)].

(b) Deduction for donations is allowed only for donations made as a sum of money.

(c) 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)].

(d) The deduction under section 133 can be claimed whether it has any nexus with the business of the assessee or not.

(e) 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.

(f) Charitable purpose does not include any purpose the whole or substantially the whole of which is of a religious nature.

(g) 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 13

Mr. Arjun aged 45 years, has gross total income of ₹ 8,85,000 comprising of income from salary and house property. He has made the following payments and investments:

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(i) Premium paid to insure the life of his major daughter (policy taken on 1.4.2019) (Assured value ₹ 1,80,000) – ₹ 20,000

(ii) Medical Insurance premium for self – ₹ 14,000; Spouse – ₹ 15,000

(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 – ₹ 10,000 by way of cheque.

(vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque

(viii) Deposit in PPF - ₹ 1,20,000

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

SOLUTION

Computation of Total Income of Mr. Arjun for tax year 2026-27

Particulars	₹	₹
Gross Total Income		**8,85,000**
***Less*: Deduction under section 123**		
Deposit in PPF	1,20,000	
LIC pension fund	60,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,98,000	
As per section 123, deduction is restricted to		1,50,000
Deduction under section 126		
Medical Insurance premium in respect of self and spouse	29,000	
Restricted to		25,000

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Deduction under section 133 (See Working Note below)		**90,500**
Total income		**6,19,500**

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	10,000	100%	10,000
(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)	15,500
				90,500

Notes - Adjusted gross total income = Gross Total Income (–) Amount of deductions under section 123 to 154 except section 133 i.e., ₹ 7,10,000, in this case. ₹ 71,000, being 10% of adjusted gross 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 ₹ 31,000 (being, ₹ 71,000 - ₹ 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 ₹ 15,500, which is 50% of ₹ 31,000.

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Deduction in respect of rent paid [Section 134]

(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 -

(a) The assessee should not receive any income falling in Schedule III (Sl. No. 11) i.e., house rent allowance.

(b) The accommodation should be occupied by the assessee for the purposes of his own residence.

(c) 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.

(d) 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

(e) 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).

(f) The assessee is required to furnish a declaration in Form No. 131 for the purpose of claiming deduction.

(iii) **Quantum of deduction:** The deduction admissible will be the least of the following:

(a) Actual rent paid minus 10% of the total income of the assessee before allowing the deduction under this section, or

(b) 25% of such total income (arrived at after making all deductions under Chapter VIII but before making any deduction under this section), or

(c) Amount calculated at ₹ 5,000 p.m.

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Deduction under section 134 would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime.

ILLUSTRATION 14

Mr. Rakesh, a businessman, whose total income (before allowing deduction under section 134) for tax year 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 tax year 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 (-) ₹ 46,000 (10% x ₹ 4,60,000) = ₹ 98,000

(ii) 25% of total income i.e., ₹ 4,60,000

= ₹ 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

Deduction in respect of donations for scientific research [Section 135]

(i) Eligible assessee: Section 135 grants deduction in respect of the donations made for scientific research or rural development 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 -

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(a) a research association which has as its object the undertaking of scientific research, or a University, college or other institution approved for the purposes of section 45(3)(a)(i) to be used for scientific research	(b) a research association which has as its object the undertaking of research in social science or statistical research, or a University, college or other institution approved for the purposes of section 45(3)(a)(ii) to be used for research in social science or statistical research;

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:

(a) 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".

(b) 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.

(c) No deduction shall be allowed in respect of contribution made in cash exceeding **₹ 2,000**.

(d) 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.



An individual, HUF, AOP (other than a co-operative society) or BOI or an artificial juridical person will be eligible for deduction u/s 135 only if such person has exercised the option of shifting out of the default tax regime.

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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 15

During the tax year 2026-27, Sky Ltd., an Indian company contributed a sum of ₹ 3.5 lakh to an electoral trust; and incurred expenditure of ₹ 52,000 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? Sky 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

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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, Sky Ltd. is eligible for a deduction of ₹ 4,02,000 under section 136 in respect of sum of ₹ 3.50 lakh contributed to an electoral trust and ₹ 52,000 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 ₹ 52,000 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.

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 such person has 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.

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8.3 DEDUCTIONS IN RESPECT OF CERTAIN INCOMES

Deductions in respect of profits and gains from undertakings or enterprises engaged in infrastructure development, etc. [Section 138]

Applicability

Section 138 provides that where the assessee has profits and gains from businesses referred to in section 80-IA of the Income-tax Act, 1961 and is eligible to claim deduction from profits and gains derived from such business, he shall be allowed deduction under this section provided the deduction is calculated as per provisions of section 80-IA of the Income-tax Act, 1961 and deduction would be allowed only for such tax years as would have been allowed under section 80-IA of the Income-tax Act, 1961, as if the said Act had not been repealed.

The provisions of section 80-IA of the Income-tax Act, 1961 are discussed as follows:

Section 80-IA(1) of the Income-tax Act, 1961 provides a 10 year tax holiday to an assessee, whose gross total income includes any profits and gains derived by an undertaking or enterprise from an eligible business i.e., business referred to in sub-section (4) of section 80-IA(1) of the Income-tax Act, 1961, namely:

(i) Infrastructure facility - Any enterprise carrying on the business of:

(a) developing; or

(b) operating and maintaining; or

(c) developing, operating and maintaining any infrastructure facility.

Conditions: However, such enterprise must fulfill the following conditions:

(1) It must be owned by a company registered in India or by a consortium of such companies or by an authority or a board or a corporation or any other body established or constituted under any Central or State Act.

(2) It has entered into an agreement with the Central or a State Government or a local authority or statutory body for (i) developing or

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(ii) operating and maintaining, or (iii) developing, operating and maintaining a new infrastructure facility.

(3) It starts operating and maintaining such infrastructure facility on or after 1-4-1995.

(4) However, where an enterprise which developed such infrastructure facility transfers it to another enterprise on or after 1-4-1999, and such transferee enterprise operates and maintains it according to the agreement drawn up with the Government, etc., this section will apply to the transferee enterprise for the unexpired period of deduction (which was available to the first enterprise).



CIT v. Chetak Enterprises Pvt. Ltd. [2020] 423 ITR 267 (SC)

Issue: Can an agreement entered into by a firm with a State Government and work done in pursuance thereof survive upon its conversion into a company and be considered compliant with sub-clauses (a) and (b) of section 80-IA(4)(i) of Income-tax Act, 1961, to qualify for deduction thereunder?

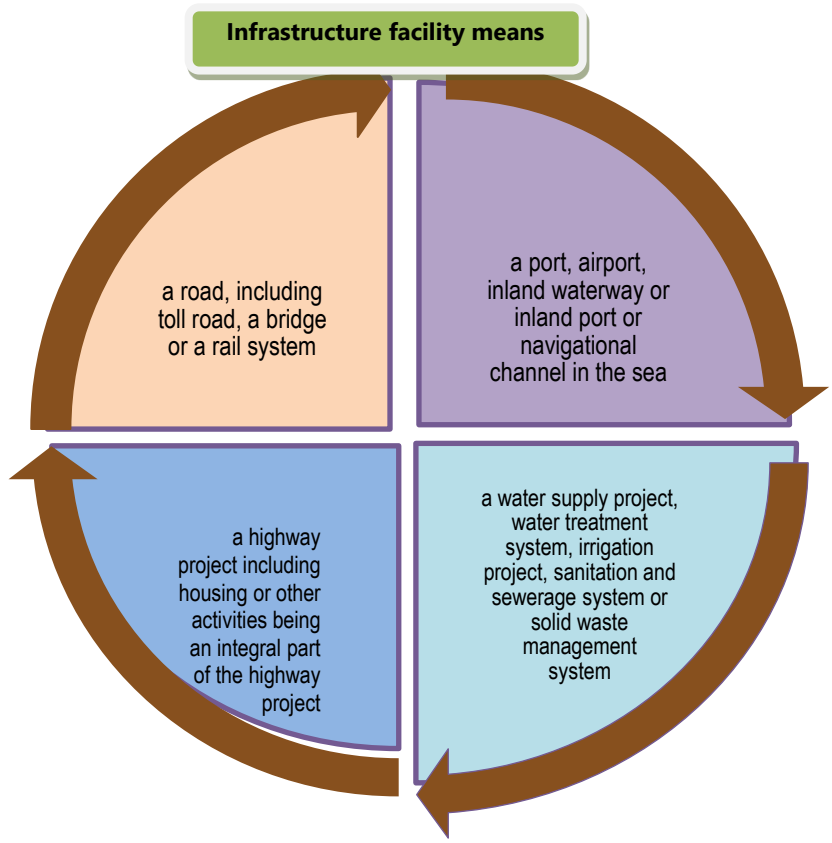
Analysis & Decision: Section 80-IA(4)(i) requires that the assessee must be an enterprise carrying on business of (i) developing, (ii) maintaining and operating or (iii) developing, maintaining and operating any infrastructure facility, which enterprise is owned by a company registered in India fulfilling the conditions mentioned in sub-clauses (a) to (c) thereunder. Sub-clause (a) requires that the enterprise should be owned by a company registered in India. Sub-clause (b) requires that the enterprise should have entered into an agreement with the Central Government or State Government or local authority or any other statutory body for developing, operating and maintaining or developing, operating and maintaining a new infrastructure facility. Sub-clause (c) requires that the enterprise should start operating and maintaining infrastructure facility on or after 1.4.1995.

The assessee-company Memorandum of Association states that its main object was to acquire as a going concern, and continue the business carried on by the firm. The effect of conversion of the firm into a company was that all the properties of the firm, in law, vested in the company and the firm ceased to exist and assumed the status of a company after its registration as a company.

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Accordingly, the assessee-company is qualified for the deduction under section 80-IA (Section 138 of Income-tax Act, 2025) being an enterprise carrying on the stated business pertaining to infrastructure facility and owned by a company registered in India on the basis of the agreement executed with the State Government to which the assessee-company has succeeded in law after conversion of the partnership firm into a company.

Meaning of "infrastructure facility":



Notes:

1. Structures at the ports for storage, loading and unloading etc. will be included in the definition of port for the purpose of section 80-IA of the Income-tax Act, 1961, if the concerned port authority has issued a certificate that the said structures form part of the port.

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2. Effluent treatment and conveyance system is a part of water treatment system and would accordingly, qualify as an infrastructure facility for the purpose of section 80-IA.

3. The CBDT has, vide *Circular No. 4/2010 dated 18.5.2010*, clarified that widening of an existing road by constructing additional lanes as a part of a highway project by an undertaking would be regarded as a new infrastructure facility for the purpose of section 80-IA(4)(i) of the Income-tax Act, 1961. However, simply relaying of an existing road would not be classifiable as a new infrastructure facility for this purpose.



Any enterprise which starts the development or operation and maintenance of the infrastructure facility on or after 1.4.2017 will not be eligible for deduction under section 80-IA of the Income-tax Act, 1961. Instead, such an enterprise may be eligible for investment-linked tax deduction under section 46 of the Income-tax Act, 2025, but only where the activity is a specified business within that section and all the conditions of that section are satisfied.



CIT v. Container Corporation of India Limited (2018) 404 ITR 397 (SC)

Issue: Can Inland Container Depots (ICDs) be treated as infrastructure facility, for profits derived therefrom to be eligible for deduction u/s 138?

Analysis & Decision: Inland Container Depots function for the benefit of exporters and importers located in industrial centres which are situated at distance from sea ports. The purpose of establishing them was to promote the export and import in the country as these depots act as a facilitator and reduce inconvenience to the exporter or importer.

Section 138 provides for a deduction of profits derived from operation of an infrastructure facility. The definition of "infrastructure facility" in *Explanation* to section 80-IA(4)(i) of the Income-tax Act, 1961 includes an inland port. **Considering the nature of work such as custom clearance carried out at inland container depots, it can be considered as an inland port within the meaning of section 80-IA(4)** of the Income-tax Act, 1961.

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(ii) Power undertakings: Any undertaking which



is set up in any part of India for the generation or generation and distribution of power. However, such undertaking must begin to generate power at any time during the period between 1.4.1993 and 31.3.2017



starts transmission or distribution by laying a network of new transmission or distribution lines at any time during the period from 1.4.1999 and 31.3.2017. However, the deduction shall be allowed only in respect of profits derived from the laying of such network of new lines for transmission or distribution



undertakes substantial renovation and modernisation of the existing network of transmission or distribution lines at any time during the period beginning on 1.4.2004 and ending on 31.3.2017

Meaning of "Substantial renovation and modernisation":

'Substantial renovation and modernisation' means an increase in the plant and machinery in the network of transmission or distribution lines by at least 50% of the book value of such plant and machinery as on 1st April, 2004.

Rate of Deduction

The amount of deduction available will be 100% of the profits and gains derived from such business for **ten consecutive tax years commencing at any time** during the periods specified in period of tax holiday/concession below.

Period of tax holiday/concession

	Eligible business	Period of tax holiday
1.	For all eligible business except business mentioned in point 2 below.	Assessee has the option to claim deduction for **10 consecutive tax years out of 15 years** beginning from the year in which the undertaking or the enterprise develops or begins to operate the infrastructure facility or generates power or commences transmission or distribution of power or

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		undertakes substantial renovation and modernization of the existing transmission or distribution lines.
2.	In case of an infrastructure facility being a public facility like – (i) a road, including a toll road, bridge or rail system; or (ii) a highway project including housing or other activities which are an integral part of the highway project; or (iii) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system	Assessee has the option to claim deduction for **10 consecutive tax years out of 20 years** beginning from the year in which the undertaking or the enterprise develops or begins to operate the eligible business

Other provisions

(1) Conditions to exempt profit from housing or other activities, being integral part of highway project: Where housing or other activities are an integral part of a highway project and the profits and gains have been calculated in accordance with the section, the profits shall not be liable to tax if the following conditions have been fulfilled:

(a) The profit has been transferred to a special reserve account; and

(b) the same is actually utilised for the highway project excluding housing and other activities before the expiry of 3 years following the year of transfer to the reserve account;

(c) The amount remaining unutilised shall be chargeable to tax as income of the year in which the transfer to the reserve account took place.

(2) Eligible business to be considered as the only source of income: For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant tax years.

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(3) **Audit of accounts:** The deduction shall be allowed to the undertaking only if the accounts of the undertaking for the relevant tax year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant, before the specified date referred to in section 63 of the Income-tax Act, 2025 i.e., the date one month prior to due date for filing return of income under section 263(1) of the Income-tax Act, 2025.

(4) **Transfer of goods/services between eligible business and other business of the assessee:** Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the eligible business shall be computed as if the transfer was made at market value.

However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

For this purpose, the market value, in relation to any goods or services transferred between the eligible business and any other business carried on by the assessee, shall mean –

(i) the price that such goods or services would ordinarily fetch in the open market; or

(ii) the arm's length price as defined under section 173 of the Income-tax Act, 2025, where the transfer of such goods or services is a specified domestic transaction referred to in section 164 of the Income-tax Act, 2025.

(5) **Deduction not to exceed profits of eligible business:** The deductions claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any tax year no deduction in respect of such profits will be allowed under any other section under this chapter under "Deductions in respect of certain incomes".

(6) **Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:** The Assessing Officer is empowered to make an adjustment while computing

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the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case due to close connection or for any other reason the transaction between the assessee carrying on the eligible business under section 80-IA of Income-tax Act, 1961 and any other person is so arranged that the transaction produces excessive profits to the eligible business.

If the aforesaid arrangement between the assessee carrying on the eligible business and any other person is a specified domestic transaction referred to in section 164 of the Income-tax Act, 2025, then, the amount of profit of such transaction shall be determined having regard to arm's length price as defined under section 173 of the Income-tax Act, 2025 and not as per the reasonable profit from such transaction.

(7) Central Government empowered to deny deduction to any class of eligible undertaking or enterprise: The section empowers the Central Government to declare any class of industrial undertaking or enterprise as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette.

(8) Deduction in case of amalgamation or demerger: In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/ demerger.

(b) The provisions of this section will apply to the amalgamated/ resulting company as they would have applied to the amalgamating/ demerged company if the amalgamation/ demerger had not taken place.

However, such transfer of benefit of deduction to the amalgamated/ resulting company would not be available in respect of any enterprise or undertaking which is transferred in a scheme of amalgamation or demerger effected on or after 1.4.2007.

(9) No deduction to any business carrying on specified activities in the nature of a work contract: The tax holiday under section 80-IA of the Income-tax Act, 1961 would not be available in relation to a business

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referred to in sub-section (4) of section 80-IA of the Income-tax Act, 1961 which is in the nature of a works contract awarded by any person (including the Central or State Government) and executed by the undertaking or enterprise referred to in section 80-IA(1) of the Income-tax Act, 1961.



CIT v. Reliance Energy Ltd. (2022) 441 ITR 346 (SC)

Issue: Does profit-linked deduction under Chapter VIII of Income-tax Act, 2025 have to be restricted to income computed under the head "Profits and gains of business or profession"?

Analysis & Decision: For the purpose of calculating profit-linked deduction under any section of Chapter VIII of Income-tax Act, 2025, loss sustained in other divisions or units cannot be taken into account, as only profits from the eligible business have to be taken into account as if it was the only source of income. Profits and gains from eligible business cannot be reduced by the loss suffered in any other business owned by the assessee for consideration of deduction, *inter alia,* under section 138.

The deduction admissible under section 138 could not be limited to income under the head "Profits and gains of business or profession", by setting-off losses from non-eligible business against profits from eligible business.

Note – *The issue arises in a case where loss from non-eligible business is being set-off against profits from eligible business, which results in income under the head "Profits and gains of business and profession" being lower than the profits from eligible business. In such a case, deduction under Chapter VIII in respect of profits from eligible business would not be restricted to income computed under the head "Profits and gains of business and profession". The same would however be restricted to gross total income as per the requirement in section 122(2).*

For example, let us take the case of XYZ Ltd., an Indian company, for tax year 2026-27. The following are the particulars relating to the said company –

(i) Profits from eligible business - ₹ 90 lakhs,

(ii) Loss from non-eligible business - ₹ 20 lakhs (which is set-off against profits from eligible business)

(iii) Income under the head "Profits and gains of business or profession" – ₹ 70 lakhs [₹ 90 lakhs –₹ 20 lakhs]

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(iv) Income from Other Sources, comprising of interest income - ₹ 15 lakhs

(v) Gross total income – ₹ 85 lakhs

In this case, assuming deduction under section 138 is the only deduction under Chapter VIII for XYZ Ltd., the same would not be restricted to ₹ 70 lakhs (being the income under the head "Profits and gains of business or profession"). However, the same would be restricted to ₹ 85 lakhs, being the gross total income as per the requirement in section 122(2).

If, in the above example, the gross total income was ₹ 95 lakhs (instead of ₹ 85 lakhs), then, the entire profits of ₹ 90 lakhs from eligible business would be allowed as deduction u/s 138.



CIT v. Swarnagiri Wire Insulations Pvt. Ltd. (2012) 349 ITR 245 (Kar.)

Issue: Can unabsorbed depreciation of a business of an industrial undertaking eligible for deduction u/s 138 be set off against income of another non-eligible business of the assessee?

Analysis & Decision: The deeming provision contained in section 80-IA(5) of the Income-tax Act, 1961 could not override section 70(1) of that Act. The same principle applies even for section 138 read with section 108(1) of the Income-tax Act, 2025. The assessee had incurred loss in eligible business after claiming depreciation. Hence, section 138 becomes insignificant, since there is no profit from which this deduction can be claimed. It is thereafter that section 108(1) of the Income-tax Act, 2025 comes into play, whereby the assessee is entitled to set off the losses from one source against income from another source under the same head of income. Therefore, **the assessee was entitled to the benefit of set off of loss of eligible business against the profits of non-eligible business.** However, once set-off is allowed u/s 108(1) of the Income-tax Act, 2025 against income from another source under the same head, a deduction to such extent is not possible in any subsequent tax year i.e., the loss (arising on account of balance depreciation of eligible business) so set-off u/s 108(1) of Income-tax Act, 2025 has to be first deducted while computing profits eligible for deduction u/s 138 of Income-tax Act, 2025 in the subsequent tax year.

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Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of SEZ [Section 139]

Section 139 provides that where the assessee has profits and gains from businesses referred to in section 80-IAB of the Income-tax Act, 1961 and is eligible to claim deduction from profits and gains derived from such business, he shall be allowed deduction under this section provided the deduction is calculated as per provisions of section 80-IAB of the Income-tax Act, 1961 and deduction would be allowed only for such tax years as would have been allowed under section 80-IAB of the Income-tax Act, 1961, as if the said Act had not been repealed.

The provisions of section 80-IAB of the Income-tax Act, 1961 are discussed as follows:

(i) Quantum of deduction: Section 80-IAB(1) of the Income-tax Act, 1961 provides for a deduction of 100% of profits and gains derived by an undertaking or an enterprise from any business of developing a SEZ for 10 consecutive tax years.

(ii) Eligible assessee: The deduction is available to an assessee, being a Developer, whose gross total income includes any profits and gains derived by an undertaking or an enterprise from any business of developing a SEZ, notified on or after 1st April, 2005 under the SEZ Act, 2005.



No deduction would be available to an assessee, being a developer, where the development of SEZ begins on or after 1st April, 2017.

(iii) Meaning of Developer:

(a) a person who, or

(b) a State Government which

has been granted a letter of approval by the Central Government under section 3(10) of the SEZ Act, 2005.

A developer includes –

(a) an authority and

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(b) a Co-developer.

Co-developer means -

(a) a person who, or

(b) a State Government which

has been granted a letter of approval by the Central Government under section 3(12) of the SEZ Act, 2005.

(iv) Option to choose 10 consecutive tax years out of 15 years to claim deduction: The assessee has the option of claiming the said deduction for any ten consecutive tax years out of fifteen years beginning from the year in which a SEZ has been notified by the Central Government.

(v) Deduction to transferee in case of transfer of operation and maintenance of such SEZ: In a case where an undertaking, being a Developer, who develops a SEZ on or after 1.4.2005 and transfers the operation and maintenance of such SEZ to another Developer, the deduction under sub-section (1) shall be allowed to such transferee Developer for the remaining period in the ten consecutive tax years as if the operation and maintenance were not so transferred to the transferee Developer.

(vi) The other provisions discussed in points (2) to (8) in section 138 shall apply to the Special Economic Zone for the purpose of deduction under 139.

Tax incentives for new start-ups [Section 140]

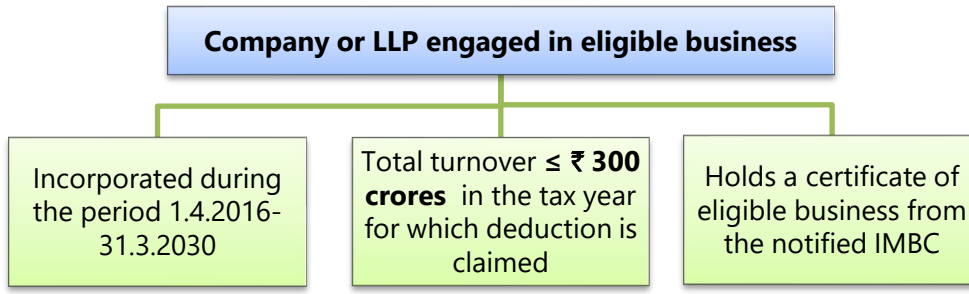
(i) Objective: Section 140 provides an incentive to start-ups in order to aid their growth in the early phase of their business.

(ii) Quantum of deduction: A deduction of **100%** of the profits and gains derived by an eligible start-up from an eligible business is allowed for any **three consecutive tax years**

The deduction may, at the option of the assessee, be claimed by him for **any three consecutive tax years out of ten years** beginning from the year in which the eligible start-up is incorporated.

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(iii) Meaning of eligible start-up:



(iv) Meaning of eligible business: A business carried out by an eligible start-up engaged in –

- Innovation, development or improvement of products or processes or services or
- a scalable business model with a high potential of employment generation or wealth creation.

(v) Conditions to be fulfilled: This incentive is available to a start-up which fulfils the following conditions:

(1) It is not formed by splitting up, or the reconstruction, of a business already in existence.

Exception: However, this condition shall not apply where the business of any undertaking carried on in India is discontinued in any tax year by reason of extensive damage to, or destruction of, any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business as a direct result of

(a) flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature; or

(b) riot or civil disturbance; or

(c) accidental fire or explosion; or

(d) action by an enemy or action taken in combating an enemy (whether with or without a declaration of war)

and thereafter, at any time before the expiry of 3 years from the end of such tax year, the business of such undertaking is re-established, re-constructed or revived by the assessee.

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(2) It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.

Exceptions: However, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled -

(a) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;

(b) such machinery or plant is imported into India;

(c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of the Income-tax Act, 2025 in computing the total income of any person for any period prior to the date of the installation of the machinery or plant by the assessee.

Further, where in the case of a start-up, any machinery or plant or any part thereof previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used in the business, then, the condition specified that it should not be formed by transfer to a new business of plant and machinery used for any purpose shall be deemed to have been complied with.

(vi) Eligible business to be considered as the only source of income: For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant tax years.

(vii) Audit of accounts: The deduction shall be allowed to the assessee only if the accounts of the eligible business for the relevant tax year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant, before the specified date referred to in section 63 i.e., the date one month prior to due date for filing return of income under section 263(1).

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(viii) Transfer of goods/services between eligible business and other business of the assessee: Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the eligible business shall be computed as if the transfer was made at market value.

However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

For this purpose, the market value, in relation to any goods or services transferred between the eligible business and any other business carried on by the assessee, shall mean –

(i) the price that such goods or services would ordinarily fetch in the open market; or

(ii) the arm's length price as defined under section 173, where the transfer of such goods or services is a specified domestic transaction referred to in section 164.

(ix) Deduction not to exceed profits of eligible business: The deductions claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any tax year no deduction in respect of such profits will be allowed under any other provisions of Part C of this chapter.

(x) Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business: The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case due to close connection or for any other reason the transaction between the assessee carrying on the eligible business under section 140 and any other person is so arranged that the transaction produces excessive profits to the eligible business.

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If the aforesaid arrangement between the assessee carrying on the eligible business and any other person is a specified domestic transaction referred to in section 164, then, the amount of profit of such transaction shall be determined having regard to arm's length price as defined under section 173 and not as per the reasonable profit from such transaction.

(xi) Central Government empowered to deny deduction to any class of eligible undertaking or enterprise: The section empowers the Central Government to declare any class of industrial undertaking or enterprise as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification.

Deductions in respect of profits and gains from certain undertaking [Section 141]

Section 141 provides that where the assessee has profits and gains from business referred to in section 80-IB of the Income-tax Act, 1961 and is eligible to claim deduction from profits and gains derived from such business, he shall be allowed deduction under this section provided the deduction is calculated as per provisions of section 80-IB of the Income-tax Act, 1961 and deduction would be allowed only for such tax years as would have been allowed under section 80-IB of the Income-tax Act, 1961, as if the said Act had not been repealed.

The provisions of section 80-IB of the Income-tax Act, 1961 are discussed as follows:

(i) Applicability: This section will be applicable to assessees, whose gross total income includes any 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.

(ii) Conditions to be fulfilled, amount of deduction and period of deduction: In order to claim deduction, the undertaking should fulfill the following conditions:

(a) It should be deriving profits from the business of processing, preservation and packaging of fruits or vegetables or meat or meat

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products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains.

(b) It should begin to operate such business on or after 1.4.2001.

(c) It should begin to operates such business on or after 1.4.2009 in case of an undertaking deriving profit from the business of processing, preservation and packaging of meat or meat products or poultry or marine or dairy products.

(iii) Quantum and period of deduction: The amount of deduction shall be 100% of the profits and gains derived from such business for 5 tax years beginning with the initial tax year in which the undertaking begins such business. Thereafter, the deduction allowable is 25%. In the case of a company, the rate of 25% shall be substituted by 30%. The total period of deduction should not exceed 10 consecutive tax years.

The other provisions discussed in points (2) to (8) in section 138 shall apply to the eligible business for the purpose of deduction under 141.

Deductions in respect of profits and gains from housing projects [Section 142]

Section 142 provides that where the assessee has profits and gains from business referred to in section 80-IBA of the Income-tax Act, 1961 and is eligible to claim deduction from profits and gains derived from such business, he shall be allowed deduction under this section provided the deduction is calculated as per provisions of section 80-IBA of the Income-tax Act, 1961 and deduction would be allowed only for such tax years as would have been allowed under section 80-IBA of the Income-tax Act, 1961, as if the said Act had not been repealed.

The provisions of section 80-IBA of the Income-tax Act, 1961 are discussed as follows:

(i) Quantum of deduction: Where the gross total income of an assessee includes any profits and gains derived from

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- the business of developing and building housing projects an amount equal to 100% of the profits and gains derived from such business is allowable as deduction under section 80-IBA of the Income-tax Act, 1961, subject to fulfilment of certain conditions.
- the business of developing and building rental housing project an amount equal to 100% of the profits and gains derived from such business is allowable as deduction.

(ii) Conditions to be fulfilled for claim of deduction in respect of housing project referred under section 80-IBA(1) of the Income-tax Act, 1961:

(a) the project is approved by the competent authority after 1st June, 2016 but on or before 31st March, 2022;

(b) the project is completed within a period of **five years** from the date of approval by the competent authority:

However, in a case where the approval in respect of a housing project is obtained more than once, the project shall be deemed to have been approved on the date on which the building plan of such housing project was first approved by the competent authority and the project shall be deemed to have been completed when a certificate of completion of project as a whole is obtained in writing from the competent authority.

(c) the carpet area of the shops and other commercial establishments included in the housing project does not exceed 3% of the aggregate carpet area;

(iii) Additional conditions to be fulfilled if the project is approved by the competent authority before 1st September, 2019:

(a) where a residential unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual;

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(b) **Conditions relating to size of plot of land, residential units etc.**

	Location of the housing project	Size of plot of land on which the project is located	Carpet area of the residential unit comprised in the housing project	Percentage of floor area ratio to be utilised by the project
(1)	(2)	(3)	(4)	(5)
(i)	Within the cities of Chennai, Delhi, Kolkata or Mumbai	Not less than 1,000 sq. m.	Not more than 30 sq. m.	Not less than 90% of the floor area ratio permissible in respect of the plot of land under the rules to be made by the Central Government or the State Government or the local authority, as the case may be.
(ii)	In any other place	Not less than 2,000 sq. m.	Not more than 60 sq. m.	not less than 80% of such floor area ratio

(c) The project is the only housing project on the plot of land [referred to in column (3)].

(d) the assessee maintains separate books of account in respect of the housing project.

(iv) Additional conditions to be fulfilled if the project is approved by the competent authority on or after 1st September, 2019

(a) where a residential unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual;

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(b) **Conditions relating to size of plot of land, residential units etc.**

	Location of the housing project	Size of plot of land on which the project is located	Carpet area of the residential unit comprised in the housing project	Percentage of floor area ratio to be utilised by the project
(1)	(2)	(3)	(4)	(5)
(i)	Within the metropolitan cities of Bengaluru, Chennai, Delhi National Capital Region (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata and Mumbai (whole of Mumbai Metropolitan Region)	Not less than 1,000 sq. m.	Not more than 60 sq. m.	Not less than 90% of the floor area ratio permissible in respect of the plot of land under the rules to be made by the Central Government or the State Government or the local authority, as the case may be.
(ii)	In any other place	Not less than 2,000 sq. m.	Not more than 90 sq. m.	Not less than 80% of such floor area ratio

(c) The project is the only housing project on the plot of land [referred to in column (3) above].

(d) the assessee maintains separate books of account in respect of the housing project.

(e) the stamp duty value of a residential unit in the housing project does not exceed ₹ 45 lakhs.

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(v) No deduction for person executing the housing project as a works contract: An assessee who merely executes the housing project as a works-contract awarded by any person (including the Central Government or the State Government) would not be eligible for deduction under this section.

(vi) Consequence of non-completion of housing project within 5 years: In a case where the housing project is not completed within the period of five years from the date of approval by the competent authority and in respect of which a deduction has been claimed and allowed under this section, the total amount of deduction so claimed and allowed in one or more tax years, shall be deemed to be the income of the assessee chargeable under the head "Profits and gains of business or profession" of the tax year in which the period for completion so expires.

(vii) No deduction under any other provision of the Act in respect of such profits: Where any amount of profits and gains derived from the business of developing and building housing projects is claimed and allowed under this section for any tax year, deduction to the extent of such profit and gains shall not be allowed under any other provision of this Act.

(viii) Meaning of certain terms:

	Term	Meaning
(a)	**Carpet area**	Net usable floor area of an apartment Excluding – • The area covered by the external walls, • areas under service shafts • exclusive balcony or verandah area and • exclusive open terrace area **However, carpet area <u>includes</u>** the area covered by the internal partition walls of the apartment. Exclusive balcony or verandah and exclusive open terrace area means the area of the balcony or verandah and the area of open terrace respectively, which is appurtenant to the net usable floor area of an apartment, meant for the exclusive use of the allottee.

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(b)	**Competent authority**	The authority empowered by the Central Government to approve the building plan by or under any law for the time being in force.
(c)	**Floor area ratio**	The quotient obtained by dividing the total covered area of plinth area on all the floors by the area of the plot of land
(d)	**Housing project**	A project consisting predominantly of residential units with such other facilities and amenities as the competent authority may approve subject to the provisions of this section
(e)	**Rental housing project**	A project which is notified by the Central Government under this clause on or before the 31.03.2022 and fulfils such conditions as may be specified in the said notification.
(f)	**Residential unit**	An independent housing unit with separate facilities for living, cooking and sanitary requirements, distinctly separated from other residential units within the building, which is directly accessible from an outer door or through an interior door in a shared hallway and not by walking through the living space of another household.
(g)	**Stamp duty value**	Value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property.

Tax holiday in respect of profits and gains from eligible business of certain undertakings in North-Eastern States [Section 143]

(i) **Applicability:** This section provides for an incentive to an undertaking which has during the period beginning on 1st April, 2007 and ending before 1st April, 2017, begun or begins, in any of the North-Eastern States (i.e., the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) -

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(1) to manufacture or produce any eligible article or thing;

(2) to undertake substantial expansion to manufacture or produce any eligible article or thing;

(3) to carry on any eligible business.

(ii) Meaning of certain terms:

	Terms	Meaning
(a)	**Eligible article or thing**	the article or thing other than - goods falling under Chapter 24 of the First Schedule to the Central Excise Tariff Act, 1985 which pertains to tobacco and manufactured tobacco substitutes; - pan masala as covered under Chapter 21 of the First Schedule to the Central Excise Tariff Act, 1985; - plastic carry bags of less than 20 microns; and - goods falling under Chapter 27 of the First Schedule to the Central Excise Tariff Act, 1985 produced by petroleum oil or gas refineries
(b)	**Substantial expansion**	Increase in the investment in the plant and machinery by at least 25% of the book value of plant and machinery (before taking depreciation in any year), as on the first day of the tax year in which the substantial expansion is undertaken
(c)	**Eligible business**	Business of - - hotel (not below two star category); - adventure and leisure sports including ropeways; - providing medical and health services in the nature of nursing home with a minimum capacity of 25 beds; - running an old-age home;

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		- operating vocational training institute for hotel management, catering and food craft, entrepreneurship development, nursing and para-medical, civil aviation related training, fashion designing and industrial training; - running information technology related training centre; - manufacturing of information technology hardware; and - Bio-technology.

(iii) Quantum of deduction and period: Where the gross total income of an assessee includes any profits and gains derived by such an undertaking, a deduction of 100% of the profits and gains derived from such business for 10 consecutive tax years commencing with the initial tax year shall be allowed in computing the total income of the assessee.

Initial tax year means the tax year in which the undertaking begins to manufacture or produce articles or things or completes substantial expansion.



CIT v. Meghalaya Steels Ltd (2016) 383 ITR 217 (SC)

Issue: Can transport subsidy, interest subsidy and power subsidy received from the Government be treated as profits "derived from" business or undertaking to qualify for deduction u/s 143?

Analysis & Decision: There is a direct nexus between profits and gains of the undertaking or business, and reimbursement of such subsidies. Transport subsidy, interest subsidy and power subsidy from Government are revenue receipts which are reimbursed to the assessee for elements of cost relating to manufacture or sale of their products. Thus, **the subsidies are only in order to reimburse, wholly or partially, costs actually incurred by the assessee in the manufacturing and selling of its products.** Accordingly, these subsidies qualify for deduction u/s 143.

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CIT v. Orchev Pharma P. Ltd. (2013) 354 ITR 227 (SC) [Liberty India v. CIT (2009) 317 ITR 218 (SC) followed]

Issue: Can Duty Drawback be treated as profit derived from the business of the eligible business to be eligible for deduction u/s 143?

Analysis & Decision: DEPB / Duty drawback are incentives which flow from the schemes framed by the Central Government or from section 75 of the Customs Act, 1962. Section 143 provides for allowing of deduction in respect of profits and gains derived by undertaking from business mentioned therein. However, incentives are not profits derived from eligible business u/s 143. They belong to the category of ancillary profits of such undertaking. Profits derived by way of incentives such as DEPB/Duty drawback cannot be credited against the cost of manufacture of goods debited in the statement of profit and loss and they do not fall within the expression "profits derived from undertaking from manufacturing" u/s 143. **Hence, Duty drawback receipts and DEPB benefits do not form part of the profits derived by undertaking from manufacturing business for the purpose of the deduction u/s 143.**



CIT v. Nestor Pharmaceuticals Ltd. / Sidwal Refrigerations Ind Ltd. v. DCIT (2010) 322 ITR 631 (Delhi)

Issue: Does the period of exemption u/s 143 commence from the year of trial production or year of commercial production? Would it make a difference if sale was effected from out of the trial production?

Analysis & Decision: The assessee had started trial production in March 2015 whereas commercial production started only in April, 2015. With mere trial production, the manufacture for the purpose of marketing the goods had not started which starts only with commercial production, namely, when the final product to the satisfaction of the manufacturer has been brought into existence and is fit for marketing. However, in this case, since the assessee had effected sale in March 2015, it had crossed the stage of trial production and the final saleable product had been manufactured and sold. The quantum of commercial sale and the purpose of sale (namely, to obtain registration of excise / sales-tax) is not material. With the sale of those articles, marketable quality was established. Therefore, the conditions stipulated in section 143 were fulfilled with the

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commercial sale of the two items in that tax year, and hence the ten year period has to be reckoned from tax year 2014-15.



Praveen Soni v. CIT (2011) 333 ITR 324 (Delhi)

Issue: Can an assessee who has not claimed deduction under section 143 in the initial years, start claiming deduction thereunder for the remaining years during the period of eligibility, if the conditions are satisfied?

Analysis & Decision: On this issue, the Delhi High Court held that the provisions of section 143 nowhere stipulated a condition that the claim for deduction under this section had to be made from the first year of qualification of deduction failing which the claim will not be allowed in the remaining years of eligibility. Therefore, the deduction under section 143 should be allowed to the assessee for the remaining years up to the period for which his entitlement would accrue, provided the conditions mentioned under section 143 are fulfilled.

(iv) **No deduction under any other section of Chapter VIII of the Act in respect of such profits:** No benefit to these undertakings will be available under any of the sections in Chapter VIII in relation to the profits and gains of such undertakings.

(v) **Maximum permissible deduction:** While computing the total period of 10 years, the period for which the benefit under second proviso to section 80-IB(4) of the Income-tax Act, 1961 has already been availed, if any, shall also be included.

(vi) The provisions discussed in point (v) to (xi) of section 140 shall apply to the eligible undertaking under this section.

Special provisions in respect of newly established Units 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

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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 u/s 200/ 201 and section 203/ 204, respectively. The deduction would be available if they pay tax under the normal provisions of the Act.

(1) Assessees who are eligible for deduction: Deduction is available to all categories of assessees 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

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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 the Income-tax Act, 2025[6]. [The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020]

(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

[6] *10AA of Income-tax Act, 1961*

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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.

(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:-

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

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(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;

(ii) 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 -

(i) 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

(ii) 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 profit 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

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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.



Computation of admissible deduction u/s 144 of the Income-tax, 2025 [Circular No. 4/2018, Dated 14-8-2018]

As per the provision, 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 services bears to the total turnover of the business carried on by the undertaking.

Further, "export turnover" means the consideration in respect of export by the undertaking, being the unit of articles or things or services received in India or

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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, but 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.

The issue of whether freight, telecommunication charges and insurance expenses are to be excluded from both "export turnover"' and "total turnover' while working out deduction admissible under section 144 on the ground that they are attributable to delivery of articles or things outside India has been highly contentious. Similarly, the issue whether charges for rendering services outside India are to be excluded both from "export turnover" and "total turnover" while computing deduction admissible under section 144 on the ground that such charges are relatable towards expenses incurred in convertible foreign exchange in rendering services outside India has also been highly contentious.

The controversy has been finally settled by the Hon'ble Supreme Court vide its judgment dated 24.4.2018 in the case of Commissioner of Income Tax, Central-III Vs. M/s HCL Technologies Ltd. (CA No. 8489-8490 of 2013, NJRS Citation 2018-LL-0424-40), in relation to section 10A of the Income-tax Act, 1961.

The issue had been examined by CBDT and it is clarified, in line with the above decision of the Supreme Court, 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 the 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.

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(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 is 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, -

(i) 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

(ii) 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.

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Circular No. 1/2013, dated 17.01.2013

The above circular provides certain clarifications in respect of following issues arising out of the said provisions:

	Issue	Clarification given by the CBDT
(1)	Would "On-site" development of computer software qualify as an export activity for tax benefit under section 144?	The software developed abroad at a client's place would be eligible for such benefit, because these would amount to 'deemed export'. However, it is necessary that there must exist a direct and intimate nexus or connection of development of software done abroad with the eligible units set up in India and such development of software should be pursuant to a contract between the client and the eligible unit.
(2)	Would receipts from deputation of technical manpower for such "On-site" software development abroad at the client's place be eligible for deduction under section 144?	Profits and gains derived from 'services for development of software' outside India would also be deemed as profits derived from export. Therefore, profits earned as a result of deployment of technical manpower at the client's place abroad specifically for software development work pursuant to a contract between the client and the eligible unit should not be denied benefit under section 144 provided such deputation of manpower is for the development of such software and all the prescribed conditions are fulfilled.
(3)	Is it necessary to have separate master service agreement (MSA) for each work contract?	As per the practice prevalent in the software development industry, generally two types of agreement are entered into between the Indian software developer and the foreign client. Master Services Agreement (MSA) is an initial general agreement between a foreign client and the Indian software developer setting out the broad and general terms and conditions of business under the umbrella of which specific and individual Statement of Works (SOW) are formed. These SOWs, in fact, enumerate the specific scope and nature of the

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		particular task or project that has to be rendered by a particular unit under the overall ambit of the MSA. Clarification has been sought whether more than one SOW can be executed under the ambit of a particular MSA and whether SOW should be given precedence over MSA. It is clarified that the tax benefits under section 144 would not be denied merely on the ground that a separate and specific MSA does not exist for each SOW. The SOW would normally prevail over the MSA in determining the eligibility for tax benefits unless the Assessing Officer is able to establish that there has been splitting up or reconstruction of an existing business or non-fulfillment of any other prescribed condition.
(4)	Would tax benefit under section 144 continue to be available in case of a slump sale of a unit?	The answer to this issue would depend on the facts of each case, such as how a slump-sale is made and what is its nature. It will also be important to ensure that the slump sale would not result into any splitting or reconstruction of existing business. It is, however, clarified that on the sole ground of change in ownership of an undertaking, the claim of exemption cannot be denied to an otherwise eligible undertaking and the tax holiday can be availed of for the unexpired period at the rates as applicable for the remaining years, subject to fulfillment of prescribed conditions.
(5)	Can tax benefits under section 144 be enjoyed by an eligible SEZ unit consequent to its transfer to another SEZ?	It is clarified that the tax holiday should not be denied merely on the ground of physical relocation of an eligible SEZ unit from one SEZ to another in accordance with Instruction No. 59 of Department of Commerce, if all the prescribed conditions are satisfied under the Income-tax Act, 2025. It is further clarified that the unit so relocated will be eligible to avail of the tax benefit for the unexpired period at the rates applicable to such years.

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CIT v. Cognizant Technology Solutions of India Pvt. Ltd. [2023] 454 ITR 1 (SC)

Issue: Is deduction under section 144 available in respect of foreign exchange gain solely relating to the export business of the assessee?

Analysis & Decision: In order to avail deduction under section 144, benefit earned by the assessee by virtue of export made is considered. The exchange value based on upward or downward of the rupee value is not in the hands of the assessee. The assessee does not determine the exchange value of the Indian rupee. But for the fact that, the assessee is an export house, there was no question of earning any foreign exchange.

Therefore, when the fluctuation in foreign exchange rate was solely relatable to the export business of the assessee and the higher rupee value was earned by virtue of such exports carried out by the assessee, the deduction under section 144 would be available in respect of such foreign exchange gains.



CIT v. HCL Technologies Limited (2018) 404 ITR 719 (SC)

Issue: Can expenditure incurred in foreign exchange for provision of technical services outside India, which is deductible for computing export turnover, be excluded from total turnover also for the purpose of computing deduction u/s 144?

Analysis & Decision: Deduction u/s 144 is based on the profit from export business, thus, expenses excluded from "export turnover" must also be excluded from "total turnover", since one of the components of "total turnover" is export turnover. Expenses incurred in foreign exchange for providing the technical services outside are thus, to be excluded from total turnover also.

If deductions in respect of freight, telecommunication charges and insurance attributable to delivery of articles, things etc. or expenditure incurred in foreign exchange in rendering of services outside India are allowed only against export turnover but not from the total turnover for computing deduction u/s 144, then, it would give rise to inadvertent, unlawful, meaningless and illogical results causing grave injustice, which could have never have been the intent of the Legislature. Hence, such expenditure incurred in foreign exchange for providing technical services outside India is deductible from total turnover also.

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ILLUSTRATION 16

ABC Ltd. furnishes you the following information for the year ended 31.3.2027:

Particulars	*₹ (in lakhs)*
Total turnover of Unit A located in Special Economic Zone	*120*
Profit of the business of Unit A	*45*
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2027	*60*
Total turnover of Unit B located in Domestic Tariff Area (DTA)	*225*
Profit of the business of Unit B	*25*

Compute deduction under section 144 for the tax year 2026-27, assuming that ABC Ltd. commenced operations in SEZ and DTA in the year 2019-20.

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 tax 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

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\%$$

$$₹\ 45\ \text{lakhs} \times \frac{₹\ 60\ \text{lakhs}}{₹\ 120\ \text{lakhs}} \times 50\% = ₹\ 11.25\ \text{lakhs}$$

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

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SUMMARY OF DEDUCTIONS IN RESPECT OF CERTAIN INCOMES: SECTIONS 138 to 144

Section	Eligible Business		Year of commencement of eligible business	Period of Deduction	Quantum of Deduction
138	**(1)**	**(i) Developing or** **(ii) Operating and maintaining or** **(iii) Developing, operating and maintaining any infrastructure facility**	On or after 1.4.1995 but not later than 1.4.2017	**Infrastructure Facility of road, or a bridge or a rail system or a highway project or a water supply project:** 10 consecutive tax years out of 20 years beginning from the year in which the enterprise develops or begins to operate the eligible business. **Other eligible businesses:** 10 consecutive tax years out of 15 years beginning from the year in which the	100% of the profits and gains derived from such business for 10 consecutive tax years.
	(2)	**Power undertakings**	**Generation or Generation and distribution:** Set up between 1.4.1993 & 31.3.2017. **Transmission or distribution:** Start transmission during the period from 1.4.1999 & 31.3.2017. **Renovation and modernisation**		

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			of existing network: Undertakes substantial renovation and modernisation during the period on or after 1.4.2004 & ending on 31.3.2017.	enterprise develops or begins to operate the eligible business.	
139	**Development of Special Economic Zones (SEZs)**		Develops SEZ, notified on or after 1st April 2005 but before 1st April 2017.	10 consecutive tax years out of 15 years beginning from the year in SEZ has been notified.	100% of the profits and gains derived from such business.
140	**A business carried out by an eligible start-up engaged in Innovation, Development or Improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation**		The company or LLP is incorporated during the period 1.4.2016 - 31.3.2030	3 consecutive tax years out of 10 years beginning from the year in which company or LLP, incorporated.	100% of the profits and gains derived from such business.
141	**Processing, preservation and packaging of fruits or vegetables or meat and meat products or**		**Processing, preservation and packaging of meat or meat products**	10 consecutive tax years beginning with the initial	100% of the profits and gains derived from such business for 5 tax years

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	poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains	**or poultry or marine or dairy products:** On or after 1.4.2009 **Other eligible businesses:** On or after 1.4.2001	tax year	beginning with the initial tax year 25% (30% in case of company) for remaining 5 years
142	**Developing and building housing projects or rental housing project**	Housing Project referred under section 80-IBA(1) is approved after 1st June 2016 but on or before 31st March 2022	----	100% of the profits and gains derived from such housing project.
143	**Undertaking begun or begins, in any of the North-Eastern States** (i.e., the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) - (1) to manufacture or produce any eligible article or thing; (2) to undertake substantial expansion to manufacture or produce any eligible article or thing;	between 1st April, 2007 and ending before 1st April, 2017	10 consecutive tax years Commencing with the initial tax year	100% of the profits and gains derived from such business

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	(3) to carry on any eligible business.			
144	Units in SEZ engaged in manufacture or production of article or things or provision of services	Between tax year 2005-06 or any subsequent tax year but not later than tax year 2019-20	100% of profits from export of such article/thing/ from services – first 5 tax years 50% of profits – next 5 tax years 50% of profits – next 5 tax years subject to certain conditions	



In case of an individual, HUF, AOP (other than a co-operative society) or BOI or an artificial juridical person, deduction under section 138 to 144 would be available only if such person has exercised the option of shifting out of the default tax regime. It would not be available if such person pays concessional rates of tax under the default tax regime u/s 202(1).

In case of companies and co-operative societies, deduction under section 138 to 144 would not be available if they opted for the special provisions contained in section 200/201 and section 203/204, respectively. In other words, deduction would be available only if companies and co-operative societies pay tax under the normal provisions of the Act.



Admissibility of deduction under Chapter VIII on the profits enhanced due to disallowance of expenditure related to business activity [Circular No.37/2016, Dated 02.11.2016]

Chapter VIII of the Income-tax Act, 2025, provides for deductions in respect of certain incomes. In computing the profits and gains of a business activity, the Assessing Officer may make certain disallowances, such as disallowances pertaining to sections 33, 35(b)(i), 36(4), 37 etc., of the Act. At times, disallowance out of specific expenditure claimed may also be made. The effect of such disallowances is an increase in the profits.

The issue is whether such higher profits would also result in claim for a higher profit-linked deduction under Chapter VIII.

The courts have generally held that if the expenditure disallowed is related to the business activity against which the Chapter VIII deduction has been claimed, the

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deduction needs to be allowed on the enhanced profits. Some illustrative cases upholding this view are as follows:

(i) If an expenditure incurred by assessee for the purpose of developing a housing project was not allowable on account of non-deduction of TDS under law, such disallowance would ultimately increase assessee's profits from business of developing housing project. The ultimate profits of assessee after adjusting disallowance under section 35(b)(i) would qualify for deduction under section 141.

(ii) If deduction under section 36(4) is not allowed, the same would have to be added to the profits of the undertaking on which the assessee would be entitled for deduction under section 141.

In view of the aforesaid judgements, the CBDT has accepted the settled position that the disallowances made under sections 33, 35(b)(i), 36(4), 37 etc. and other specific disallowances, related to the business activity against which the Chapter VIII deduction has been claimed, result in enhancement of the profits of the eligible business, and that deduction under Chapter VIII is admissible on the profits so enhanced by the disallowance.

The same was decided by the Bombay High Court in CIT v. Sunil Vishwambharnath Tiwari (2016) 388 ITR 630.

Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste [Section 145]

(i) Eligible business: The deduction is allowable where the gross total income of an assessee includes any profits and gains derived from the business of collecting and processing or treating of bio-degradable waste for -

(1) generating power, or

(2) producing bio-fertilizers, bio-pesticides or other biological agents, or

(3) for producing bio-gas, or

(4) making pellets or briquettes for fuel or organic manure.

(ii) Quantum of deduction and period: The deduction allowable under this section is an amount equal to the whole amount of such profits and gains

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for five consecutive tax years beginning with the tax year in which such business commences.



In case of an individual, HUF, AOP (other than a co-operative society) or BOI or an artificial juridical person, deduction under section 145 would be available only if such person has exercised the option of shifting out of the default tax regime. It would not be available if such person pays concessional rates of tax under the default tax regime u/s 202(1).

In case of companies and co-operative societies, deduction under section 145 would not be available if they opted for the special provisions contained in section 200/201 and section 203/204, respectively. In other words, deduction would be available only if companies and co-operative societies pay tax under the normal provisions of the Act.

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:

- The business should not be formed by splitting up, or the reconstruction, of an existing business
- The business is not acquired by the assessee through transfer from any other person or as a result of any business reorganisation
- The report of the accountant, giving the prescribed particulars, has to be furnished before the specified date referred to in section 63 i.e., the date one month prior to due date for filing ROI u/s 263(1).

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(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.	

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		Exclusions from the definition: (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 *in lieu* of his employment by whatever name called. **Exclusions from the definition**: (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.

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

ILLUSTRATION 17

Mr. Vikas has commenced the business of manufacture of computers on 1.4.2026. He employed 420 new employees during the tax year 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)	120	1.7.2026	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. Vikas for tax year 2026-27, if the profits and gains derived from manufacture of computers that year is ₹ 90 lakhs and his total turnover is ₹ 11.48 crores.

What would be your answer if Mr. Vikas has commenced the business of manufacture of leather products on 1.4.2026?

SOLUTION

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

I. If Mr. Vikas 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.

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Working Note:

Number of additional employees

Particulars		No. of workmen	
Total number of employees employed during the year			420
Less:	Casual employees employed on 1.7.2026 who do not participate in recognized provident fund	120	
	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	345
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. Vikas for the tax year 2027-28.

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II. If Mr. Vikas is engaged in the business of manufacture of leather products

If Mr. Vikas is engaged in the business of manufacture of leather products, 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

Deduction in respect of certain income of Offshore Banking Units and Units of International Financial Services Centre [Section 147]

(i) Eligible assessee: This section is applicable to the following assessees -

(a) a scheduled bank or a bank, incorporated under the laws of a country outside India, and having an Offshore Banking Unit in a SEZ; or

(b) a Unit of an International Financial Services Centre (IFSC).

(ii) Eligible income qualifying for deduction: The deduction will be allowed on account of the following income included in the gross total income of such assessees -

(a) income from an Offshore Banking Unit located in a SEZ; or

(b) income from the business activities referred to in section 6(1) of the Banking Regulation Act, 1949, with -

(1) undertakings in a SEZ or

(2) entities that develop, develop and operate or develop, operate and maintain SEZ; or

(c) income from the approved business activities of any Unit of an IFSC set up in a Special Economic Zone; or

(d) income arising from the transfer of an asset, being an aircraft or a ship, leased by a unit of an IFSC referred to in clause (c), subject to the condition that the unit has commenced its business operation on or before 31.03.2030.

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(iii) Quantum and period of deduction:

S. No.	Eligible assessee	Quantum and period of deduction	Relevant tax year from which deduction is allowed
(a)	a scheduled bank or a bank incorporated under the laws of a country outside India and having an Offshore Banking Unit in a SEZ, whose GTI includes any income referred to in (ii) above	100% of such income for 20 consecutive tax years beginning from the relevant tax year. ***Note:*** *Section 80LA of the Income-tax Act, 1961 provides for a deduction of 100% of such income for 5 consecutive tax years. Thereafter 50% of such income for the next 5 consequent tax years.* In a case, where the 10th year out of 10 consecutive years of deduction allowed u/s 80LA has ended on 31.3.2025, it is eligible for the benefits of this section for further 10 consecutive years from the tax year beginning on 1.4.2026.	Beginning with the tax year in which (1) the permission under section 23(1)(a) of the Banking Regulation Act, 1949 was obtained; or (2) the permission or registration under the SEBI Act, 1992 or any other relevant law in force was obtained; or (3) the permission or registration under the International Financial Services Centre Authority Act, 2019 was obtained.
(b)	Unit of an International Financial Services Centre (IFSC), whose GTI includes any income referred to in (ii) above	100% of such income for any 20 consecutive tax years out of 25 years beginning from the relevant tax year, at the option of the assessee.	

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(iv) Conditions: The following conditions have to be fulfilled for claiming deduction under this section-

(a) The report of a Chartered Accountant in the prescribed form certifying the correctness of claim of deduction should be submitted along with the return of income.

(b) A copy of the permission obtained under section 23(1)(a) of the Banking Regulation Act, 1949 or copy of permission or registration obtained under the International Financial Services Centre Authority Act, 2019 should also be furnished along with the return of income.

(c) In respect of any Offshore Banking Unit or any other unit commencing operations on or after 1st April, 2026, the deduction shall be available only if such unit is not formed by splitting up or reconstruction or re-organisation or transfer of a business already in existence in India.



Deduction u/s 147 would be available to a unit in IFSC irrespective of the regime under which it pays tax.

Deduction in respect of inter-corporate dividends [Section 148]

(i) Eligible assessee: Deduction under this section would be allowable to a domestic company if its gross total income in any tax year includes any income by way of dividends from

- any other domestic company or
- foreign company or
- a business trust.

(ii) Quantum of deduction: In computing the total income of such domestic company, a deduction of an amount equal to so much of the income by way of dividends received from other domestic company or foreign company or business trust as does not exceed the amount of dividend distributed by it at least one month before the due date for filing the return of income under section 263(1).

In simple words, deduction under this section would be amount of dividend received from other domestic company/foreign company/

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business trust or dividend distributed by the domestic company, whichever is lower.



X Ltd. a domestic company received dividend of ₹ 10 lakhs from "Y Ltd", a domestic company (100% subsidiary of X Ltd.) during the tax year 2026-27. On 15th May, 2026, X Ltd. declared and distributed dividend of ₹ 5 lakhs.

In this case, X Ltd. would be eligible for deduction under section 148 in respect of dividend received from Y Ltd. to the extent of ₹ 5 lakhs, being the amount of dividend declared and distributed by X Ltd. Hence, the deduction under section 148 would be ₹ 5 lakhs.

(iii) No deduction: Where any deduction, in respect of the amount of dividend distributed by the domestic company, has been allowed under this section in any tax year, no deduction shall be allowed in respect of such amount in any other tax year.



Deduction u/s 148 would be available to Indian company irrespective of the regime under which it pays tax.

Deduction in respect of income of co-operative societies [Section 149]

(i) Applicability: Under this section, certain specified income of a co-operative society would be allowed as a deduction, provided such income is included in the gross total income of the co-operative society.

(ii) Eligible income for deduction and quantum of deduction:

(a) Deduction in respect of profit attributable to certain specified activities

100% deduction shall be allowed in respect of profits and gains attributable to any one or more of the following activities of a co-operative society engaged in -

(1) carrying on the business of banking or providing credit facilities to its members; or

(2) a cottage industry; or

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(3) the marketing of agricultural produce grown by its members; or

(4) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture or for the purpose of supplying them to its members; or

(5) the processing, without the aid of power, of the agricultural produce of its members; or

(6) the collective disposal of the labour to its member; or

(7) fishing and other allied pursuits, such as catching, curing, processing, preserving, storing and marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to their members.

However, the exemption in respect of income referred to in (6) or (7) will be available only in the case of those co-operative societies which, under their rules and by-laws, restrict the voting rights to

(i) individual members who contribute their labour or carry on the fishing or allied activities,

(ii) the co-operative credit societies which provide financial assistance to the society and

(iii) the State Government.

(b) Deduction in respect of profit of primary co-operative societies

100% of the profits and gains of the business would be allowed as deduction from the gross total income of the co-operative society in case of a primary co-operative society engaged in supplying milk, oilseeds, cotton seed, cattle feed, fruits or vegetables raised or grown by its members to –

- a federal co-operative society engaged in the business of supplying milk, oilseeds, cotton seed, cattle feed, fruits or vegetables, or
- the Government or a local authority or
- a Government company as defined in section 2(45) of the Companies Act, 2013 or a corporation established by or under a Central, State or Provincial Act, engaged in supplying milk, oilseeds, cotton seed, cattle feed, fruits or vegetables, as the case may be, to the public,

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(c) Deduction in respect of other activities

A co-operative society engaged in activities other than those mentioned above either independently of, or in addition to, all or any of the activities so specified, is eligible for deduction upto ₹ 1,00,000 in the case of consumer co-operative societies and ₹ 50,000 in any other case.

For this purpose, consumer co-operative society means a society for the benefit of the consumers.

(d) Deduction in respect of Interest or dividend income

Any income derived by a co-operative society from its investments with any other co-operative society by way of any interest and dividends is deductible in full under this section.



In case of co-operative societies, deduction under section 149 would not be available if they opt for the special provisions contained in section 203/204. In other words, deduction would be available only if they pay tax under the normal provisions of the Act.

However, cooperative societies opting for the special provisions u/s 203/204 can claim a deduction for dividends received from other cooperative societies to the extent such dividends are distributed by it to its members at least one month before the due date for filing return of income u/s 263(1).

(e) Deduction in respect of letting-out income for certain purpose

The income derived by the co-operative society from the letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities is fully allowable as deduction.

(f) Deduction in respect of interest on securities and income from house property to certain co-operative societies

Any income arising to a co-operative society by way of 'Interest on securities' or 'Income from house property' (chargeable under section 20) is fully deductible under this section where the gross total income of the co-operative society does not exceed ₹ 20,000 and it is not

- a housing society or

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- an urban consumer's society (being a society for the benefit of the consumers within the limits of a municipal corporation, municipality, municipal committee, notified area committee, town area or cantonment) or
- a society carrying on transport business or
- a society engaged in performing manufacturing operations with the aid of power.

(iii) Deduction under other sections of Chapter VIII of the Act: Where the co-operative society is also entitled to the deduction available under section 138, the deduction under this section shall be allowed with reference to the gross total income as reduced by the deduction allowable under section 138.

(iv) Non-eligible co-operative societies: Co-operative bank which is not a primary agricultural credit society (i.e. as defined in Part V of the Banking Regulation Act, 1949) or a primary co-operative agricultural and rural development bank (i.e. society having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities) is not eligible to claim deduction under section 149. Moreover, the CBDT has, vide *Circular No. 6/2010 dated 20.9.2010* clarified that the Regional Rural Banks are not eligible for deduction under section 149.

However, co-operative societies engaged in providing credit facilities solely to its members cannot be said to be a co-operative bank. Thus, such co-operative societies are eligible for deduction under section 149 [***PCIT v. Annasaheb Patil Mathadi Kamgar Sahakari Pathpedi Ltd. [2023] 454 ITR 117 (SC)***].

Deduction in respect of income of federal co-operative [Section 150]

(i) Applicability: Under this section, dividend received by a federal co-operative from its investment with any company would be allowed as a deduction, provided such income is included in the gross total income of the federal co-operative in the tax year.

The deduction would not be allowed to any tax year beginning on or after 1.4.2029.

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(ii) Conditions: Deduction shall be allowed to the extent of the amount which –

(a) has arisen from such investment as recorded in its books of account on or before 31st January, 2026 and

(b) has been distributed by it to its members at least one month before the due date for filing the return of income under section 263(1).

(iii) Meaning of federal co-operative: A federation of co-operative societies registered under Multi-State Co-operative Societies Act, 2002 and whose membership is available only to a co-operative society or a multi-State co-operative society and the federal co-operative is also be notified by the Central Government for deduction.



Deduction u/s 150 would be available to federal co-operative irrespective of the regime under which it pays tax.

Deduction in respect of royalty income, etc., of authors of certain books other than text books [Section 151]

(i) Eligible assessee and 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,

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magazines, newspapers, pamphlets, textbook for schools, tracts and other publications of similar nature.

(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) 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.

(v) 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.

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Deduction under section 151 would be available to an individual resident in India only if he exercises the option of shifting out of the default tax regime.

ILLUSTRATION 18

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 u/s 151 would be ₹ 1,90,000 as calculated hereunder –

	₹
Deduction u/s 151:	
Royalty ₹ 2,88,000 x 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 u/s 151	**1,90,000**

Deduction in respect of royalty on patents [Section 152]

(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

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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:

(a) **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.

(b) **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

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has to furnish a certificate, in the prescribed form from the prescribed authority, along with the return of income in the prescribed manner.

(vi) Rectification of assessment where patent is revoked subsequently: Where the patent is subsequently revoked or the name of the assessee was excluded from the patents register as patentee in respect of that patent, the deduction allowed during the period shall be deemed to have been wrongly allowed and the assessment shall be rectified under the provisions of section 288.

The period of 4 years for rectification shall be reckoned from the end of the financial year in which the order of the revocation of the patent is passed [Section 288(1) Table: Sl No. 10].



Deduction under section 152 would be available to an individual resident in India only if he exercises the option of shifting out of the default tax regime.

8.4 DEDUCTIONS IN RESPECT OF OTHER INCOME

Deduction in respect of interest on deposits [Section 153]

(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:

(a) 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);

(b) 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

(c) a post office.

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(ii) Quantum of deduction

(a) 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)

(b) 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.



Deduction under section 153 would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime.

ILLUSTRATION 19

Mr. Shivpal, a resident individual aged about 64 years, has earned business income (computed) of ₹ 1,40,000, lottery income of ₹ 1,60,000 (gross) during the tax year 2026-27. He also has interest on Fixed Deposit of ₹ 51,000 with banks. He invested

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an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. Shivpal for the tax year 2026-27 if he has exercised the option of shifting out of the default tax regime?

SOLUTION

Computation of total income of Mr. Shivpal for tax year 2026-27

Particulars	₹	₹
Profits and gains of business or profession		1,40,000
Income from other sources		
- Interest on Fixed Deposit with banks		51,000
- lottery income		1,60,000
Gross Total Income		**3,51,000**
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, allowable as deduction to the extent of	50,000	
	2,00,000	
Restricted to		1,91,000
Total Income		**1,60,000**

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 ₹ 2,00,000, 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 = ₹ 3,51,000 – ₹ 1,60,000 = ₹ 1,91,000.

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8.5 OTHER DEDUCTIONS

Deduction in the case of a person with disability [Section 154]

(1) **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 has also been extended to persons suffering from autism, cerebral palsy and multiple disabilities.

(2) **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 of 80% or more) is allowable under this section.

(3) **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.



Deduction under section 154 would be available to an individual only if he exercises the option of shifting out of the default tax regime.

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TEST YOUR KNOWLEDGE

Questions

1. *Mr. Srinivasan, aged 61 years, furnishes the following particulars for the year ending 31.03.2027:*

   (a) *Life Insurance Premium paid – ₹ 15,000, actual capital sum of the policy assured for ₹ 2,30,000. The insurance policy was taken on 31.03.2012;*

   (b) *Contribution to Public Provident Fund – ₹ 40,000 in the name of father;*

   (c) *Tuition fee payment – ₹ 8,000 each for 2 sons pursuing full time graduation course in Calcutta; Tuition fee for daughter pursuing Phd in Kellogg University, USA – ₹ 2.50 lakhs;*

   (d) *Housing loan principal repayment – ₹ 32,000 to Axis Bank. This property is under construction at Calcutta as on 31.03.2027;*

   (e) *Principal repayment of housing loan taken from a relative – ₹ 70,000. The property is self-occupied situated at Pune;*

   (f) *Deposited under Senior Citizens Savings Scheme – ₹ 15,000;*

   (g) *Five-year deposits in an account under Post Office Time Deposit Scheme – ₹ 50,000;*

   (h) *Investment in National Savings Certificate – ₹ 70,000;*

   Compute the deduction eligible under appropriate provisions of section 123 for the tax year 2026-27 if he shifts out of the default tax regime.

2. *X Ltd. has two units, unit 'N' and unit 'Y'. Unit 'N' engaged in the business of power generation installed a windmill in March, 2027 and had a profit of ₹ 100 lakhs in Tax Year 2026-27. X Ltd. claimed depreciation of ₹ 120 lakhs on windmill against the profit of ₹ 100 lakhs from power generation business which was eligible for deduction under section 138. Unit 'Y', engaged in manufacturing of wires, non-eligible business, had a profit of ₹ 70 lakhs for Tax Year 2026-27. The loss of ₹ 20 lakhs, i.e., balance depreciation not set off pertaining to unit 'N' was set-off against the profits of unit 'Y' carrying on non-eligible business, by the assessee, X Ltd. The Assessing Officer was of the*

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view that depreciation relating to a business eligible for deduction under section 138 cannot be set-off against non-eligible business income. Hence, unabsorbed depreciation should be carried forward to the subsequent year to be set off against eligible business income of the assessee of that year.

Examine the correctness of the action of the Assessing Officer.

3. *From the following details, compute the total income of Mr. A, Mr. B and Mr. C for tax year 2026-27 if they shift out of the default tax regime –*

Particulars		Mr. A	Mr. B	Mr. C
		₹	₹	₹
(i)	Salary (computed)	9,25,000	10,45,000	11,15,000
(ii)	Interest income (on fixed deposits)	75,000	85,000	95,000

The particulars of their other investments/payments made during the tax year 2026-27 are given hereunder –

<table>
<tr><th></th><th>Particulars</th><th>₹</th></tr>
<tr><td>(1)</td><td>Deposit in Public Provident Fund (PPF) by Mr. A</td><td>1,50,000</td></tr>
<tr><td>(2)</td><td>Life insurance premium paid by Mr. C, the details of which are as follows –
<table>
<tr><th>Date of issue of policy</th><th>Person insured</th><th>Actual capital sum assured (₹)</th><th>Insurance premium paid during 2026-27 (₹)</th></tr>
<tr><td>31/3/2012</td><td>Self</td><td>2,48,000</td><td>15,000</td></tr>
<tr><td>11/6/2020</td><td>Spouse</td><td>1,25,000</td><td>15,000</td></tr>
<tr><td>31/7/2020</td><td>Handicapped son (Section 154 disability)</td><td>2,00,000</td><td>32,000</td></tr>
</table></td><td></td></tr>
</table>

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<table>
<tr><td>(3)</td><td>Payment of medical insurance premium by the following persons to insure their health:
<table><tr><th>Payer</th><th>Amount in ₹</th><th>Mode of payment</th></tr><tr><td>Mr. A (aged 55 years)</td><td>30,000</td><td>Account payee cheque</td></tr><tr><td>Mr. B (aged 52 years)</td><td>15,000</td><td>Cash</td></tr><tr><td>Mr. C (aged 48 years)</td><td>20,000</td><td>Crossed cheque</td></tr></table></td><td></td></tr>
<tr><td>(4)</td><td>Mr. B paid interest on loan from the scheduled bank taken for the purchase of house in which he currently resides. He is claiming benefit of self-occupation under section 21(6) in respect of this house. He does not own any other house.
Repayment of principal amount of the said loan taken from the scheduled bank for purchase of the said house</td><td>2,20,000
1,70,000</td></tr>
<tr><td>(5)</td><td>Contribution by Mr. A by cheque to National Children's Fund during the year.</td><td>30,000</td></tr>
<tr><td>(6)</td><td>Mr. B makes the following donations during the tax year 2026-27 -
Donation to BJP by crossed cheque
Donation to Electoral trust by cash</td><td>
50,000
50,000</td></tr>
</table>

4. Following issues have been raised by Navi Limited in connection with its eligibility for claiming deduction under Chapter VIII for your consideration and advice for the tax year 2026-27:

(i) It operates two separate undertakings. One undertaking is eligible for deduction under section 141, while the other undertaking is not eligible for such deduction. If the eligible undertaking has profit and the other undertaking has loss, should it claim deduction after setting off the loss of the other undertaking against profit of the eligible undertaking?

(ii) Its profit from one undertaking in North Eastern States which is eligible for deduction u/s 143 includes sale of import entitlement, duty drawback and interest from customers for delayed payment. Is it permissible to claim deduction u/s 143 on these items of income?

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5. *PQR Co-operative Bank, a co-operative society, having its area of operation confined to Gubbi Taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities, has received the following amounts during the year ending 31.3.2027:*

   (i) Interest amounting to ₹ 1,00,000 from its members on loans advanced to them.

   (ii) Interest amounting to ₹ 1,50,000 on deposits with other co-operative societies.

   (iii) Rent amounting to ₹ 2,00,000 from letting out its godowns for storage of commodities.

   PQR Co-operative Bank seeks your advice in the matter of eligibility for deduction, if any, in respect thereof for the tax year 2026-27.

Answers

1. Computation of eligible deduction under section 123 for tax year 2026-27

Particulars	₹
Life Insurance Premium **(See Note 1)**	15,000
Contribution to Public Provident fund **(See Note 2)**	Nil
Tuition fee of 2 sons for graduation course **(See Note 3)**	16,000
Housing loan principal repayment **(See Notes 4 & 5)**	Nil
Senior Citizen Savings Scheme deposit **(See Note 6)**	15,000
Post Office Time Deposit Scheme **(See Note 6)**	50,000
Investment in National Savings Certificate **(See Note 6)**	70,000
Total Investment	**1,66,000**
Eligible deduction under section 123 restricted to	1,50,000

Notes:

1. Any amount of life insurance premium paid in excess of the specified percentage of actual capital sum assured shall be ignored for the purpose of deduction under section 123. In the given case, since the

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insurance policy has been issued before 01.04.2012, therefore, premium paid upto 20% of actual capital sum assured i.e., ₹ 46,000 shall be allowed as deduction. Hence, the premium of ₹ 15,000 paid during the year is allowable as deduction under section 123.

2. In the case of an individual, contribution to PPF can be made in his name or in the name of his spouse or children to qualify for deduction under section 123. **As the contribution was made in the name of his father, deduction is not allowable.**

3. Tuition fee paid is eligible for deduction under section 123 for a maximum of two children. Therefore, ₹ 16,000 shall be allowed as deduction. **Tuition fee paid to an educational institution situated outside India is not eligible for deduction.**

4. In order to claim the principal repayment on loan borrowed for house property as deduction, the construction of such property should have been completed and should be chargeable to tax under the head "Income from house property". In the given case, since the property is under construction, principal repayment does not qualify for deduction.

5. Repayment of principal on housing loan is not allowed as deduction in case the loan is borrowed from friends, relatives etc. In order to qualify for deduction, the loan should have been obtained from Central Government / State Government / bank / specified employer/ institution.

6. The following investments are also eligible for deduction under section 123:-

   (1) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and

   (2) deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.

   (3) investment in National Savings Certificate.

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2. In *CIT v. Swarnagiri Wire Insulations Pvt. Ltd. (2012) 349 ITR 245*, the Karnataka High Court observed that it is a generally accepted principle that the deeming provision of a particular section cannot be breathed into another section. Therefore, the deeming provision contained in section 80-IA(5) of Income-tax Act 1961 could not override section 70(1) of that act. The same principle is applicable even for section 138 read with section 108(1) of the Income-tax Act, 2025.

In this case, X Ltd. had incurred loss in eligible business (power generation) on account of claiming depreciation of ₹ 120 lakhs. Hence, section 138 becomes insignificant, since there is no profit from which this deduction can be claimed.

It is, thereafter, that section 108(1) comes into play, whereby an assessee is entitled to set off the losses from one source against income from another source under the same head of income. Accordingly, X Ltd. is entitled to the benefit of set off of loss of ₹ 20 lakhs (representing balance depreciation not set-off) pertaining to Unit N engaged in eligible business of power generation against profit of ₹ 70 lakhs of Unit Y carrying on non-eligible business. Therefore, the net profit of ₹ 50 lakhs would be taxable in the tax year 2026-27.

The action of the Assessing Officer in not permitting set-off of loss of eligible business against profits of non-eligible business in this case is, therefore, not correct.

Once set-off is allowed under section 108(1) against income from another source under the same head, a deduction to such extent is not possible in any subsequent tax year i.e., the loss (arising on account of balance depreciation of eligible business) so set-off under section 108(1) has to be first deducted while computing profits eligible for deduction under section 138 in the subsequent year. Accordingly, in the tax year 2027-28, the net profits of Unit N has to be reduced by ₹ 20 lakhs for computing the profits eligible for deduction under section 138 in that year.

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3. Computation of total income for tax year 2026-27

	Particulars	Mr. A	Mr. B	Mr. C
		₹	₹	₹
	Salary	9,25,000	10,45,000	11,15,000
	Income from house property ***[See Note 3]***		(2,00,000)	
	Income from other sources (Interest)	75,000	85,000	95,000
(A)	**Gross total income**	**10,00,000**	**9,30,000**	**12,10,000**
	Less: **Deductions under Chapter VIII**			
	Under section 123			
	Deposit in PPF ***[See Note 1]***	1,50,000		
	LIC premium paid ***[See Note 2]***			57,500
	Principal repayment of housing loan (restricted to ₹ 1,50,000) ***[See Note 3]***		1,50,000	
	Under section 126			
	Medical insurance premium ***[See Note 4]***	25,000	Nil	20,000
	Under section 133			
	Contribution to National Children's Fund ***[See Note 5]***	30,000		
	Under section 137 ***[See Note 6]***			
	Donation to BJP by crossed cheque		50,000	
	Cash donation to Electoral Trust		Nil	
(B)	**Total deduction under Chapter VIII**	**2,05,000**	**2,00,000**	**77,500**
(C)	**Total Income (A) – (B)**	**7,95,000**	**7,30,000**	**11,32,500**

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Notes:

(1) **The maximum amount eligible for deduction under section 123 shall not exceed ₹ 1,50,000. Mr. A would be eligible for deduction of ₹ 1,50,000 in respect of PPF under section 123.**

(2) **Deduction u/s 123 in respect of life insurance premium paid by Mr. C**

Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2026-27	Restricted to % of sum assured	Deduction u/s 123
31/3/2012	Self	2,48,000	15,000	20%	15,000
11/6/2020	Spouse	1,25,000	15,000	10%	12,500
31/7/2020	Handicapped Son (section 154 disability)	2,00,000	32,000	15%	30,000
				Total	**57,500**

(3) **Deduction in respect of interest and principal repayment of housing loan**

Mr. B is eligible for a maximum deduction of ₹ 2,00,000 under section 22 in respect of interest on housing loan taken in respect of a self-occupied property, for which he is claiming benefit of "Nil" annual value. Therefore, ₹ 2,00,000 would represent his loss from house property.

Further, the maximum amount eligible for deduction under section 123 should not exceed ₹ 1,50,000. Since, Mr. B has no other investment under section 123 during the tax year 2026-27, he would be eligible for deduction of ₹ 1,50,000 in respect of principal repayment of housing loan.

(4) **Medical Insurance Premium**

(i) Medical insurance premium of ₹ 30,000 paid by account payee cheque by Mr. A is allowed as a deduction under section 126, subject to a maximum of ₹ 25,000.

(ii) Medical insurance premium paid by cash is not allowable as deduction. Hence, Mr. B is not eligible for deduction under section 126 in respect of medical insurance premium of ₹ 15,000 paid in cash.

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	(iii) Mr. C is eligible for deduction of ₹ 20,000 under section 126 in respect of medical insurance premium paid by crossed cheque.
(5)	Contribution to National Children's Fund qualifies for 100% deduction under section 133. Therefore, Mr. A is entitled to 100% deduction of the sum of ₹ 30,000 contributed by him by way of cheque to National Children's Fund.
(6)	Mr. B is eligible for deduction under section 137 in respect of donation to a political party made otherwise than by way of cash. However, cash donations to electoral trust do not qualify for deduction under section 137.

4. **(i)** Section 141 read with section 80-IB(13) of the Income-tax Act, 1961 provides that the provisions contained in section 80-IA(5) of the Income-tax Act 1961 shall, so far as may be, apply to the eligible business under section 80-IB of the Income-tax Act 1961. Accordingly, for the purpose of computing the deduction under section 141 of the Income-tax Act 2025, the profits and gains of an eligible business shall be computed as if such eligible business was the only source of income of the assessee.

Therefore, Navi Limited should claim deduction under section 141 of the Income-tax Act, 2025 on profit from the eligible undertaking without considering the set off of losses suffered in the other undertaking. It may be noted that the aggregate deduction under Chapter VIII, however, cannot exceed the gross total income of the assessee. It was held in in case of *Reliance Energy Ltd. (2022) 441 ITR 346 (SC)*.

(ii) Under section 143, where the gross total income of an assessee includes any profits and gains derived by an undertaking referred to in the section, there shall be allowed, in computing the total income of the assessee, a deduction from such profits and gains at the specified percentage and for such number of years as specified in the section. In *CIT vs. Sterling Foods (1999) 237 ITR 579 (SC)* and *Liberty India vs. CIT (2009) 317 ITR 218 (SC),* it was held that sale of import entitlement and duty drawback cannot be construed as income derived from undertaking. Therefore, such income cannot be included in computing income for the purpose of deduction under section 143.

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Interest income derived by an undertaking on delayed collection of sale proceeds shall be treated as income derived from the undertaking, and therefore, the same would be eligible for deduction under section 143. [*Phatela Cotgin Industries Private Limited vs CIT (2008) 303 ITR 411 (P & H)].*

5. Sub-section 149(5) provides that section 149 shall not apply to any co-operative bank which is not a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

Section 149(6) defines a primary co-operative agricultural and rural development bank to mean a society having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities.

PQR Co-operative Bank is a primary co-operative agricultural and rural development bank as defined in the section 149(6) since it is a co-operative society having its area of operation confined to Gubbi Taluk and its principal object is to provide long-term credit for agricultural and rural development activities. Therefore, it is eligible for deduction under section 149.

Interest of ₹ 1,00,000 received by the bank on loans advanced to its members is eligible for deduction in full under section 149(2)(a).

Interest of ₹ 1,50,000 received by the bank from deposits with other co-operative societies qualifies for deduction in full under section 149(2)(d).

Rent of ₹ 2,00,000 received by the bank from letting out its godowns for storage of commodities is eligible for deduction in full under section 149(2)(e).

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