Indian Personal Income Taxation: A Comprehensive Guide

This report covers key aspects of Indian personal income taxation, including tax deductions, exemptions for salaried individuals, capital gains, tax regimes, passive income taxation, and tax-saving opportunities.

1. Tax Deductions

Income tax deductions under Chapter VI-A of the Income Tax Act (Sections 80C to 80U) reduce taxable income, leading to lower tax liability. These deductions are primarily available under the **Old Tax Regime**, with only a few exceptions like Section 80CCD(2) and 80CCH(2) applicable to the New Tax Regime.

- **Section 80C**
  - **Limit**: Up to **₹1,50,000 annually**.
  - **Eligible Persons**: Individuals and Hindu Undivided Families (HUFs).
  - **Eligible Investments/Expenses**:
    - **Equity Linked Savings Scheme (ELSS)**: Tax-saving mutual fund investing 65% in equity, with a **3-year lock-in period**. It allows deduction up to ₹1,50,000 and can save taxes up to ₹46,800. Investing through SIP in ELSS qualifies.
    - **Public Provident Fund (PPF)**: Government-supported savings scheme with a **15-year maturity period**. Offers **guaranteed, risk-free returns** and is **fully tax-exempt (EEE status)** on investment, interest, and maturity. Minimum annual deposit is ₹500, maximum is ₹1,50,000.
    - **Tax Saving Fixed Deposits (FDs)**: Offered by banks and NBFCs, with a **5-year lock-in period**. Interest earned is taxable.
    - **National Savings Certificate (NSC)**: Government savings bond with a **5-year lock-in period**. Interest is compounded annually; interest for the first four years is deemed reinvested and eligible for 80C deduction, while the fifth year's interest is taxable at the investor's slab rate.
    - **Sukanya Samriddhi Yojana (SSY)**: Saving scheme for girl children, aligned with "Beti Bachao, Beti Padhao". Account can be opened for a girl child aged 10 years or younger. Minimum deposit ₹250, maximum ₹1,50,000 annually. Matures after 21 years from opening date. Offers **EEE status**.
    - **Employee Provident Fund (EPF)**: Government-managed retirement scheme for salaried persons, mandatory for employees earning ₹15,000 or less per month, but

optional for others. Both employee and employer contribute. Offers **tax-free interest** if annual contribution does not exceed **₹2.5 lakh**.

  - **Unit Linked Insurance Plan (ULIP)**: Combines insurance coverage with capital market returns. Has a **5-year lock-in period**. Premiums up to 10% of sum assured (for policies issued after April 1, 2012) are deductible, subject to the ₹1.5 lakh 80C limit. Maturity benefit is tax-free under Section 10(10D) if sum assured is at least 10 times the annual premium.

  - **Senior Citizen Savings Scheme (SCSS)**: For individuals **60 years or older** (or 55-60 years for certain retirees). Maximum deposit enhanced from ₹15 lakh to **₹30 lakh**. Has a **5-year tenure**, extendable by 3 years. Interest is taxable.

  - Life Insurance Premium (for self, spouse, or child).

  - Mutual Funds (referring to ELSS specifically, other SIPs not covered by 80C).

  - Child tuition fees (for full-time education for maximum two children).

  - Principal amount of home loan repayment (including stamp duty, registration fee).

 - **Practical Example (80C)**: **Ajay, a salaried individual**, invests **₹50,000 in ELSS**, **₹50,000 in PPF**, and pays **₹50,000 for his child's tuition fees** in a financial year. He can claim a total deduction of **₹1,50,000** under Section 80C, reducing his taxable income by that amount. This could lead to a tax saving of **₹46,800** in a year (assuming a 30% tax slab).

- **Section 80D (Medical Insurance Premium & Medical Expenditure)**

 - **Eligible Persons**: Individual or HUF.

 - **Limits**:

  - Self/Spouse/Dependent Children (<60 years): Up to **₹25,000**.

  - Parents (<60 years): Additional up to **₹25,000**.

  - Parents (≥60 years): Additional up to **₹50,000**.

  - Overall Maximum (if self/family <60 and parents ≥60): Up to **₹75,000**.

  - Overall Maximum (if self/family ≥60 and parents ≥60): Up to **₹1,00,000**.

  - Preventive Health Check-up: Up to **₹5,000** (within overall limits).

  - Medical Treatment Expenditure (for uninsured senior citizens): Up to **₹50,000** for self/spouse/dependent children or parents (if 60+ and uninsured).

◦ **Practical Example (80D)**: **Priya**, aged 45, pays **₹20,000** for her family's health insurance and **₹40,000** for her senior citizen parents' health insurance. She can claim a total deduction of **₹60,000** (₹20,000 + ₹40,000) under Section 80D.

• **Section 80CCD (National Pension Scheme - NPS)**

◦ **Purpose**: Retirement saving scheme with tax benefits.

◦ **Eligible Persons**: Indian citizens (resident or non-resident) between 18 and 70 years. Both salaried and self-employed individuals can claim.

◦ **Types of Contributions and Deductions**:

▪ **80CCD(1) (Employee's/Individual's Contribution)**: Deduction up to **10% of salary (Basic + DA)** for salaried individuals, or **20% of gross total income** for self-employed, capped at **₹1.5 lakh** (within the overall 80CCE limit).

▪ **80CCD(1B) (Additional Individual Contribution)**: An **additional deduction of up to ₹50,000** for contributions to NPS account, **over and above the ₹1.5 lakh limit** of Section 80C.

▪ **80CCD(2) (Employer's Contribution)**: Deduction for employer's contribution to employee's NPS account, restricted to **14% of salary (Basic + DA)** for Government employees and **10%** for others. **No restriction on the amount of deduction**. This is available under both old and new tax regimes.

◦ **Withdrawal Taxation**:

▪ Partial withdrawals: Up to **25% of self-contribution** is tax-free, subject to conditions.

▪ Lump Sum Withdrawal at Retirement (60 years): **60% of the total corpus** is tax-exempt. The remaining 40% must be used to purchase an annuity.

▪ Annuity Income: Taxable in the year of receipt.

◦ **Practical Example (80CCD)**: **Rahul**, a salaried employee, contributes **₹1.5 lakh** to his NPS Tier-I account and an **additional ₹50,000** to the same. He can claim a total deduction of **₹2 lakh** (₹1.5 lakh under 80CCD(1) + ₹50,000 under 80CCD(1B)), significantly reducing his taxable income. His employer contributes another 10% of his basic salary to NPS, which is also deductible under 80CCD(2).

• **Section 80E (Interest on Higher Education Loan)**

◦ **Eligible Person**: Individual.

◦ **Benefit**: Deduction for interest paid on a loan taken for higher education (for self, spouse, child, or legal guardian's student).

◦ **Limit**: **No maximum limit**. Available for up to **8 assessment years**. Education can be pursued abroad, provided the loan is taken in India.

◦ **Practical Example (80E)**: **Sneha** pays **₹80,000** in interest on her education loan for her master's degree. She can claim the full **₹80,000** as a deduction under Section 80E for that financial year.

• **Section 80G (Donations to Specified Funds/Institutions)**

◦ **Eligible Persons**: All assesses (Individual, HUF, Company, etc.).

◦ **Benefit**: Deduction for donations made.

◦ **Limits**: 100% or 50% of the donated amount, or subject to a qualifying limit. Cash donations **up to ₹2,000** are allowed; beyond that, non-cash modes are required.

◦ **Practical Example (80G)**: **Rajesh** donates **₹10,000** to an eligible charitable institution that qualifies for 50% deduction. He can claim a deduction of **₹5,000** under Section 80G.

• **Other Key Deductions (Chapter VI-A)**:

◦ **Section 80TTB (Interest Income for Senior Citizens)**: Up to **₹50,000** deduction for interest earned on deposits (savings/FDs) for individuals aged 60 years or above.

◦ **Section 80TTA (Interest on Savings Accounts - Others)**: Up to **₹10,000** deduction for interest earned on savings accounts for individuals and HUFs (except senior citizens).

◦ **Section 80U (Disabled Individuals)**: Fixed deduction of **₹75,000** for normal disability (40-80%) and **₹1,25,000** for severe disability (80% or more). This is for the disabled individual themselves, not for expenses incurred for a dependent.

◦ **Section 80DD (Medical Treatment of Dependent with Disability)**: Deduction of **₹75,000** for normal disability (40-80%) and **₹1,25,000** for severe disability (80% or more) for expenses incurred for a disabled dependent relative. Mental illness is covered.

◦ **Section 80DDB (Medical Expenditure for Specified Diseases)**: Up to **₹40,000** (for others) or **₹1,00,000** (for senior citizens) for medical treatment of specified diseases. Infertility treatment is **not included**.

◦ **Section 80EE (Interest on Housing Loan - Additional)**: Up to **₹50,000** additional deduction for interest on housing loan, besides Section 24 deduction.

◦ **Section 80EEA (Interest on Housing Loan - First-time Buyers)**: Up to **₹1,50,000** additional deduction for interest on home loan (sanctioned between April 1, 2019, and March 31, 2022) for first-time residential property acquisition.

◦ **Section 80EEB (Interest Paid on Electric Vehicle Loan)**: Up to **₹1,50,000** deduction for interest on electric vehicle loan (sanctioned between April 1, 2019, and March 31, 2023).

◦ **Section 80GG (House Rent Paid)**: For individuals not receiving HRA, least of ₹5,000 per month, 25% of adjusted total income, or (rent paid - 10% of adjusted total income).

◦ **Practical Example (Other Deductions)**: **Suresh**, aged 65, earns **₹45,000** in interest from his fixed deposits. He can claim a deduction of **₹45,000** under Section 80TTB. If **Divya**, aged 35, earns **₹8,000** in savings account interest, she can claim the full **₹8,000** under Section 80TTA.

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2. Exemptions for Salaried Individuals

Certain allowances and deductions reduce taxable salary income.

• **Standard Deduction**:

◦ **Old Tax Regime**: **₹50,000** for salaried individuals.

◦ **New Tax Regime**: **₹75,000** for FY 2025-26 (₹50,000 for FY 2023-24).

◦ **Practical Example**: **Smita**, a salaried employee, can claim a **₹50,000** standard deduction under the old tax regime, directly reducing her taxable salary.

• **House Rent Allowance (HRA)**:

◦ **Old Tax Regime**: Available based on actuals.

◦ **New Tax Regime**: **Not available**.

◦ **Practical Example**: **Deepak**, living in a rented apartment, claims HRA exemption under the old tax regime, reducing his taxable income based on rent paid, HRA received, and 10% of basic salary. He would not be able to claim this under the new regime.

• **Leave Travel Allowance (LTA)**:

◦ **Old Tax Regime**: Available based on actuals.

◦ **New Tax Regime**: **Not available**.

• **Other Allowances**:

◦ Children's Education Allowance: ₹100 per month per child (up to two children).

◦ Transport Allowance (for specially abled): ₹1,600 per month.

◦ Entertainment Allowance: Available for government employees (old regime).

◦ Professional Tax: Actual amount paid, up to ₹2,500 annually (old regime).

◦ **New Tax Regime**: Most other allowances like food allowance, entertainment allowance, and professional tax are **not available** for deduction.

• **Gratuity and Leave Encashment**:

◦ Exemption on Gratuity under Section 10(10).

◦ Exemption on Leave Encashment under Section 10(10AA).

◦ **Practical Example**: Upon retirement, **Mr. Sharma** receives gratuity and payment for accumulated leave. Portions of these amounts can be exempt from tax under specific sections, provided he meets the conditions.

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3. Capital Gains Taxation

Capital gains are profits from selling capital assets, such as land, buildings, jewelry, shares, or mutual fund units. Taxation depends on the asset type, holding period, and specific rules.

• **Definition of Capital Asset**: Includes land, building, house property, vehicles, patents, trademarks, leasehold rights, machinery, and jewelry. Excludes stock-in-trade, personal goods (clothes, furniture), and rural agricultural land.

• **Short-Term Capital Asset (STCA) vs. Long-Term Capital Asset (LTCA)**:

◦ **STCA**: Asset held for **up to 24 months**.

▪ **Exception**: For listed equity shares, listed securities, UTI units, equity-oriented mutual fund units, and zero-coupon bonds, STCA applies if held for **12 months or less**.

◦ **LTCA**: Asset held for **more than 24 months**.

▪ **Exception**: For listed equity shares, listed securities, UTI units, equity-oriented mutual fund units, LTCA applies if held for **more than 12 months**.

◦ **Note**: Capital gains on the sale of debt mutual funds acquired on or after **April 1, 2023**, are **always treated as STCG**, regardless of holding period, and taxed at slab rates.

- **Capital Gains Tax Rates**:
  - **Equity (Listed Shares & Equity-Oriented Mutual Funds)**:
    - **Short-Term Capital Gains (STCG)**: Taxed at **15%** if held for 12 months or less. Securities Transaction Tax (STT) is applied at 0.001% on equity unit redemptions.
    - **Long-Term Capital Gains (LTCG)**:
      - **Before July 23, 2024**: Taxed at **10%** on gains exceeding **₹1 lakh**.
      - **On or After July 23, 2024**: Taxed at **12.5%** on gains exceeding **₹1.25 lakh**.
      - **No indexation benefit** for equity gains.
    - **Practical Example (Equity Gains)**: **Anjali** sells equity mutual fund units after holding them for 10 months, making a profit of **₹50,000**. This is STCG and taxed at **15%**. If she held them for 15 months and made a profit of **₹1,50,000** (sold after July 23, 2024), **₹1.25 lakh** would be exempt, and the remaining **₹25,000** would be taxed at **12.5%** as LTCG.
  - **Debt Mutual Funds**:
    - **Acquired on or after April 1, 2023**: Always treated as STCG, taxed as per **individual's income slab rates**, regardless of holding period. **No indexation benefit**.
    - **Acquired before April 1, 2023**:
      - STCG (<36 months): Taxed as per **income slab rate**.
      - LTCG (>36 months): Taxed at **20% with indexation benefit**.
    - **Practical Example (Debt Funds)**: **Vivek** invested in a debt mutual fund in March 2023. If he sells it after 8 months (STCG), it is taxed at his slab rate. If he sells it after 40 months, it is LTCG taxed at 20% with indexation. If he invested in the same fund in May 2023 and sold it after 8 months or 40 months, the gains would always be taxed at his income slab rate as STCG.
  - **Real Estate/Property (Land or Building or Both)**:
    - **Short-Term Capital Gains (STCG)**: Taxed as per normal slab rates.
    - **Long-Term Capital Gains (LTCG)**: If held for more than 24 months, taxed at **12.5% without indexation** or **20% with indexation** (taxpayer has choice for individuals/HUF for transfers on or after July 23, 2024).
    - **Exemptions**:

- **Section 54**: Exemption on sale of a house property if invested in **one or two** other house properties. If two properties, capital gain must not exceed ₹2 crore. Reinvestment must be within 1 year before or 2 years after sale, or construction within 3 years.

- **Section 54EC**: Exemption if LTCG from property sale is reinvested in specific bonds (NHAI, REC, PFC, IRFC) up to **₹50 lakh**. Investment must be within 6 months of sale.

- **Section 54F**: Exemption on capital gains from sale of **any asset other than a house property** if the **entire sale consideration** (not just capital gain) is invested to buy a new residential house property. Similar time limits as Section 54. Only 1 house property allowed for this exemption.

- **Section 54B**: Exemption for capital gains from transfer of agricultural land used for agricultural purposes for 2 years before sale. Reinvestment in new agricultural land within 2 years.

- **Capital Gains Account Scheme (CGAS)**: If capital gains are not reinvested before the ITR due date, they can be deposited in a PSU bank under CGAS and still claimed as exemption.

▪ **Practical Example (Property Gains)**: **Mr. Khan** sells a property for **₹1 crore** after holding it for 3 years, making a capital gain of **₹50 lakh**. This is LTCG. He can opt to buy a new residential property for **₹50 lakh** and claim full exemption under Section 54. Alternatively, he could invest **₹50 lakh** in NHAI bonds and claim exemption under Section 54EC.

- **Deductible Expenses from Capital Gains**:
  - Expenditure incurred wholly and exclusively for the transfer (e.g., brokerage, stamp papers, travelling expenses).
  - Cost of acquisition and cost of improvement (indexed for LTCG calculations, where applicable).
  - **Note**: Securities Transaction Tax (STT) is **not allowed** as a deductible expense.
- **Indexation**:
  - Adjusts the cost of acquisition and improvement for inflation using the Cost Inflation Index (CII). This increases the cost base, thereby lowering the capital gains.
  - **Improvements made before April 1, 2001, are not considered** for indexation.

◦ **Note**: Indexation benefit previously available on sale of long-term assets is removed for debt mutual funds acquired on or after April 1, 2023. For real estate, taxpayers can choose between 12.5% without indexation or 20% with indexation (post July 23, 2024).

◦ **Practical Example (Indexation)**: **Mrs. Rao** sold a house property in August 2024 for ₹50 lakh, which she acquired in February 2020 for ₹25 lakh. Using indexation, her indexed cost of acquisition is higher (e.g., ₹30,14,950 from example). Her capital gain with indexation is ₹19,85,050. Without indexation, it's ₹25,00,000. She can choose the option (12.5% without indexation or 20% with indexation) that results in lower tax.

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4. Old vs. New Tax Regime

The **new tax regime** remains the **default option**, but individuals without business income can opt for the old regime each financial year.

1. Income Tax Slab Rates for FY 2025-26 (AY 2026-27)

A. New Tax Regime This regime offers **concessional tax rates** with **limited exemptions and deductions**.

• **Up to Rs. 2,50,000:** 0%

• **Rs. 2,50,001 – Rs. 4,00,000:** 0%

• **Rs. 4,00,001 – Rs. 5,00,000:** 5%

• **Rs. 5,00,001 – Rs. 8,00,000:** 5%

• **Rs. 8,00,001 – Rs. 10,00,000:** 10%

• **Rs. 10,00,001 – Rs. 12,00,000:** 10%

• **Rs. 12,00,001 – Rs. 15,00,000:** 15%

• **Rs. 15,00,001 – Rs. 16,00,000:** 15%

• **Rs. 16,00,001 – Rs. 20,00,000:** 20%

• **Rs. 20,00,001 – Rs. 24,00,000:** 25%

• **Rs. 24,00,001 and above:** 30%

The **basic exemption limit** under the new tax regime has been raised from Rs. 3 lakh to **Rs. 4 lakh**, effective April 1, 2025, providing greater tax relief. Taxpayers with incomes up to Rs.

12 lakh will receive an **enhanced Section 87A rebate of Rs. 60,000**, which can effectively bring their tax liability to zero.

B. Old Tax Regime This regime continues to offer various exemptions and deductions.

• **Up to Rs. 2,50,000:** NIL

• **Rs. 2,50,001 – 5,00,000:** 5%

• **Rs. 5,00,001 – 10,00,000:** 20%

• **Rs. 10,00,001 and Above:** 30%

C. Senior Citizen Slabs (Old Tax Regime) The new tax regime applies uniformly across all age groups, including general, senior, and super senior citizens, offering a simplified structure. The provided source does not specify distinct slab rates for senior or super senior citizens under the old tax regime for FY 2025-26, though it mentions the old regime generally has "different deductions for senior and super senior citizens" for FY 2023-24.

2. Key Deductions and Exemptions

A. New Tax Regime (Limited Deductions Allowed) The new tax regime aims to simplify tax filing by removing most exemptions and deductions. However, a few key deductions are still allowed:

• **Standard Deduction:** Salaried individuals and pensioners can now claim a higher **standard deduction of Rs. 75,000**, up from Rs. 50,000 in the previous year. This deduction is automatically applied.

• **Enhanced Section 87A Rebate:** Taxpayers with incomes up to **Rs. 12 lakh will get a rebate of Rs. 60,000**, effectively bringing their tax liability to zero.

• **Employer's Contribution to NPS [Section 80CCD(2)]:** A deduction is allowed for the employer's contribution to NPS up to 10% of salary (14% for government employees) or the employer's contribution, whichever is higher. For Central Government employees, this deduction is up to 14%, regardless of the tax regime chosen.

• **Section 80JJAA:** This deduction is available for businesses hiring new employees, encouraging job creation.

• **Section 80CCH(2):** Allows deduction on contributions made to the Agniveer Corpus Fund by Agniveers.

• **Surcharge Cap:** The highest surcharge rate of 37% has been reduced to **25%** under the New Tax regime for income above Rs. 2 crore, providing relief to high earners even for incomes exceeding Rs. 5 crore.

• **Pensioners' Relief:** A deduction of Rs. 25,000 or 1/3rd of family pension (whichever is less) continues to be allowed.

Deductions NOT Allowed under New Tax Regime Over 70 exemptions and deductions, including many popular ones, are not applicable under the new tax regime. These include:

• Section 80C (e.g., investments in PPF, ELSS, Life Insurance Premium).

• Section 80D (Health insurance premium).

• House Rent Allowance (HRA).

• Leave Travel Allowance (LTA).

• Children education allowance.

• Helper allowance.

• Interest on housing loan (Section 24).

• Other special allowances [Section 10(14)].

• Professional tax.

• Donations to Political party/trust, etc..

• Section 80CCD(1B).

• Section 80EEA.

• Section 80EEB.

• Interest on education loan (Section 80E).

• Donations to charitable institutions (Section 80G).

• Interest on savings bank account/interest for senior citizens (Section 80TTA/80TTB).

• Entertainment Allowance.

• Additional Depreciation (Section 32(1)(iia)).

• Income from House Property Loss Set-off.

B. Old Tax Regime (Deductions Allowed) The old tax regime allows several deductions and exemptions that help reduce taxable income. While the source generally states that the old regime offers "various exemptions and deductions", for the purpose of FY 2025-26, it specifically highlights the availability of:

• **Section 80C** (e.g., PPF, ELSS, LIC Premium).

• **Section 80D** (Medical Insurance Premium).

• **Standard Deduction** (for salaried individuals), which remained unchanged at Rs. 50,000.

3. Tax Savings and Impact

• These updates aim to simplify the tax structure and **boost disposable income, especially benefiting middle-income earners**.

• For an individual with a **taxable income of Rs. 12 lakh in FY 2025-26**, opting for the new tax regime could result in **no tax**, compared to Rs. 1,63,800 under the old tax regime.

• For an individual with a **taxable income of Rs. 15 lakh**:

  ◦ **New Regime:** Rs. 97,500.

  ◦ **Old Regime:** Rs. 2,57,400, resulting in a saving of Rs. 1,59,900 under the new regime.

  ◦ **Example Scenario (Gross annual income of Rs. 15,00,000)**:

    ▪ **Old Tax Regime Calculation:** After claiming Rs. 1,50,000 under Section 80C, Rs. 25,000 under Section 80D, and a standard deduction of Rs. 50,000, the Net Taxable Income is Rs. 12,75,000. The Total Tax Liability, including 4% Health & Education Cess, is **Rs. 2,02,800**.

    ▪ **New Tax Regime Calculation:** With only the standard deduction of Rs. 75,000 applicable, the Net Taxable Income is Rs. 14,25,000. The Total Tax Liability, including 4% Health & Education Cess, is **Rs. 97,500**.

    ▪ Conclusion: In this scenario, the new tax regime leads to significantly lower tax liability. While the old regime is beneficial for those with high deductions, the new regime is more tax-efficient for individuals with fewer deductions. It is always advised to evaluate based on your actual eligible deductions before choosing.

• For an individual with a **taxable income of Rs. 25 lakh**:

  ◦ **New Regime:** Rs. 3,19,800.

  ◦ **Old Regime:** Rs. 5,69,400, resulting in a saving of Rs. 2,49,600 under the new regime.

• It is recommended to **evaluate both regimes** based on your actual eligible deductions and financial goals to determine which one offers lower tax liability. An online tax calculator can help simplify this decision-making process and ensure optimal tax savings.

Important Points to Consider When Selecting the New Tax Regime

When deciding between the new income tax regime and the old one for FY 2025-26 (AY 2026-27), it is crucial to weigh key differences in deductions, rebates, and overall tax liability.

• **Default Regime:** The new tax regime is now the default option for all taxpayers unless they specifically opt for the old regime while filing returns.

• **Limited Deductions and Exemptions:** The new tax regime offers lower income tax slab rates but significantly limits deductions. Over 70 exemptions and deductions, including those under Section 80C (like ELSS, PPF, life insurance premiums), Section 80D (health insurance), HRA, and LTA, are not applicable. This makes the new regime ideal for individuals who do not have many investments or claims.

• **Enhanced Standard Deduction:** A key benefit introduced in Budget 2025 is the increased standard deduction of **Rs. 75,000** for salaried and pensioned individuals. This deduction is automatically applied and provides basic relief even without any additional investments.

• **Section 87A Rebate Expansion:** Under the revised structure, individuals with income up to **Rs. 12 lakh** may effectively pay zero tax after considering the standard deduction, lower tax rates, and the enhanced Section 87A rebate.

• **Surcharge Cap:** The maximum surcharge under the new regime is capped at **25%**, ensuring more predictable tax outgo for high-income earners.

• **Uniform Applicability:** Unlike the old regime, the new tax slabs apply uniformly across all age groups—general, senior, and super senior citizens—offering a simplified structure.

• **Switching Regimes:** Salaried individuals are allowed to switch between the old and new tax regimes each year while filing their returns. However, taxpayers with business or professional income who opt for the new tax regime can switch regimes only once in their lifetime unless they cease to have such income thereafter.

• **Conditions for Opting (without business income):** To be eligible for the lower income tax rates under the new regime, the individual or HUF's total income must meet specific conditions, including: no business income, no exemptions or deductions from the Income Tax Act, no offsetting of losses (including carry forward and depreciation-related), no deduction of capital losses from the sale of house property, and no exemptions or deductions for allowances or perquisites from any other law.

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5. Tax on Passive Income

Passive income such as interest and dividends is subject to taxation.

- **Interest Income**:
  - **Fixed Deposits (FDs)**: Interest earned from FDs is **taxable**.
    - **TDS Threshold (from April 1, 2025)**:
      - General Citizens (Non-Senior): Threshold increases from ₹40,000 to **₹50,000** per financial year.
      - Senior Citizens: Threshold rises from ₹50,000 to **₹1,00,000** per financial year.
    - To avoid TDS if total income is below taxable limit, Form 15G (for <60 years) or Form 15H (for senior citizens) can be submitted.
  - **Savings Bank Accounts**:
    - Deduction up to **₹10,000** under **Section 80TTA** for individuals/HUFs (except senior citizens).
    - Deduction up to **₹50,000** under **Section 80TTB** for senior citizens (60 years or above).
  - **National Savings Certificate (NSC)**: Interest for the first four years is deemed reinvested and qualifies for 80C deduction. The interest earned in the **fifth year is not reinvested and is taxable** at the investor's applicable slab rate.
  - **Public Provident Fund (PPF)**: Interest earned is **fully tax-exempt** (EEE status).
  - **Senior Citizen Savings Scheme (SCSS)**: Interest earned is **taxable** as per the investor's income tax slab. However, TDS is exempt up to **₹50,000** (for senior citizens 60+), or **₹10,000** (for 55-60 years, retired). The TDS limit on interest income for senior citizens doubled from ₹50,000 to **₹1 lakh** effective Budget 2025.
  - **Practical Example (Interest Income)**: **Mr. Gopalan**, aged 70, has FD interest income of **₹90,000** and savings account interest of **₹15,000**. His FD interest is below the ₹1 lakh TDS threshold for senior citizens (from April 1, 2025), so no TDS would be deducted by the bank. He can also claim a **₹50,000** deduction for his total interest income under Section 80TTB.
- **Dividend Income (from Mutual Funds)**:

◦ Dividend income is treated as part of **regular income and taxed according to the individual's income slab**.

◦ Fund houses deduct **10% TDS on dividends exceeding ₹5,000** per financial year (under Section 194K). This TDS can be adjusted against the total tax liability during ITR filing.

◦ **Practical Example (Dividends)**: **Maya** receives **₹10,000** in dividends from her mutual fund investments. The fund house would deduct 10% TDS (₹1,000). She would include the ₹10,000 in her total income, and the ₹1,000 TDS can be adjusted when she files her ITR.

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6. Tax Saving Opportunities

Effective tax planning involves leveraging various deductions and exemptions based on income level, family status, and spending patterns.

• **Smart Combinations of Investments**:

◦ **Section 80C Maximization**: Max out the ₹1.5 lakh limit using a mix of options like ELSS (for growth potential and shortest lock-in among 80C options), PPF (for safety and tax-free returns), and EPF (if salaried).

◦ **NPS Additional Benefit**: Utilize the additional ₹50,000 deduction under Section 80CCD(1B) through NPS contributions, which is over and above the 80C limit. This effectively allows for a total self-contribution deduction of ₹2 lakh towards retirement savings.

◦ **Health Insurance**: Always consider a medical insurance premium for self and family under Section 80D, especially for senior citizen parents, to claim significant deductions.

◦ **Home Loan Interest**: If applicable, deductions for home loan interest under Section 24b (up to ₹2 lakh for self-occupied) and additional benefits under 80EE/80EEA can substantially reduce taxable income.

• **Practical Saving Examples Across Income Groups (Old Tax Regime Focus)**:

◦ **Individual with Annual Income ≈ ₹5,00,000**:

▪ **Goal**: Reduce taxable income to ₹0 to claim full tax rebate under Section 87A.

▪ **Strategy**:

• Max out **Section 80C** investments: e.g., **₹1,50,000** in PPF or ELSS.

        - Invest in **Section 80D**: e.g., **₹25,000** for self/family health insurance.
        - Standard Deduction: **₹50,000**.
    - **Calculation**: Taxable Income = ₹5,00,000 - ₹1,50,000 (80C) - ₹25,000 (80D) - ₹50,000 (Standard Deduction) = **₹2,75,000**. This income falls below ₹5,00,000, so a **full tax rebate under Section 87A** applies, resulting in **nil tax liability**.
    - **Note for New Regime**: For FY 2024-25, income up to ₹7,00,000 has nil tax liability due to Section 87A rebate. If the individual has no deductions, the new regime is beneficial.
- **Individual with Annual Income ≈ ₹10,00,000**:
    - **Goal**: Optimize tax savings beyond the Section 87A rebate limit.
    - **Strategy**:
        - Maximize **Section 80C**: **₹1,50,000** (e.g., mix of EPF, ELSS, SSY for children).
        - Utilize **Section 80D**: **₹25,000** (for self/family health insurance) and potentially **₹50,000** for senior citizen parents' health insurance, totaling **₹75,000**.
        - Consider **Section 80CCD(1B)** (NPS): **₹50,000** (additional deduction).
        - Standard Deduction: **₹50,000**.
        - If applicable, **Home Loan Interest** (Section 24b): e.g., **₹2,00,000**.
    - **Calculation (Example)**: Taxable Income = ₹10,00,000 - ₹1,50,000 (80C) - ₹75,000 (80D) - ₹50,000 (80CCD(1B)) - ₹50,000 (Standard Deduction) - ₹2,00,000 (Home Loan Interest) = **₹4,75,000**. Tax on this amount would be very low, potentially zero if other specific conditions apply or closer to ₹7,500. This example shows how substantial deductions can bring higher incomes into lower tax brackets.
- **Individual with Annual Income ≈ ₹20,00,000**:
    - **Goal**: Significant tax reduction through a wide array of eligible deductions.
    - **Strategy**:
        - Maximize **Section 80C**: **₹1,50,000**.
        - Maximize **Section 80D**: **₹75,000** (assuming self/family and senior citizen parents).
        - Utilize **Section 80CCD(1B)** (NPS): **₹50,000**.
        - Standard Deduction: **₹50,000**.

- Home Loan Interest (Section 24b): **₹2,00,000**.
- If applicable, **Section 80EEA** (first-time home buyer interest): **₹1,50,000**.
- If applicable, **Section 80E** (education loan interest): **₹X** (full amount).
- Potentially other Chapter VI-A deductions (e.g., 80G for donations).

▪ **Calculation (Example using source provided)**: Gross Salary ₹20,00,000. Less: HRA ₹2,00,000, LTA ₹40,000, Reimbursements ₹24,500, Children education and hostel allowance ₹9,600, Standard Deduction ₹50,000, Professional Tax ₹2,400. Taxable Salary Income = ₹16,73,500. Less: 80C ₹1,50,000, 80D ₹50,000, 80E ₹22,000. Net Taxable Income = **₹14,51,500**. Tax on this income would be ₹2,57,868. Additional claimable deductions could be Interest on home loan EMIs u/s 24b (₹2,00,000), Principal amount of home loan u/s 80EEA (₹1,50,000), NPS u/s 80CCD(1B) (₹50,000).

▪ This shows that even with a high income, effective planning and utilizing available deductions can significantly lower the final tax liability.