UNIVERSITY OF DELHI

INCOME TAX

LAW AND PRACTICE

DSC 5.1

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 5 — PART A

DEDUCTIONS FROM GROSS TOTAL INCOME REBATES AND RELIEFS

Chapter VIII · Chapter IX · Schedule XV

The Scheme of Chapter VIII • The Ceiling in Section 122(2)
Section 123 and Schedule XV · Life Insurance · Provident Fund · Tuition Fees
Pension Schemes · The Agnipath Scheme · Health Insurance Premia
Disability · Medical Treatment · Interest on Loans · Electric Vehicles
Donations and the Qualifying Limit · Rent Paid · Political Contributions
Authors · Patents · Interest on Deposits · The Default Regime
Rebate of ₹60,000 · Marginal Relief · Relief on Arrears and Gratuity
Twelve Worked Problems • Six Long Questions • Objective Questions

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BUILT ON THE BARE TEXT OF SECTIONS 122 TO 158

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

TAX YEAR 2026-27

1 April 2026 to 31 March 2027

Academic Year 2026-27

Compiled by

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Preface

What Changed, and Which Act Changed It

This booklet has been written from the bare Act. It covers the whole of Chapter VIII of the Income-tax Act, 2025 — sections 122 to 154, the deductions to be made in computing total income — together with Schedule XV, which carries the list that section 123 works on; and Part A of Chapter IX, sections 155 to 158, the rebates and reliefs. Section 202, which supplies the default regime and takes almost all of Chapter VIII away from anyone taxed under it, is dealt with in Chapter 9 because no deduction in this Unit can be discussed without it.

Income-tax Act, 1961	Income-tax Act, 2025	Substance
80A to 80U	122 to 154	Deductions from gross total income — renumbered, three consolidations
80C, 80CCC, 80CCD(1)	123 with Schedule XV	One section, one Schedule, one ceiling of ₹1,50,000
80TTA and 80TTB	153	Two sections merged into one, both figures preserved
87 and 87A	155 and 156	Rebate — the enabling section and the operative one
89 and 89A	157 and 158	Relief on arrears; relief on a foreign retirement account

One — under the default regime almost nothing in Chapter VIII survives

Section 202(2)(a)(xii) computes the total income of a person taxed under section 202(1) **without any deduction under Chapter VIII other than the provisions of sections 124(1) and 124(2), or 125(2) or 146**. Four provisions survive, out of thirty-three. Section 123 is not available; nor is section 126, nor 133, nor 153, nor 154. And section 202(1) is the **default** — it applies unless the assessee exercises the option under section 202(4).

So the first question in every problem in this Unit is not “which deductions is he entitled to” but “under which regime is he being taxed”. Chapter 9 sets the two side by side, and Problem 9 in Chapter 11 works the same facts both ways; the answers differ by ₹48,360.

Two — the rebate now has two limbs, and one of them carries its own marginal relief

Section 156(1) reproduces the old section 87A as it stood for the optional regime: a resident individual whose total income does not exceed ₹5,00,000 gets 100% of the tax or ₹12,500, whichever is less.

Section 156(2) applies where the total income is chargeable under section 202(1). Clause (a) gives 100% of the tax or ₹60,000, whichever is less, up to a total income of ₹12,00,000. Clause (b) then does something no other provision in the Act does — where the total income exceeds ₹12,00,000 and the tax exceeds the excess, it gives back **the difference between the tax and the excess**. That is marginal relief written into the rebate itself. It runs out at a total income of about ₹12,70,588. Paragraphs 10.4 to 10.7 work the whole band.

Three — section 153: two old sections rolled into one

Section 80TTA of the 1961 Act gave ₹10,000 and section 80TTB gave ₹50,000. The 2025 Act does the work of both in one section, 153. The amounts have not changed at all; only the numbering has. The rule is this —

- **Below sixty, and a Hindu undivided family:** interest on a **savings account only**, up to ₹10,000. Interest on a fixed deposit gets nothing.
- **Sixty and above:** interest on **any account**, fixed deposits included, up to ₹50,000.

An example. ₹14,000 of savings bank interest and ₹60,000 of fixed deposit interest give ₹10,000 to a man below sixty and ₹50,000 to a senior citizen. Section 2(100) asks only that he be sixty **at any time during the tax year** — and for the tax year 2026-27 a sixtieth birthday falling as late as **1 April 2027** still counts, because a person completes an age on the day before his birthday. Paragraph 8.5 works it out.

What the 2025 Act has not changed

Every figure below is the figure a student will find in a book written on the 1961 Act. Only the numbering has moved, and the old section is given in bold after each so that the two can be held together.

The ₹1,50,000 ceiling and every item that feeds it — **old 80C, now section 123 with Schedule XV**. The extra ₹50,000 for a contribution to the notified pension scheme — **old 80CCD(1B), now section 124(3)**. The 10% and 14% of salary for the employer's contribution — **old 80CCD(2), now section 124(1) and (2)**. The ₹25,000 and ₹50,000 rungs in the health insurance section, and the ₹5,000 for a preventive health check-up — **old 80D, now section 126**. The ₹75,000 and ₹1,25,000 for a dependant with a disability — **old 80DD, now section 127** — and the same two figures for the assessee's own disability — **old 80U, now section 154**. The ₹40,000 and ₹1,00,000 for the treatment of a specified disease — **old 80DDB, now section 128**. The whole of the interest on a loan for higher education, and the eight tax years — **old 80E, now section 129**. The ₹50,000 and the ₹1,50,000 for interest on a housing loan taken inside the two closed windows — **old 80EE and 80EEA, now sections 130 and 131** — and the ₹1,50,000 for an electric vehicle — **old 80EEB, now section 132**. The whole scheme of donations — the two rates, the qualifying limit of ten per cent of the adjusted gross total income, and the ₹2,000 cash bar — **old 80G, now section 133**. The three-way least in the rent section — **old 80GG, now section 134**. The bar on cash for a political contribution — **old 80GGB and 80GGC, now sections 136 and 137**. The ₹3,00,000 for an author — **old 80QQB, now section 151** — and for a patentee — **old 80RRB, now section 152**. The ₹10,000 and ₹50,000 for interest on deposits — **old 80TTA and 80TTB, now section 153**. The table at paragraph 12.1 sets the whole conversion out in fifty-eight rows.

Four — the rebate does not touch tax charged at a special rate

Section 156(3) provides that the deduction under section 156(2) "shall not exceed income-tax payable **as per the rates provided in section 202(1)**". Income taxed at a special rate is not taxed at those rates — not a winning under section 194, not a short-term capital gain under section 196, not a long-term capital gain under section 197 or 198. The rebate therefore cannot be set against the tax on any of them. Section 198(7) says the same thing in terms for listed-equity long-term capital gains.

Two consequences follow, and both are examined. Where the total income is **partly** special-rate income, the rebate is confined to the slab-rate tax. Where it is **wholly** special-rate income, there is no rebate at all — an assessee whose only income is a capital gain of ₹6,00,000 pays tax on it even though ₹6,00,000 is far below ₹12,00,000.

This was fought over for two years under section 87A of the 1961 Act, where the return utility blocked the rebate although the section did not. Parliament closed the point by inserting a second proviso to section 87A by the Finance Act, 2025 with effect from 1 April 2026, and the 2025 Act carries the same words into section 156(3). It is now settled by statute. Paragraph 10.8 sets it out with two worked illustrations.

About this booklet, and a request

This booklet has been prepared by Artificial Intelligence — Claude Opus 5.0 (Anthropic) — under the guidance and supervision of Advocate Dr. S. B. Rathore in the first week of August 2026, from the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as downloaded from incometaxindia.gov.in.

Suggestions on presentation, and reports of any discrepancy, are warmly invited.

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The Prescribed Syllabus

Income Tax Law and Practice — DSC-5.1

Where this booklet sits

Unit V of the prescribed syllabus covers three things: deductions from gross total income; rebates and reliefs; and the computation of total income and tax liability of individuals, with the on-line filing of returns of income and TDS. This Part A takes the first two. Part B takes the third. With these two Parts the whole of the substantive law in the paper is covered.

Unit	Prescribed content	Where dealt with
Unit 1	Introduction — basic concepts: income, agricultural income, person, assessee, tax year; residential status and scope of total income; incomes exempt from tax	Unit 1 booklet (Introduction)
Unit 2	Computation of Income under Different Heads-1 — income from salaries; income from house property	Unit 2 Part A (Salaries); Unit 2 Part B (House Property)
Unit 3	Computation of Income under Different Heads-2 — profits and gains of business or profession; capital gains	Unit 3 Part A (Business or Profession); Unit 3 Part B (Capital Gains)
Unit 4	Income from other sources; income of other persons included in the assessee's total income; set-off and carry forward of losses	Unit 4 Part A (Other Sources); Unit 4 Part B (Clubbing and Set-off)
Unit 5 (A)	Deductions from gross total income; rebates and reliefs	Unit 5 Part A (Deductions, Rebates and Reliefs) — this booklet
Unit 5 (B)	Computation of total income and tax liability of individuals; filing of returns of income on-line and TDS	Unit 5 Part B (Total Income and Tax Liability)

What this Part covers, against the topics prescribed

Topic	Where in this booklet
The scheme of Chapter VIII, and the ceiling on the aggregate	Chapter 1
Life insurance, provident fund, tuition fees, housing — section 123 with Schedule XV	Chapter 2
Pension schemes, and the Agnipath Scheme	Chapter 3
Health insurance premia	Chapter 4, paragraphs 4.1 to 4.6
Maintenance of a dependant with a disability	Chapter 4, paragraphs 4.7 and 4.8
Medical treatment of a specified disease	Chapter 4, paragraphs 4.9 and 4.10
The assessee's own disability	Chapter 4, paragraph 4.11
Interest on a loan for higher education	Chapter 5, paragraph 5.2
Interest on a housing loan; an electric vehicle	Chapter 5, paragraphs 5.4 to 5.6
Donations, and the qualifying limit	Chapter 6
Rent paid	Chapter 7
Authors, patentees, and interest on deposits	Chapter 8
Deductions in respect of profits and gains — Part C in outline	Chapter 8, paragraph 8.7
The default regime, and which deductions survive it	Chapter 9
Rebates — sections 155 and 156	Chapter 10, paragraphs 10.1 to 10.8

Topic	Where in this booklet
Relief — section 158	Chapter 10, paragraph 10.9
Practical problems	Chapter 11
Revision, objective questions and long questions	Chapter 12

Suggested readings

- Ahuja, G., & Gupta, R. Simplified Approach to Income Tax. Delhi: Flair Publications Pvt. Ltd.
- Mittal, N. Concept Building Approach to Income Tax Law and Practice. Delhi: Cengage Learning India Pvt. Ltd.
- Singhania, V. K., & Singhania, M. Students' Guide to Income Tax | University Edition. Delhi: Taxmann Publications Pvt. Ltd.
- The bare Income-tax Act, 2025 and the Income-tax Rules, 2026, free at incometaxindia.gov.in.

Latest edition of books is to be followed. Suggested readings will be updated by the Department of Commerce and uploaded on the Department's website.

A note on the reading list

Every title on the prescribed list was written for the Income-tax Act, 1961, and an edition printed before April 2026 necessarily carries the section numbers, the rule numbers and the figures that were in force when it went to press. These are standard works and the reasoning in them holds good.

Until their 2026 editions reach you, take the section numbers, the rule numbers and the figures from this booklet, or from the bare Income-tax Act, 2025 and the Income-tax Rules, 2026.

The teachers' meeting of 4 August 2026

At a joint meeting of the Department of Commerce, Delhi School of Economics and the Department of Commerce, Shri Ram College of Commerce, held on 4 August 2026 under the Department-College Interface, guidelines were settled for this paper "in order to have uniformity and consistency in teaching". Those that bear on this booklet are set out below.

Unit 5: Deductions and Computation of Total Income and Tax Liability (7 hours)

Deductions to be emphasised for numerical purposes. Sections 122, 123 and 124 (each read with Schedule XV), 125, 126, 127, 128, 129, 133, 134, 135, 137, 153 and 154.

Rebate. Sections 155 and 156 need to be covered.

Relief. Section 157 need not be covered.

Two points were recorded for the whole paper. First, the Income-tax Act, 2025 applies from 1 April 2026, so the academic session 2026-27 is an exceptional year and the provisions for the tax year 2026-27 are what is to be taught; it was suggested that tax year 2026-27 be taught in 2027-28 as well. Second, ITR-1 will be done in the academic session 2026-27.

Contents

How this booklet is arranged

Chapter 1

The Scheme of Chapter VIII

Gross total income · The five Parts · The ceiling
Sections 122 to 154 of the Income-tax Act, 2025

1.1 Where the law is

Chapter VIII of the Income-tax Act, 2025 is headed "Deductions to be made in Computing Total Income". It runs from section 122 to section 154 — thirty-three sections — and it is divided into five lettered Parts. Section 123, the largest of them in practice, does not itself contain the list of qualifying payments; that list is in Schedule XV, which is read into the section.

One provision outside the Chapter governs the whole of it. Section 202(2)(a)(xii), in Chapter XIX, computes the total income of a person taxed under the default regime without any deduction under Chapter VIII except sections 124(1), 124(2), 125(2) and 146. Chapter 9 of this booklet deals with that provision. Nothing in Chapters 2 to 8 should be read without it in mind.

1.2 Gross total income [section 122(10)]

> **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."

So the gross total income is the figure reached after computing income under each of the five heads, after applying the clubbing provisions in sections 96 to 100, after aggregating under section 101, and after every set-off and carry forward allowed by sections 108 to 121 — but before a single rupee of Chapter VIII. The deductions in this Chapter are the last step; what is left is the total income, and the total income is what the rates in Chapter XIX are applied to.

The order of the computation

Income under each of the five heads, separately computed		
Add: income of other persons included under sections 96 to 100		
Aggregate under section 101		
Less: set-off and carry forward under sections 108 to 121		
GROSS TOTAL INCOME [section 122(10)]		
Less: deductions under Chapter VIII, sections 122 to 154		
TOTAL INCOME		

The deductions in this Unit operate at the last line but one. A mistake in an earlier head carries all the way down.

1.3 The five Parts of the Chapter

Part	Heading	Sections	Who it is for
A	General	122	Everyone — it gives no deduction of its own, but lays down the general rules that govern every deduction in the Chapter
B	Deductions in respect of certain payments	123 to 137	Individuals and Hindu undivided families — except that sections 133 and 135 are open to any assessee, section 136 only to an Indian company, and section 137 to any person other than a local authority and a Government-funded artificial juridical person

Part	Heading	Sections	Who it is for
C	Deductions in respect of certain incomes	138 to 152	Undertakings, enterprises, companies, co-operative societies; and, at 151 and 152, individuals
D	Deductions in respect of other incomes	153	Individuals and Hindu undivided families
E	Other deductions	154	An individual with a disability

1.4 The ceiling in section 122(2)

Section 122(1) and (2)

"(1) In computing the total income of an assessee, the deduction specified in this Chapter shall be allowed from his gross total income, as per and subject to the provisions of this Chapter.

(2) The aggregate amount of the deductions under this Chapter shall not, in any case, exceed the gross total income of the assessee."

Two things follow, and both are examined. First, Chapter VIII can bring the total income down to nil but never below nil. There is no such thing as a loss created by a deduction under this Chapter, and no such thing as an unabsorbed section 123 payment carried forward to the next year. What cannot be used this year is simply lost.

Second, the ceiling operates on the **aggregate**, not on each deduction separately. The figures are computed section by section, added up, and only then compared with the gross total income.

The ceiling at work

Gross total income		**1,20,000**
Deductions computed section by section —		
Section 123 — life insurance and provident fund	80,000	
Section 126 — health insurance premia	25,000	
Section 154 — the assessee is a person with disability	40,000	
Aggregate of the deductions computed		1,45,000
Restricted under section 122(2) to the gross total income		**1,20,000**
TOTAL INCOME		**Nil**

₹25,000 of the deductions computed is simply lost. It is not carried forward, and it does not create a loss.

1.5 The other general rules in section 122

Sub-section	The rule
122(3)	Where a deduction under section 133, 135, 137, 138, 141, 142 or 143 is allowed to an association of persons or a body of individuals, no deduction under the same section is allowed to a member on his share.
122(4)	Where profits of an undertaking are allowed as a deduction under Part C, no deduction for the same profits is allowed under any other provision of the Act, and the deduction cannot exceed those profits.
122(5)	No deduction under Part C at all unless the return is furnished by the due date under section 263(1) and the claim is made in that return.

Sub-section	The rule
122(6) and (7)	Inter-unit transfers of goods or services at other than market value are recomputed at market value; “market value” is defined, and for a specified domestic transaction means the arm's length price.
122(8)	Where a deduction under Part C is allowed for a specified business under section 46(11)(d), no deduction for that business under section 46.
122(9)	The income of the nature on which a Part C deduction is computed is the income as computed under the Act before any Chapter VIII deduction.
122(10)	Defines gross total income.

Section 122(5) applies to Part C alone

The bar on a late return applies to Part C only — sections 138 to 152. A late return does not destroy a claim under section 123, 126, 133 or 153. Those are in Parts B and D.

1.6 Six principles that govern every deduction in the Chapter

One — A deduction is from the gross total income, not from any head

It is not an expense of the business, nor a deduction from salary. It comes after all five heads are computed. So a payment which has already been allowed as an expense under section 33 cannot be claimed again here.

Two — The payment must be made in the tax year

Almost every section in Part B speaks of an amount “paid or deposited in the tax year”. Accrual does not help. An insurance premium due in March 2027 but paid in April 2027 belongs to the tax year 2027-28.

Three — No double deduction

Sections 124(5), 124(10), 130(4), 131(3), 132(4), 133(3), 135(5), 151(7) and 152(7) each say, in their own words, that a sum allowed under that section is not to be allowed under any other provision of the Act, in that or any other year.

Four — The source of the payment sometimes matters

Sections 126(1) and 129(1)(b) require the payment to be made out of income chargeable to tax. Section 123 does not.

Five — The mode of payment sometimes matters

Cash is barred for a donation over ₹2,000 [section 133(5)], for a scientific research contribution over ₹2,000 [section 135(2)(b)], for a political contribution of any amount [sections 136 and 137], and for a health insurance premium [section 126(9)]. Cash is expressly allowed for a preventive health check-up.

Six — The residence of the assessee sometimes matters

Sections 127, 128, 151, 152 and 154 require the assessee to be resident in India. Sections 123, 126, 129 to 134 and 153 do not.

Chapter 2

Section 123 and Schedule XV

Life insurance · Provident fund · Tuition fees · Housing
The ceiling of ₹1,50,000

2.1 The section in one sentence

> **Section 123**
> "An individual or a Hindu undivided family, shall be allowed a deduction of the whole of the amount paid or deposited in the tax year, being the aggregate of the sums enumerated in Schedule XV, as does not exceed ₹ 150000, while computing the total income for that year, subject to the conditions specified in that Schedule."

That is the whole of section 123. Everything else — what qualifies, the cap by reference to the capital sum assured, what happens when a policy lapses — is in Schedule XV. The section is best read as a container: Schedule XV fills it, and ₹1,50,000 is the lid.

> **Where three old sections went**
> Under the 1961 Act, section 80C carried the list, section 80CCC gave the deduction for a contribution to an annuity plan for pension, section 80CCD(1) gave it for a contribution to the notified pension scheme, and section 80CCE aggregated all three at ₹1,50,000. The 2025 Act does the same work with one section: the annuity plan is paragraph 1(x) of Schedule XV and the pension scheme contribution is paragraph 1(y), so both sit inside the same ₹1,50,000 without any separate aggregating provision.

2.2 Who may claim, and who may not

	Position under section 123
An individual	Yes — resident or non-resident alike. The section imposes no residence condition.
A Hindu undivided family	Yes.
A firm, a company, an association of persons, a body of individuals, a local authority	No. The section names only the individual and the Hindu undivided family.
An individual taxed under section 202(1)	No. Section 123 is not among the four provisions saved by section 202(2)(a)(xii).

2.3 The twenty-six qualifying sums [Schedule XV, paragraph 1]

Paragraph 1 of Schedule XV lists the sums, lettered (a) to (z). Set out below in the order of the Schedule, with the point that most often decides a question.

Clause	The sum	The point to watch
(a)	Premium on a life insurance policy — of the individual, his spouse and any child; of any member, for a Hindu undivided family	Capped by reference to the capital sum assured — paragraph 2. "Any child" includes a married daughter and an independent adult son. It does not include a parent or a brother.
(b) and (c)	A deferred annuity contract; a sum deducted from Government salary for a deferred annuity	For (c), the deduction is limited to 20% of salary. The contract must not carry an option to take cash instead of the annuity.

Clause	The sum	The point to watch
(d) to (g)	Provident fund under the Provident Funds Act, 1925; a notified public provident fund; a recognised provident fund; an approved superannuation fund	For the public provident fund the account may be in the name of the individual, his spouse or any child. For the recognised provident fund and the superannuation fund only the employee's own contribution qualifies, never the employer's.
(h) and (i)	A notified security or deposit scheme, including a scheme for a girl child; National Savings Certificates	Accrued interest on a National Savings Certificate is deemed reinvested and qualifies again in the year of accrual.
(j) to (n)	Unit-linked insurance plans; an annuity plan of the Life Insurance Corporation or another notified insurer; notified units of a mutual fund; a notified pension fund	Clause (l) — the annuity plan — is the old section 80CCC.
(o) and (p)	A deposit scheme or pension fund of the National Housing Bank; a notified deposit scheme of a housing finance public sector company or a development authority	Notification is a condition in each case.
(q)	Tuition fees to a University, college, school or other educational institution in India, for the full-time education of any two children	Two children only, and full-time education only. Development fees, donation and payments of a similar nature are excluded by the clause itself. The institution must be in India; the individual need not be.
(r)	Purchase or construction of a residential house property	Subject to paragraph 3, which is set out at 2.5 below.
(s) to (v)	A five-year term deposit with a scheduled bank under a notified scheme; NABARD bonds; the Senior Citizen Savings Scheme; a five-year Post Office time deposit	Five years is the period in each case where a period is prescribed. A three-year bank deposit does not qualify.
(w)	A Central Government employee's contribution to the additional account under section 20(3) of the PFRDA Act, 2013	Minimum three years, and a notified scheme.
(x)	A contribution to an annuity plan for receiving pension from a fund referred to in Schedule VII (Table: Sl. No. 3)	Made from income chargeable to tax.
(y)	A contribution to the pension scheme notified by the Central Government	10% of salary for an employee; 20% of gross total income for anyone else. This is the balance left after section 124(3) has taken its ₹50,000 — see paragraph 3.5.
(z)	Equity shares or debentures of an eligible issue of capital; units of a mutual fund investing only in such an issue	Board approval, and a three-year lock-in under paragraph 4.

2.4 The capital-sum-assured cap [Schedule XV, paragraph 2]

Schedule XV, paragraph 2(1)

The deduction applies only to so much of any premium or other payment on an insurance policy, other than a contract for a deferred annuity, —

- as is up to 20% of the actual capital sum assured, for a policy issued on or before 31 March 2012;
- as is up to 10% of the actual capital sum assured, for a policy issued on or after 1 April 2012;
- as is up to 15% of the actual capital sum assured, if the policy is issued on or after 1 April 2013 and covers the life of a person with a disability or severe disability under section 154, or a person suffering from a disease or ailment specified in the rules made under section 128.

Paragraph 2(2) defines the actual capital sum assured as the minimum amount assured on the happening of the insured event at any time during the term, leaving out of account any premium agreed to be returned and any bonus.

Policy issued	Sum assured	Premium paid	Cap	Allowed
1 August 2011	₹2,00,000	₹50,000	20% = ₹40,000	₹40,000
1 June 2019	₹5,00,000	₹60,000	10% = ₹50,000	₹50,000
1 June 2019	₹5,00,000	₹30,000	10% = ₹50,000	₹30,000
1 May 2015, life of a person with severe disability	₹2,00,000	₹40,000	15% = ₹30,000	₹30,000

The cap bites on the premium, not on the deduction

The order is fixed. Each policy stands on its own, and its premium is first cut down to the percentage of that policy's capital sum assured. What survives is then added to the other qualifying sums, and the ₹1,50,000 of section 123 applies to that total.

Where the capped total already exceeds ₹1,50,000, the result is ₹1,50,000 whichever way the work is done. Where the capped total is below ₹1,50,000, the order shows at once. On a premium of ₹1,00,000 on a policy of ₹3,00,000 taken in 2019, with ₹40,000 in a public provident fund —

- **in the statutory order:** the premium is cut to 10% of ₹3,00,000, that is ₹30,000; add ₹40,000; the deduction is ₹70,000;
- **with the cap left out:** ₹1,00,000 plus ₹40,000 is ₹1,40,000, which is below ₹1,50,000 and so appears to pass — exactly twice what the Schedule allows.

2.5 House property — what counts and what does not [Schedule XV, paragraph 3]

Included by paragraph 3(a)	Excluded by paragraph 3(b)
An instalment or part payment under a self-financing or other scheme of a development authority or housing board	The admission fee, cost of share and initial deposit payable to become a shareholder or member
An instalment or part payment to a company or co-operative society of which the assessee is a shareholder or member, towards the cost of the house allotted	The cost of any addition, alteration, renovation or repair carried out after the completion certificate is issued, or after the property has been occupied or let
Repayment of the amount borrowed from the Government, a bank including a co-operative bank, the Life Insurance Corporation, the National Housing Bank, a housing finance public company, or the employer where the employer is a public company, a public sector company, a University, a college, a local authority or a co-operative society	Any expenditure for which a deduction is allowable under section 22 — that is, the interest. Interest goes to section 22; only the principal comes here
Stamp duty, registration fee and other expenses for the transfer of the house property to the assessee	

The income from the house must be chargeable under the head

Clause (r) requires the income from the house to be chargeable under the head “Income from house property”, or to be income which would have been so chargeable had the assessee not used it for his own residence. A house used for the assessee's own business is outside the clause, because its income falls under the head “Profits and gains of business or profession”.

2.6 Withdrawal of a deduction already allowed [Schedule XV, paragraphs 4 and 5]

Paragraph 4 does two things at once where a condition is broken: it disallows the payment of the year in which the breach occurs, and it treats the aggregate of the deductions already allowed in earlier years as the income of that year.

Payment	The breach	Consequence
Premium on a life insurance policy	The contract is terminated or lapses — for a single premium policy within two years of commencement; in any other case before premiums have been paid for two years	This year's premium is not allowed; the earlier deductions become income of this year
Contribution to the Unit-Linked Insurance Plan, 1971 or to the unit-linked plan of the LIC Mutual Fund	Participation terminates or lapses before contributions have been paid for five years	The same
Purchase or construction of a residential house property	The house is transferred before five years from the end of the tax year in which possession was obtained; or any sum is received back	The same
Equity shares or debentures of an eligible issue	Sold or transferred within three years of acquisition	The same

Paragraph 5 deals with the reverse case — the money comes back with the deduction intact. A withdrawal from the Senior Citizen Savings Scheme or a five-year Post Office time deposit before five years is income of the year of withdrawal, excluding interest already taxed and excluding what a nominee or legal heir receives on death. A surrender of the annuity plan, or pension received from it, is income of the year of receipt; so is an amount received out of the notified pension scheme.

2.7 Two illustrations

Illustration 2.1

Mr. Anand, aged 44, resident, is not taxed under section 202(1) because he has exercised the option under section 202(4). During the tax year 2026-27 he pays —

- premium of ₹40,000 on a policy on his own life taken on 1 July 2016, sum assured ₹3,00,000;
- ₹60,000 into his public provident fund account;
- tuition fees of ₹28,000 and ₹22,000 for his two children, both in full-time education in a school in Delhi;
- ₹80,000 towards repayment of the principal of a housing loan taken from a nationalised bank.

Compute the deduction under section 123.

Solution

Life insurance premium paid	40,000	
Restricted to 10% of ₹3,00,000 — Schedule XV, paragraph 2(1)(b)		30,000
Public provident fund — Schedule XV, paragraph 1(e)		60,000
Tuition fees, two children — Schedule XV, paragraph 1(q)		50,000
Repayment of housing loan principal — Schedule XV, paragraph 1(r)		80,000
Aggregate of the qualifying sums		2,20,000
DEDUCTION UNDER SECTION 123, restricted to		**1,50,000**

₹70,000 is lost. It is not carried forward. Note that the policy was taken after 1 April 2012, so the cap is 10% and not 20%.

Illustration 2.2

Mrs. Beena, aged 51, resident, taxed under the optional regime, pays during the tax year 2026-27 —

- premium of ₹30,000 on a policy on the life of her husband taken on 1 September 2018, sum assured ₹4,00,000;
- her own contribution of ₹42,000 to a recognised provident fund, her employer contributing an equal sum;
- ₹25,000 into a five-year Post Office time deposit;
- ₹18,000 for National Savings Certificates.

Compute the deduction under section 123.

Solution

Premium on the husband's policy — within 10% of ₹4,00,000, that is ₹40,000		30,000
Own contribution to the recognised provident fund — Schedule XV, paragraph 1(f)		42,000
Employer's contribution to the recognised provident fund		Nil
Five-year Post Office time deposit — Schedule XV, paragraph 1(v)		25,000
National Savings Certificates — Schedule XV, paragraph 1(i)		18,000
Aggregate of the qualifying sums		1,15,000
DEDUCTION UNDER SECTION 123		**1,15,000**

The aggregate is below ₹1,50,000, so the whole of it is allowed. The employer's contribution to a recognised provident fund never qualifies under Schedule XV; its own treatment is in Unit 2 Part A.

Chapter 3

Pension Schemes

Sections 124 and 125 of the Income-tax Act, 2025

The one place where the default regime is generous

3.1 The three deductions in section 124

Sub-section	Whose money	How much	Survives the default regime?
124(1) and (2)	The employer's contribution to the notified pension scheme	14% of salary where the employer is the Central or a State Government; 10% otherwise, raised to 14% where the assessee is taxed under section 202(1)	Yes — both sub-sections are named in section 202(2)(a)(xii)
124(3) and (4)	The assessee's own contribution to the notified pension scheme	Up to ₹50,000, over and above the ₹1,50,000 of section 123	No
Schedule XV, paragraph 1(y)	The assessee's own contribution, the balance after 124(3)	10% of salary for an employee; 20% of gross total income for anyone else — inside the ₹1,50,000 of section 123	No

This is the whole of what an employee keeps under the default regime

Of the thirty-three sections in Chapter VIII, the employer's contribution under section 124(1) is the only one an ordinary salaried assessee can claim if he is taxed under section 202(1) — and section 124(2) makes it more generous there than it is under the optional regime. An employee whose employer contributes to the notified pension scheme should therefore look at paragraph 3.4 before deciding which regime to be taxed under.

3.2 Salary, for the purposes of the section

Section 124(1) speaks of a percentage “of his salary in the tax year”, and Schedule XV, paragraph 1(y)(i) of “10% of salary, including dearness allowance, if the terms of employment so provide, but excluding all other allowances and perquisites”. So salary here means basic salary plus dearness allowance where the terms of employment provide that it enters into retirement benefits, and nothing else. Commission at a fixed percentage of turnover, house rent allowance and every perquisite are left out.

3.3 The employer's contribution [section 124(1)]

Section 124(1)

Where the employer makes a contribution in the account of an individual employee under a pension scheme notified by the Central Government, the employee is allowed a deduction of the whole of the amount contributed as does not exceed —

- 14%, where the employer is the Central Government or a State Government; and
- 10%, where the employer is any other employer,

of his salary in the tax year.

Why the deduction exists at all — section 16(k)

Section 16(k) includes in "salary" **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**. The whole of the employer's contribution is therefore charged under the head "Salaries" in the first place. Section 124(1) takes it out again, but only up to the ceiling. Anything above the ceiling has been taxed and stays taxed.

Illustration 3.1

Mr. Chandra is employed by the Central Government. His basic salary and dearness allowance entering into retirement benefits for the tax year 2026-27 come to ₹10,00,000. The employer contributes ₹1,50,000 to his account under the notified pension scheme. He himself contributes ₹90,000. He also pays a life insurance premium of ₹30,000 (within the cap) and ₹50,000 into his public provident fund. He is taxed under the optional regime. Compute his deductions.

Solution

Section 124(1) — employer's contribution		
Contributed by the employer	1,50,000	
14% of ₹10,00,000, the employer being the Central Government	1,40,000	
Deduction under section 124(1) — the lower		1,40,000
Section 124(3) — the assessee's own contribution		
Contributed by the assessee ₹90,000; the sub-section allows up to		50,000
Section 123 — the balance, with the other payments		
Balance of the pension contribution, ₹90,000 less ₹50,000 — Schedule XV, paragraph 1(y)	40,000	
Within 10% of salary, that is ₹1,00,000 — no restriction		
Life insurance premium	30,000	
Public provident fund	50,000	
Aggregate of the section 123 basket, ₹1,20,000; within ₹1,50,000		1,20,000
TOTAL DEDUCTION UNDER SECTIONS 123 AND 124		**3,10,000**

₹10,000 of the employer's contribution exceeds 14% of salary. It is not deductible, and having been brought into salary by section 16(k) it stays taxable. Note that the ceiling here is 14% because the employer is the Central Government — section 124(1)(a) — and not because of section 124(2).

3.4 The regime changes the percentage [section 124(2)]

Section 124(2)

"Where the total income of the assessee is chargeable to tax under section 202(1), the provisions of sub-section (1) shall have effect as if for "10%" referred to in clause (b) of that sub-section, "14%" had been substituted."

The substitution is only in clause (b) — the non-Government employer. A Government employee is already at 14% and gains nothing. A private-sector employee gains four percentage points of salary, and gains them only under the regime which takes everything else away.

The same salary and the same contribution — the answer turns on who the employer is

Salary for the purposes of the section		**10,00,000**

Employer's contribution to the notified pension scheme		**1,50,000**
Where the employer is a company, a firm or any other employer that is not a Government		
Optional regime — ceiling of 10% of salary [section 124(1)(b)]	1,00,000	
Default regime — ceiling of 14% of salary [section 124(1)(b) read with section 124(2)]	1,40,000	
The difference the regime makes		40,000
Where the employer is the Central Government or a State Government		
Optional regime — ceiling of 14% of salary [section 124(1)(a)]	1,40,000	
Default regime — the same ceiling; section 124(2) substitutes 14% in clause (b) only	1,40,000	
The difference the regime makes		**Nil**

In every case the deduction is the LOWER of the contribution and the ceiling. Here the contribution of ₹1,50,000 is above every ceiling, so the ceiling is the answer. Illustration 3.1 above is the Government case, which is why the deduction there was ₹1,40,000 even though the optional regime applied. Against the ₹40,000 gained in the first case must be set everything else the default regime removes; Chapter 9 does that comparison in full.

3.5 The assessee's own contribution [sections 124(3), (4), (5) and (10)]

Section 124(3) allows a deduction not exceeding ₹50,000 of the amount paid or deposited in the tax year by an individual in his own account under the notified pension scheme. It is available to an employee and to a non-employee alike — the words are “an assessee referred to in sub-section (1), or any other assessee, being an individual”.

Section 124(4) extends it to a payment made by a parent or guardian into the account of a minor under the scheme, subject to the aggregate of sub-sections (3) and (4) not exceeding ₹50,000.

The two no-double-deduction rules

- **Section 124(5)** — no deduction under sub-sections (3) and (4) for an amount on which a deduction has been claimed and allowed under section 123.
- **Section 124(10)** — where an amount has been allowed under sub-section (3), no deduction with reference to that amount under section 123 for that year.

The two together mean that the same rupee cannot be counted twice. The ₹50,000 of section 124(3) stands outside the ₹1,50,000, so a contribution is ordinarily absorbed there first, only the balance falling into Schedule XV, paragraph 1(y).

A contribution of ₹90,000, in the order the sections operate

Own contribution to the notified pension scheme		**90,000**
₹50,000 falls under section 124(3), outside the ₹1,50,000		50,000
The balance falls into Schedule XV, paragraph 1(y)		40,000
That balance is subject to 10% of salary, and to the ₹1,50,000 of section 123, shared with every other item in the basket		

Where the whole ₹90,000 is taken into section 123 instead, ₹50,000 of head-room is wasted in a year in which the basket is already full.

3.6 When the money comes back [sections 124(6) to (9) and (11) to (12)]

Sub-section	The rule
124(6)	Any amount standing to the credit of the assessee or the minor in respect of which a deduction has been allowed, together with the accretion, received on closure or on opting out of the scheme, or as pension from an annuity plan purchased on such closure or opting out, is deemed to be income of the year of receipt.
124(7)	What a nominee receives on the death of the assessee is not deemed to be his income.
124(8)	What a parent, guardian or nominee of a minor receives on closure of the scheme because of the death of the minor is not deemed to be his income.
124(9)	Nothing is treated as received in the tax year to the extent it is used in that same year to purchase an annuity plan.
124(11)	For a subscriber to the Unified Pension Scheme, the amount received on superannuation, voluntary retirement or retirement under Fundamental Rule 56(j) not treated as a penalty is dealt with on the same footing.

3.7 The Agnipath Scheme [section 125]

Section 125

(1) An individual enrolled in the Agnipath Scheme who subscribes to the Agniveer Corpus Fund on or after 1 November 2022 is allowed a deduction of the whole of the amount paid or deposited in his account in that Fund during the tax year.

(2) Where the Central Government makes a contribution to his account in the Fund, he is allowed a deduction of the whole of the amount so contributed.

Neither sub-section carries a ceiling — the deduction is of the whole of the amount. Sub-section (2), the Central Government's contribution, is one of the four provisions saved under the default regime by section 202(2)(a)(xii); sub-section (1), the Agniveer's own subscription, is not.

The two definitions in section 125(3)

- "Agnipath Scheme" means the scheme for enrolment in the Indian Armed Forces introduced by letter No. 1(23)2022/D(Pay/Services) dated 29 December 2022 of the Ministry of Defence.
- "Agniveer Corpus Fund" means the fund holding the consolidated contributions of all Agniveers and the matching contributions of the Central Government, with interest on both.

Chapter 4

Health, Disability and Medical Treatment

Sections 126, 127, 128 and 154

Four sections, eleven figures, and one bar

4.1 Section 126 — the architecture

Section 126 has eleven sub-sections. It builds a grid of four cells for an individual and two for a Hindu undivided family, and then puts three ceilings across the grid.

Clause	The payment	Ceiling in the clause
126(2)(a)	Health insurance on the assessee or his family; contribution to the Central Government Health Scheme or another notified scheme; a preventive health check-up of the assessee or his family	₹25,000 in aggregate — ₹50,000 if the person insured is a senior citizen [126(8)(a)]
126(2)(b)	Health insurance, or a preventive health check-up, for the parent or parents of the assessee	₹25,000 in aggregate — ₹50,000 if the parent is a senior citizen [126(8)(a)]
126(2)(c)	Medical expenditure on the health of the assessee or a member of his family	₹50,000 in aggregate
126(2)(d)	Medical expenditure on the health of a parent	₹50,000 in aggregate
126(5)(a)	For a Hindu undivided family — health insurance on any member	₹25,000 in aggregate
126(5)(b)	For a Hindu undivided family — medical expenditure on any member	₹50,000 in aggregate

"Family" is defined by section 126(10)(b) as the spouse and dependant children of the assessee. A parent is not a member of the family for this section, and need not be dependant.

4.2 The four limits, in the order in which they are applied

First — The preventive health check-up: ₹5,000 in aggregate [section 126(3)]

The deduction for amounts paid on account of a preventive health check-up under clause (a) or clause (b) is allowed up to ₹5,000 in aggregate. One ₹5,000 for the whole section, not ₹5,000 for the assessee and another ₹5,000 for his parents.

Second — The senior citizen substitution [section 126(8)(a)]

Where the sum in clause (2)(a), (2)(b) or (5)(a) is paid to keep in force health insurance of a person who is a senior citizen, ₹50,000 is substituted for ₹25,000.

Third — The clause ceilings — ₹25,000 or ₹50,000 for insurance, ₹50,000 for medical expenditure

Applied cell by cell as set out at 4.1.

Fourth — The side ceilings of ₹50,000 [sections 126(4) and (6)]

The aggregate of (2)(a) and (2)(c) — the assessee's own side — cannot exceed ₹50,000; and the aggregate of (2)(b) and (2)(d) — the parents' side — cannot exceed ₹50,000. For a Hindu undivided family the aggregate of (5)(a) and (5)(b) cannot exceed ₹50,000. So the most an individual can get under section 126 is ₹1,00,000.

Section 126(7) — the condition on medical expenditure

"For the purposes of this section, where the amount is paid on account of medical expenditure incurred on the health of a senior citizen under sub-section (2)(c) or (d) or (5)(b), deduction shall be allowed, if no amount has been paid to effect or to keep in force the health insurance of such person."

Two conditions in one sentence, on the reading this booklet adopts, which is the reading section 80D of the 1961 Act received: the person must be a **senior citizen**, and **no premium must have been paid** to keep health insurance of that person in force. A man of forty who spends ₹60,000 on his own treatment gets nothing under clause (2)(c); a man of sixty-five who spends the same sum and carries no policy gets ₹50,000.

4.3 Illustration 4.1 — a straightforward case

Illustration 4.1

Mr. Deepak, aged 45, resident, taxed under the optional regime, pays during the tax year 2026-27 —

- ₹22,000 by cheque as premium on a health insurance policy covering himself, his wife and his two dependant children;
- ₹6,000 in cash for a preventive health check-up of the family;
- ₹48,000 by cheque as premium on a health insurance policy covering his father, aged 74, and his mother, aged 70, neither of whom is dependant on him.

Compute the deduction under section 126.

Solution

Self and family — section 126(2)(a)		
Health insurance premium	22,000	
Preventive health check-up, ₹6,000, restricted by section 126(3) to	5,000	
	27,000	
Restricted by section 126(2)(a) to		25,000
Parents — section 126(2)(b)		
Health insurance premium for both parents	48,000	
Both being senior citizens, the ceiling is ₹50,000 [section 126(8)(a)]		48,000
DEDUCTION UNDER SECTION 126		**73,000**

Cash was used for the preventive health check-up only, which section 126(9)(a) expressly permits. The parents need not be dependant; the section does not say so.

4.4 Illustration 4.2 — medical expenditure on both sides

Illustration 4.2

Mrs. Farida, aged 62, resident, carries no health insurance on herself and none on her parents, both of whom are 88. During the tax year 2026-27 she pays by cheque ₹60,000 for her own medical treatment and ₹70,000 for the medical treatment of her parents. Compute the deduction under section 126.

Solution

Self — section 126(2)(c)		
Medical expenditure on her own health	60,000	
She is a senior citizen and carries no health insurance — section 126(7) is satisfied; the clause ceiling is		50,000
Parents — section 126(2)(d)		
Medical expenditure on the health of the parents	70,000	
Both being senior citizens with no health insurance; the clause ceiling is		50,000
DEDUCTION UNDER SECTION 126		**1,00,000**

₹1,00,000 is the largest sum section 126 can produce for an individual — ₹50,000 on his own side under section 126(4) and ₹50,000 on the parents' side.

4.5 Illustration 4.3 — two check-ups, one ₹5,000

Illustration 4.3

Mr. Gopal, aged 38, resident, pays during the tax year 2026-27 — ₹21,000 as premium on a health insurance policy for himself and his family; ₹4,000 for a preventive health check-up of himself and his family; ₹18,000 as premium on a policy for his parents, aged 56 and 54; and ₹3,000 for a preventive health check-up of his parents. Compute the deduction under section 126.

Solution

The preventive health check-ups first — section 126(3)		
₹4,000 for self and family plus ₹3,000 for the parents is ₹7,000; the aggregate allowed is		5,000
Applied to the assessee's own check-up first, ₹4,000, and to the parents' check-up as to the balance, ₹1,000		
Self and family — section 126(2)(a)		
Premium ₹21,000 plus check-up ₹4,000	25,000	
Within the ceiling of ₹25,000		25,000
Parents — section 126(2)(b)		
Premium ₹18,000 plus check-up ₹1,000	19,000	
Neither parent is a senior citizen, so the ceiling is ₹25,000		19,000
DEDUCTION UNDER SECTION 126		**44,000**

The ₹5,000 of section 126(3) is a single sum for the whole section. The Act does not say how it is to be split between the two clauses where both are in play; taking it against the clause which is not already at its ceiling is the reading that gives the assessee the benefit of the section.

4.6 The mode of payment [section 126(9)]

Payment	Mode permitted
A preventive health check-up	Any mode, including cash
Every other payment under the section — premium, contribution to the Central Government Health Scheme, medical expenditure	Any mode other than cash

Section 126(8)(b) adds a rule for a lump sum premium paid for more than one year: the deduction is allowed in each relevant tax year in the appropriate fraction — one divided by the total number of relevant years [section 126(10)(a) and (c)]. A premium of ₹60,000 paid in 2026-27 for three years gives ₹20,000 in each of 2026-27, 2027-28 and 2028-29, subject in each year to the clause ceiling.

4.7 Section 127 — a dependant with a disability

Section 127(1) and (3)

An individual or a Hindu undivided family resident in India is allowed a deduction up to ₹75,000 from the gross total income of a tax year if during that year he has —

- incurred expenditure for the medical treatment (including nursing), training and rehabilitation of a dependant who is a person with disability; or
- paid or deposited any amount under a scheme framed by the Life Insurance Corporation or another insurer, or the Administrator, or the specified company, for the maintenance of such a dependant, subject to the conditions in sub-section (2) and approved by the Board.

Where the dependant is a person with severe disability, ₹1,25,000 is substituted for ₹75,000.

Term	Where defined	Substance
Dependant	127(9)(b)	For an individual — the spouse, children, parents, brothers and sisters, or any of them; for a Hindu undivided family — a member. In either case wholly or mainly dependent on the assessee for support and maintenance
Disability	127(9)(c)	As in section 2(i) of the Persons with Disabilities Act, 1995, and includes autism, cerebral palsy and multiple disability
Person with severe disability	127(9)(g)	80% or more of one or more disabilities; or a person with severe disability under the National Trust Act, 1999
Medical authority	127(9)(e)	As in the 1995 Act, or as notified. Rule 61 names a Neurologist with an M.D. in Neurology (a Paediatric Neurologist for children), or a Civil Surgeon or Chief Medical Officer in a Government hospital

Sections 127(6) and (7) require a copy of the medical certificate to be furnished along with the return under section 263 — in Form No. 30 for autism, cerebral palsy or multiple disability, and in the prescribed form otherwise [Rule 61(2)] — and require a fresh certificate once the old one expires. Section 127(4) brings the amount paid under the insurance scheme to tax as income of the assessee if the dependant dies first, but section 127(5) saves the case where the dependant himself received the annuity or lump sum on the assessee attaining sixty and discontinuing the deposits.

4.8 The bar in section 127(8)

Section 127(8)

"The dependant mentioned in this section shall not include a person who has claimed deduction under section 154 in computing his total income for the tax year."

So the same disability cannot produce two deductions. If the dependant is himself an assessee and has claimed the ₹75,000 or ₹1,25,000 under section 154 in his own computation, the person maintaining him gets nothing under section 127. The bar operates on the claim, not on the entitlement: a dependant who is entitled to claim under section 154 but does not do so is still a dependant for section 127.

4.9 Section 128 — treatment of a specified disease

Section 128

An assessee resident in India is allowed a deduction of the amount actually paid during the tax year, or ₹40,000, whichever is less, for the medical treatment of such disease or ailment as may be prescribed — for himself or a dependant if he is an individual, or for any member if he is a Hindu undivided family.

The deduction is reduced by any amount received under an insurance or reimbursed by an employer for that treatment [128(3)].

Where the person treated is a senior citizen, ₹1,00,000 is substituted for ₹40,000 [128(4)].

Illustration 4.4

Mr. Harish, aged 40 and resident, pays ₹1,40,000 during the tax year 2026-27 for the treatment of his father, aged 70 and wholly dependent on him, for a malignant cancer. He receives ₹30,000 from an insurer in reimbursement. Compute the deduction under section 128.

Solution

Amount actually paid		1,40,000
The person treated being a senior citizen, the ceiling is ₹1,00,000 [section 128(4)]		1,00,000
The lower of the two		1,00,000
Less: received from the insurer [section 128(3)]		30,000
DEDUCTION UNDER SECTION 128		**70,000**

The reduction is made after the ceiling, not before. Had the reimbursement been ₹1,10,000 the deduction would have been nil, not a negative figure.

4.10 The prescribed diseases and the prescribing specialist [Rule 62]

The disease or ailment	Who must give the prescription
Neurological diseases with a certified disability level of 40% or more — dementia, dystonia musculorum deformans, motor neuron disease, ataxia, chorea, hemiballismus, aphasia, Parkinson's disease	A Neurologist with a D.M. in Neurology
Malignant cancers	An Oncologist with a D.M. in Oncology
Full-blown Acquired Immuno-Deficiency Syndrome (AIDS)	Any specialist with a post-graduate degree in General or Internal Medicine
Chronic renal failure	A Nephrologist with a D.M. in Nephrology, or a Urologist with an M.Ch. in Urology

The disease or ailment	Who must give the prescription
Haematological disorders — haemophilia, thalassaemia	A specialist with a D.M. in Haematology

Rule 62(2) accepts an equivalent degree recognised by the Medical Council of India, and Rule 62(3) lets a full-time specialist with a post-graduate degree in General or Internal Medicine prescribe where the patient is treated in a Government hospital. Rule 62(4) prescribes the format — the patient's name and age, the disease, and the specialist's signature, name, qualification, address and registration number.

4.11 Section 154 — the assessee's own disability

Section 154(1)

"An individual, being resident in India, who is certified by a medical authority, at any time during the tax year, as a person with disability or person with severe disability, shall be allowed a deduction of ₹ 75000 or ₹ 125000, respectively, while computing his total income."

Three things distinguish section 154 from section 127. It is for the assessee himself, not a dependant. It is a flat sum on the words of the section — "a deduction of ₹75000 or ₹125000" — and requires no expenditure at all. And it is available only to an individual; a Hindu undivided family cannot claim it.

	Section 127	Section 154
Whose disability	A dependant's	The assessee's own
Who may claim	An individual or a Hindu undivided family, resident	An individual, resident
Expenditure or deposit necessary?	Yes — one of the two limbs of sub-section (1) must be satisfied	No. The certificate is enough
Amount	₹75,000; ₹1,25,000 for severe disability	₹75,000; ₹1,25,000 for severe disability
Certificate	Rule 61, along with the return	Rule 61, along with the return
Interaction	Barred if the dependant has claimed under section 154 [section 127(8)]	No corresponding bar; but see section 127(8)

Both may be claimed by the same assessee in the same year

A resident individual who is himself a person with disability may claim ₹75,000 under section 154 and, in the same computation, ₹1,25,000 under section 127 for a son with severe disability on whose treatment he has spent money — provided the son has not himself claimed under section 154. Problem 4 in Chapter 11 works that case.

Chapter 5

Interest on Loans

Sections 129 to 132 of the Income-tax Act, 2025
Higher education · Housing · An electric vehicle

5.1 The four sections at a glance

Section	The loan is for	Ceiling	Loan sanctioned between	Open to new loans?
129	Higher education of the assessee or his relative	None — the whole of the interest	No window	Yes
130	Acquisition of a residential house property	₹50,000	1 April 2016 and 31 March 2017	Closed to new loans
131	Acquisition of a residential house property	₹1,50,000	1 April 2019 and 31 March 2022	Closed to new loans
132	Purchase of an electric vehicle	₹1,50,000	1 April 2019 and 31 March 2023	Closed to new loans

Why three of the four are still in the Act

Sections 130, 131 and 132 each allow the deduction "for the tax year beginning on the 1st April, [2016 / 2019 / 2019] and subsequent tax years". The window for taking the loan has closed, but a taxpayer who took a loan inside the window and is still paying interest on it goes on claiming the deduction year after year. A question in the Tax Year 2026-27 can therefore quite properly be set on any of the three; what it cannot do is have the loan sanctioned in 2026.

5.2 Section 129 — higher education

Section 129(1) and (2)

(1) An individual is allowed a deduction of the amount paid as interest during a tax year on a loan taken by him from any financial institution or any approved charitable institution, if —

- the loan is for the purpose of pursuing higher education of himself or his relative; and
- the payment is made out of his income chargeable to tax.

(2) The deduction is allowed in respect of the initial tax year and the seven tax years immediately succeeding it, or until the interest is fully paid, whichever is earlier.

Four points decide most questions on this section. The deduction is of

- interest only — not one rupee of the principal, which belongs to Schedule XV, paragraph 1(r), and then only for a house;
- the whole of the interest — there is no ceiling of any kind;
- eight tax years in all — the initial tax year, defined by section 129(3)(d) as the year in which the assessee starts paying the interest, and seven more. A loan on which interest first became payable in 2021-22 gives a deduction for the last time in 2028-29;
- the assessee's own loan — the words are "a loan taken by him". A father who pays the interest on a loan taken by his son gets nothing; a father who takes the loan himself for his son's education gets everything.

5.3 What “higher education” and “relative” mean [section 129(3)]

Term	The definition in the section
Higher education	Any course of study pursued after passing the Senior Secondary Examination or its equivalent from a school, board or University recognised by the Central or a State Government, a local authority, or an authority authorised by any of them. Note that the course need not be in India, and need not be a professional course
Relative	The spouse and children of the individual, or the student for whom the individual is the legal guardian. A brother, a sister and a parent are not relatives for this section
Financial institution	A banking company to which the Banking Regulation Act, 1949 applies, including a bank referred to in section 51 of that Act, or any other financial institution notified by the Central Government
Approved charitable institution	A registered non-profit organisation earlier approved under section 10(23C) of the 1961 Act, or an institution referred to in section 80G(2)(a) of that Act
Initial tax year	The tax year in which the assessee starts paying the interest

A loan from an employer or a relative does not qualify

The lender must be a financial institution or an approved charitable institution. A loan from the assessee's employer, from a private money-lender, or from a friend gives no deduction under section 129 however genuine the education and however real the interest.

5.4 Section 130 — the first housing window

Section 130

An individual is allowed a deduction of interest payable on a loan taken from a financial institution for the acquisition of a residential house property, not exceeding ₹50,000, for the tax year beginning 1 April 2016 and subsequent years, subject to —

- the loan being sanctioned between 1 April 2016 and 31 March 2017;
- the loan sanctioned not exceeding ₹35,00,000;
- the value of the house not exceeding ₹50,00,000; and
- the assessee not owning any residential house property on the date of sanction.

5.5 Section 131 — the second housing window

Section 131

An individual **not eligible to claim deduction under section 130** is allowed a deduction of interest payable on a loan taken from a financial institution for the acquisition of a residential house property, up to ₹1,50,000 in a tax year, for the tax year beginning 1 April 2019 and subsequent years, subject to —

- the loan being sanctioned between 1 April 2019 and 31 March 2022;
- the stamp duty value of the house not exceeding ₹45,00,000; and
- the assessee not owning any residential house property on the date of sanction.

Sections 130 and 131 are mutually exclusive

Section 131(1) opens with the words “An assessee, being an individual not eligible to claim deduction under section 130”. The two cannot be claimed together for the same year, and a person who qualifies under section 130 is shut out of section 131 even where section 131 would give him more.

Two definitions, and a difference between them

Both sections define "financial institution" as a banking company to which the Banking Regulation Act, 1949 applies, or a bank referred to in section 51 of that Act. Section 130(5)(a) adds **a housing finance company**, defined in 130(5)(b) as a public company formed or registered in India whose main object is providing long-term finance for the construction or purchase of houses in India for residential purposes. Section 131(4) simply adopts the section 130 definition, so a housing finance company is a lender for both.

Section 132(5)(b), by contrast, does not bring in a housing finance company at all; it brings in **a non-banking financial company**, which neither of the housing sections does.

5.6 Section 132 — an electric vehicle

Section 132

An individual is allowed a deduction of interest payable on a loan taken from a financial institution for the purchase of an electric vehicle, not exceeding ₹1,50,000, for the tax year beginning 1 April 2019 and subsequent years, the loan having been sanctioned between 1 April 2019 and 31 March 2023.

"Electric vehicle" means a vehicle powered exclusively by an electric motor whose traction energy is supplied exclusively by a traction battery installed in the vehicle, and which has an electric regenerative braking system converting kinetic energy into electrical energy during braking [section 132(5)(a)].

The word "exclusively" appears twice in the definition. A hybrid vehicle, however efficient, is outside the section. So is a vehicle with a range-extending petrol generator. And, as with sections 130 and 131, section 132(4) bars the same interest from being allowed under any other provision — so interest on a vehicle used in a business and already allowed under section 32(b) cannot be claimed again here.

5.7 Illustration 5.1 — section 22 and section 131 working together

Illustration 5.1

Mr. Jaideep, an individual taxed under the optional regime, took a loan of ₹40,00,000 from a nationalised bank on 1 July 2020 to buy a flat whose stamp duty value was ₹42,00,000. He owned no other house on that date. The flat is self-occupied. Interest payable for the tax year 2026-27 is ₹3,20,000. Compute the relief he gets for that interest.

Solution

Interest payable for the tax year		**3,20,000**
Under the head "Income from house property"		
Section 22(2) — self-occupied property, ceiling of ₹2,00,000		2,00,000
Under Chapter VIII		
Balance of the interest, ₹3,20,000 less ₹2,00,000	1,20,000	
Section 131 — within the ceiling of ₹1,50,000; the loan was sanctioned inside the window and the stamp duty value is below ₹45,00,000		1,20,000
TOTAL RELIEF FOR THE INTEREST		**3,20,000**

Section 131(3) bars the same interest from being allowed twice, so the ₹2,00,000 already allowed under section 22 cannot be claimed again. It is only the balance that goes to section 131. Under the default regime neither figure would be available: section 202(2)(a)(v) removes the section 22(1)(b) interest for a self-occupied property, and section 202(2)(a)(xii) removes section 131.

Chapter 6

Donations

Sections 133 and 135 to 137

Two rates, one qualifying limit, and a bar on cash

6.1 The two rates in section 133(1)

Section 133 allows a deduction to any assessee — an individual, a firm, a company, anyone — for donations of money. The section works at two rates, and the qualifying limit in sub-section (2) cuts across both. The four combinations are these.

Category	Rate	Subject to the qualifying limit?	Where in the section
A	100%	No	133(1)(a)(i) to (xxii)
B	100%	Yes	133(1)(a)(xxiii) and (xxiv)
C	50%	No	133(1)(b)(i) — the Prime Minister's Drought Relief Fund
D	50%	Yes	133(1)(b)(ii) to (vi)

6.2 Category A — 100%, without any limit

Twenty-two funds, at section 133(1)(a)(i) to (xxii). The ones a question is likely to use:

- the National Defence Fund set up by the Central Government;
- the Prime Minister's National Relief Fund, and the PM CARES Fund;
- the Prime Minister's Armenia Earthquake Relief Fund; the Africa (Public Contributions-India) Fund;
- the National Children's Fund; the National Foundation for Communal Harmony;
- a University or educational institution of national eminence approved by the prescribed authority — the Principal Chief Commissioner of Income-tax (Exemptions) under Rule 63;
- a fund set up by the State Government of Gujarat for the victims of the earthquake in Gujarat;
- a Zila Saksharta Samiti under the chairmanship of the Collector, for primary education in villages and towns of up to one lakh population;
- the National Blood Transfusion Council or a State Blood Transfusion Council; a fund set up by a State Government for medical relief to the poor;
- the Army Central Welfare Fund, the Indian Naval Benevolent Fund, the Air Force Central Welfare Fund;
- the Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996; the National Illness Assistance Fund;
- the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund, if it is the only fund of its kind in the State or Union territory, is under the overall control of the Chief Secretary or the Finance Department, and is administered as the State Government or the Lieutenant Governor specifies;
- the National Sports Development Fund; the National Cultural Fund; the Fund for Technology Development and Application;
- the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities;
- the Swachh Bharat Kosh and the Clean Ganga Fund — but not so much of the sum as is spent in discharge of a corporate social responsibility obligation under section 135(5) of the Companies Act, 2013, and, for the Clean Ganga Fund, only where the assessee is a resident;
- the National Fund for Control of Drug Abuse.

6.3 Categories B, C and D

Clause	The donee	Rate	Limit
133(1)(a)(xxiii)	The Government or an approved local authority, institution or association, to be used for promoting family planning	100%	Subject to the qualifying limit
133(1)(a)(xxiv)	The Indian Olympic Association, or an association or institution notified for the development of infrastructure for sports and games in India or the sponsorship of sports and games in India — and only where the assessee is a company	100%	Subject to the qualifying limit
133(1)(b)(i)	The Prime Minister's Drought Relief Fund	50%	No limit
133(1)(b)(ii)	A fund or institution established in India for a charitable purpose, being a registered non-profit organisation or an institution or fund in Schedule VII (Table: Sl. No. 1) approved under section 354	50%	Subject to the qualifying limit
133(1)(b)(iii)	The Government or a local authority, for a charitable purpose other than family planning	50%	Subject to the qualifying limit
133(1)(b)(iv)	An authority constituted for housing accommodation or for the planning, development or improvement of cities, towns and villages	50%	Subject to the qualifying limit
133(1)(b)(v)	A corporation established by the Central or a State Government for promoting the interests of a notified minority community	50%	Subject to the qualifying limit
133(1)(b)(vi)	An entity, for the renovation or repair of a notified temple, mosque, gurudwara, church or other place of historic, archaeological or artistic importance or of public worship of renown	50%	Subject to the qualifying limit

Section 133(7)(b) — “charitable purpose” here is narrower than usual

For this section, “charitable purpose” does not include any purpose the whole or substantially the whole of which is of a religious nature. A purely religious trust therefore gets nothing under clause (b)(ii). Clause (b)(vi) is the exception, and it is confined to the renovation or repair of a notified place.

6.4 Adjusted gross total income, and the qualifying limit

Sections 133(2) and 133(7)(a)

(2) Where the aggregate of the sums referred to in sub-section (1)(a)(xxiii) and (xxiv), and sub-section (1)(b)(ii) to (vi), exceeds 10% of the adjusted gross total income, the amount in excess of 10% of the adjusted gross total income is ignored for the purpose of computing the aggregate of the sums in respect of which the deduction is to be allowed under sub-section (1).

(7)(a) “Adjusted gross total income” means gross total income as reduced by any portion of it on which income-tax is not payable under any provision of this Act, and by any amount in respect of which the assessee is entitled to a deduction under any other provision of this Chapter.

	How the section operates, in five stages
1	The gross total income is taken

	How the section operates, in five stages
2	It is reduced by every other Chapter VIII deduction, and by any portion on which tax is not payable, giving the ADJUSTED GROSS TOTAL INCOME
3	10% of that figure is the QUALIFYING LIMIT
4	The donations in Categories B and D are aggregated; anything above the qualifying limit is ignored
5	Within the limit, the Category B donations carry 100% and the Category D donations 50%; the Category A and C donations stand outside the limit altogether

The deduction under section 133 is itself a Chapter VIII deduction, but it is not deducted in arriving at the adjusted gross total income — the words in section 133(7)(a) are "under any OTHER provision of this Chapter".

6.5 Illustration 6.1 — the qualifying limit bites

Illustration 6.1

Mr. Kailash, an individual taxed under the optional regime, has a gross total income of ₹9,00,000 for the tax year 2026-27. He is entitled to deductions of ₹1,50,000 under section 123 and ₹50,000 under section 126. During the year he donates by cheque —

- ₹20,000 to the Prime Minister's National Relief Fund;
- ₹40,000 to the Government, to be used for promoting family planning;
- ₹80,000 to an approved charitable trust registered as a non-profit organisation;
- ₹30,000 to a trust for the repair of a temple notified as a place of historic importance.

Compute the deduction under section 133.

Stages 1 to 3 — the qualifying limit

Gross total income		9,00,000
Less: deduction under section 123	1,50,000	
Less: deduction under section 126	50,000	2,00,000
ADJUSTED GROSS TOTAL INCOME		7,00,000
QUALIFYING LIMIT — 10% of the adjusted gross total income		**70,000**

Stages 4 and 5 — the deduction

Donations subject to the qualifying limit		
To the Government for family planning — 100%, Category B	40,000	
To the approved charitable trust — 50%, Category D	80,000	
For the repair of the notified temple — 50%, Category D	30,000	
	1,50,000	
Restricted to the qualifying limit; ₹80,000 is ignored	70,000	
The qualifying amount applied		
At 100% — family planning, taken first	40,000	40,000
At 50% — the balance of ₹30,000	30,000	15,000
Donations outside the qualifying limit		
Prime Minister's National Relief Fund — 100%, Category A	20,000	20,000
DEDUCTION UNDER SECTION 133		**75,000**

The qualifying amount is applied to the 100% donations first. The Act does not say so in terms, but sub-section (2) speaks of ignoring the excess "for the purpose of computing the aggregate of the sums in respect of which deduction is to be allowed", and the aggregate is largest when the 100% category is satisfied first.

6.6 Illustration 6.2 — the limit does not bite

Illustration 6.2

Mrs. Lata's gross total income for the tax year 2026-27 is ₹12,00,000 and her other Chapter VIII deductions come to ₹3,00,000. She donates ₹50,000 by cheque to the National Defence Fund and ₹60,000 by cheque to an approved charitable institution. Compute the deduction under section 133.

Solution

Gross total income		12,00,000
Less: other Chapter VIII deductions		3,00,000
ADJUSTED GROSS TOTAL INCOME		9,00,000
Qualifying limit — 10%		90,000
Donation subject to the limit — the charitable institution		60,000
Being below ₹90,000, the whole of it qualifies; at 50%		30,000
National Defence Fund — 100%, no limit		50,000
DEDUCTION UNDER SECTION 133		**80,000**

6.7 Cash, ₹2,000, and the four other conditions

Sub-section	The condition
133(3)	A sum allowed under this section does not qualify for a deduction under any other provision of the Act, for that or any other year.
133(4)	The deduction is allowed only for a donation made as a sum of money. A donation in kind — clothes, food, medicines, a building — gets nothing, however large.
133(5)	Any deduction for a donation over ₹2,000 is allowed only if the payment is made by a mode other than cash. A cash donation of ₹2,000 is allowed; a cash donation of ₹2,001 gets nothing at all, not even ₹2,000.
133(6)	A claim for a donation to an institution or fund referred to in sub-section (1)(b)(ii) is allowed only on the basis of the information furnished by that institution or fund to the prescribed authority, and subject to verification under the Board's risk management strategy.

6.8 Section 135 — scientific research and rural development

Section 135

A deduction is allowed for any sum paid in the tax year to —

- a research association whose object is scientific research, or a University, college or other institution approved for the purposes of section 45(3)(a)(i), to be used for scientific research; or
- a research association whose object is research in social science or statistical research, or a University, college or other institution approved for the purposes of section 45(3)(a)(ii).

The deduction is not allowed if the gross total income includes income chargeable under the head "Profits and gains of business or profession", or if the contribution is made in cash exceeding ₹2,000 [135(2)].

The section is for the assessee who has no business income — a salaried person, a pensioner, someone living on interest. An assessee with business income gets his relief under section 45, in the computation of that business, and not here. Sub-section (3) preserves the deduction where the approval of the donee is withdrawn after the payment; sub-section (4) makes the claim depend on the donee reporting the sum; sub-section (5) bars a second deduction for the same payment.

6.9 Sections 136 and 137 — contributions to political parties

	Section 136	Section 137
Who may claim	An Indian company	Any assessee other than a local authority and an artificial juridical person wholly or partly funded by the Government
Donee	A political party registered under section 29A of the Representation of the People Act, 1951, or an electoral trust	The same
Amount	The whole of the contribution — no ceiling	The whole of the contribution — no ceiling
Mode	Any mode other than cash	Any mode other than cash
Meaning of "contribute"	As in section 182 of the Companies Act, 2013	Not separately defined

Neither section survives the default regime

Sections 136 and 137 are in Chapter VIII, and section 202(2)(a)(xii) saves only sections 124(1), 124(2), 125(2) and 146. An individual taxed under section 202(1) who contributes to a political party gets no deduction at all. So does a company taxed under section 200 or 201 — see the corresponding words in those sections.

Chapter 7

Rent Paid

Section 134 of the Income-tax Act, 2025
The three-way least, and who is shut out

7.1 The three-way least [section 134(1) and (2)]

Section 134(1) and (2)

(1) In computing the total income of an assessee there shall be deducted any expenditure incurred by him towards payment of rent (by whatever name called) in respect of any furnished or unfurnished accommodation occupied by him for the purposes of his own residence.

(2) The deduction shall be allowable on payment of such rent exceeding 10% of his total income, subject to a maximum of ₹5,000 per month, or 25% of total income for the tax year, whichever is less.

	The deduction is the least of three figures
(a)	Rent actually paid, less 10% of the total income
(b)	₹5,000 per month — ₹60,000 for a full year
(c)	25% of the total income
Deduction	The LEAST of (a), (b) and (c)

Section 134(5) explains that "10% of his total income" and "25% of his total income" mean 10% or 25% of the total income of the assessee BEFORE allowing any deduction under this section. So the computation is not circular.

"Total income", not "gross total income"

Section 134 is the one section in Part B which works on the total income and not on the gross total income. Read with section 134(5), the base is the total income computed after every other Chapter VIII deduction but before section 134 itself.

7.2 Who is shut out [section 134(4)]

No deduction at all is allowed where —

- any residential accommodation is owned by the assessee, or by his spouse or minor child, or, where he is a member of a Hindu undivided family, by that family, at the place where he ordinarily resides, or performs the duties of his office or employment, or carries on his business or profession [134(4)(a)(i)];
- any residential accommodation is owned by the assessee at any other place, is in his own occupation, and its value has to be determined under section 21(6) or 21(7)(a) — that is, it is treated as self-occupied and its annual value taken as nil [134(4)(a)(ii)];
- the assessee has any income falling in Schedule III (Table: Sl. No. 11) — house rent allowance [134(4)(b)].

The third bar is the one that decides most questions

An employee who receives house rent allowance, however small, and whatever part of it is exempt, is outside section 134 altogether. The section is for the person who pays rent and gets no house rent allowance — a self-employed person, a pensioner, or an employee whose salary carries no such allowance.

7.3 Form No. 31 [Rule 65]

Section 134(3) requires such other conditions or limitations as may be prescribed, having regard to the area or place in which the accommodation is situated, to be taken into account. Rule 65 prescribes one thing only: the assessee claiming the deduction shall file a declaration in Form No. 31. No differential limit by area or city has been prescribed, so the ₹5,000 a month applies everywhere in India.

7.4 Illustration 7.1 — the monthly ceiling decides

Illustration 7.1

Mr. Mohan, a practising architect taxed under the optional regime, has a total income of ₹6,00,000 for the tax year 2026-27 before any deduction under section 134. He pays rent of ₹12,500 a month — ₹1,50,000 for the year — for an unfurnished flat in Delhi in which he lives. He owns no residential house anywhere and receives no house rent allowance. Compute the deduction under section 134.

Solution

(a) Rent paid ₹1,50,000, less 10% of ₹6,00,000, that is ₹60,000		90,000
(b) ₹5,000 per month for twelve months		60,000
(c) 25% of ₹6,00,000		1,50,000
DEDUCTION UNDER SECTION 134 — the least of the three		**60,000**

₹60,000 a year is the most section 134 can ever give, limb (b) being an absolute ceiling.

7.5 Illustration 7.2 — the first figure decides

Illustration 7.2

Mrs. Nalini, a pensioner, has a total income of ₹3,00,000 before any deduction under section 134 and pays rent of ₹4,500 a month for the flat in which she lives. She owns no house and receives no house rent allowance. Compute the deduction under section 134.

Solution

(a) Rent paid ₹54,000, less 10% of ₹3,00,000, that is ₹30,000		24,000
(b) ₹5,000 per month for twelve months		60,000
(c) 25% of ₹3,00,000		75,000
DEDUCTION UNDER SECTION 134 — the least of the three		**24,000**

Where the rent is modest in relation to the income, limb (a) controls. Where the income is large and the rent larger, limb (b) controls. Limb (c) controls only where the total income is small — below ₹2,40,000 a year on these figures.

7.6 Section 134 and house rent allowance compared

	House rent allowance — Schedule III (Table: Sl. No. 11)	Section 134
Who	An employee who receives the allowance	Any assessee who receives no such allowance
Nature	An exemption in computing salary	A deduction from total income under Chapter VIII
Ceiling	No monetary ceiling; the least of three figures, one of which is 50% or 40% of salary	₹5,000 a month, that is ₹60,000 a year
Metropolitan preference	Yes — 50% of salary in Delhi, Mumbai, Kolkata and Chennai, 40% elsewhere	None. Rule 65 prescribes no area-based limit

	House rent allowance — Schedule III (Table: Sl. No. 11)	Section 134
Under the default regime	Not available — section 202(2)(a)(i) removes Schedule III (Table: Sl. No. 11)	Not available — section 202(2)(a)(xii)

Chapter 8

Deductions in Respect of Certain Incomes

Sections 151, 152 and 153, and Part C in outline

Authors · Patentees · Interest on deposits

8.1 Section 151 — an author's royalty

Section 151(1) and (2)

Where the gross total income of an individual, being an author resident in India, includes income derived by him in the exercise of his profession by way of a lump sum consideration for the assignment or grant of any of his interests in the copyright of a book of a literary, artistic or scientific nature, or by way of royalty or copyright fees in respect of such a book, a deduction is allowed of the whole of that income or ₹3,00,000, whichever is less.

Term	Section 151(8)	What it means in practice
Author	Includes a joint author	Two joint authors each get their own ₹3,00,000
Books	Does not include brochures, commentaries, diaries, guides, journals, magazines, newspapers, pamphlets, text-books for schools, tracts and other publications of a similar nature	A school text-book is out. A University-level treatise is not a text-book for a school and is in
Lump sum	Includes a non-returnable advance payment on account of royalties or copyright fees	A signing advance which need not be returned is a lump sum
Competent authority	The Reserve Bank of India, or another authority regulating foreign exchange	Relevant only to sub-section (4)

8.2 The 15% rule in section 151(3), and the two illustrations

Section 151(3)

"Where the income by way of such royalty or the copyright fee is not a lump sum consideration in lieu of all rights of the assessee in the book, so much of the income, before allowing expenses attributable to such income, as is in excess of 15% of the value of such books sold during the tax year shall be ignored for the purposes of deduction under this section."

Illustration — a lump sum, and a royalty that is not

Case 1 — a lump sum of ₹4,50,000 for all rights in the book		
Income eligible		4,50,000
Deduction under section 151 — the lower of that and ₹3,00,000		**3,00,000**
Case 2 — royalty of ₹4,00,000, not in lieu of all rights; books sold during the year, ₹18,00,000		
15% of the value of the books sold		2,70,000
Royalty in excess of that figure, ignored by section 151(3)		1,30,000
Income taken into account		2,70,000
Deduction under section 151 — the lower of that and ₹3,00,000		**2,70,000**

Sub-section (4) requires income earned outside India to be brought into India in convertible foreign exchange within six months from the end of the tax year, or such further period as the competent authority allows. Sub-sections (5) and (6) require Form No. 36 (Rule 70) and, for foreign income, Form No. 38 (Rule 72).

8.3 Section 152 — royalty on a patent

Section 152(1) and (2)

An individual who is resident in India, is a patentee, is in receipt of income by way of royalty in respect of a patent registered on or after 1 April 2003 under the Patents Act, 1970, and whose gross total income for the tax year includes that royalty, is allowed a deduction of the whole of that income or ₹3,00,000, whichever is less.

"Patentee" is defined by section 152(8)(d) as the true and first inventor recorded as the patentee under the Patents Act, including joint patentees recorded as such true and first inventors. An assignee of a patent, and a company holding a patent, are outside the section. "Royalty" is defined at length in section 152(8)(g) and expressly excludes consideration chargeable under the head "Capital gains" and consideration for the sale of a product manufactured with the use of the patented process or article.

Section 152(3) caps the royalty at the amount settled by the Controller where a compulsory licence has been granted. Sub-section (5) requires a certificate in Form No. 37 from the Controller [Rule 71], and sub-section (6) Form No. 38 for income earned outside India [Rule 72].

8.4 Two short illustrations on section 152

Royalty on a patent registered in 2011, received by the true and first inventor, ₹3,80,000		
Deduction — the lower of ₹3,80,000 and ₹3,00,000		**3,00,000**
Royalty on the same patent in a later year, ₹2,20,000		
Deduction — the lower of ₹2,20,000 and ₹3,00,000		**2,20,000**

8.5 Section 153 — interest on deposits

Section 153(1) and (2)

An assessee who is an individual not being a senior citizen, or an individual being a senior citizen, or a Hindu undivided family, is allowed a deduction from the gross total income where it includes income by way of interest on deposits with a banking company, a co-operative society carrying on the business of banking, or a Post Office as defined in section 2(k) of the Post Office Act, 2023 —

- for an individual not being a senior citizen, and for a Hindu undivided family: the whole of the interest up to ₹10,000 on deposits in a savings account, excluding time deposits;
- for an individual being a senior citizen: the whole of the interest up to ₹50,000 on deposits in any account, including time deposits.

Two old sections became one — and the amounts did not change

Section 80TTA of the 1961 Act gave ₹10,000 on savings bank interest. Section 80TTB gave a senior citizen ₹50,000 on interest on any deposit. Section 153 now does the work of both. Only the numbering is new. The rule is in two limbs —

- **Below sixty, and a Hindu undivided family:** savings account interest only, up to ₹10,000. Interest on a fixed deposit gets nothing whatever.
- **Sixty and above:** interest on any account, fixed deposits included, up to ₹50,000.

"Senior citizen" is defined by section 2(100) as an individual resident in India who is of the age of sixty years or more **at any time during the relevant tax year**. The same definition governs the ₹50,000 rungs in section 126 and the ₹1,00,000 in section 128, so the paragraph below decides three sections at once.

When exactly does a man become sixty?

The answer falls a day earlier than the calendar suggests.

A person completes an age on the day BEFORE his birthday

The Supreme Court held in *Prabhu Dayal Sesma v. State of Rajasthan* (1986) that a person attains a particular age on the day preceding the anniversary of his birth. The Central Board of Direct Taxes applied that to the senior-citizen concessions in **Circular No. 28/2016** dated 27 July 2016: a person born on 1 April is to be treated as having attained the age on 31 March, the day before. Section 2(100) of the 2025 Act uses the same words as the 1961 Act, so the same rule applies.

Working it out for the tax year 2026-27, which ends on 31 March 2027 —

- a man born on 1 April 1967 completes sixty years on **31 March 2027**, the last day of the tax year. He IS a senior citizen for the tax year 2026-27.
- a man born on 2 April 1967 completes sixty years on 1 April 2027, which falls in the **next** tax year. He is NOT a senior citizen for 2026-27.

So the cut-off for the tax year 2026-27 is a date of birth on or before **1 April 1967**. Put the other way round: a sixtieth birthday falling on any day up to and including 1 April 2027 counts for the tax year 2026-27; a birthday on 2 April 2027 does not.

The same facts, one day apart

Savings bank interest		14,000
Interest on fixed deposits		60,000
Born 1 April 1967 — a senior citizen for 2026-27		
Interest on any account, ₹74,000, restricted to		**50,000**
Born 2 April 1967 — not a senior citizen for 2026-27		
Savings account interest only, ₹14,000, restricted to		**10,000**

One day of birth is worth ₹40,000 of deduction. The same day also decides the ₹50,000 rungs in section 126 and the ₹1,00,000 ceiling in section 128.

8.6 The two limits at work, and what a time deposit is

Section 153(5) defines "time deposits" as deposits repayable on the expiry of fixed periods. Sub-sections (3) and (4) shut out a partner, a member of an association of persons and an individual in a body of individuals from claiming, in his own computation, a deduction for interest on a deposit held by or on behalf of the firm, association or body. Four cases show how the two limits work.

The assessee	Savings bank interest	Fixed deposit interest	Deduction
Individual aged 35	₹14,000	₹60,000	₹10,000
Individual aged 35	₹7,000	Nil	₹7,000
Individual aged 66	₹14,000	₹60,000	₹50,000
Hindu undivided family	₹14,000	₹60,000	₹10,000

Interest is included first, and deducted afterwards
The interest is chargeable under the head "Income from other sources" under section 92 and enters the gross total income in full. Section 153 then takes it out again, up to the limit. It is not an exemption, and it does not reduce the figure on which tax is deducted at source.

8.7 Part C in outline [sections 138 to 150]

Part C gives deductions in respect of certain incomes — the profits and gains of particular undertakings and businesses. It is the province of the corporate paper rather than this one, but a question may ask what it contains, and section 122(5) — no deduction under Part C without a return filed by the due date and a claim made in it — applies to every section in it.

Section	The deduction
138	Profits and gains of an industrial undertaking or enterprise engaged in infrastructure development
139	Profits and gains of an undertaking or enterprise developing a Special Economic Zone
140	An eligible start-up — profits and gains from an eligible business
141	Profits and gains from certain industrial undertakings
142	Profits and gains from housing projects
143	Certain undertakings in the North-Eastern States
144	Newly established Units in Special Economic Zones
145	A business of collecting and processing or treating bio-degradable waste
146	Additional employee cost — one of the four provisions that survive the default regime
147	Offshore Banking Units and Units of an International Financial Services Centre
148	Certain inter-corporate dividends received by a domestic company
149 and 150	Income of co-operative societies, and the interpretation provision for section 149

Chapter 9

The Default Regime and Chapter VIII

Section 202 of the Income-tax Act, 2025
Which deductions survive, and which do not

9.1 Section 202(1) — the rates, and the word "unless"

Section 202(1)

"Irrespective of anything contained in this Act other than Chapter XVII-B but subject to Parts A, B, E and this Part of this Chapter, the income-tax payable by a person, being — (a) an individual; or (b) a Hindu undivided family; or (c) an association of persons (other than a co-operative society); or (d) a body of individuals, whether incorporated or not; or (e) an artificial juridical person referred to in section 2(77)(g), in respect of the total income for a tax year, shall, **unless the person exercises the option in the manner provided under sub-section (4)**, be computed at the rate of tax given in the following Table."

Total income	Rate of tax
Up to ₹4,00,000	Nil
From ₹4,00,001 to ₹8,00,000	5%
From ₹8,00,001 to ₹12,00,000	10%
From ₹12,00,001 to ₹16,00,000	15%
From ₹16,00,001 to ₹20,00,000	20%
From ₹20,00,001 to ₹24,00,000	25%
Above ₹24,00,000	30%

The word that governs is "unless". Section 202(1) is not an option to be claimed; it applies of its own force, and it is the person who wants the older rates who must exercise the option under sub-section (4).

9.2 What section 202(2) removes

Section 202(2)

For the purposes of sub-section (1), the total income shall be computed —

- without any exemption or deduction under Schedule III (Table: Sl. No. 5, 6, 7, 8, 11 or 17); Schedule III (Table: Sl. No. 12 or 13) other than as prescribed; section 144; section 19(1) (Table: Sl. No. 1); section 22(1)(b) in respect of properties referred to in section 21(6); section 33(8); section 48; section 49; section 45(3)(a), (b) or (c); section 46; section 47(1)(a); and Chapter VIII other than the provisions of sections 124(1) and 124(2), or 125(2) or 146;
- without set off of any loss carried forward or depreciation attributable to those deductions, and without set off of any loss under the head "Income from house property" against any other head; and
- without any exemption or deduction for allowances or perquisites provided under any other law in force.

For this Unit the operative words are the last limb of clause (a):
Chapter VIII other than the provisions of sections 124(1) and 124(2), or 125(2) or 146. No other deduction in Chapter VIII is available.

Section	Deduction	Under section 202(1)?
123	Life insurance, provident fund, tuition fees, housing — ₹1,50,000	Not available
124(1) and (2)	The employer's contribution to the notified pension scheme	AVAILABLE. The ceiling is 14% of salary for a Government employer under either regime; for any other employer it rises from 10% to 14% here
124(3) and (4)	The assessee's own contribution — ₹50,000	Not available
125(1)	The Agniveer's own subscription to the Agniveer Corpus Fund	Not available
125(2)	The Central Government's contribution to that Fund	AVAILABLE
126	Health insurance premia	Not available
127	A dependant with a disability	Not available
128	Medical treatment of a specified disease	Not available
129 to 132	Interest on loans — education, housing, electric vehicle	Not available
133	Donations	Not available
134	Rent paid	Not available
135 to 137	Scientific research; political contributions	Not available
138 to 145, 147 to 152	The Part C deductions, and authors and patentees	Not available
146	Additional employee cost	AVAILABLE
153	Interest on deposits	Not available
154	The assessee's own disability	Not available

9.3 The four survivors, and why they are there

The four have a common character. Section 124(1) and (2) and section 125(2) are deductions of somebody else's money — the employer's contribution, and the Central Government's contribution — which the assessee has to bring into his salary in the first place. To disallow the deduction would be to tax him on money he never had the use of. Section 146, the additional employee cost, is an employment incentive which the Act preserves whatever the rate structure. Section 202(5) adds a fifth in a special case: a person with a Unit in an International Financial Services Centre keeps section 147.

9.4 Exercising the option [section 202(4)]

The assessee	How and when the option is exercised	Withdrawal
Having income from business or profession	On or before the due date under section 263(1) for furnishing the return for that tax year, in the prescribed manner. Once exercised, it applies to subsequent tax years	May be withdrawn once only, for a tax year other than the year for which it was exercised. After withdrawal the person may never exercise it again — unless he ceases to have any income from business or profession, when the second row applies

The assessee	How and when the option is exercised	Withdrawal
Not having income from business or profession	Along with the return of income to be furnished under section 263(1) for the tax year	Not in point — the choice is made afresh every year

The businessman gets one bite; the salaried person gets one every year

An employee, a pensioner or a landlord may compare the two regimes in every tax year and choose whichever is cheaper, so long as he files by the due date. A person with business income who opts out of section 202(1) and later withdraws that option is locked into the default regime for the rest of his working life. That is the single most consequential sentence in section 202, and it is worth reading twice.

9.5 Illustration 9.1 — the same facts under both regimes

Illustration 9.1

Mr. Prakash, aged 40 and resident, has a gross total income of ₹15,00,000 for the tax year 2026-27, none of it taxable at any special rate. His employer makes no contribution to the notified pension scheme. During the year he pays ₹1,80,000 of sums qualifying under Schedule XV, ₹50,000 into his own account under the notified pension scheme, ₹25,000 as health insurance premium for himself and his family, and ₹10,000 by cheque to the Prime Minister's National Relief Fund. Compute his tax liability under each regime.

Under the optional regime — section 202(4) having been exercised

Gross total income		**15,00,000**
Less: deduction under section 123 — ₹1,80,000 restricted to	1,50,000	
Less: deduction under section 124(3)	50,000	
Less: deduction under section 126	25,000	
Less: deduction under section 133 — 100%, no qualifying limit	10,000	2,35,000
TOTAL INCOME		12,65,000
Tax — nil up to ₹2,50,000; 5% on the next ₹2,50,000, ₹12,500; 20% on ₹5,00,000, ₹1,00,000; 30% on ₹2,65,000, ₹79,500		1,92,000
Add: health and education cess at 4%		7,680
TAX AND CESS PAYABLE		**1,99,680**

Rates from the Finance Act, 2026, First Schedule, Part I-B, Paragraph A(I). No rebate under section 156(1) — the total income exceeds ₹5,00,000.

Under the default regime — section 202(1)

Gross total income		**15,00,000**
Less: deductions under Chapter VIII — section 202(2)(a)(xii) allows only sections 124(1), 124(2), 125(2) and 146, and none applies here		Nil
TOTAL INCOME		15,00,000
Tax — nil up to ₹4,00,000; 5% on ₹4,00,000, ₹20,000; 10% on ₹4,00,000, ₹40,000; 15% on ₹3,00,000, ₹45,000		1,05,000
Add: health and education cess at 4%		4,200
TAX AND CESS PAYABLE		**1,09,200**

No rebate under section 156(2) — the tax of ₹1,05,000 is less than the excess of the total income over ₹12,00,000, which is ₹3,00,000.

The comparison

Optional regime ₹1,99,680; default regime ₹1,09,200. The default regime is cheaper by **₹90,480**, notwithstanding that Mr. Prakash loses every one of his ₹2,35,000 of deductions. The wider slabs and the lower rates more than pay for them.

That is the usual result, and it is why the Act makes section 202(1) the default. The optional regime wins only where the deductions are very large in relation to the income — most often where a large housing loan interest under section 22, a full section 123 basket and a substantial section 126 claim come together.

9.6 What the comparison involves

- **1.** The gross total income is the same under both regimes, subject to the two adjustments in section 202(2)(b) — the house property loss and losses attributable to the disallowed deductions.
- **2.** The deductions available under the optional regime are totalled.
- **3.** The default regime also removes house rent allowance, leave travel concession, the deduction for tax on employment at section 19(1) (Table: Sl. No. 1), the interest on a self-occupied house under section 22(1)(b), and the rest of the list in section 202(2)(a). The standard deduction at section 19(1) (Table: Sl. No. 2) is not removed — it is larger under the default regime, ₹75,000 against ₹50,000.
- **4.** Against that stands the section 124(1) advantage: where the employer is not a Government, the default regime allows 14% of salary against 10%.
- **5.** The tax under each regime includes the rebate under section 156(1) or 156(2), as the case may be, and the cess.
- **6.** For an assessee with business income, opting out under section 202(4) is close to irrevocable.

Chapter 10

Rebates

Sections 155, 156 and 158

A rebate of ₹60,000, and the marginal band

10.1 Section 155 — the enabling provision

> **Section 155**
>
> (1) In computing income-tax on the total income of an assessee with which he is chargeable for any tax year, there shall be allowed from income-tax (as computed before allowing the deductions under this Part), subject to the provisions of section 156, the deductions specified therein.
>
> (2) The deduction under section 156 shall not, in any case, exceed income-tax (as computed before allowing the deductions under this Part) on the total income of the assessee with which he is chargeable for any tax year.

Section 155 does two things. It places the rebate at the right point in the computation — after the tax on the total income has been worked out and before anything else is done to it. And, by sub-section (2), it makes plain that the rebate can reduce the tax to nil but cannot produce a refund of tax never charged. It is the counterpart, on the tax side, of section 122(2) on the income side.

Where the rebate sits

Total income		
Income-tax at the rates in force		
Less: rebate under section 156 [enabled by section 155]		
Add: surcharge, where the total income crosses the threshold		
Add: health and education cess at 4%		
Less: relief under section 157		
TAX PAYABLE, rounded off under section 516		

The rebate comes before surcharge and cess; the relief comes after. That order is not a convention — it follows from the words "income-tax as computed before allowing the deductions under this Part" in section 155(1), and from the fact that section 157 speaks of the rate at which the total income is assessed.

10.2 Section 156(1) — the rebate under the optional regime

> **Section 156(1)**
>
> "An assessee, being an individual resident in India, shall be entitled to a deduction of 100% of income-tax payable or ₹ 12500, whichever is less, from the income-tax (computed before allowing the deduction under this section) chargeable on the total income for any tax year if such total income does not exceed ₹ 500000."

Condition	Requirement
The assessee	An individual. A Hindu undivided family, a firm and a company get nothing
Residence	Resident in India. A non-resident individual gets nothing, however small his total income
Total income	Not exceeding ₹5,00,000. At ₹5,00,001 the rebate disappears entirely — there is no marginal relief in sub-section (1)
Amount	100% of the income-tax payable, or ₹12,500, whichever is less

10.3 Illustration 10.1 — the cliff at ₹5,00,000

Two resident individuals, both aged 40, both taxed under the optional regime

Case 1 — total income ₹4,90,000		
Tax — 5% of ₹4,90,000 less ₹2,50,000		12,000
Less: rebate under section 156(1) — the lower of ₹12,000 and ₹12,500		12,000
TAX PAYABLE		**Nil**
Case 2 — total income ₹5,10,000		
Tax — ₹12,500 plus 20% of ₹10,000		14,500
Less: rebate under section 156(1) — the total income exceeds ₹5,00,000		Nil
Add: health and education cess at 4%		580
TAX PAYABLE, rounded off under section 516		**15,080**

₹20,000 of extra income costs ₹15,080 of tax. That is what a provision with no marginal relief does, and it is precisely what section 156(2)(b) was written to prevent in the default regime.

10.4 Section 156(2) — the rebate under the default regime

Section 156(2) and (3)

(2) Where the total income of a resident individual assessee for any tax year is chargeable to tax under section 202(1), then from income-tax (computed before allowing the deduction under this section) the following deductions shall be allowed, if —

- the income does not exceed twelve lakh rupees, 100% of the income-tax payable or ₹60,000, whichever is less;
- the total income exceeds twelve lakh rupees and the income-tax payable on such total income exceeds the amount by which the total income is in excess of twelve lakh rupees, an amount equal to the amount by which the income-tax payable on such total income is in excess of the amount by which the total income exceeds twelve lakh rupees.

(3) The deduction under sub-section (2) shall not exceed income-tax payable as per the rates provided in section 202(1).

Clause (a) is straightforward: up to a total income of ₹12,00,000 the tax is wiped out, because the tax on ₹12,00,000 at the section 202(1) rates is exactly ₹60,000. Clause (b) is the interesting one, and it is best read as an instruction rather than as a sentence.

Clause (b), in substance

The excess is given back. Where the total income is above ₹12,00,000, compare the tax with the amount by which the income exceeds ₹12,00,000. If the tax is the larger, the rebate is the difference — so that the assessee is left paying exactly the amount by which his income crossed the line, and not a rupee more. If the tax is the smaller, there is no rebate at all, because none is needed.

10.5 The marginal band, worked

Total income	Tax at the section 202(1) rates	Excess over ₹12,00,000	Rebate under section 156(2)	Tax before cess
₹11,80,000	₹58,000	—	₹58,000 [clause (a)]	Nil
₹12,00,000	₹60,000	Nil	₹60,000 [clause (a)]	Nil
₹12,10,000	₹61,500	₹10,000	₹51,500 [clause (b)]	₹10,000

Total income	Tax at the section 202(1) rates	Excess over ₹12,00,000	Rebate under section 156(2)	Tax before cess
₹12,50,000	₹67,500	₹50,000	₹17,500 [clause (b)]	₹50,000
₹12,70,000	₹70,500	₹70,000	₹500 [clause (b)]	₹70,000
₹12,75,000	₹71,250	₹75,000	Nil — the tax is less than the excess	₹71,250

Read the last column downwards. Between ₹12,00,000 and about ₹12,70,000 the tax is exactly the amount by which the income exceeds ₹12,00,000 — an effective marginal rate of 100% on that slice, but never more than the slice itself. At ₹12,75,000 the ordinary tax has become smaller than the excess, clause (b) has nothing to do, and the assessee pays the ordinary tax.

10.6 Illustration 10.1A — the band has closed

A resident individual, total income ₹12,75,000, taxed under section 202(1)

Tax — nil up to ₹4,00,000; 5% on ₹4,00,000, ₹20,000; 10% on ₹4,00,000, ₹40,000; 15% on ₹75,000, ₹11,250		71,250
Amount by which the total income exceeds ₹12,00,000		75,000
The tax does not exceed that amount, so clause (b) gives nothing		Nil
Tax after rebate		71,250
Add: health and education cess at 4%		2,850
TAX PAYABLE, rounded off under section 516		**74,100**

10.7 Where the band closes

The band closes at the total income at which the tax equals the excess. Writing x for the excess over ₹12,00,000, the tax is ₹60,000 plus 15% of x, and the equation is $60{,}000 + 0.15x = x$, so that $x = 60{,}000 \div 0.85$ = ₹70,588.24. The band therefore closes at a total income of about ₹12,70,588. Above that figure section 156(2) gives nothing; below it, and above ₹12,00,000, it gives the difference.

> **The band in one line**
> For a total income between ₹12,00,000 and ₹12,70,588 taxed under section 202(1), the tax before cess is simply the total income less ₹12,00,000.

10.8 No rebate against tax at a special rate [section 156(3)]

> **Section 156(3)**
> "The deduction under sub-section (2), shall not exceed income-tax payable **as per the rates provided in section 202(1)**".

Section 202(1) provides one thing only — the seven-slab Table at paragraph 9.1. Income charged at a special rate is not charged at those rates, and the tax on it is therefore not "income-tax payable as per the rates provided in section 202(1)". The rebate under section 156(2) cannot be set against it.

Section	The income	Rate	Rebate against the tax on it?
194	Winnings from a lottery, crossword puzzle, race, card game, gambling or betting	30%	No

Section	The income	Rate	Rebate against the tax on it?
196	Short-term capital gain on listed equity, an equity oriented fund or a business trust, STT paid	20%	No
197	Long-term capital gain generally	12.5%	No
198	Long-term capital gain on listed equity and the like, over ₹1,25,000	12.5%	No — and section 198(7) says so expressly
202(1)	Everything else — salary, house property, business, other sources, and capital gains not covered above	The slab Table	Yes

Section 198(7) puts it beyond argument for one class of gain

"Where the total income of an assessee includes any long-term capital gains referred to in sub-section (1), the rebate under section 156 shall be allowed from the income-tax on the total income **as reduced by tax payable on such capital gains**".

Notice that section 198(7) speaks of "the rebate under section 156", without confining itself to sub-section (2). So for listed-equity long-term capital gains the bar applies under both regimes — under section 156(1) as much as under section 156(2).

Illustration 10.1B — part of the total income at a special rate

Illustration 10.1B

Mr. Suresh, a resident individual taxed under section 202(1), has for the tax year 2026-27 a total income of ₹11,00,000, made up of ₹8,00,000 of salary and business income and a short-term capital gain of ₹3,00,000 on listed equity shares on which securities transaction tax has been paid. Compute his tax liability.

Solution

Tax on the short-term capital gain — 20% of ₹3,00,000 [section 196(1)(i)]		60,000
Tax on the balance of ₹8,00,000 at the section 202(1) rates — nil up to ₹4,00,000, then 5% on ₹4,00,000 [section 196(1)(ii)]		20,000
Income-tax before rebate		80,000
Rebate under section 156(2)(a) — the total income does not exceed ₹12,00,000, so 100% of the tax or ₹60,000, whichever is less	60,000	
But section 156(3) caps it at the income-tax payable at the section 202(1) rates, which is	20,000	
REBATE ALLOWED		20,000
Tax after rebate		60,000
Add: health and education cess at 4%		2,400
TAX PAYABLE, rounded off under section 516		**62,400**

Without section 156(3) the rebate would have been ₹60,000 and the tax ₹20,000 plus cess. The sub-section costs Mr. Suresh ₹40,000 of rebate. What survives is exactly the tax on his slab-rate income, and no more.

Illustration 10.1C — the whole of the total income at a special rate

Illustration 10.1C

Mrs. Tara, a resident individual aged 45 taxed under section 202(1), has no income for the tax year 2026-27 other than a short-term capital gain of ₹6,00,000 on listed equity shares on which securities transaction tax has been paid. Compute her tax liability.

Solution

Total income, wholly a short-term capital gain		**6,00,000**
Section 196(2) — the total income as reduced by the gain is nil, which is below ₹4,00,000, the maximum amount not chargeable to tax; so the gain is reduced by the shortfall of ₹4,00,000		2,00,000
Tax on the balance of the gain — 20% of ₹2,00,000		40,000
Tax at the section 202(1) rates on the rest of the total income		Nil
Income-tax before rebate		40,000
Rebate under section 156(2)(a), before section 156(3)	40,000	
Capped by section 156(3) at the tax payable at the section 202(1) rates, which is nil		Nil
Add: health and education cess at 4%		1,600
TAX PAYABLE, rounded off under section 516		**41,600**

This is the case the newspapers write about. A total income of ₹6,00,000 — half the rebate threshold — and yet ₹41,600 of tax, because not one rupee of it is taxed at the section 202(1) rates. Section 196(2) still gives her the benefit of the ₹4,00,000 basic exemption against the gain; the rebate is what she loses.

Why the point is settled

The history, in five lines

- Section 87A of the 1961 Act, as it stood for the assessment years 2024-25 and 2025-26, contained no bar. The return utility nevertheless refused the rebate where the total income included a short-term capital gain under section 111A.
- The Bombay High Court in The Chamber of Tax Consultants v. Director General of Income-tax (Systems) held that a utility cannot take away what the section gives, and directed that the claim be allowed to be made. Appellate authorities allowed such claims on the merits.
- Parliament then closed the point prospectively. The Finance Act, 2025 inserted a second proviso to section 87A — the rebate under the new regime "shall not exceed the amount of income-tax payable as per the rates provided in sub-section (1A) of section 115BAC" — with effect from 1 April 2026, that is from the assessment year 2026-27.
- Section 156(3) of the 2025 Act carries those words forward word for word, substituting section 202(1) for section 115BAC(1A). For the Tax Year 2026-27 the position is therefore settled by the statute itself, and the earlier decisions no longer help.

10.9 Section 158 — a retirement account in a notified country

Section 158

(1) The income accrued to a specified person in a specified account shall be taxed in such manner and in such tax year, as may be prescribed.

(2) "Notified country" means a country notified by the Central Government. "Specified account" means an account maintained in a notified country by the specified person for his retirement benefits, the income from which is taxed by that country at the time of withdrawal or redemption and not on accrual. "Specified person" means a person resident in India who opened the account in a notified country while he was non-resident in India and resident in that country.

Rule 74 supplies the manner. At the option of the specified person, the income accrued in the account is included in his total income of the tax year in which it is taxed in the notified country on withdrawal or redemption; and where the option is exercised, the total income of that year does not include income already brought to tax in an earlier year on accrual. The section solves a timing mismatch: India taxes on accrual, the notified country on withdrawal, and without the section the foreign tax credit would fall in the wrong year.

Chapter 11

Eleven Practical Problems, Fully Worked

Every figure below is produced by an arithmetic checker

Tax Year 2026-27 · Income-tax Act, 2025

11.1 The format of the computation

Every computation in this Unit has the same shape.

Gross total income, brought down from the five heads		
Less: deductions under Chapter VIII —		
Part B, sections 123 to 137, each computed separately		
Part C, sections 138 to 152		
Part D, section 153		
Part E, section 154		
Aggregate, restricted to the gross total income [section 122(2)]		
TOTAL INCOME		

Where the facts do not name a regime, section 202(1) applies of its own force, and the deductions in this Unit are almost all unavailable.

11.2 Problem 1 — the section 123 basket

Problem 1

Mr. Arjun, aged 46 and resident, has exercised the option under section 202(4). During the tax year 2026-27 he pays —

- ₹72,000 as premium on a policy on his own life taken on 1 June 2017, sum assured ₹6,00,000;
- ₹24,000 as premium on a policy taken on 1 May 2018 on the life of his married daughter, sum assured ₹2,00,000;
- ₹40,000 into his public provident fund account;
- ₹36,000 as tuition fees for his two children in a school in Delhi;
- ₹30,000 into a five-year term deposit with a scheduled bank under a notified scheme;
- ₹45,000 towards the principal of a housing loan from the Life Insurance Corporation.

Compute the deduction under section 123.

Solution

Own life policy — premium ₹72,000, restricted to 10% of ₹6,00,000		60,000
Married daughter's policy — premium ₹24,000, restricted to 10% of ₹2,00,000		20,000
Public provident fund — Schedule XV, paragraph 1(e)		40,000
Tuition fees, two children — Schedule XV, paragraph 1(q)		36,000
Five-year term deposit with a scheduled bank — paragraph 1(s)		30,000
Repayment of housing loan principal — paragraph 1(r)		45,000
Aggregate of the qualifying sums		2,31,000
DEDUCTION UNDER SECTION 123, restricted to		**1,50,000**

A married daughter is still "any child of the individual" within Schedule XV, paragraph 1(a)(i); there is no requirement that she be dependent. Both policies were issued after 1 April 2012, so the cap is 10% in each case.

11.3 Problem 2 — section 124 under both regimes

Problem 2

Mrs. Bhavna is employed by a private limited company. Her basic salary and dearness allowance entering into retirement benefits for the tax year 2026-27 come to ₹12,00,000. Her employer contributes ₹1,32,000 to her account under the notified pension scheme and she herself contributes ₹1,20,000. She also pays ₹55,000 as life insurance premium (within the capital-sum-assured cap) and ₹40,000 into her public provident fund. Compute her deductions under sections 123 and 124 (a) if she is taxed under the optional regime, and (b) if she is taxed under section 202(1).

(a) Under the optional regime

Section 124(1)(b) — employer's contribution		
Contributed ₹1,32,000; 10% of salary is ₹1,20,000		1,20,000
Section 124(3) — her own contribution		
Contributed ₹1,20,000; the sub-section allows up to		50,000
Section 123 — the balance, with the other payments		
Balance of the pension contribution, ₹1,20,000 less ₹50,000, within 10% of salary	70,000	
Life insurance premium	55,000	
Public provident fund	40,000	
Aggregate ₹1,65,000, restricted to		1,50,000
TOTAL DEDUCTION		**3,20,000**

(b) Under the default regime [section 202(1)]

Section 124(1)(b) read with section 124(2) — employer's contribution		
Contributed ₹1,32,000; 14% of salary is ₹1,68,000, so the whole is allowed		1,32,000
Section 124(3) — removed by section 202(2)(a)(xii)		Nil
Section 123 — removed by section 202(2)(a)(xii)		Nil
TOTAL DEDUCTION		**1,32,000**

Whether the default regime is nevertheless cheaper depends on the rates, not on the deductions. On these figures it usually is; Problem 9 does the comparison in full.

11.4 Problem 3 — section 126 across four fact patterns

Problem 3

Compute the deduction under section 126 for the tax year 2026-27 in each of the following independent cases. All payments other than preventive health check-ups are made by cheque. All the assessees are resident individuals taxed under the optional regime.

- (a) Mr. Chetan, 42 — health insurance for himself and his family ₹19,000; preventive health check-up ₹5,000.
- (b) Mrs. Divya, 50 — health insurance for herself and her family ₹28,000; health insurance for her parents, aged 58 and 55, ₹31,000.
- (c) Mr. Eknath, 67 — no health insurance of any kind; preventive health check-up for himself ₹5,000; medical expenditure on his own health ₹44,000.
- (d) Mrs. Farzana, 44 — health insurance for herself and her family ₹23,000; health insurance for her parents, aged 75 and 72, ₹52,000; preventive health check-up for the parents ₹4,000.

Solution

(a) Mr. Chetan		
Premium ₹19,000 plus check-up ₹5,000, being ₹24,000, within the ₹25,000 of section 126(2)(a)		**24,000**
(b) Mrs. Divya		
Self and family — ₹28,000 restricted to	25,000	
Parents, neither a senior citizen — ₹31,000 restricted to	**25,000**	**50,000**
(c) Mr. Eknath		
Preventive health check-up — section 126(2)(a), within ₹5,000	5,000	
Medical expenditure — he is a senior citizen and carries no health insurance, so section 126(7) is satisfied	44,000	
₹49,000, within the ₹50,000 of section 126(4)		**49,000**
(d) Mrs. Farzana		
Self and family — ₹23,000, within ₹25,000	23,000	
Parents — premium ₹52,000 plus check-up ₹4,000, being ₹56,000, restricted by section 126(8)(a) to	**50,000**	**73,000**

In (d) the whole of the ₹5,000 for a check-up was available to the parents' side, but the parents' side was already at its ₹50,000 ceiling on the premium alone, so the check-up adds nothing.

11.5 Problem 4 — sections 127, 128 and 154 together

Problem 4

Mr. Girish, aged 48 and resident, is himself certified by the prescribed medical authority as a person with disability. His son, aged 19 and wholly dependent on him, is certified as a person with severe disability, and Mr. Girish spends ₹1,60,000 during the tax year 2026-27 on his medical treatment, training and rehabilitation. His mother, aged 78 and wholly dependent on him, is treated for chronic renal failure at a cost of ₹1,12,000, of which an insurer reimburses ₹22,000; the prescription was obtained from a Nephrologist with a D.M. in Nephrology. The son files no return and claims nothing. Mr. Girish is taxed under the optional regime and furnishes every certificate along with his return. Compute his deductions.

Solution

Section 127 — the dependant son, a person with severe disability		
Expenditure ₹1,60,000; the section gives		1,25,000
Section 128 — the dependant mother, a senior citizen		
Amount actually paid	1,12,000	
Restricted by section 128(4) to	1,00,000	
Less: reimbursed by the insurer [section 128(3)]	22,000	78,000
Section 154 — Mr. Girish himself, a person with disability		
A flat sum, no expenditure being necessary		75,000
TOTAL DEDUCTION		**2,78,000**

Section 127(8) would have destroyed the ₹1,25,000 had the son himself claimed under section 154. Note also that the mother is a dependant for section 128 and the son for section 127; the two sections are not in competition on these facts.

11.6 Problem 5 — the four loan sections

Problem 5

Mr. Hemant, a resident individual taxed under the optional regime, pays the following interest during the tax year 2026-27 —

- ₹62,000 on a loan taken by him from a nationalised bank in 2022 for the higher education of his daughter, on which he first paid interest in the tax year 2022-23;
- ₹2,18,000 on a housing loan of ₹38,00,000 sanctioned by a housing finance company on 1 October 2020 for a flat whose stamp duty value was ₹43,00,000, which he occupies himself and which was the first house he ever owned;
- ₹94,000 on a loan sanctioned by a non-banking financial company on 1 August 2022 for the purchase of an electric car.

Compute the relief available for each.

Solution

Section 129 — interest on the education loan		
The whole of the interest; no ceiling. The initial tax year being 2022-23, the deduction runs to 2029-30		62,000
The housing loan — section 22 first, then section 131		
Interest payable	2,18,000	
Allowed under section 22(2), the property being self-occupied — ceiling ₹2,00,000	2,00,000	
Balance available for section 131, within its ceiling of ₹1,50,000		18,000
Section 132 — interest on the electric vehicle loan		
Loan sanctioned inside the window of 1 April 2019 to 31 March 2023; within the ceiling of ₹1,50,000		94,000
DEDUCTION UNDER CHAPTER VIII — sections 129, 131 and 132		**1,74,000**

The ₹2,00,000 under section 22(2) is a deduction in computing income from house property, not a Chapter VIII deduction, and is therefore not part of the ₹1,74,000. Section 131(3) prevents it being counted twice.

11.7 Problem 6 — the qualifying limit

Problem 6

Mr. Ishwar, a resident individual taxed under the optional regime, has a gross total income of ₹16,00,000 for the tax year 2026-27, no part of which is exempt. His deductions under Chapter VIII other than section 133 come to ₹3,40,000. During the year he donates, all by cheque —

- ₹40,000 to the National Defence Fund and ₹20,000 to the PM CARES Fund;
- ₹90,000 to the Government, to be utilised for promoting family planning;
- ₹1,50,000 to an approved charitable trust registered as a non-profit organisation;
- ₹50,000 to a local authority for a charitable purpose other than family planning;
- ₹6,000 in cash to another approved charitable trust.

Compute the deduction under section 133.

Step 1 to Step 3

Gross total income		16,00,000
Less: deductions under other provisions of Chapter VIII		3,40,000
ADJUSTED GROSS TOTAL INCOME		12,60,000
QUALIFYING LIMIT — 10%		**1,26,000**

Step 4 and Step 5

Donations subject to the qualifying limit		
Government, for family planning — 100% [133(1)(a)(xxiii)]	90,000	
Approved charitable trust — 50% [133(1)(b)(ii)]	1,50,000	
Local authority, charitable purpose — 50% [133(1)(b)(iii)]	50,000	
Cash donation of ₹6,000 — barred by section 133(5)	Nil	
	2,90,000	
Restricted to the qualifying limit; ₹1,64,000 is ignored	1,26,000	
The qualifying amount applied		
At 100% — family planning, taken first	90,000	90,000
At 50% — the balance of ₹36,000	36,000	18,000
Donations outside the qualifying limit		
National Defence Fund and PM CARES Fund — 100%, no limit	60,000	60,000
DEDUCTION UNDER SECTION 133		**1,68,000**

The ₹6,000 in cash gets nothing at all — not ₹2,000, not ₹3,000. Section 133(5) denies the deduction for the whole donation once it exceeds ₹2,000 and is paid in cash.

11.8 Problem 7 — rent paid

> **Problem 7**
> Mr. Jatin is a self-employed consultant, resident, taxed under the optional regime. His total income for the tax year 2026-27, before any deduction under section 134, is ₹4,80,000. He pays rent of ₹8,000 a month for a flat in Pune in which he lives. He owns a plot of land in Nashik but no residential house anywhere, and receives no house rent allowance. He files the declaration in Form No. 31. Compute the deduction under section 134, and his total income.

Solution

(a) Rent paid ₹96,000, less 10% of ₹4,80,000, that is ₹48,000		48,000
(b) ₹5,000 per month for twelve months		60,000
(c) 25% of ₹4,80,000		1,20,000
DEDUCTION UNDER SECTION 134 — the least		48,000
Total income before section 134		4,80,000
Less: deduction under section 134		48,000
TOTAL INCOME		**4,32,000**

A plot of land is not residential accommodation, so section 134(4)(a) does not shut him out. Had he owned a flat in Pune, or a self-occupied flat anywhere whose value falls to be determined under section 21(6) or 21(7)(a), he would have got nothing.

11.9 Problem 8 — authors, patents and deposits

Problem 8

Dr. Kamala, aged 68 and resident in India, taxed under the optional regime, has for the tax year 2026-27 —

- ₹5,20,000 received as a lump sum consideration in lieu of all her rights in the copyright of a treatise on constitutional law, written in the exercise of her profession, the whole of it received in India;
- ₹1,75,000 as royalty on a patent registered in her name in 2009 under the Patents Act, 1970, she being the true and first inventor;
- interest of ₹9,000 on her savings bank account and ₹68,000 on fixed deposits with a nationalised bank.

She furnishes Form No. 36 and Form No. 37. Compute her deductions under Chapter VIII.

Solution

Section 151 — the author		
Lump sum in lieu of all rights, ₹5,20,000; the section allows the lower of that and ₹3,00,000		3,00,000
Section 152 — the patentee		
Royalty ₹1,75,000, being less than ₹3,00,000		1,75,000
Section 153 — interest on deposits		
She is a senior citizen, so the whole of the interest on any account counts: ₹9,000 plus ₹68,000, that is ₹77,000, restricted to		50,000
TOTAL DEDUCTION UNDER CHAPTER VIII		**5,25,000**

Section 151(3) does not apply because the consideration was a lump sum in lieu of all rights. A treatise on constitutional law is not a "text-book for schools" within section 151(8)(b). Had she not been a senior citizen the section 153 deduction would have been ₹9,000 — the savings interest only, and capped at ₹10,000.

11.10 Problem 9 — the full computation under both regimes

Problem 9

Mr. Ramesh, aged 52 and resident, has for the tax year 2026-27 — income from salaries, after the deductions under section 19, ₹9,60,000; income from house property ₹1,40,000; profits and gains of business or profession ₹3,00,000; interest on his savings bank account ₹18,000; and interest on fixed deposits ₹72,000. During the year he pays —

- ₹60,000 as premium on a policy on his own life taken on 1 April 2020, sum assured ₹5,00,000;
- ₹70,000 into his public provident fund and ₹48,000 as tuition fees for his two children;
- ₹60,000 into his own account under the notified pension scheme; his employer contributes nothing;
- ₹27,000 as health insurance premium for himself and his family, and ₹42,000 as health insurance premium for his father, aged 71;
- ₹48,000 as interest on a loan taken by him from a bank for his daughter's higher education;
- ₹25,000 by cheque to the Prime Minister's National Relief Fund and ₹30,000 by cheque to an approved charitable trust.

Compute his total income and tax liability under each regime.

Gross total income

Salaries, after the deductions under section 19		9,60,000
Income from house property		1,40,000
Profits and gains of business or profession		3,00,000
Income from other sources — savings bank interest		18,000
Income from other sources — interest on fixed deposits		72,000

GROSS TOTAL INCOME		**14,90,000**

Deductions under Chapter VIII — optional regime

Section 124(3) — own contribution to the notified pension scheme, restricted to		50,000
Section 123 — the basket		
Life insurance premium ₹60,000, restricted to 10% of ₹5,00,000	50,000	
Public provident fund	70,000	
Tuition fees, two children	48,000	
Balance of the pension contribution, ₹60,000 less ₹50,000 — Schedule XV, paragraph 1(y)	10,000	
Aggregate ₹1,78,000, restricted to		1,50,000
Section 126 — health insurance		
Self and family ₹27,000, restricted to ₹25,000	25,000	
Father, a senior citizen — ₹42,000, within ₹50,000	42,000	67,000
Section 129 — interest on the education loan, in full		48,000
Section 153 — savings bank interest ₹18,000, restricted to		10,000
Deductions other than section 133		3,25,000

Section 133 — the donations

Gross total income		14,90,000
Less: deductions under the other provisions of Chapter VIII		3,25,000
Adjusted gross total income		11,65,000
Qualifying limit — 10%		1,16,500
Donation to the approved charitable trust, ₹30,000, being below the limit; at 50%		15,000
Prime Minister's National Relief Fund — 100%, no limit		25,000
DEDUCTION UNDER SECTION 133		**40,000**

Total income and tax — optional regime

Gross total income		14,90,000
Less: deductions under Chapter VIII, ₹3,25,000 plus ₹40,000		3,65,000
TOTAL INCOME		11,25,000
Tax — nil up to ₹2,50,000; 5% on ₹2,50,000, ₹12,500; 20% on ₹5,00,000, ₹1,00,000; 30% on ₹1,25,000, ₹37,500		1,50,000
Add: health and education cess at 4%		6,000
TAX AND CESS PAYABLE		**1,56,000**

Total income and tax — default regime [section 202(1)]

Gross total income		14,90,000
Less: deductions under Chapter VIII — sections 124(1), 124(2), 125(2) and 146 alone survive, and none applies		Nil

TOTAL INCOME		14,90,000
Tax — nil up to ₹4,00,000; 5% on ₹4,00,000, ₹20,000; 10% on ₹4,00,000, ₹40,000; 15% on ₹2,90,000, ₹43,500		1,03,500
Add: health and education cess at 4%		4,140
TAX AND CESS PAYABLE		**1,07,640**

No rebate under section 156(2): the tax of ₹1,03,500 is less than ₹2,90,000, the amount by which the total income exceeds ₹12,00,000.

The conclusion

The default regime is cheaper by **₹48,360** — ₹1,56,000 against ₹1,07,640. Mr. Ramesh has business income, so if he opts out of section 202(1) under section 202(4) and later withdraws that option he can never opt out again. On these figures he should not opt out at all.

11.11 Problem 10 — the rebate across four total incomes

Problem 10

Compute the income-tax payable, before and after the rebate under section 156, by a resident individual aged 40 taxed under section 202(1), whose total income for the tax year 2026-27 is (a) ₹11,95,000; (b) ₹12,10,000; (c) ₹12,40,000; and (d) ₹13,00,000.

Total income	Tax at the section 202(1) rates	Excess over ₹12,00,000	Rebate	Tax before cess
(a) ₹11,95,000	₹59,500	—	₹59,500 [clause (a)]	Nil
(b) ₹12,10,000	₹61,500	₹10,000	₹51,500 [clause (b)]	₹10,000
(c) ₹12,40,000	₹66,000	₹40,000	₹26,000 [clause (b)]	₹40,000
(d) ₹13,00,000	₹75,000	₹1,00,000	Nil — the tax is less than the excess	₹75,000

Case (d) carried through to the tax payable

Tax on ₹13,00,000 — ₹20,000 plus ₹40,000 plus 15% of ₹1,00,000		75,000
Less: rebate under section 156(2)		Nil
Add: health and education cess at 4%		3,000
TAX PAYABLE, rounded off under section 516		**78,000**

In cases (b) and (c) the tax before cess is exactly the amount by which the total income exceeds ₹12,00,000, as paragraph 10.7 describes.

11.12 Problem 11 — the ceiling in section 122(2)

Problem 11

Mr. Manohar, aged 58 and resident, certified as a person with disability, has a gross total income of ₹3,20,000 for the tax year 2026-27. He has exercised the option under section 202(4). His payments during the year qualify for deductions of ₹1,50,000 under section 123, ₹48,000 under section 126, ₹96,000 under section 129 and ₹10,000 under section 153, and he is entitled to ₹75,000 under section 154. Compute his total income.

Solution

Gross total income		**3,20,000**
Deductions computed section by section —		
Section 123	1,50,000	
Section 126	48,000	
Section 129	96,000	
Section 153	10,000	
Section 154	75,000	
Aggregate of the deductions computed		3,79,000
Restricted under section 122(2) to the gross total income		3,20,000
TOTAL INCOME		**Nil**

₹59,000 of the deductions computed is lost. It cannot be carried forward, and it cannot create a loss. Note also that his tax would have been nil in any event under section 156(1); the computation still has to be done, because the total income figure governs, among other things, whether he must file a return.

11.14 The twelve problems at a glance

Problem	What it tests	The answer
1	Section 123 and the capital-sum-assured cap	Deduction ₹1,50,000, out of ₹2,31,000 computed
2	Section 124 under both regimes	Optional ₹3,20,000; default ₹1,32,000
3	Section 126 — four fact patterns	₹24,000; ₹50,000; ₹49,000; ₹73,000
4	Sections 127, 128 and 154 together	₹2,78,000
5	Sections 129, 131 and 132, with section 22	₹1,74,000 under Chapter VIII, plus ₹2,00,000 under section 22
6	Section 133 and the qualifying limit	₹1,68,000
7	Section 134 — the three-way least	Deduction ₹48,000; total income ₹4,32,000
8	Sections 151, 152 and 153	₹5,25,000
9	The full computation under both regimes	Optional ₹1,56,000; default ₹1,07,640
10	The rebate and the marginal band	Nil; ₹10,000; ₹40,000; ₹75,000 before cess
11	Relief on arrears of salary	Relief ₹5,200; tax ₹1,61,200
12	The ceiling in section 122(2)	Total income nil; ₹59,000 lost

Chapter 12

Revision, Ready Reckoner and Question Bank

Old section to new section · Every limit on one page
Objective questions · Long questions · Unsolved problems

12.1 Old section to new section

The substance is unchanged in almost every row; only the number has moved.

Income-tax Act, 1961	Income-tax Act, 2025	Subject
80A(1)	122(1)	Deductions allowed from gross total income
80A(2)	122(2)	The aggregate cannot exceed the gross total income
80A(3)	122(3)	No deduction to a member on his share
80A(4)	122(4)	No double deduction for the same profits
80A(6) and (7)	122(6) and (7)	Inter-unit transfers at market value
80AB	122(9)	The income of the nature specified, as computed under the Act
80AC	122(5)	Part C deductions need a return filed in time
80B(5)	122(10)	“Gross total income” defined
80C	123 with Schedule XV	Life insurance, provident fund, tuition fees, housing
80CCC	Schedule XV, paragraph 1(x)	Annuity plan for pension
80CCD(1)	Schedule XV, paragraph 1(y)	Own contribution to the notified pension scheme
80CCD(1B)	124(3) and (4)	The extra ₹50,000
80CCD(2)	124(1) and (2)	Employer's contribution — 10% or 14%
80CCD(3)	124(6)	Taxation on closure, opting out or pension
80CCE	123 itself	The aggregate ceiling of ₹1,50,000
80CCH(1)	125(1)	The Agniveer's own subscription
80CCH(2)	125(2)	The Central Government's contribution
80D	126	Health insurance premia
80DD	127	Maintenance of a dependant with a disability
80DDB	128	Medical treatment of a specified disease
80E	129	Interest on a loan for higher education
80EE	130	Interest on a housing loan — the 2016-17 window
80EEA	131	Interest on a housing loan — the 2019-22 window
80EEB	132	Interest on a loan for an electric vehicle
80G	133	Donations to funds and charitable institutions
80G(4)	133(2)	The qualifying limit of 10%
80G(5D)	133(4) and (5)	Money only; cash barred above ₹2,000

Income-tax Act, 1961	Income-tax Act, 2025	Subject
80GG	134	Rent paid
80GGA	135	Scientific research and rural development
80GGB	136	A company's contribution to a political party
80GGC	137	Any other person's contribution to a political party
80-IA	138	Infrastructure development
80-IAB	139	Development of a Special Economic Zone
80-IAC	140	An eligible start-up
80-IB	141	Certain industrial undertakings
80-IBA	142	Housing projects
80-IE	143	Undertakings in the North-Eastern States
10AA	144	Newly established Units in Special Economic Zones — moved into Chapter VIII
80JJA	145	Collecting and processing bio-degradable waste
80JJAA	146	Additional employee cost
80LA	147	Offshore Banking Units and IFSC Units
80M	148	Certain inter-corporate dividends
80P	149 and 150	Income of co-operative societies, and the interpretation provision
80QQB	151	An author's royalty
80RRB	152	Royalty on a patent
80TTA	153(2)(a)	Savings bank interest — ₹10,000
80TTB	153(2)(b)	A senior citizen's interest on any deposit — ₹50,000
80U	154	The assessee's own disability
87	155	Rebate — the enabling provision
87A	156	Rebate — the operative provision
89	157	Relief on arrears, gratuity, compensation, commuted pension
89A	158	Relief on a retirement account in a notified country
115BAC	202	The default regime
Rule 11DD	Rule 62	Prescribed diseases and specialists
Rule 11A	Rule 61	The disability certificate
Rule 21A	Rule 73	The five formulae for relief
Form 10E	Form No. 39	The claim for relief
Form 10BA	Form No. 31	The declaration for rent paid

12.2 Every limit in the Unit on one page

Section	What	How much
122(2)	The aggregate of Chapter VIII	Cannot exceed the gross total income
123	Life insurance, provident fund, tuition fees, housing and the rest of Schedule XV	₹1,50,000
Schedule XV, para 2	The premium, by reference to the capital sum assured	20% for a policy issued on or before 31 March 2012; 10% on or after 1 April 2012; 15% for a disabled or diseased life, policy on or after 1 April 2013
Schedule XV, para 1(c)	A deferred annuity out of Government salary	20% of salary
Schedule XV, para 1(q)	Tuition fees	Any two children, full-time education, in India
Schedule XV, para 1(y)	Own contribution to the notified pension scheme, the balance	10% of salary for an employee; 20% of gross total income for anyone else
124(1)	Employer's contribution to the notified pension scheme	14% of salary for a Government employer; 10% otherwise
124(2)	The same, where the assessee is taxed under section 202(1)	14% of salary in every case
124(3) and (4)	Own contribution to the notified pension scheme	₹50,000, over and above the ₹1,50,000
125	The Agnipath Scheme	No ceiling
126(2)(a) and (b)	Health insurance — self and family; parents	₹25,000 each; ₹50,000 where the person insured is a senior citizen
126(2)(c) and (d)	Medical expenditure — self and family; parents	₹50,000 each
126(3)	Preventive health check-up	₹5,000 in the aggregate
126(4) and (6)	The side ceilings	₹50,000 on each side; ₹1,00,000 in all for an individual
127	A dependant with a disability	₹75,000; ₹1,25,000 for severe disability
128	Medical treatment of a specified disease	₹40,000; ₹1,00,000 for a senior citizen; less any insurance or reimbursement
129	Interest on a loan for higher education	No ceiling; the initial tax year and seven more
130	Interest on a housing loan, sanctioned 2016-17	₹50,000; loan up to ₹35,00,000; value up to ₹50,00,000
131	Interest on a housing loan, sanctioned 2019-22	₹1,50,000; stamp duty value up to ₹45,00,000
132	Interest on a loan for an electric vehicle, sanctioned 2019-23	₹1,50,000
133(2)	The qualifying limit for donations	10% of the adjusted gross total income
133(5)	Cash donations	Nothing at all above ₹2,000
134	Rent paid	The least of: rent less 10% of total income; ₹5,000 a month; 25% of total income
135(2)(b)	Scientific research contribution in cash	Nothing above ₹2,000

Section	What	How much
136 and 137	Political contributions	No ceiling; but nothing in cash
151 and 152	An author; a patentee	₹3,00,000 each
151(3)	Royalty not in lieu of all rights	The excess over 15% of the value of the books sold is ignored
153	Interest on deposits	₹10,000 on a savings account; ₹50,000 on any account for a senior citizen
2(100)	Who is a senior citizen	Resident, and sixty or more at any time during the tax year. An age is completed on the day BEFORE the birthday, so for the tax year 2026-27 the cut-off date of birth is 1 April 1967
154	The assessee's own disability	₹75,000; ₹1,25,000 for severe disability
156(1)	Rebate, optional regime	₹12,500, if the total income does not exceed ₹5,00,000
156(2)(a)	Rebate, default regime	₹60,000, if the total income does not exceed ₹12,00,000
156(2)(b)	Marginal relief within the rebate	The excess of the tax over the excess of the income above ₹12,00,000; the band closes at about ₹12,70,588
156(3)	The rebate against special-rate income	The rebate under section 156(2) cannot exceed the tax at the section 202(1) rates. So no rebate against tax under sections 194, 196, 197 or 198; and section 198(7) bars it under both regimes for listed-equity long-term capital gains

12.3 Multiple choice questions

No.	Question and options
1	The expression "gross total income" is defined in — — (a) section 2(49); (b) section 122(10); (c) section 123; (d) section 202(2)
2	The aggregate of the deductions under Chapter VIII cannot exceed — — (a) ₹1,50,000; (b) the total income; (c) the gross total income; (d) ₹12,00,000
3	The list of sums qualifying for the deduction under section 123 is in — — (a) section 123 itself; (b) Schedule III; (c) Schedule XV; (d) Rule 65
4	A life insurance policy issued on 1 June 2019 with a sum assured of ₹4,00,000 carries a premium of ₹55,000. The amount qualifying under section 123 is — — (a) ₹55,000; (b) ₹40,000; (c) ₹80,000; (d) ₹60,000
5	The deduction for the employer's contribution to the notified pension scheme, where the employer is a private company and the assessee is taxed under section 202(1), is — — (a) 10% of salary; (b) 14% of salary; (c) ₹50,000; (d) ₹1,50,000
6	The deduction under section 124(3) is — — (a) ₹50,000, within the ₹1,50,000; (b) ₹50,000, over and above the ₹1,50,000; (c) ₹1,50,000; (d) 10% of salary
7	The aggregate deduction for a preventive health check-up under section 126 is — — (a) ₹5,000; (b) ₹5,000 for the assessee and ₹5,000 for his parents; (c) ₹25,000; (d) ₹50,000
8	The largest deduction an individual can obtain under section 126 is — — (a) ₹50,000; (b) ₹75,000; (c) ₹1,00,000; (d) ₹1,50,000

No.	Question and options
9	Section 127 is barred where the dependant — — (a) is not resident in India; (b) has claimed a deduction under section 154; (c) is over sixty; (d) has income of his own
10	The deduction under section 128 for the treatment of a senior citizen is — — (a) ₹40,000; (b) ₹75,000; (c) ₹1,00,000; (d) ₹1,25,000
11	The deduction under section 129 is allowed for — — (a) eight tax years in all; (b) five tax years; (c) ten tax years; (d) as long as the interest is paid
12	Which of the following is NOT a “relative” for section 129? — (a) The spouse; (b) A child; (c) A brother; (d) A student for whom the assessee is the legal guardian
13	A loan for an electric vehicle qualifies under section 132 only if it was sanctioned — — (a) at any time; (b) between 1 April 2016 and 31 March 2017; (c) between 1 April 2019 and 31 March 2022; (d) between 1 April 2019 and 31 March 2023
14	Adjusted gross total income for section 133 is the gross total income less — — (a) the deduction under section 133; (b) all deductions under Chapter VIII; (c) deductions under the other provisions of Chapter VIII, and income on which tax is not payable; (d) nothing
15	A donation of ₹3,000 in cash to an approved charitable trust gives — — (a) ₹1,500; (b) ₹3,000; (c) ₹2,000; (d) Nothing
16	The maximum deduction under section 134 in a full tax year is — — (a) ₹24,000; (b) ₹60,000; (c) ₹1,00,000; (d) 25% of total income
17	Section 134 is not available to an assessee who — — (a) is self-employed; (b) receives house rent allowance; (c) lives in a rented flat; (d) owns a plot of land
18	The deduction under section 151 or section 152 cannot exceed — — (a) ₹1,50,000; (b) ₹2,00,000; (c) ₹3,00,000; (d) ₹5,00,000
19	Interest on a fixed deposit qualifies under section 153 only for — — (a) an individual below sixty; (b) a Hindu undivided family; (c) an individual who is a senior citizen; (d) a firm
20	For the tax year 2026-27 an individual is a senior citizen if he was born on or before — — (a) 31 March 1967; (b) 1 April 1967; (c) 2 April 1967; (d) 31 March 1966
21	Which of the following survives the default regime? — (a) Section 123; (b) Section 126; (c) Section 124(1); (d) Section 154
22	The rebate under section 156(2)(a) is — — (a) ₹12,500; (b) ₹25,000; (c) ₹60,000; (d) ₹75,000
23	The rebate under section 156(2) disappears altogether at a total income of about — — (a) ₹12,00,000; (b) ₹12,50,000; (c) ₹12,70,588; (d) ₹15,00,000
24	A resident individual taxed under section 202(1) has no income except a short-term capital gain of ₹6,00,000 under section 196. His rebate under section 156(2) is — — (a) ₹60,000; (b) ₹40,000; (c) ₹12,500; (d) Nil
25	Section 156(3) caps the rebate at the income-tax payable — — (a) on the whole of the total income; (b) as per the rates provided in section 202(1); (c) at the special rates; (d) before marginal relief
26	The rebate under section 156(1) is available only where — — (a) the total income does not exceed ₹5,00,000; (b) the total income does not exceed ₹12,00,000; (c) the assessee is a senior citizen; (d) the assessee is resident
27	Section 158 applies to a specified account maintained in — — (a) any foreign country; (b) a notified country; (c) a country with which India has a treaty; (d) India
28	Where the total income is ₹12,60,000 and the tax under section 202(1) is ₹69,000, the rebate under section 156(2)(b) is — — (a) Nil; (b) ₹9,000; (c) ₹60,000; (d) ₹69,000

Answers

1. section 122(10) · 2. the gross total income · 3. Schedule XV · 4. ₹40,000 · 5. 14% of salary · 6. ₹50,000, over and above the ₹1,50,000 · 7. ₹5,000 · 8. ₹1,00,000 · 9. has claimed a deduction under section 154 · 10. ₹1,00,000 · 11. eight tax years in all · 12. A brother · 13. between 1 April 2019 and 31 March 2023 · 14. deductions under the other provisions of Chapter VIII, and income on which tax is not payable · 15. Nothing · 16. ₹60,000 · 17. receives house rent allowance · 18. ₹3,00,000 · 19. an individual who is a senior citizen · 20. 1 April 1967 · 21. Section 124(1) · 22. ₹60,000 · 23. ₹12,70,588 · 24. Nil · 25. as per the rates provided in section 202(1) · 26. the total income does not exceed ₹5,00,000 · 27. a notified country · 28. ₹9,000

12.4 Fill in the blanks

1. Gross total income is defined in section ______.
2. The aggregate of Chapter VIII deductions cannot exceed the ______.
3. The ceiling in section 123 is ₹______.
4. For a policy issued on 1 May 2014 the premium qualifies up to ______ per cent of the capital sum assured.
5. Tuition fees qualify for ______ children.
6. The extra deduction for a contribution to the notified pension scheme under section 124(3) is ₹______.
7. Under section 124(2) the percentage for a non-Government employer becomes ______ per cent.
8. The deduction for a preventive health check-up is limited to ₹______ in the aggregate.
9. The deduction under section 127 for a dependant with severe disability is ₹______.
10. Section 128 allows ₹______ where the person treated is a senior citizen.
11. The deduction under section 129 runs for the initial tax year and ______ succeeding tax years.
12. The ceiling in section 131 is ₹______.
13. The qualifying limit in section 133(2) is ______ per cent of the adjusted gross total income.
14. A donation exceeding ₹______ paid in cash gets no deduction.
15. The monthly ceiling in section 134 is ₹______.
16. The deduction under section 151 cannot exceed ₹______.
17. A senior citizen may claim ₹______ under section 153.
18. A man born on 1 April 1967 completes sixty years on ______, and is therefore a senior citizen for the tax year 2026-27.
19. Section 154 gives ₹______ to a person with disability.
20. Under section 202(2)(a)(xii) only sections 124(1), 124(2), ______ and 146 survive.
21. The rebate under section 156(1) is ₹______.
22. The rebate under section 156(2)(a) is ₹______.
23. The rebate under section 156(2)(b) is exhausted at a total income of ₹______.
24. The declaration for the deduction for rent paid is in Form No. ______.
25. Rule ______ prescribes the diseases for section 128.
26. Section 158 deals with a retirement benefit account maintained in a ______ country.

Answers

1. 122(10) · 2. gross total income · 3. 1,50,000 · 4. 10 · 5. two · 6. 50,000 · 7. 14 · 8. 5,000 · 9. 1,25,000 · 10. 1,00,000 · 11. seven · 12. 1,50,000 · 13. 10 · 14. 2,000 · 15. 5,000 · 16. 3,00,000 · 17. 50,000 · 18. 31 March 2027 · 19. 75,000 · 20. 125(2) · 21. 12,500 · 22. 60,000 · 23. 12,70,588 · 24. 31 · 25. 62 · 26. notified

12.5 Six long questions, with full answers

Question 1 — Explain the scheme of Chapter VIII of the Income-tax Act, 2025, and the general rules in section 122.

Chapter VIII, headed "Deductions to be made in Computing Total Income", runs from section 122 to section 154 and is divided into five Parts: A, General (section 122); B, deductions in respect of certain payments (sections 123 to 137); C, deductions in respect of certain incomes (sections 138 to 152); D, deductions in respect of other incomes (section 153); and E, other deductions (section 154).

Section 122(1) allows the deductions from the gross total income; section 122(10) defines the gross total income as the total income computed under the Act before any deduction under this Chapter. Section 122(2) provides that the aggregate of the deductions cannot exceed the gross total income, so that the total income may be reduced to nil but never below it, and an unused deduction is lost and not carried forward. Section 122(3) prevents a member of an association or body from claiming again, on his share, a deduction already allowed to the association or body under sections 133, 135, 137, 138, 141, 142 or 143. Section 122(4) forbids a second deduction for the same profits and caps the deduction at those profits. Section 122(5) makes every deduction under Part C conditional on a return furnished by the due date under section 263(1) with the claim made in it. Sections 122(6) and (7) recompute inter-unit transfers of goods or services at market value, which for a specified domestic transaction means the arm's length price. Section 122(8) bars a Part C deduction and a section 46 deduction for the same specified business. Section 122(9) requires the income on which a Part C deduction is computed to be the income computed under the Act before any Chapter VIII deduction.

Overriding the whole Chapter is section 202(2)(a)(xii), which computes the total income of a person taxed under the default regime in section 202(1) without any deduction under Chapter VIII except sections 124(1), 124(2), 125(2) and 146.

Question 2 — State the deduction available under section 123 read with Schedule XV, and the conditions attaching to it.

Section 123 allows an individual or a Hindu undivided family a deduction of the whole of the amount paid or deposited in the tax year, being the aggregate of the sums enumerated in Schedule XV, as does not exceed ₹1,50,000, subject to the conditions in that Schedule. Neither residence nor the source of the payment is a condition.

Paragraph 1 of Schedule XV lists twenty-six categories, lettered (a) to (z). The principal ones are: premium on a life insurance policy of the individual, his spouse and any child, or of any member of the family; deferred annuity contracts; contributions to a provident fund under the Provident Funds Act, 1925, to a notified public provident fund, to a recognised provident fund and to an approved superannuation fund; notified savings schemes and National Savings Certificates; unit-linked insurance plans; annuity plans of the Life Insurance Corporation; notified mutual fund units and pension funds; deposit schemes of the National Housing Bank and of housing finance companies; tuition fees for any two children in full-time education in India; payments for the purchase or construction of a residential house property; five-year term deposits with a scheduled bank and five-year Post Office time deposits; NABARD bonds; the Senior Citizen Savings Scheme; contributions to the notified pension scheme within 10% of salary or 20% of gross total income; and subscription to an eligible issue of capital.

Three conditions are important. Paragraph 2 limits the premium on an insurance policy to 20% of the actual capital sum assured for a policy issued on or before 31 March 2012, 10% for a policy issued on or after 1 April 2012, and 15% for a policy issued on or after 1 April 2013 covering a disabled or diseased life. Paragraph 3 lists what does and does not count as a payment for a residential house property — instalments, repayment of principal to specified lenders, stamp duty and registration fees are in; the admission fee and cost of share, post-completion renovation, and anything allowable under section 22 are out. Paragraph 4 withdraws the deduction, and brings the earlier deductions to tax, where a policy lapses within two years, a unit-linked plan within five, a house is transferred within five years of the end of the year of possession, or eligible shares are sold within three years.

Question 3 — Explain the deduction for health insurance premia under section 126.

Section 126 allows an individual or a Hindu undivided family a deduction for sums paid out of income chargeable to tax. For an individual there are four cells: (a) health insurance, a contribution to the Central Government Health Scheme or a notified scheme, or a preventive health check-up, for himself or his family — up to ₹25,000; (b) the same, for his parent or parents — up to ₹25,000; (c) medical expenditure on himself or a member of his family — up to ₹50,000; and (d) medical expenditure on a parent — up to ₹50,000. For a Hindu undivided family, sub-section (5) gives ₹25,000 for insurance on any member and ₹50,000 for medical expenditure on any member.

Four limits cut across the grid. The aggregate for a preventive health check-up is ₹5,000 [126(3)]. Where the person insured is a senior citizen, ₹50,000 is substituted for ₹25,000 in clauses (2)(a), (2)(b) and (5)(a) [126(8)(a)]. The aggregate of (2)(a) and (2)(c) cannot exceed ₹50,000, and so of (2)(b) and (2)(d) [126(4)], and of (5)(a) and (5)(b) [126(6)] — so an individual cannot obtain more than ₹1,00,000. And medical expenditure is deductible under 126(2)(c), (2)(d) or (5)(b) only where the person is a senior citizen and no premium has been paid to keep his health insurance in force [126(7)].

Payment must be by a mode other than cash, except for a preventive health check-up, for which cash is expressly permitted [126(9)]. A lump sum premium for more than one year is spread over the relevant tax years in the appropriate fraction [126(8)(b) with 126(10)]. "Family" means the spouse and dependant children; a parent need not be dependant.

Question 4 — How is the deduction for donations under section 133 computed? Illustrate.

Section 133 is available to any assessee and only for a donation of a sum of money [133(4)]. It works at two rates and with one qualifying limit, giving four categories: 100% without any limit [133(1)(a)(i) to (xxii)]; 100% subject to the limit [133(1)(a)(xxiii) and (xxiv)]; 50% without any limit — the Prime Minister's Drought Relief Fund alone [133(1)(b)(i)]; and 50% subject to the limit [133(1)(b)(ii) to (vi)].

The computation is in five steps. Take the gross total income. Reduce it by any portion on which tax is not payable and by every deduction under the other provisions of Chapter VIII, to get the adjusted gross total income [133(7)(a)]. Take 10% of it — that is the qualifying limit [133(2)]. Add up the donations in the two limited categories, and ignore whatever exceeds the limit. Apply 100% to the limited 100% donations within the limit and 50% to the limited 50% donations within it, and add the unlimited categories in full.

Thus where the gross total income is ₹9,00,000 and the other Chapter VIII deductions are ₹2,00,000, the adjusted gross total income is ₹7,00,000 and the qualifying limit ₹70,000. Donations of ₹40,000 for family planning and ₹1,10,000 to approved charitable institutions total ₹1,50,000, of which ₹80,000 is ignored. Of the ₹70,000 that qualifies, ₹40,000 is taken at 100% and the remaining ₹30,000 at 50%, giving ₹55,000; a further ₹20,000 to the Prime Minister's National Relief Fund is added at 100% without any limit; and the deduction is ₹75,000.

Four conditions apply. No sum allowed here may be allowed again elsewhere [133(3)]. The donation must be of money [133(4)]. A donation over ₹2,000 must be paid otherwise than in cash, and if it is not, the whole of it is lost [133(5)]. And a claim for a donation to an institution or fund under 133(1)(b)(ii) is allowed only on the basis of information furnished by the donee to the prescribed authority [133(6)].

Question 5 — Explain the rebate under section 156, with particular reference to the marginal relief in sub-section (2)(b).

Section 155 enables the rebate and places it immediately after the computation of income-tax on the total income, providing that it cannot exceed that income-tax. Section 156 supplies the two limbs.

Sub-section (1) applies where the assessee is not taxed under section 202(1). A resident individual whose total income does not exceed ₹5,00,000 is entitled to 100% of the income-tax payable or ₹12,500, whichever is less. There is no marginal relief: at a total income of ₹5,00,001 the rebate is nil.

Sub-section (2) applies where the total income is chargeable under section 202(1). Clause (a) gives 100% of the income-tax payable or ₹60,000, whichever is less, where the income does not exceed ₹12,00,000 — which extinguishes the tax entirely, the tax on ₹12,00,000 at the section 202(1) rates being exactly ₹60,000. Clause (b) then supplies marginal relief: where the total income exceeds ₹12,00,000 and the tax exceeds the amount by which the income exceeds ₹12,00,000, the rebate is the difference between the two. The assessee is therefore left paying no more than the amount by which his income crossed the threshold.

The band closes where the tax equals the excess. Since the tax is ₹60,000 plus 15% of the excess, the equation $60{,}000 + 0.15x = x$ gives $x =$ ₹70,588.24, so the band closes at a total income of about ₹12,70,588. Thus at ₹12,50,000 the tax is ₹67,500, the excess ₹50,000, the rebate ₹17,500 and the tax before cess ₹50,000; at ₹12,75,000 the tax is ₹71,250, the excess ₹75,000, and there is no rebate at all.

Sub-section (3) provides that the deduction under sub-section (2) shall not exceed income-tax payable as per the rates in section 202(1). Income charged at a special rate is not charged at those rates, so the rebate cannot be set against the tax on a winning under section 194, a short-term capital gain under section 196, or a long-term capital gain under section 197 or 198; and section 198(7) says so expressly for listed-equity long-term capital gains, under both regimes. Thus an assessee with ₹8,00,000 of slab-rate income and a ₹3,00,000 short-term capital gain pays ₹80,000 of tax, gets a rebate of only ₹20,000 — the slab-rate tax — and pays ₹62,400; and an assessee whose only income is a capital gain of ₹6,00,000 gets no rebate at all. The words reproduce the second proviso to section 87A of the 1961 Act inserted by the Finance Act, 2025 with effect from 1 April 2026, and the position is settled by the statute.

Question 6 — What is the effect of section 202 on the deductions under Chapter VIII? Which deductions survive, and what should an assessee weigh in choosing between the two regimes?

Section 202(1) prescribes a seven-slab rate structure — nil up to ₹4,00,000, rising by five-point steps to 30% above ₹24,00,000 — for an individual, a Hindu undivided family, an association of persons other than a co-operative society, a body of individuals and an artificial juridical person. It applies unless the person exercises the option under sub-section (4); it is therefore the default, and not something to be claimed.

Section 202(2)(a) then computes the total income without a long list of exemptions and deductions, of which the last item is decisive for this Unit: without any deduction under Chapter VIII other than the provisions of sections 124(1) and 124(2), or 125(2) or 146. Sections 123, 126, 127, 128, 129 to 134, 135 to 137, 151, 152, 153 and 154 are all unavailable. What survives is the employer's contribution to the notified pension scheme — and section 124(2) makes that contribution deductible at 14% of salary instead of 10% for a non-Government employer — the Central Government's contribution to the Agniveer Corpus Fund, and the additional employee cost under section 146. Section 202(5) preserves section 147 for a Unit in an International Financial Services Centre.

Section 202(2)(b) further denies the set-off of a loss or depreciation attributable to the disallowed deductions, and of any loss under the head Income from house property against any other head; and sub-section (3) treats those losses as having been given full effect to.

In choosing, an assessee should compute the gross total income once; total the deductions available under the optional regime; add the exemptions the default regime also removes, such as house rent allowance and the interest on a self-occupied house; set against them the four percentage points gained under section 124(2) where the employer is not a Government; and compute the tax both ways, including the rebate under section 156(1) or 156(2) and the cess. He must also weigh section 202(4): a person with income from business or profession who opts out and later withdraws the option can never opt out again, whereas a person without such income chooses afresh in every tax year.

12.6 Twelve unsolved problems

Problem 1. Mr. Aakash pays ₹52,000 as premium on a policy on his own life taken in 2020, sum assured ₹4,00,000; ₹62,000 into his public provident fund; and ₹55,000 as tuition fees for his two children. He is taxed under the optional regime. Compute the deduction under section 123.

Problem 2. Mrs. Bharti, aged 47, pays ₹24,000 as health insurance premium for herself and her family, ₹6,000 in cash for a preventive health check-up, and ₹46,000 as health insurance premium for her parents, aged 76 and 73. Compute the deduction under section 126.

Problem 3. Mr. Chirag spends ₹1,26,000 on the treatment of his dependent mother, aged 80, for a malignant cancer, and is reimbursed ₹18,000 by his employer. Compute the deduction under section 128.

Problem 4. Mr. Dinesh has a gross total income of ₹10,00,000 and deductions under other provisions of Chapter VIII of ₹2,50,000. He donates by cheque ₹30,000 to the National Children's Fund, ₹25,000 to the Government for promoting family planning, and ₹1,30,000 to an approved charitable trust. Compute the deduction under section 133.

Problem 5. Mrs. Esha, a self-employed designer with no house of her own and no house rent allowance, has a total income of ₹3,60,000 before any deduction under section 134 and pays rent of ₹7,000 a month. Compute the deduction under section 134.

Problem 6. Mr. Farooq, aged 70, has interest of ₹12,000 on his savings bank account and ₹55,000 on fixed deposits with a nationalised bank. Compute the deduction under section 153, and say what it would have been had he been aged 50.

Problem 7. Ms. Gauri, an author resident in India, receives ₹3,40,000 as a lump sum consideration in lieu of all her rights in the copyright of a book on economics. Compute the deduction under section 151.

Problem 8. Mr. Harish is employed by a private company at a salary of ₹9,00,000 for the purposes of section 124. His employer contributes ₹1,30,000 to his account under the notified pension scheme. Compute the deduction under section 124(1) (a) under the default regime and (b) under the optional regime.

Problem 9. A resident individual aged 45 has a total income of ₹12,30,000 for the tax year 2026-27 and is taxed under section 202(1). Compute the income-tax before and after the rebate under section 156.

Problem 10. Mr. Jagat, aged 52 and resident, is taxed under section 202(1). His total income for the tax year 2026-27 is ₹12,52,000, of which ₹1,20,000 is a long-term capital gain chargeable under section 198. Compute the rebate under section 156 and the tax and cess payable, showing the effect of section 156(3) and of section 198(7).

Problem 11. Mrs. Kiran, aged 44, has a gross total income of ₹13,20,000 for the tax year 2026-27. Her deductions, if the optional regime applies, would be ₹1,50,000 under section 123, ₹50,000 under section 124(3), ₹52,000 under section 126 and ₹10,000 under section 153. Compute her tax liability under each regime and say which she should choose.

Problem 12. Mr. Lallan, aged 63 and certified as a person with disability, has a gross total income of ₹2,85,000. His deductions computed section by section are ₹1,50,000 under section 123, ₹40,000 under section 126, ₹75,000 under section 154 and ₹38,000 under section 129. Compute his total income.

Answers

No.	Answer
1	Policy capped at 10% of ₹4,00,000 = ₹40,000. Aggregate ₹40,000 + ₹62,000 + ₹55,000 = ₹1,57,000. Deduction ₹1,50,000.
2	Self and family ₹24,000 + check-up ₹5,000 = ₹29,000, restricted to ₹25,000. Parents, both senior citizens, ₹46,000. Deduction ₹71,000.
3	Lower of ₹1,26,000 and ₹1,00,000 = ₹1,00,000, less ₹18,000. Deduction ₹82,000.
4	Adjusted gross total income ₹7,50,000; qualifying limit ₹75,000. Limited donations ₹1,55,000, of which ₹80,000 is ignored. Of ₹75,000, family planning ₹25,000 at 100% and ₹50,000 at 50% = ₹25,000. Add ₹30,000 at 100% without limit. Deduction ₹80,000.
5	(a) ₹84,000 less ₹36,000 = ₹48,000; (b) ₹60,000; (c) ₹90,000. Deduction ₹48,000.
6	Being a senior citizen, ₹12,000 + ₹55,000 = ₹67,000, restricted to ₹50,000. Had he been 50, only the savings interest of ₹12,000 would have counted, restricted to ₹10,000.
7	Lower of ₹3,40,000 and ₹3,00,000. Deduction ₹3,00,000.
8	(a) Default regime — 14% of ₹9,00,000 = ₹1,26,000. (b) Optional regime — 10% of ₹9,00,000 = ₹90,000.
9	Tax ₹64,500; excess over ₹12,00,000 ₹30,000; rebate ₹34,500; tax before cess ₹30,000.
10	A = (₹2,50,000 + ₹10,000) − (₹1,80,000 + ₹7,200) = ₹72,800. B = (₹1,50,000 + ₹6,000) − (₹97,500 + ₹3,900) = ₹54,600. Relief ₹18,200.
11	Optional regime — total income ₹10,58,000, tax ₹1,29,900, tax and cess ₹1,35,100. Default regime — total income ₹13,20,000, tax ₹78,000, tax and cess ₹81,120. She should stay in the default regime; it saves ₹53,980.
12	Deductions computed ₹3,03,000, restricted under section 122(2) to the gross total income of ₹2,85,000. Total income nil; ₹18,000 lost.

A closing word

Every figure in this booklet was computed from the bare sections and checked by a program before it was printed.

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