

“New Income Tax Act 2025 - Compliance Simplification and Practical Impact on “Salary”, House Property” “Presumptive Taxation””

CA. PANKAJ KUMAR MISHRA

(FCA, LLB, Peer Reviewer, FAFD (Forensic Auditor), M-Com, B-Com (CS)

Certified by ICAI: AI Level 1, Ind AS, GST, Concurrent Audit of Bank

Special Invitee of Committee on Career Counselling of ICAI for the year 2025-26

Special Invitee of Editorial Board of ICAI for the year 2024-25

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Special Invitee of Research Committee NIRC of the ICAI for the year 2024-25

Visiting Faculty of ICAI(MCS)/ICAI(CMA)-Direct and Indirect Taxes)

Visiting Faculty of National Academy of Direct Taxes(NADT)

Email: Fcapankajkumarmishra@gmail.com

Contact No :- 9899407778/9988076095

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Executive Summary on the Comprehensive Simplification of the Income-tax Act,

The **Income-tax Bill, 2025** has been tabled in Parliament on 13th February 2025, marking a significant step toward simplifying the language and structure of the Income-tax Act, 1961.

The simplification exercise was guided by three core principles:

- 1.Textual and structural simplification** for improved clarity and coherence.
- 2.No major tax policy changes to ensure continuity and certainty.**
- 3.No modifications of tax rates, preserving predictability for taxpayers.**

A three-pronged approach was adopted:

- **Eliminating intricate language to enhance readability.**
- **Removing redundant and repetitive provisions for better navigation.**
- **Reorganizing sections logically to facilitate ease of reference**

Consultative and Research-Based Approach

The Government ensured **widespread stakeholder engagement, consulting taxpayers, businesses, industry associations, and professional bodies.** Out of **20,976 online suggestions received, relevant suggestions were examined and** incorporated, where feasible. Consultations were held **with industry experts and tax professionals and simplification models from Australia and the UK** were studied for best practices.

Outcomes of the Simplification Exercise Quantitative Impact

The review has led to a substantial reduction in the Act's volume, making it more streamlined and navigable. Key reductions are summarized below:

Item	Existing Income-tax Act, 1961	Proposed in the Income-tax Bill, 2025	Change (Reduction/Addition)
Words	512,535	259,676	Reduction: 252,859 words
Chapters	47	23	Reduction: 24 chapters
Sections	819	536	Reduction: 283 sections
Tables	18	57	Addition: 39 tables
Formulae	6	46	Addition: 40 formulae

Qualitative Improvements

- **Simplified language**, making the law more accessible.
- **Consolidation of amendments**, reducing fragmentation.
- **Removal of obsolete and redundant provisions** for greater clarity.
- **Structural rationalization through tables and formulae** for improved readability.
- **Preservation of existing taxation principles**, ensuring continuity while enhancing usability.

The Income-tax Bill, 2025 reflects the Government's commitment to enhancing ease of doing business by providing a tax framework that is simple and clear,



Income-Tax Act, 2025,

AS AMENDED BY FINANCE ACT, 2026

"An Act to consolidate and amend the law relating to income-tax"—

The Big Transition



What Changed?

The **Income-tax Act, 1961** — in force for over 60 years — is formally repealed by the new **Income-tax Act, 2025**.

Repealed

ITA 1961 (43 of 1961)

Effective

1st April 2026

Governed by

Section 536

CORE PRINCIPLE

Repeal ≠ Erasure

Past rights, obligations, and proceedings remain fully protected under **Section 536(2)**.



Past Acts Protected

Nothing affects prior operation of the 1961 Act — all actions duly done remain valid.



Rights & Liabilities Survive

All rights, privileges, obligations, and liabilities acquired under the old Act continue.



Pending Proceedings Continue

Proceedings before any authority or court proceed as if the 1961 Act were still in force.



Transitional Proceedings

Pre-April 2026 Tax Years

All assessments, reassessments, penalties, appeals, revisions, and rectifications for tax years **before 1st April 2026** are governed by the **1961 Act's procedure**.

Elections & Options Preserved

Any election, declaration, or option exercised under the old Act is **deemed valid** under the corresponding provision of the 2025 Act.

Search & Requisition

Where search (Sec. 132) or requisition (Sec. 132A) was initiated **before commencement**, the 1961 Act continues to apply entirely.

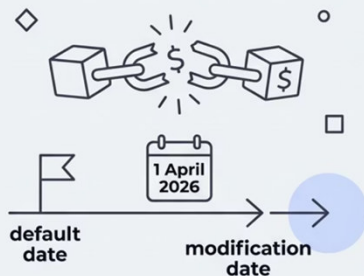
Interest on Refunds & Defaults

SCENARIO 1



Refund falls due on or after 1 April 2026. Old Act applies with NEW INTEREST RATE.

SCENARIO 2



Default in payment on or after 1 April 2026. Old Act applies with NEW INTEREST RATE substituted FROM DATE OF MODIFICATION.

Section 536(2)(g) — As Amended by Finance Act 2026

For pre-April 2026 proceedings:

- **Old Act's interest provisions apply** — but the **rate** is substituted with the rate under the 2025 Act
- Rate substitution applies from the **date of modification** under the new Act

Amended by Finance Act, 2026 w.e.f. 1-4-2026

Carry Forward of Losses

Losses brought forward from tax years **before 1st April 2026** continue to be set off under the new Act.

House Property

Sec. 71B · Carried forward under corresponding 2025 Act provisions

Business & Profession

Sec. 72 · Set off and carry forward rules preserved

Speculation Business

Sec. 73 · Treatment unchanged in transition

Capital Gains

Sec. 74 · Up to **8 financial years** from year loss was first computed

Specified Business

Sec. 73A · Race horses under Sec. 74A also covered

Deductions, Depreciation & MAT Credit

Allowances & Deductions

- **Unabsorbed depreciation** (Sec. 32(2)) and research allowances (Sec. 35(4)) are added to 2025 Act capital allowances for AY 2026-27
- Deferred revenue deductions (Sec. 35ABA, 35ABB, 35D, 35DD, 35DDA, 35E) **continue** under new Act on fulfilment of conditions
- Provision for **bad and doubtful debts** (Sec. 36(1)(viiia)) credit balance as of 31st March 2026 merges into 2025 Act accounts

MAT / AMT Credit

Sec. 115JAA / 115JD

Credit for tax paid under the 1961 Act is **deemed eligible** under Sec. 206(3) or (4) of the 2025 Act

Credit Period

Allowed for the period it **would have been allowed** under the old Act, subject to conditions of the new Act



Corporate Restructuring & Special Cases



Amalgamations (Sec. 72A)

Loss set-offs allowed pre-2026 are **taxable as income** in the year conditions are violated under the new Act



Co-operative Banks (Sec. 72AB)

Accumulated loss / unabsorbed depreciation claimed pre-2026 — **deemed income** on breach of conditions



Exempt Transfers (Sec. 47)

Gains not charged under Sec. 47(iv),(v),(xiii),(xiiib),(xiv) pre-2026 become **taxable capital gains** on subsequent condition breach

Continuity of Agreements, Orders & Schemes



What Continues Automatically?

- Agreements, appointments, approvals, recognitions
- Circulars, directions, instructions, notifications
- Rules, orders, and schemes framed under 1961 Act

All are **deemed made** under corresponding provisions of the 2025 Act, so far as not inconsistent.

- ☐ Faceless schemes (Sec. 532) also preserved under Sec. 536(2)(u)

Key Takeaways for Practitioners

01

Old Act for Old Years

All pre-April 2026 assessments, penalties, and appeals — follow the **1961 Act procedure**

02

Losses & Credits Transfer Seamlessly

Carry-forwards, MAT credit, and deductions **migrate** to the 2025 Act framework automatically

03

Interest Rates Updated

Old Act interest rules apply, but **rates** are replaced with 2025 Act rates from date of modification

04

Expired Limitation Periods Stand

A longer period under the new Act **does not revive** already-expired appeals or applications

05

General Clauses Act Applies

Sec. 6 of the General Clauses Act, 1897 provides **additional safeguards** on the effect of repeal — Sec. 536(4)



Income Tax Act — Foundational Provisions

A structured analysis of the definitional, charging, and exemption provisions under the new Income Tax Act — covering **tax year, basis of charge, scope of total income, residential status, and incomes excluded from total income**. Designed for tax professionals, chartered accountants, and informed taxpayers navigating India's consolidated income tax legislation.

SECTIONS 3 · 4 · 5 · 6 · 11 · 12

Q1.What is a 'tax year'? What does it replace? What was the need for introducing it? Why was the term 'financial year' not used in place of the term 'tax year'?

Ans. A 'tax year' is a period of twelve months contained in a financial year. It replaces the term 'previous year' used in the Income-tax Act, 1961. Further, with the discontinuance of the use of the term 'assessment year' in the Income-tax Bill, now the term 'tax year' will now be used in relation to the rate or rates of income-tax also. In addition, any assessment of the income or total income will also be done for a 'tax year'.

Use of the terms 'previous year' and 'assessment year' were creating confusion in the minds of the taxpayers as they represented two different financial years. The rationale for the use of two terms is no longer valid in view of alignment of 'previous year' with the financial year or part of the financial year (in specific cases). The term 'Tax year' is commonly used in income- tax legislation in comparable tax jurisdictions.

As a **tax year can be a period which is less than the financial year in certain cases, the term ‘financial year’ has not been used while doing away with the terms ‘previous year’ and ‘assessment year’.**

However, many actions are carried out by tax authorities and other stakeholders while implementing the tax law, being procedural actions and compliances, such as time period for filing returns, rectifications etc, which require reference to a financial year. In such cases, the time period denoted by a financial year has more relevance. **This means that the term ‘financial year’ is required separately.**

Q2. Is 'financial year' also defined in the new Bill? Has the term 'financial year' also been used in the new Bill? Why is it still appearing in the Bill if it is the same as a 'tax year'?

Ans: The term 'financial year' is not defined in the Income-tax Bill. It is not defined in the Income-tax Act, 1961 also. It is defined in section 3(21) of the General Clauses Act, 1897 as the year commencing on 1st April.

The term 'financial year' has been used in the Income-tax Bill. For example, in the proposed section 21(5) of the Bill, reference has been made to a financial year in relation to the completion certificate issued by a competent authority in case of a building held as stock-in-trade. In such cases, the term financial year has relevance instead of the term 'tax year'.

Q3. Can a 'tax year' be a period which is less than a 'financial year'?

Ans: Yes. This will happen when a business is newly set up during any financial year, or a source of income comes into existence during a financial year.

In such cases, the tax year will begin from the date of setting up of the business or the source of income coming into existence, and end on the last day of that financial year.

Q4. Will the concept of 'tax year' conflict with the concept of an 'assessment year' at any particular time? For example, if the new Act comes into effect from 1st April, 2026, will the tax year 2026-27 of the new Act conflict with the Assessment Year 2026-27 of the Income-tax Act, 1961?

Ans. No. The reasons are as follows:

- i. The Assessment Year 2026-27 of the Income-tax Act, 1961 will pertain to the income of a taxpayer for the previous year 2025-26 and not to the income of the financial year 2026-27;
- ii. The tax year 2026-27 of the new Act will pertain to the income of a taxpayer for the financial year 2026-27;
- iii. The assessment for income of the previous year (financial year) 2025-26 of a taxpayer shall be done as per the provisions of the Income-tax Act, 1961 for the assessment year 2026-27;
- iv. The assessment for income of tax year (financial year) 2026-27 of a taxpayer shall be done as per the provisions of the Bill for tax year 2026-27.

Definition of Tax Year :-section 3

3.(1) For the purposes of this Act, “tax year” means *the twelve months period of the financial year commencing on the 1st April.*

(2) In the case of *a business or profession newly set up*, or a source of income newly coming into existence in any financial year,

the tax year shall be the period beginning with—

- (a) the date of setting up of such business or profession; or
- (b) the date on which such source of income newly comes into existence, and,
- ending with the said financial year.

Q.Is there any change in the content of the charging section?

Ans. In the Income-tax Act, 1961, the charge of income-tax was on 'total income' of the 'previous year' of a person.

- Further, income-tax is charged for an 'assessment year' at the rate or rates provided by a Central Act.
- In the Income-tax Bill, in place of the term 'previous year', the term 'tax year' has been used.
- Further, the use of term 'assessment year' has been discontinued.
- Now, the total income also pertains to a 'tax year' and
- the rate or rates of income- tax also pertain to that 'tax year'.

Q. In what way has the charging section been simplified?

Ans. In the Income-tax Act, 1961, section 4 has two sub-sections and one proviso. Long sentences have been used in the section.

In the Income-tax Bill, there are five sub-sections, explaining the charge of income-tax in smaller and simpler sentences.

CHAPTER II

BASIS OF CHARGE

- 4.(1) Income-tax for **any tax year shall be charged as per the provisions of this Act** at the rate or rates which are enacted by a Central Act for such tax year.
- (2)The charge of income-tax under sub-section (1) shall **be on the total income** of the **tax year** of every person as per the provisions of this Act.
- (3) Income-tax shall also **include any additional income-tax**, by whatever name called, levied under this Act.
- (4)If this Act provides that income-tax is to be charged **in respect of income of a period other than the tax year**, it shall be charged accordingly.
- (5)For the income chargeable under sub-section (2), **income-tax shall be deducted or collected at source or paid in advance as provided under this Act.**

CHAPTER IV – COMPUTATION OF TOTAL INCOME

A. Heads of Income

Sec. No. (1961)	Provision	Sec. No. (2025)	Provision
14	Heads of income	13	Heads of income
14A	Expenditure incurred in relation to income not includible in total income	14	Income not forming part of total income and expenditure in relation to such income

CHAPTER IV

COMPUTATION OF TOTAL INCOME

A.—Heads of income

Section 13:- Save as otherwise provided in this Act, all incomes shall, for the purposes of charge of income-tax and computation of total income, be classified under the following heads of income:—

- (a) Salaries;
- (b) Income from house property;
- (c) Profits and gains of business or profession;
- (d) Capital gains; and
- (e) Income from other sources.

Q.How has the simplification been done in the language and structure in salary and house property provisions in the new Bill to make it easier for the taxpayer?

Ans: The simplification focuses on enhancing clarity and ensuring ease of compliance.

- The chapter on Salary and House Property has been specifically crafted for this purpose so that the taxpayer can on his own read those chapters and file his own Return of Income.
- While drafting these Chapters, areas/issues resulting in common grievances received from such category of taxpayers have been addressed.

Q: How has the Chapter been simplified and how many words have been reduced in the new chapter?

Ans: The restructuring has significantly reduced the length of the chapter by eliminating redundant provisions while retaining all essential provisions.

➤ All existing provisos and explanations across various sections have been integrated into the main provisions for eliminating fragmentation, improving readability, and ensuring that related provisions are presented cohesively. The key changes are summarized in the table below:

- The number of words has been reduced from 4401 to 3420 for the Part ‘Salaries’ and from 1658 to 1177 for the Part ‘Income from House Property’
- **All provisions related to salary are brought under the part ‘Salaries’ so that the taxpayer does not have to refer to separate chapters for filing of his Return of Income.**
- The language is simple to read, clarifying all crucial terminology like Perquisite, Profit *in lieu of* salary, Standard Deduction etc and placing them in separate sections.
- The *legal and technical jargons have been minimized, and provisions like Perquisites have been rewritten* in a more structured and clear manner.
- Some of the provisions have been taken to the Rules, and redundant and repetitive provisions have been removed for better readability.

Q:Why have more changes not been carried out in the Chapter for 'Salary' and 'House Property'?

The objective of this exercise was to simplify the existing framework rather than completely overhaul it. The proposed Bill maintains continuity while ensuring improved clarity and efficiency.

Especially for the part on 'Income from House Property', it was noted that the provisions are already fairly simple and have been well received by the general public. The concepts like Annual Value of House Property, Self-occupied property etc. have been accepted well and there is minimal dispute in interpreting the provisions and computation of this Head of income. Hence, minimal changes have been proposed in this part to ensure smooth transition and minimal confusion.

B. Salaries – Comparison Chart

Sec. No. (1961)	Provision	Sec. No. (2025)	Provision
15	Salaries	15	Salaries
16	Deductions from salaries	19	Deductions from salary
17	“Salary”, “perquisite” and “profits in lieu of salary” defined	16	Income from salary
—	—	17	Perquisite
—	—	18	Profits in lieu of salary



Salaries Under Income Tax: Sections 15, 16 & 17

A structured analysis of chargeability, definition, and perquisites under the head "Salaries" — Income Tax Act (New Tax Code)

TAX LAW

SECTIONS 15-17

B.—Salaries

Charging Section 15

15. (1) The following **income shall be** chargeable to income-tax under the head “Salaries”:—

- (a) any **salary due** from an employer to an assessee **in the tax year**, whether **paid or not**;
 - (b) any **salary paid or allowed** to him **in the tax year by** or on behalf of an employer though not due or before it became due to him;
 - (c) any **arrears of salary paid or allowed to him in the tax year** by or on behalf of an employer, if not charged to income-tax for any earlier tax year.
- (2) For **the purposes of sub-section (1), employer includes former employer.**

(3) If **any salary paid in advance is included in the total income of any person for any tax year,**

➤ **it shall not be included again in the total income of such person** when the salary becomes due.

(4) Any **salary, bonus, commission or remuneration**, by whatever name called, **due to, or received by, a partner of a firm from** the firm shall not be regarded as salary for the purposes of this section.

Section 15: Chargeability of Salary

Salary income is chargeable to tax under three distinct bases of accrual or receipt:

1

Due Basis

Salary **due from an employer in the tax year**, whether paid or not — taxed on accrual.

2

Advance Payment

Salary **paid in advance** during the tax year, even before it becomes due — taxed on receipt.

3

Arrears

Arrears of salary paid in the tax year, if not already charged to tax in any earlier year — taxed to prevent double exemption.

❏ **Key Rules:** "Employer" includes a **former employer**. Salary taxed as advance shall **not be taxed again** when it becomes due. Partner's remuneration from a firm is **not treated as salary** under this section.

16. For the purposes of this Part, “salary” includes—

- (a) wages;
- (b) any annuity or pension;
- (c) any gratuity;
- (d) any fees or commission;
- (e) perquisites;**
- (f) profits *in lieu* of, or in addition to, any salary or wages;**
- (g) any advance of salary;**
- (h) any payment received by an employee in respect of any period of leave not availed of by him;

- (i) the **annual accretion to the balance at the credit of an employee** participating in a **recognised provident fund**, to the extent to which it is chargeable to tax as per paragraph 6 of Part A of Schedule XI;
- (j) the **aggregate of all sums that are comprised in the transferred balance** as referred to in paragraph 11(2) of Part A of Schedule XI of **an employee participating in a recognised provident fund**, to the extent to which it is chargeable to tax under sub-paragraphs (4) and (5) thereof;
- (k) the **contribution made by the Central Government or any other employer** in any tax year, to the account of an employee under a pension scheme referred to in section 124; and
- (l) the **contribution made by the Central Government in any tax year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 125.**

What is “Annual Accretion”?

i) Annual accretion means: **“annual accretion to the balance at the credit of an employee participating in a recognised provident fund (RPF)”** refers to the yearly increase in the employee’s RPF account which becomes taxable **to the extent specified under Paragraph 6 of Part A of the relevant Schedule governing RPF.**

Component	Explanation
Annual Accretion	Increase in PF balance during the financial year
Includes	Interest credited + any taxable employer excess contribution
Balance at credit	Total amount standing in employee’s PF account
Taxable portion	Only the portion exceeding statutory threshold
Head of Income	Income from Other Sources



Section 16: Definition of "Salary"

For the purposes of taxation under this Part, **"salary"** has a **broad and inclusive definition**, covering the following:

Basic Components

- Wages
- Annuity or pension
- Gratuity
- Fees or commission
- Advance of salary

Leave & Perquisites

- Perquisites
- Profits in lieu of or in addition to salary
- Payment for leave not availed

Provident Fund & Schemes

- Annual accretion to RPF balance (taxable portion)
- Transferred balance in RPF (taxable portion)
- Employer's contribution under NPS (Sec. 124)
- Central Govt. contribution to Agniveer Corpus Fund (Sec. 125)

Section 17.

(1) For the purposes of this Part, “perquisite” includes—

- (a) the value of rent-free accommodation provided to the assessee by his employer computed in such manner, as prescribed;**
- (b) the value of any accommodation provided to the assessee by his employer at a concessional rate which is in excess of rent recoverable from, or payable by, the assessee, computed in such manner, as prescribed;**
- (c) the value of any benefit or amenity granted or provided free of cost or at concessional rate in the following cases:—**
 - (i) by a company to an employee, who is a director thereof or who has a substantial interest in the company;**
 - (ii) by any employer (including a company) to an employee whose income under the head “Salaries” by way of monetary payment (from one or more employers) exceeds such amount as prescribed;**

- (d) the value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the current employer, or former employer, **free of cost or at concessional rate to the assessee;**
- (e) the value of any other benefit or amenity, as prescribed;
- (f) any **sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee;**
- (g) any **sum payable by the employer to effect an assurance on the life of the assessee** or to effect a contract for an annuity, whether directly or through a fund, other than—
- (i) a **recognised provident fund;** or
 - (ii) an **approved superannuation fund;** or
 - (iii) a **Deposit-linked Insurance Fund established under—**
 - (A) section 3G of the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948; or
 - (B) section 6C of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952;

(h) aggregate amount of any contribution, in excess of seven lakh and fifty thousand rupees in a tax year, made to the account of the assessee by the employer—

- (i) in a recognised provident fund;
- (ii) in the scheme referred to in section 124(I); and
- (iii) in an approved superannuation fund;

(i) the annual accretion by way of

- **interest, dividend or any other amount** of similar nature during the tax year
- **to the balance at the credit of the fund or scheme** referred to in clause (h),
- **computed in such manner, as prescribed (to the extent it relates to the contribution referred to in the said clause in any tax year).**

Section 17(1): What Constitutes a "Perquisite"?



Additional Perquisites

Excess contributions by employer exceeding **₹7,50,000** in a tax year to RPF, NPS, or approved superannuation fund are treated as perquisites.

Annual accretion (interest, dividend, or similar income) on such excess contributions is also included as a perquisite, computed as prescribed.

☐ **Note:** Any other benefit or amenity as prescribed by rules also qualifies as a perquisite under clause (e).

Perquisites: Employer Contribution Threshold

₹7.5L

Annual Threshold

Employer contributions above this limit across RPF, NPS (Sec. 124), and approved superannuation fund are taxable as perquisite.

3

Funds Covered

Recognised Provident Fund, Pension Scheme u/s 124, and Approved Superannuation Fund are aggregated to compute the threshold.

The **annual accretion** (interest, dividend, or other amount) to the balance attributable to excess contributions is also chargeable — computed **in the prescribed manner for each tax year.**

17 (2) Nothing in sub-section (1) shall apply to—

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

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

- **(i) in any hospital maintained by the Government, or any local authority, or any other hospital approved by the Government for the purposes of medical treatment of its employees;**
- **(ii) in respect of the prescribed diseases or ailments, in any hospital approved by the Principal Chief Commissioner or Chief Commissioner having regard to such guidelines as specified;**

(c) any portion of the premium paid by an employer in relation to an employee, to effect or to keep in force an insurance on the health of such employee under any scheme approved, for the purposes of section 30(c), by the—

- **(i) Central Government; or**
- **(ii) Insurance Regulatory and Development Authority established under section 3(I) of the Insurance Regulatory and Development Authority Act, 1999;**

(d) any **sum paid by the employer in respect of any premium paid by the employee to effect or to keep in force an insurance on his health or the health of any member of his family** under any scheme, approved for the purposes of section 126, by the—

- **(i) Central Government; or**
- **(ii) Insurance Regulatory and Development Authority established under section 3(1) of the Insurance Regulatory and Development Authority Act, 1999;**

(e) any expenditure incurred by the employer for **the use of any vehicle for journey by the assessee from his residence to his office or other place of work,** or from such office or place to his residence;

(f) any **expenditure incurred by the employer, or any sum paid by the employer in respect of any expenditure actually incurred by** the employee, on—

- **(i) medical treatment of the employee or any family member** of such employee outside India;
- **(ii) travel and stay abroad for the employee or any member of the family** of such employee for medical treatment;
- **(iii) travel and stay abroad of one attendant** who accompanies the patient in connection with such treatment.

Section 17(2): Exemptions from Perquisites

Certain employer-provided benefits are **explicitly excluded** from the definition of perquisite:

Employer-Maintained Hospital

Value of medical treatment provided to employee or family in a hospital **maintained by the employer**.

Government & Approved Hospitals

Reimbursement of medical expenses in hospitals maintained by **Government, local authority**, or Government-approved hospitals; and approved hospitals for prescribed diseases.

Health Insurance Premiums

Employer's premium payment for employee's health insurance under schemes **approved by the Central Government or IRDAI** (for Sec. 30(c) purposes) is not a perquisite.

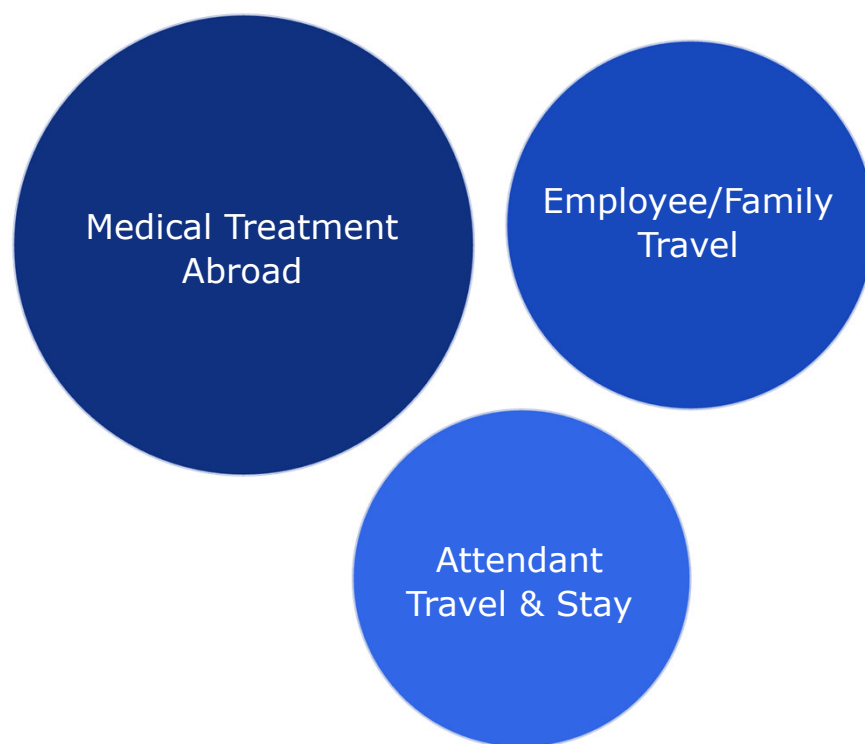
Employee-Paid Health Insurance

Employer reimbursement of premium paid by the employee for self or family health insurance under schemes **approved under Sec. 126** (Central Govt. or IRDAI) is exempt.

Commute Expenses

Expenditure incurred by the employer for **travel between residence and office** (both ways) is not treated as a perquisite.

17(3) Medical Treatment Abroad: Exemption Rules



Conditions for Exemption

Medical treatment & stay abroad: Exempt only to the extent **permitted by the Reserve Bank of India.**

Travel expenditure: Exempt only if the employee's **gross total income** (before including such expenditure) does not exceed the **prescribed amount.**

- These conditions ensure the benefit is available to genuine cases within regulated foreign exchange limits.

(4) In this section,—
Few Terms defined

- (a) “fair market value” means the value determined in accordance with the method, as prescribed;
- (b) “family”, in relation to an individual, shall have the meaning assigned to it in **Schedule III (Note 2)**;
- “the expression “family” in relation to an individual, means—*
- *(i) the spouse and children of the individual; and*
 - *(ii) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.*
- (c) “gross total income” shall have the meaning assigned to it in section 122(10); *“For the purposes of this Chapter, the expression “gross total income” means the total income computed as per the provisions of this Act, before making deduction under this Chapter.”*
- (d) “hospital” includes a dispensary or a clinic or a nursing home;
- (e) “option” means a right but not an obligation, granted to an employee to apply for the specified security or sweat equity shares at a predetermined price;
- (f) “specified security” means the securities as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956 and, where employees’ stock option has been granted under any plan or scheme, includes the securities offered under such plan or scheme;

(g) “sweat equity shares” means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called;

(h) the **value of any specified security or sweat equity shares shall be the fair market value** of the specified security or sweat equity shares, on the date on which the option is exercised by the assessee, as reduced by the amount actually paid by, or recovered from, the assessee in respect of such security or shares.

Sweat Equity Shares: Valuation Rule



How Perquisite Value is Computed

The perquisite value of **specified securities** or **sweat equity shares** is calculated as:

Step 1

Determine **Fair Market Value** on the date the employee **exercises the option**.

Step 2

Deduct the amount actually paid by or recovered from the assessee for such securities.

Perquisite Value

FMV on exercise date minus **amount paid/recovered** = taxable perquisite.



Key Takeaways: Sections 15–17

Section 15

Salary taxed on due, advance, or arrears basis. No double taxation. Partner's remuneration excluded.

Section 16

Broad inclusive definition — wages to pension, perquisites, leave encashment, PF accretions, and Agniveer contributions all qualify.

Section 17(1)

Perquisites include accommodation, securities, employer obligations, insurance premiums, and excess PF/NPS contributions above ₹7.5L.

Section 17(2)

Medical treatment, health insurance, commute expenses, and overseas treatment (within RBI/prescribed limits) are exempt from perquisite taxation.

Profits in Lieu of Salary & Salary Deductions

A structured analysis of **Section 18** and **Section 19** of the Income Tax Act — covering what qualifies as profits in lieu of salary, and the full schedule of permissible deductions from salary income.



Section 18: (I) For the purposes of this Part, “profits *in lieu* of salary” includes,—

- (a) any amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the—
 - (i) **termination of his employment; or**
 - (ii) **modification of the terms and conditions relating thereto;**
- (b) any **amount due to or received, whether in lump-sum or otherwise,** by **any assessee from any person—**
 - (i) **before his joining** any employment with that person; or
 - (ii) **after cessation** of his employment with that person;
- (c) any payment due to or received by an assessee—
 - (i) **from an employer or a former employer; or**
 - (ii) **from a provident or other fund,** to the extent to which it does not consist of contributions by the assessee or interest on such contributions; or

(iii) any **sum received under a Keyman insurance policy as defined in Schedule II** (Note 1), including the sum allocated by way of bonus on such policy.

SCHEDULE II [See section 11] **INCOME NOT TO BE INCLUDED IN TOTAL INCOME** *Note 1:* For the purposes of Sl. No. 2,— (c)

“Keyman insurance policy” means a life insurance policy—

(i) taken by a person on the life of another person;

(ii) such person is or was the employee of the first-mentioned person or is or was connected in any manner with the business of the first-mentioned person; and

(2) The payment referred in sub-section (1)(c) shall not include any payment referred to in—

(a) Schedule II (Table: Sl. No. 3); (b) Schedule II (Table: Sl. No. 4); (c) Schedule II (Table: Sl. No. 8); and (d) Schedule III (Table: Sl. No. 11).

***Note:- Schedule II –Income Not to be included in “Total Income “**

Section 18: What Are "Profits in Lieu of Salary"?

Section 18(1) defines three broad categories of receipts that are treated as **profits in lieu of salary** for tax purposes, regardless of their form or timing.

Clause (a): Compensation from Employer

Amounts received from an employer or former employer in connection with **termination of employment** or **modification of terms and conditions** thereof.

Clause (b): Pre- or Post-Employment Receipts

Any amount — lump-sum or otherwise — received from any person **before joining** or **after cessation** of employment with that person.

Clause (c): Payments from Employer or Fund

Payments from an employer/former employer, from a provident or other fund (beyond employee contributions), or sums under a **Keyman Insurance Policy** including bonuses allocated thereon.

Section 18(2): Exclusions from Clause (c)

Not all payments from an employer or fund fall under Section 18(1)(c). The following are **expressly excluded** from its scope:

Schedule II — Sl. No. 3

Payments specifically listed at Serial No. 3 of Schedule II (Income Not to be Included in Total Income).

Schedule II — Sl. No. 4

Payments specifically listed at Serial No. 4 of Schedule II.

Schedule II — Sl. No. 8

Payments specifically listed at Serial No. 8 of Schedule II.

Schedule III — Sl. No. 11

Payments specifically listed at Serial No. 11 of Schedule III.

 **Note:** Schedule II covers income not to be included in "Total Income." These exclusions prevent double taxation or exempt treatment under multiple provisions.

Section 19(1): Deductions from Salary Income

Section 19: (1) The income chargeable under the head "Salaries" shall be computed after making the deductions of the nature as mentioned in column B of the following Table, to the extent as mentioned in column C of the said Table:—

Sl.	Nature of Sum	Amount of Deduction
1	Professional/employment tax under Article 276(2) of the Constitution	Entire amount
2	Standard deduction	₹75,000 or salary (whichever is less) under Sec. 202(1); ₹50,000 or salary in any other case
3	Death-cum-retirement gratuity under Sec. 19(2)(g)	Entire amount
4	Retiring gratuity under Pension Code / Defence Regulations	Entire amount
5	Gratuity under Payment of Gratuity Act, 1972	Amount received, restricted to Sec. 4(2) & (3) of that Act
6	Any other gratuity (retirement, incapacitation, termination)	Minimum of: actual gratuity; CG notified limit; or ½ month's salary × completed years

Deductions: Pension Commutation & Retrenchment

Sl.	Nature of Sum	Amount of Deduction
7	Commutated pension under CG Civil Pensions Rules or equivalent schemes for Union/State civil/defence/local authority employees	Entire amount
8	Commutated pension from any other employer	1/3rd of commuted value (if gratuity received); 1/2 in any other case
9	Commutated pension from fund specified in Schedule VII (Sl. No. 3)	Entire amount
10	Retrenchment compensation under Industrial Disputes Act or other law/award	Minimum of: compensation received; Sec. 25F(b) of IDA amount; CG notified amount (not less than ₹50,000)
11	Retrenchment compensation under CG-approved scheme with special protection	Compensation received

Sl. No. 12: Voluntary Retirement

Amount received on **voluntary retirement or termination of service** under an approved VRS scheme is deductible up to the following limit:



Deduction Limit

Minimum of: **compensation received** or **₹5,00,000**

One-Time Relief

Deduction allowed only once — **no deduction in any other tax year** once availed

No Double Relief

If relief under **Section 157** was allowed, the amount **cannot also be deducted** as compensation

Eligible Employers for VRS Deduction (Sl. No. 12)

The voluntary retirement/termination scheme must pertain to employees of the following categories of organizations:



Public Sector Company

Under a scheme of **voluntary separation** approved for PSU employees.



Any Other Company

Private or other companies with a **CG-guideline-compliant** VRS scheme.



Statutory Authorities

Authorities established under a **Central, State, or Provincial Act**, including local authorities.



Co-operative Societies & Universities

Co-operative societies and universities established under statute or declared under the **UGC Act, 1956**.

Sl. Nos. 13 & 14: Leave Salary Encashment

Sl. No. 13 – Government Employees

Cash equivalent of **earned leave at credit** at retirement (superannuation or otherwise) received by Central or State Government employees. **Entire amount deductible.**

Sl. No. 14 – Non-Government Employees

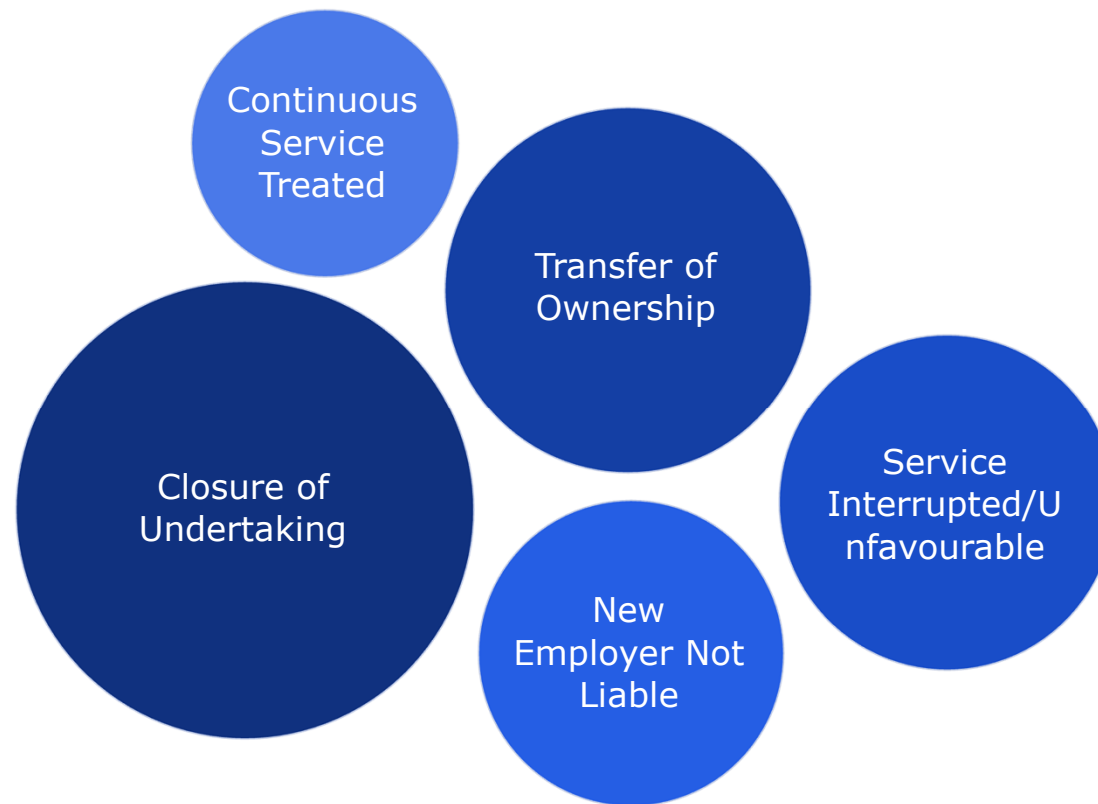
Same nature of payment for **non-government employees**. Deduction subject to an **aggregate cap** computed as $A - B$, where A = CG notified limit; B = amounts already allowed in prior years.

- **Definition of "Salary" for Sl. Nos. 6 & 14:** Includes dearness allowance (if employment terms so provide), but **excludes all other allowances and perquisites.**



Deemed Retrenchment: Sl. Nos. 10 & 11

Under Section 19(2)(c), the following situations are treated as **compensation received at the time of retrenchment** for purposes of Serial Nos. 10 and 11:



The expressions "employer" and "workman" for these entries carry the same meanings as assigned under the Industrial Disputes Act, 1947.



Key Takeaways: Sections 18 & 19

→ Broad Scope of Profits in Lieu of Salary

Section 18 captures pre-employment, post-employment, and termination-linked receipts — including Keyman insurance — within the salary head.

→ Graduated Deduction Framework

Section 19 provides a structured, 14-item deduction schedule with precise formulae — from full exemption (government gratuity) to formula-based caps (other gratuity, VRS, leave encashment).

→ Aggregation & Anti-Abuse Rules

For Sl. Nos. 6 and 14, prior-year exemptions are offset against current-year limits (A – B formula), preventing cumulative over-deduction across multiple employers or years.

→ Cross-Reference with Schedules

Several deductions and exclusions hinge on Schedule II, Schedule III, and Schedule VII — careful cross-referencing is essential for accurate computation.



Income Tax Rules 15-20: Perquisites, Deductions & Special Provisions

A comprehensive guide to valuation of perquisites, salary deductions, and special income provisions under the Income Tax Act

Rule 15: Valuation of Perquisites - Overview

For computing income under 'Salaries', the value of perquisites provided by employer (directly or indirectly) to employee or household members shall be determined per this rule.



Residential Accommodation



Motor Car Use



Goods/Services/Utilities

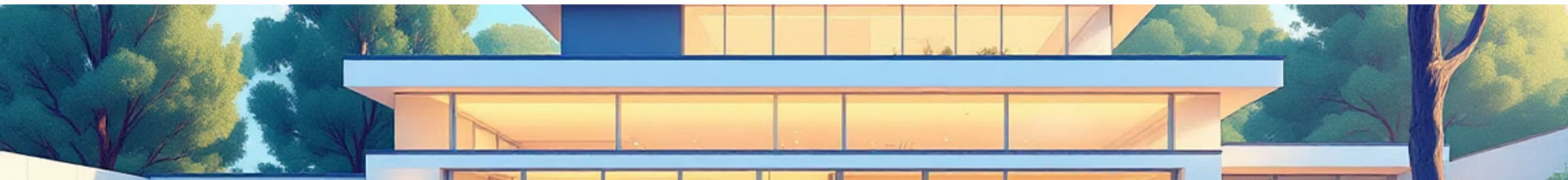


Other Benefits/Amenities



Specified Securities/Sweat Equity Shares





Rule 15(2): Residential Accommodation Valuation

The valuation of residential accommodation provided by an employer is crucial for calculating taxable perquisites.

Accommodation Type	Valuation Basis
Government accommodation (unfurnished)	License fee minus rent paid by employee
Government accommodation (furnished)	As per sub-rule 2(e)
Other employer accommodation - owned (City population > 40 lakh)	10% of salary
Other employer accommodation - owned (City population 15-40 lakh)	7.5% of salary
Other employer accommodation - owned (Other areas)	5% of salary
Other employer accommodation - leased	Actual lease rental or 10% of salary (whichever is lower)
Hotel accommodation	Actual charges or 24% of salary (whichever is lower)

Note: Exceptions may apply for accommodation provided at mining sites, oil exploration sites, or during periods of employee transfer, subject to specific conditions.

Rule 15(3): Motor Car Perquisite Valuation

Scenario	Use Case	Engine Capacity	Taxable Perquisite Value (Monthly)
Employer-owned/hired car	Wholly official use	Any	No value (if documents maintained)
Employer-owned/hired car	Exclusively private use	Any	Actual running/maintenance expenses
Employer-owned/hired car	Partly official/private	≤1.6L	₹5,000 (plus ₹3,000 if chauffeur)
Employer-owned/hired car	Partly official/private	>1.6L	₹7,000 (plus ₹3,000 if chauffeur)
Employee-owned car with employer reimbursement	Wholly official use	Any	No value (if documents maintained)
Employee-owned car with employer reimbursement	Exclusively private use	Any	Actual reimbursement - perquisite value (if any)
Employee-owned car with employer reimbursement	Partly official/private	≤1.6L	₹5,000 (plus ₹3,000 if chauffeur) deductible from reimbursement
Employee-owned car with employer reimbursement	Partly official/private	>1.6L	₹7,000 (plus ₹3,000 if chauffeur) deductible from reimbursement
Other automotive conveyance	Mixed use	N/A	₹3,000 deduction for mixed use

Note: Documentation requirements are crucial for establishing "wholly official use." Normal wear and tear on the car (10% per annum) is considered when valuing the perquisite of a car provided by the employer.



Rule 15(4): Goods, Services & Utilities Perquisites

This rule details the valuation methods for various goods, services, and utilities provided by an employer as perquisites.

Perquisite Category	Valuation Method
Services (sweeper, gardener, watchman, attendant)	Total salary paid minus employee contribution.
Utilities (gas, electricity, water)	Amount paid to agency or manufacturing cost minus employee payment.
Educational facilities	Employer expenditure or cost in similar institution (if >₹3,000/month).
Transport benefits	Value offered to public minus employee payment.



Rule 15(5): Other Benefits & Amenities

This rule outlines the valuation for various other benefits and amenities provided as perquisites, beyond accommodation and motor cars.

Benefit Category	Valuation Method
Interest-free/concessional loans	Interest at SBI rate minus actual interest paid (no value if $\leq ₹2,00,000$ or medical treatment).
Holiday/travel expenses	Actual expenditure incurred.
Free food/beverages	Actual cost (no value if $\leq ₹200$ /meal during working hours).
Gifts/vouchers	Amount of gift (no value if $< ₹15,000$ /year).
Credit card expenses	Actual amount (no value if wholly official).
Club membership	Actual expenditure (excludes initial fee).
Movable assets	10% per annum of cost.
Asset transfer	Cost minus depreciation.
Other benefits	Cost to employer minus employee contribution.



Rule 15(6) & (7): Specified Securities & Sweat Equity Shares

This rule details the fair market value determination for equity shares and other securities for perquisite valuation.

Scenario	Valuation Method
Listed shares	Average of opening and closing price on exercise date.
Multiple exchanges	Highest trading volume exchange.
No trading	Closing price on nearest preceding date or highest volume exchange.
Unlisted shares	Merchant banker valuation.
Other securities	Merchant banker valuation.

Note: "Specified date" refers to the date on which the option is exercised by the employee. A merchant banker is a financial institution that provides financial services to corporations, such as underwriting new share issues, managing mergers and acquisitions, and acting as financial advisors.



Rule 16: Annual Accretion in Specified Funds/Schemes

This rule explains the formula for determining the taxable perquisite related to annual accretion in specified funds or schemes under section 17(1)(i) of the Income Tax Act.

$$TP = (PC/2) \times R + (PC1 + TP1) \times R$$

Where:

TP	Taxable perquisite for the current year
TP1	Taxable perquisite for prior years
PC	Principal contribution by the employer exceeding ₹7,50,000 in the current year
PC1	Principal contribution by the employer exceeding ₹7,50,000 in prior years
R	Income ratio, calculated as I/F(avg)
I	Income accrued on the specified fund/scheme
F(avg)	Average balance of the fund/scheme

- ☐ The formula accounts for the specified threshold of ₹7,50,000 for principal contribution. Amounts from prior years (PC1 and TP1) are treated to ensure cumulative calculation of the taxable perquisite.



Rule 17 & 18: Income Threshold and Medical Exemptions

Rule 17: Salary Income Threshold

Prescribed income under "Salaries" head is ₹4,00,000.

Rule 18: Medical Benefits Exemption

Medical benefits exemption for prescribed diseases/ailments in approved hospitals. List the 13 prescribed diseases:

1. Cancer
2. Tuberculosis
3. AIDS
4. Heart/blood/organ diseases requiring surgery
5. Eye/ear/nose/throat surgery
6. Fracture/dislocation requiring surgery
7. Gynaecological/obstetric surgery
8. Organ diseases requiring 3+ days hospitalization
9. Gynaecological/obstetric 3+ days
10. Burn injuries 3+ days
11. Mental disorder 3+ days
12. Drug addiction 7+ days
13. Anaphylactic shocks 3+ days



Rule 19 & 20: Income Threshold & Voluntary Retirement

Rule 19: Gross Total Income Threshold

The prescribed gross total income for certain provisions is **₹8,00,000**.

Rule 20: Voluntary Retirement Procedure

This rule outlines the procedure for claiming deductions related to voluntary retirement or voluntary separation.

Eligible Employers:

1. Public sector company
2. Any other company
3. Authority established under a Central, State or Provincial Act
4. Local authority
5. Co-operative society
6. University established or recognized by UGC
7. Indian Institute of Technology (IIT)
8. Such institution as is specified by the Central Government by notification in the Official Gazette to be an institution of national importance
9. Such institute of management as is specified by the Central Government by notification in the Official Gazette, for the purposes of the Act

Scheme Requirements:

- The employee has completed 10 years of service or completed 40 years of age.
- The scheme applies to all employees (other than directors).
- The scheme results in overall reduction in the existing strength of the employees.
- The vacancy is not to be filled up.
- The retiring employee is not to be re-employed in the same management.
- The amount of compensation does not exceed the amount equivalent to 3 months' salary for each completed year of service OR salary at the time of retirement multiplied by the number of months of service left before the date of retirement (whichever is lower).

Rule 279. Limits for the purposes of Schedule III [Table: Sl.No. 11] to the Act.— (1)

(1) The amount, which is not to be included in the total income of an assessee in respect of the special allowance referred to in Schedule III [Table: Sl.No. 11] to the Act, shall be the least of the following:

(a) the actual amount of such allowance received by the assessee in respect of the relevant period; or

(b) the amount by which the expenditure actually incurred by the assessee in payment of rent in respect of residential accommodation occupied by him exceeds one-tenth of the amount of salary due to the assessee for the relevant period; or

(c) in case of an assessee employed in the location mentioned in column B of the following Table, an amount equal to such percentage of salary, mentioned in column C thereof, due to the assessee in respect of the relevant period:—

Sl. No.	Location of residential accommodation	Percentage of salary
A	B	C
1	Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad and Bengaluru.	50%
2	Any other place	40%

(2) In this rule,—

(a) "relevant period" means the period during which the said accommodation was occupied by the assessee during the tax year; and

(b) "salary" includes dearness allowance, if provided for under the terms of employment, but excludes all other allowances and perquisites.

Forms Applicable As Per OLD and New Act

1. Form 15G/H	1. Form 121 Declaration under section 393(6) for receipt of certain incomes without deduction of tax
2. Form 16	2. FORM NO. 130 [See rule 215(1)[Table: Sl. No. 1]] Certificate under section 395 for tax deducted at source on salary paid to an employee under section 392 or pension or interest income of specified senior citizen under section 393(1) [Table: Sl. No. 8(iii)]
3. Form 16A	3. FORM NO. 131 [See rule 215(1)[Table: Sl. No. 2]] Certificate under section 395(4) for tax deducted at source other than on salary paid to an employee under section 392 or pension or interest income of specified senior citizen under section 393(1) [Table: Sl. No. 8(iii)]
4. Form 16B/16C	4. FORM NO. 132 [See rule 215(1)[Table: Sl. No. 2]] Certificate under section 395(4) for tax deducted at source
5. Form 12BB	5. FORM NO. 124 [See rule 205] Statement showing particulars of claims by an employee for deduction of tax under section 392(5)(b)
6. 12BBA	6. FORM NO. 125 [See rule 208] Declaration to be furnished by Specified Senior Citizen for deduction of tax under Section 393(1) [Table: Sl. No. 8(iii)]
7. 26AS	7. FORM NO. 168 [See rule 245] Annual Information Statement

Summary & Key Takeaways: Rules 15-21

This section provides a comprehensive overview of the key provisions covered in Rules 15 through 21 of the Income Tax Act, focusing on perquisite valuation, income thresholds, and specific exemptions.

1

RULE 15

Perquisite Valuation

Covers accommodation (5-10% salary), motor cars (₹5,000-₹7,000 monthly), utilities, benefits, and securities.

2

RULE 16

Annual Accretion

Annual accretion formula with ₹7,50,000 threshold for principal contribution in specified funds.

3

RULE 17

Salary Income Threshold

₹4,00,000 salary income threshold for certain provisions.

4

RULE 18

Medical Exemptions

Medical exemptions for 13 prescribed diseases in approved hospitals.

5

RULE 19

GTI Threshold

₹8,00,000 Gross Total Income (GTI) threshold for certain provisions.

6

RULE 20

VRS Deduction

Voluntary Retirement Scheme (VRS) deduction up to $3 \times N \times S$ or $M \times S$ (whichever is lower).

7

RULE 21

Unrealised Rent

Unrealised rent deduction requires 4 specific conditions to be met.

Income from House Property

Sections 20–25 of the Income Tax Act — covering chargeability, annual value determination, and permissible deductions.



C. Income from House Property Brief Comparisons Chart

Sec. No. (1961)	Provision	Sec. No. (2025)	Provision
22	Income from house property	20	Income from house property
23	Annual value how determined	21	Determination of annual value
24	Deductions from income from house property	22	Deductions from house property
25	Amounts not deductible	23	Arrears of rent and unrealised rent received subsequently
25A	Arrears of rent and unrealised rent received subsequently	23	Arrears of rent and unrealised rent received subsequently
26	Property owned by co-owners	24	Property owned by co-owners
27	Owner of house property defined	25	Interpretation

Income Under the head House property :

C.-Income from house property:

Income from house property.

20. (1) The annual value of property consisting of any buildings or lands appurtenant thereto, owned by the assessee shall be chargeable to income-tax under the head “Income from house property”.

(2) The provisions of sub-section (1) shall not apply to such portions of the property, as the assessee may occupy for his business or profession, the profits of which are chargeable to income-tax.

Chargeability: Section 20



What Is Taxable?

The **annual value of buildings or lands appurtenant thereto**, owned by the assessee, is chargeable to income-tax under the head "**Income from House Property.**"

- ❑ **Key Exception:** If any portion of the property is occupied by the assessee for his own business or profession — and the profits thereof are chargeable to tax — that portion is **excluded** from this head.

Determination of annual value. Section 21

21. (1) For the purposes of [section 20](#), **the annual value of any property shall be deemed to be the higher of the following:—**

- a) the sum for which it might reasonably be expected to let from year to year: or
 - b) the actual rent received or receivable by the owner, if the property or any part of it is let.
- 2) If the property or any part of it is let and was vacant for the whole or any part of the tax year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in sub-section (1)(a), **the annual value of such property shall be deemed to be the amount so received or receivable.**

- 3) **The annual value of the property shall be reduced by the taxes (including service taxes) levied by a local authority in respect of such property**, actually paid during the tax year by the owner, irrespective of when such taxes became payable.
- 4) The **rent which cannot be realised by the owner shall not be included in computing the actual rent received or receivable**, subject to the rules as may be made in this behalf.
- 5) **Where a property is held as stock-in-trade and is not let wholly or partly at any time during the tax year, the annual value of such property or part thereof shall be nil for two years from the end of the financial year in which the certificate for completion of construction** is obtained from the competent authority.
- 6) **The annual value of the property consisting of a house or any part thereof shall be taken as nil**, if the owner occupies it for his own residence or cannot actually occupy it due to any reason.
- 7) The provisions of sub-section (6)—
- a) shall apply only **in respect of two of such houses as specified by the** assessee in this behalf
 - b) **Shall not apply, if the house or any part thereof is actually let during any time of the tax year**, or if the owner derives any other benefit from it



Determining Annual Value: Section 21(1)

The annual value is the **higher** of the two amounts below:

Reasonable Expected Rent

The sum for which the property might **reasonably be expected to let** from year to year — i.e., the fair market rent.

Actual Rent Received

The **actual rent received or receivable** by the owner, applicable where the property or any part of it is let out.

Special Rules for Annual Value

1

Vacancy Relief

If the property was vacant for part of the year and actual rent received is **less than the expected rent**, the annual value is reduced to actual rent received or receivable.

2

Deduction of Local Taxes

Taxes levied by a **local authority** (including service taxes), **actually paid** during the tax year by the owner, are deducted from annual value — regardless of when they became payable.

3

Unrealised Rent

Rent that **cannot be realised** by the owner shall not be included in computing actual rent received or receivable, subject to prescribed rules.

4

Stock-in-Trade Property

If a property is held as **stock-in-trade and not let** at any time during the year, its annual value is **nil for two years** from the end of the financial year in which the completion certificate is obtained.

Self-Occupied Property: Nil Annual Value



**OWNER OCCUPIES
THE HOUSE FOR
OWN RESIDENCE**



**OWNER CANNOT
OCCUPY IT DUE
TO EMPLOYMENT
ELSEWHERE**

Section 21(6) — Key Conditions

The nil annual value benefit applies only to **two such houses** as specified by the assessee.

The benefit does NOT apply if:

- The house or any part thereof is **actually let** during any part of the tax year
- The owner derives **any other benefit** from the property

Section 22: Deductions from income from house property.

1) The income under the head “Income from house property” shall be computed after making the following deductions:—

- (a) **30% of the annual value as determined** under **section 21**;
- (b) **where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital**, the amount of any interest payable on such capital
- (c) where the capital referred to in clause (b) is borrowed during any period prior to the tax year in which the property has been acquired or constructed, the amount of any interest payable for the said prior period in five equal instalments for the said tax year and for each of the four immediately succeeding tax years.

2) In case of property or properties referred to in [section 21\(6\)](#), **the aggregate amount of deduction under sub-section (1)(b) shall not exceed—**

(a) ₹ 200000, subject to the following conditions:—

- (i) the property has been acquired or constructed with borrowed capital and such acquisition or construction **is completed within five years from the end of tax year in which capital was borrowed**
- (ii) the *assessee furnishes a certificate* from the person to whom interest is payable on such capital; and

(b) 30000 in any other case.

3) The deduction under [section 22\(1\)\(c\)](#) shall be computed after reducing the interest referred to in the said section by any amount already allowed as a deduction under any other provisions of this Act

(4) The certificate referred to in sub-section (2) shall specify—

a) the amount of interest payable on capital borrowed;

b) the interest payable on any new loan, where subsequent to the capital borrowed, the assessee has taken any such loan for repayment of whole or any part of such capital.

-
- 5) The aggregate of the amounts of deduction under sub-section (2) in respect of properties of the nature referred to in [section 21\(6\)](#) shall not exceed ₹ 200000
- 6) **Any interest chargeable under this Act which is payable outside India shall not be allowed** as a deduction under this section, if
- (a) tax has not been paid or deducted on such interest under Chapter XIX-B
 - (b) In respect of such interest, there is no agent in India as per [section 306](#).

Deductions from Annual Value: Section 22

Income under "Income from House Property" is computed after the following deductions:

Standard Deduction

30% of the annual value as determined under Section 21 — allowed as a flat deduction without proof of expenditure.

Interest on Borrowed Capital

Interest payable on capital borrowed for **acquisition, construction, repair, renewal, or reconstruction** of the property is fully deductible.

Pre-Construction Interest

Interest accrued **prior to the tax year** of acquisition/construction is deducted in **5 equal instalments** — starting from the year of completion.



Interest Deduction Limits: Self-Occupied Property

For properties with **nil annual value** under Section 21(6), the aggregate interest deduction is capped as follows:



Higher Limit

Where the property is **acquired or constructed** with borrowed capital and construction is completed **within 5 years** from end of tax year of borrowing



Lower Limit

In **any other case** — including repair, renewal, or reconstruction, or where the 5-year completion condition is not met

Certificate Requirement

To claim the higher limit of **₹2,00,000**, the assessee must furnish a **certificate from the lender** specifying:

- Amount of interest payable on the original borrowed capital
- Interest on any **new loan** taken to repay the original capital (refinancing)

☐ The **aggregate** of such deductions across all self-occupied properties cannot exceed **₹2,00,000**.

Section 22(6) Interest Payable Outside India: Restrictions

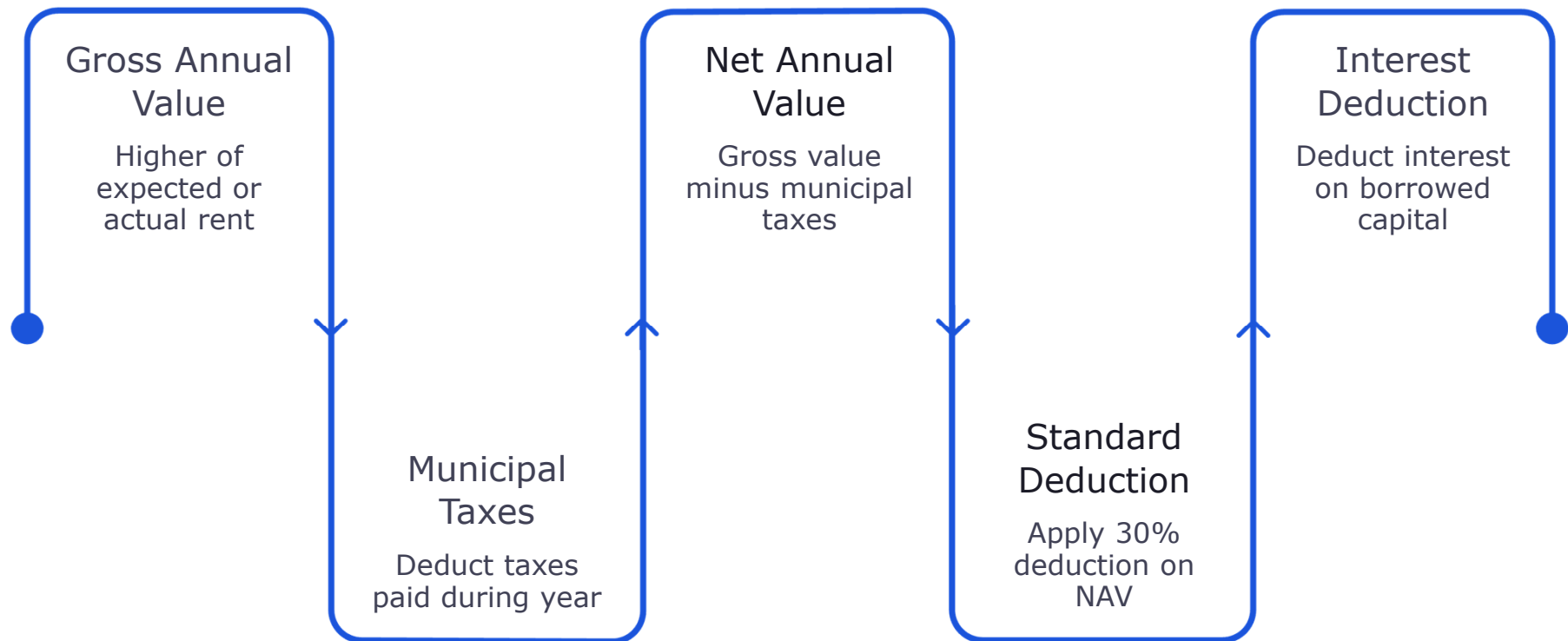


Deduction Disallowed If:

Any interest chargeable under this Act that is **payable outside India** shall **not** be allowed as a deduction under Section 22, if either of the following conditions applies:

- Tax has **not been paid or deducted** on such interest under **Chapter XIX-B** (TDS provisions)
- In respect of such interest, there is **no agent in India** as per **Section 306**

Computation: Step-by-Step Summary



This structured computation ensures accurate determination of taxable income under the head "Income from House Property," from gross annual value to final chargeable income.

An illustration of a wooden desk in a bright, modern office setting. On the desk, there is a stack of three books with blue and yellow covers. The top book has a label that says 'TAX'. In front of the books, there are two papers, one of which also has 'TAX' written on it. A blue pen lies on the papers. The background shows a blurred view of a window with a grid pattern and some office shelves.

Key Takeaways

→ **Ownership is the trigger**

Only the **owner** of a property is taxed under this head — not a tenant or licensee.

→ **Annual value drives tax liability**

Always compare **expected rent vs. actual rent** — the higher figure governs, subject to vacancy and unrealised rent adjustments.

→ **Two deductions only**

Only **30% standard deduction** and **interest on borrowed capital** are permitted — no actual expense claims.

→ **Self-occupied cap: ₹2,00,000**

Interest deduction for self-occupied property is strictly capped — track the **5-year construction condition** and obtain the lender's certificate.

Section 23: Arrears & Unrealised Rent

1

Taxability

Arrears of rent or unrealised rent received subsequently is taxable as **income from house property** in the year of receipt.

2

Ownership Not Required

Included in total income **regardless** of whether the assessee owns the property in that tax year.

3

Standard Deduction

30% of arrears of Rent or unrealised rent is allowed as a deduction.



SECTION 24

Co-owned Property

Where a property is co-owned with **definite and ascertainable shares**, co-owners are **not** assessed as an Association of Persons (AOP), and ***their income computed separately under this Part as per their respective share shall be included in their total income.***

Separate Assessment

Each co-owner's income is computed individually per their share.

Individual Relief

Relief under Sec. 21(6) available to each co-owner independently.

Section 25: Who is an "Owner"?

The definition of "**owner**" for Sections 20–24 is broad and inclusive — going beyond simple title holders.

the "owner" in relation to a property or any part thereof shall include—



Deemed Owners — Key Categories



Individual Transfer to Spouse / Minor Child

Individual transferring property without adequate consideration to spouse (except under separation agreement) or minor child (other than married daughter).



Holder of Impartible Estate

Treated as individual owner of **all properties** comprised in the estate.



Co-operative Society Member

Member of a co-operative society, company, or AOP allotted or leased a building under a house-building scheme.

More Deemed Owner Categories

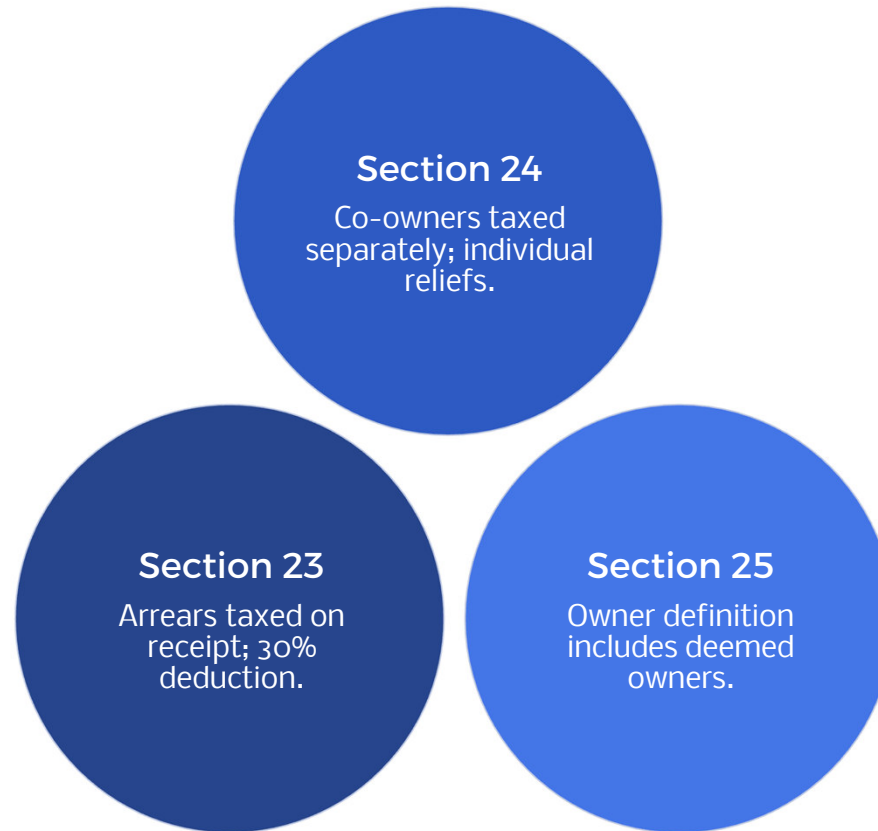
Part Performance of Contract

A person allowed to take or retain possession of a building in part performance of a contract under **Section 53A** of the Transfer of Property Act, 1882.

Acquisition of Rights (Long-term)

A person acquiring rights in a building via **sale, exchange, or lease of ≥ 12 years**, or through membership/shares in a society/company enabling enjoyment of the property — *excluding* month-to-month or leases ≤ 1 year.

Quick Summary



Sections 23 - 25 together ensure comprehensive and equitable taxation of income from house property across varied ownership and receipt scenarios.



Rule 21: Unrealised Rent

This rule explains the conditions for claiming deduction of unrealised rent under section 21(4).

Amount of rent which the owner cannot realise shall be equal to the amount of rent receivable but not paid by a tenant and proved to be lost and irrecoverable.

To claim this deduction, the following four conditions must be satisfied:

- 1 The tenancy is bona fide.
- 2 The defaulting tenant has vacated or steps taken to compel vacation.
- 3 The defaulting tenant is not in occupation of any other property of the assessee.
- 4 The assessee has taken all reasonable steps to institute legal proceedings for recovery or satisfies the AO that legal proceedings would be futile.



Section 58: Presumptive Taxation

Special provisions for computing profits and gains of business or profession on a presumptive basis for certain resident assessee under the Income Tax Act.

INCOME TAX ACT – SECTION 58

Q:What has changed in provisions relating to presumptive taxation of residents in the new Income Tax Bill ,2025?

Ans: Under the current provisions of the Act, residents earning income from business (Section 44AD), profession (Section 44ADA), and the business of plying, hiring, or leasing goods carriages (Section 44AE) are allowed a simplified taxation regime.

In the proposed Income Tax Bill 2025, *an effort has been made to consolidate all these identical presumptive taxation schemes into one section in tabular form, while adopting simplified language without suggesting any policy changes*. Common eligibility conditions are listed as sub-sections below the table.

This approach offers a clearer understanding of the presumptive taxation regimes for residents, improves readability, and significantly shortens the text compared to the existing provisions.

FAQs on Tax on Presumptive Taxation Scheme

Q1:-what is meaning of Presumptive Taxation Scheme ?

Ans:- As per [sections 44AA](#) of the Income-tax Act, 1961, a person engaged in business or profession is required to maintain regular books of account under certain circumstances. To give relief to small taxpayers from this tedious work, the Income-tax Act has framed the presumptive taxation scheme under [sections 44AD](#), [sections 44ADA](#), [sections 44AE](#), [Section 44BB](#) and [Section 44BBA](#)

A person adopting the presumptive taxation scheme can declare income at a prescribed rate and, **in turn, is relieved from tedious job of maintenance of books of account.**

For small taxpayers, the Income-tax Act, 1961 has framed presumptive taxation schemes as given below:

- [Section 44AD](#) : Computation of income on estimated basis in the case of taxpayers [being a resident individual, resident Hindu undivided family or resident partnership firm (not being a limited liability firm)] **engaged in certain business subject to certain conditions.**
- [Section 44ADA](#) : Computation of **professional income on estimated basis** for assessee being a resident in India and engaged in a profession referred to in [section 44AA\(1\)](#) subject to certain conditions.
- [Section 44AE](#) : **Computation of income on estimated basis** in the case of taxpayers (being an Individual, HUF, AOP, BOI, Firm, Company, Co-operative society or any other person may be resident or non-resident) engaged in the business of plying, leasing or hiring goods carriages, subject to certain conditions.
- [Section 44B](#) : Taxation of shipping profits derived by a person being a non-resident in India, subject to certain conditions.
- [Section 44BB](#) : Computation of taxable income of a person being a non-resident (may be an India citizen or a foreign citizen) from activities connected with exploration of mineral oils, subject to certain conditions.
- [Section 44BBA](#) : Computation of income in respect of foreign airlines, subject to certain conditions.
- [Section 44BBA](#) : Computation of profits and gains of foreign companies engaged in the business of civil construction, subject to certain conditions.

Q2:-Manner of computation of taxable business income under the normal provisions of income tax law.i.e in case of a person not adopting the Presumptive Taxation scheme under section 44AD

Generally, as per the Income-tax Law, the taxable business income of every person is computed as follows :

<u>Particulars</u>	<u>Amount</u>
Turnover or gross receipts from the business	XXXXX
Less : Expenses incurred in relation to earning of the income	<u>(XXXXX)</u>
Taxable Business Income	XXXXX
<u>For the purpose of computing taxable business income in the above manner, the taxpayers have to maintain books of account of the business and income will be computed on the basis of the information revealed in the books of account.</u>	

Q2:-Manner of computation of taxable business income in case of a person adopting the Presumptive Taxation scheme under section 44AD

In case of a person adopting the provisions of [section 44AD](#), income will be computed on presumptive basis, *i.e.*, @ 8% of the turnover or gross receipts of the eligible business for the year.

Income shall be calculated at rate of 6% in respect of total turnover or gross receipts which is received by an account payee cheque or draft or use of electronic clearing system or through such other electronic mode as may be prescribed.

In other words, in case of a person adopting the provisions of [section 44AD](#), income will not be computed in normal manner as discussed in previous FAQ (*i.e.*, Turnover less Expense) but will be computed @ 8%/6% of the turnover.

Income at higher rate, *i.e.*, higher than 8% can be declared if the actual income is higher than 8%.

As per New Income Tax Act 2025

Section 58. Income tax Act 1961 Section 44AD, 44ADA, 44AE

(1) The provisions of sections 26 to 54, to the extent contrary to this section, shall not apply to the specified business or profession mentioned in column B of the Table in sub-section (2).

(2) The **profits and gains of any specified business or profession as mentioned in column B of the Table below, carried on by an assessee specified in column C of the said Table,**

- having **total turnover or gross receipts of business or profession during the tax year** specified in column D
- and **computed in the manner specified in column E thereof,**
- shall be deemed to be the profits and gains of such business or profession chargeable to tax under the head **“Profits and gains of business or profession”.**

SL no	Specified business or profession	Assessee	Total turnover or gross receipts of business or profession during tax year	Manner of computation
A	B	C	D	E
1	Any business other than the business specified against serial number 2.	Eligible assessee .	(a) Does not exceed ₹2,00,00,000; or (b) does not exceed ₹3,00,00,000, where the amount or aggregate of amounts received, in cash, does not exceed 5% of the total turnover or gross receipts.	(A)(i) 6% of total turnover or gross receipts realised in specified banking or online mode; and (ii) 8% of total turnover or gross receipts realised in any mode other than specified banking or online mode; or (B) profit claimed to have been actually earned, whichever is higher.

SL no	Specified business or profession	Assessee	Total turnover or gross receipts of business or profession during tax year	Manner of computation
A	B	C	D	E
2	Business of plying, hiring or leasing goods carriage.	An assessee, who owns not more than ten goods carriages at any time during the tax year.		<p>((a)The aggregate of income from goods carriage:—</p> <p>(i)being a heavy goods vehicle, calculated at the rate of ₹1,000 per ton of gross vehicle weight or unladen weight for each vehicle; or</p> <p>(ii)being a vehicle other than heavy goods vehicle, calculated at the rate of ₹ 7,500 for each goods carriage for every month or part of a month during which the vehicle is owned by the assessee in the tax year; or B) (b)income claimed to have been actually earned, whichever is higher.</p>

SL no	Specified business or profession	Assessee	Total turnover or gross receipts of business or profession during tax year	Manner of computation
A	B	C	D	E
3	Any profession as referred to in section 62(1)(a).	Specified assessee.	(a) Does not exceed ₹50,00,000; or (b) Does not exceed ₹75,00,000, where the amount or aggregate of amounts received in cash does not exceed 5% of the total turnover or gross receipts.	50% of the gross receipts or profit claimed to have been actually earned, whichever is higher.

(3) Any assessee mentioned in column C of the Table in sub-section (2), who claims that—

- **(a) the profits or gains actually earned from the specified business or profession are lower than the profits or gains computed** in the manner mentioned in column E of the said Table; and
- **(b) whose total income exceeds the maximum amount which is not chargeable to tax,**

shall be required to—

- **(i) keep and maintain such books of account and other documents** as required under section 62; and
- **(ii) get the accounts audited and furnish a report of such audit** as required under section 63.

(4) **Any loss, allowance or deduction allowable under the provisions of this Act, shall not** be allowed against the income computed in the manner specified in sub-section (1).

(5) For the purposes of sub-section (2) (Table: Sl. No. 2), **where the assessee is a firm, the salary and interest paid to its partners shall be deducted from the income** computed under sub-section (1) subject to the conditions and limits specified in section 35(f).

(6) **The written down value of any asset used for the purposes of specified business or profession** shall be computed as if the assessee mentioned in column C of the Table in sub-section (2) had claimed and was actually allowed depreciation thereon for each of the relevant tax years.

(7) Where **an eligible assessee declares profit for any tax year as per the provisions of sub-section (2) (Table: Sl. No. 1) and he declares profit for any of the five tax years succeeding such tax year in contravention of the provisions of sub-section (1), then he shall not be eligible to claim the benefit of the provisions of this section for five tax years subsequent to the tax year in which the profit has not been declared as per the provisions of the said sub-section.**

(8) Irrespective of anything contained in foregoing provision of this section,

- **where provisions of sub-section (7) are applicable to an eligible assessee and**
- **his total income exceeds the maximum amount which is not chargeable to income-tax,**
- **he shall be required to keep and maintain such books of account and**
- **other documents as required under section 62(2) and**
- **get them audited and**
- **furnish a report** of such audit as required under section 63.

(9) For the purposes of sub-section (2) (Table: Sl. Nos. 1 and 3), **the receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the receipt in cash.**

(10) In this section,—

(a) “eligible assessee” means an individual, a Hindu undivided family, or a firm other than a limited liability partnership, who is resident in India, who—

- (i) has not claimed any deduction under section 141; or
- (ii) has not claimed any deduction under Chapter VIII-C for the relevant tax year; or
- (iii) does not carry on specified profession as defined in section 62(1)(a), and (c); or
- (iv) does not earn any income in the nature of commission or brokerage; or
- (v) does not carry on any agency business;

- (b) **“specified assessee”** means an individual or a firm, other than a limited liability partnership, who is a resident in India;
- (c) **“limited liability partnership”** shall have the same meaning as assigned to it in section 2(n) of the Limited Liability Partnership Act, 2008;
- (d) the expressions **“goods carriage”**, “gross vehicle weight” and “unladen weight” shall have the same meaning as respectively assigned to them in section 2 of the Motor Vehicles Act, 1988;
- (e) **“heavy goods vehicle”** means any goods carriage, the gross vehicle weight of which exceeds 12,000 kilograms; and
- (f) an assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments and for which the whole or part of the amount payable is still due, shall be deemed to be the owner of such goods carriage.

Section 62: Maintenance of books of account.

(1)(a) Any person carrying on specified profession; or

- (b) any person carrying on, business; or any profession [not being a profession referred to in clause (a)] and satisfying the conditions referred to in sub-section (2),

shall **keep and maintain such books of account and other documents** to enable the Assessing Officer to compute his total income under this Act.

(2) The conditions in respect of persons referred to in sub-section (1)(b) shall be the following:—

- (a) where the **income from business or profession exceeds ₹ 120000** or **its total sales, turnover or gross receipts from such business or profession exceeds ten lakh rupees in any one of the three years immediately preceding the tax year**; or
- (b) where **business or profession is newly set up in the tax year, the income from business or profession is likely to exceed ₹ 120000 or its total sales**, turnover or gross receipts from such business or profession is likely to exceed ten lakh rupees during such tax year; or
- (c) where during the tax year, the assessee referred to in section 58(2) or 61(2) (Table: Sl. Nos. 4 and 5), has claimed income from business or profession to be lower than the deemed profits as referred to in section 58(2) or section 61(2); or
- (d) in case of **an individual or Hindu undivided family**, clauses (a) and (b) shall be modified **to the extent of income from such business or profession exceeding ₹ 250000 and its total sales, turnover or gross receipts from such business or profession exceeding twenty-five lakh rupees.**

(3) For the purposes of this section, the Board may prescribe—

- (a) the books of account and other documents (including inventories, wherever necessary) to be kept and maintained;
- (b) particulars to be contained therein;
- (c) the form, manner and place at which they shall be kept and maintained; and
- (d) the period for which such books of account and other documents are to be retained.

(4) For the purposes of this section, the expression “specified profession” means—

(a) legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration, information technology or company secretary; or

(b) any other profession, as may be notified by the Board in this behalf.

Section 63(2): "Tax Audit"

The provisions of this section **shall not apply**

- where profits and gains of business or profession, declared by the assessee are as per section 58(2) or 61(2).

Thanks



CA. PANKAJ KUMAR MISHRA

(FCA, LLB, FAFD (Forensic Auditor), M-Com, B-Com (CS)

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Visiting Faculty of ICAI(MCS)/ICAI(CMA)-Direct and Indirect Taxes)

Email: Fcapankajkumarmishra@gmail.com

Contact NO. 9899407778/9988076095