UNIVERSITY OF DELHI

INCOME TAX
LAW AND PRACTICE

DSC 5.1

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

UNIT 2 — PART A

INCOME FROM SALARIES

Meaning of Salary • Allowances • Perquisites and their Valuation
The Fourteen Deductions of Section 19 • Provident Funds
The Default Regime • Relief • Twelve Worked Problems

BUILT ON THE ARCHITECTURE OF SECTION 19

Governed by the INCOME-TAX ACT, 2025
(Act No. 30 of 2025, as amended by the Finance Act, 2026)
read with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

1 April 2026 to 31 March 2027
Academic Year 2026-27

Compiled by

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Preface

What Has Changed, and Why It Matters

This booklet has been written from the bare Act. Under the Income-tax Act, 1961 the retirement benefits — gratuity, commuted pension, leave encashment, retrenchment compensation and voluntary retirement compensation — were exemptions, and that is the language in which the subject has always been learnt. The Income-tax Act, 2025 places them elsewhere. The change is not cosmetic: it alters the shape of the computation you will write in the examination hall.

The single change that governs this whole chapter

Under the 1961 Act these five benefits sat in section 10 — 10(10), 10(10A), 10(10AA), 10(10B) and 10(10C). Section 10 opened with the words "In computing the total income of a previous year of any person, any income falling within any of the following clauses **shall not be included**." An exempt receipt therefore never entered the computation at all. It was money the Act refused to look at.

Section 19 of the Income-tax Act, 2025 does something different. It opens: "The income chargeable under the head 'Salaries' shall be computed **after making the deductions** in respect of sums of the nature mentioned in column B of the following Table…". The receipt is looked at, admitted into gross salary, and then taken out again as a deduction. Exemption has become deduction.

Under the Income-tax Act, 1961	Under the Income-tax Act, 2025
Gratuity, commuted pension, leave encashment, retrenchment and voluntary retirement compensation were **exemptions** under section 10.	They are **deductions** under section 19(1), at serial numbers 3 to 14 of the Table.
They never entered gross salary. The computation began below them.	They **enter gross salary in full**, and are then deducted.
Section 16 gave three deductions — standard deduction, entertainment allowance, professional tax.	Section 19 gives **fourteen** deductions in one Table. Entertainment allowance is **not** among them.
The three deductions of section 16 and the five exemptions of section 10 sat in different parts of the Act and were learnt separately.	One section, one Table, one place to look.

The five things that must be unlearnt

1. **Entertainment allowance has no deduction at all.** Section 19 contains no counterpart to the old section 16(ii). The deduction has not been withdrawn by one regime and preserved by the other — it has no place in the Act at all. A Government employee who receives entertainment allowance in Tax Year 2026-27 is taxed on the whole of it, whichever regime he is in.
2. **"Deduction", not "exemption".** The word "exempt" is used in this booklet only where the Act itself exempts — in Schedule II and Schedule III. Every section 19 item is called a deduction, in the text, in the illustrations and in every worked problem.
3. **The computation format follows section 19 itself.** Gross salary shows gratuity, pension and leave encashment at their full received amounts. The deductions are gathered below the gross salary line in a single block, split regime-wise.
4. **The chapters follow the Act's own architecture** — one chapter for the whole of section 19, taken serial number by serial number. Provident funds, which are not a section 19 subject at all, have a chapter of their own.
5. **Every figure has been verified** against the bare text of the Income-tax Act, 2025 and the Income-tax Rules, 2026 as published in the Gazette, and every problem worked from first principles. There are twelve of them, and each is computed under both regimes wherever the question admits of a comparison.

The shape of the answer under section 19

Problem 8 — Shri Iqbal Singh, the Central Government officer. His gratuity of ₹22,00,000, his leave encashment of ₹12,00,000 and his commuted pension of ₹18,00,000 all go into gross salary before they come out again as deductions. His gross salary therefore reads ₹67,57,400, where under the Income-tax Act, 1961 the same man would have shown ₹15,57,400 and the ₹52,00,000 would never have appeared at all.

The income under the head is the same either way — ₹15,04,900 in the optional regime. The presentation is not, and it is the presentation that section 19 prescribes. He gets no deduction for his entertainment allowance in either regime, and an answer that allows him the old ₹5,000 is answering a repealed statute.

Does the change ever alter the tax?

Usually not. Where a receipt goes in at ₹X and comes out at ₹X, the arithmetic is unmoved. But there are four places where the new architecture bites, and each is worth a question:

- **The standard deduction floor.** Serial number 2 of the Table allows "₹75,000 **or the salary**, whichever is less". Because gratuity and leave encashment are now inside salary, a retiree whose only receipt in the year is a terminal benefit has a salary figure large enough to absorb the whole ₹75,000. Under the old scheme an exempt receipt gave him no base at all.
- **The specified employee test.** Section 17(1)(c)(ii) looks at income under the head "Salaries" by way of monetary payment. Gratuity and leave encashment are monetary payments, so they enter the numerator — and, being section 19 deductions, they come out again. The net effect is neutral, but you must show both movements.
- **The aggregate ceilings across employers.** Section 19(2)(a) and (2)(f) cap gratuity and leave encashment by reference to amounts allowed in earlier years "as an exemption **or a deduction**". The double expression is deliberate: it bridges the 1961-Act exemptions already claimed with the 2025-Act deductions now being claimed. Service that straddles 31 March 2026 is caught.
- **Entertainment allowance.** Gone, as above. A real increase in the tax of a Government employee.

How to use this booklet

Read the Act's own words first — they are quoted, not paraphrased, wherever the wording matters. Then work the problems with a pen. The twelve problems in Chapter 10 are graded: the first is an ordinary salaried employee, and between there and the last lie perquisites, the year of retirement in the private sector and in Government, relief for arrears, a house rent allowance that changes three times, the provident fund, the specified employee test, the small print of Rule 15(5), voluntary retirement, two employers in one year, and a senior citizen whose tax comes to nothing. If you can write all twelve from a blank sheet you will not be troubled by this unit.

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

One syllabus, two courses

The syllabus of B.Com (Hons.) DSC-5.1 (course code BCH: DSC-5.1) and of B.Com (Prog.) DSC-5.1 (course code BC: DSC-5.1) is word for word the same — the same five units, the same hours, the same learning outcomes, the same practical exercises. The only difference is in the list of additional readings, where the B.Com (Prog.) list carries one further journal. It is therefore set out once below.

Students of both courses may use this material without any adjustment whatever.

Credit distribution, eligibility and pre-requisites

Course title & Code	Credits	Lecture	Tutorial	Practical	Eligibility	Pre-requisite
Income Tax Law and Practice BCH: DSC-5.1 | BC: DSC-5.1	4	3	1	0	Class XII pass	Nil

Learning Objectives

The course aims to impart knowledge of law pertaining to levy of income tax in India.

Learning Outcomes

After completion of the course, learners will be able to:

1. Analyse the basic concepts of income tax and determine the residential status of different persons.
2. Compute income under the heads 'salaries' and 'income from house property'.
3. Compute income under the heads 'profits and gains of business or profession' and 'capital gains'.
4. Compute income under the head 'income from other sources' and understand the provisions relating to clubbing of income and set-off and carry forward of losses.
5. Analyse various deductions and computation of total income and tax liability of individuals.

Syllabus

Unit	Content	Hours
Unit 1 — Introduction	Basic concepts: Income; Agricultural income; Person; Assessee; Tax year; Gross Total Income; Total income; Maximum marginal rate of tax. Residential status; Scope of total income on the basis of residential status. Exempted income under the Act.	9
Unit 2 — Salaries and House Property	Computation of Income from Salaries and House Property. **This booklet is Part A and covers Income from Salaries in full. Part B takes up Income from House Property.**	11
Unit 3 — Business or Profession and Capital Gains	Profits and gains of business or profession; Capital gains.	11
Unit 4 — Other Sources, Clubbing and Set-off	Income from other sources; Income of other persons included in assessee's total income; Aggregation of income and set-off and carry forward of losses.	7
Unit 5 — Deductions and Tax Liability	Deductions from gross total income; Rebates and reliefs; Computation of total income and tax liability of individuals (On-line filing of Returns of Income & TDS; Provision & Procedures of Compulsory On-Line filing of returns for specified assessees).	7

Eleven hours for two heads

Unit 2 gives eleven hours to Salaries and House Property together. Salaries takes the greater part of that time and, in every past paper, the greater part of the marks. Do not be misled by the equal billing in the syllabus.

Where each Unit is dealt with

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) — this booklet; 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)
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)

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 2: Computation of Income from Salaries and House Property (11 hours)

Rent-free accommodation. Hotel accommodation, and two accommodations at the same time, need not be covered.

Allowances. Transport allowance for transport employees, tribal area allowance, hill area allowance and insurgency area allowance need not be covered.

Compensation. The treatment of compensation received by an employee on voluntary retirement and on retrenchment need not be covered.

Sweat equity shares and ESOPs. Only the concept. The valuation 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.

Practical Exercises

The learners are required to:

1. Prepare a case study for a person resident but not ordinarily resident in India having income under the head other sources of income.
2. Prepare a presentation indicating the impact of alternative tax regime structure on the tax liability of an assessee.

3. Present a hypothetical case wherein the impact of change in the capital gains taxes are reflected as per the relevant Financial Act.
4. Learn about various tax services available on the official website of Government of India.
5. Prepare a list of tax deductions available in case of a senior citizen.
6. Explore and attempt on-line filing of Returns of Income & TDS on Income tax e-filing website under ITR-1 and ITR-2.

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 Private Ltd.

Latest edition of books is to be followed.

Additional Readings

- *Current Tax Reporter*. Jodhpur: Current Tax Reporter.
- *Income Tax Reports*. Chennai: Company Law Institute of India Pvt. Ltd.
- *Corporate Professionals Today*. Delhi: Taxmann. [B.Com (Prog.) list only]

Note: 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 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. The motor car values, the free meal and gift limits, the interest-free loan threshold, the children education and hostel allowances, the specified employee threshold and the list of cities for house rent allowance were all rewritten by the Income-tax Rules, 2026. These are standard works and the reasoning in them holds good; until their 2026 editions reach you, take the numbers from this booklet or from the bare Rules.

Contents

How this booklet is arranged

Chapter 1

The Head “Salaries”: Foundations

1.1 Where the law is

Provision	What it deals with	Old law (1961 Act / 1962 Rules)
Section 15	Basis of charge — what is chargeable under the head “Salaries”	Section 15
Section 16	Meaning of salary — the inclusive list	Section 17(1)
Section 17	Perquisite — what it includes, and what is not a perquisite	Section 17(2)
Section 18	Profits in lieu of salary	Section 17(3)
Section 19	**Deductions from salaries — all fourteen of them, in one Table**	**Section 16 and sections 10(10), 10(10A), 10(10AA), 10(10B), 10(10C)**
Schedule II	Payments from provident funds and approved superannuation funds	Sections 10(11), 10(12), 10(13)
Schedule III	Leave travel concession, house rent allowance, special allowances	Sections 10(5), 10(13A), 10(14)
Schedule XI	Recognised provident funds, approved superannuation and gratuity funds	The Fourth Schedule
Rule 15	Valuation of every perquisite	Rule 3
Rule 279	House rent allowance — the cities and the percentages	Rule 2A
Rule 280	Special allowances and their prescribed limits	Rule 2BB
Rule 17	Specified employee — the prescribed salary of ₹4,00,000	(figure was in the Act: ₹50,000)
Rule 19	Overseas medical travel — prescribed gross total income of ₹8,00,000	(figure was in the Act: ₹2,00,000)
Section 156	Rebate — ₹12,500 / ₹60,000, and marginal relief	Section 87A
Section 157	Relief where salary is received in arrears or in advance	Section 89(1)
Section 202	The default regime, and what it withdraws	Section 115BAC

Note the shape of the new Act

The 1961 Act scattered the law of salaries across sections 15, 16, 17, and six clauses of section 10. The 2025 Act puts the charging and defining provisions in sections 15 to 18, **all deductions in section 19**, and the surviving exemptions in Schedules II and III. Learn that map and you will always know where to look.

1.2 The relationship of employer and employee

Income is chargeable under the head “Salaries” only if it arises from a relationship of employer and employee — what the law calls a contract **of** service. Where the relationship is that of a principal and an independent professional — a contract **for** service — the income belongs to “profits and gains of business or profession”, and none of the rules in this chapter apply to it.

Contract OF service (employment)	Contract FOR service (independent work)
The employer directs not only WHAT is to be done but	The person is told what result is wanted and is free to

Contract OF service (employment)	Contract FOR service (independent work)
HOW, WHEN and WHERE it is to be done.	decide the manner of doing it.
There is a right of supervision, control and dismissal.	There is no such control; the remedy is to terminate the contract.
The worker is integrated into the organisation.	The worker serves the organisation from outside it.
Example — a lecturer employed by a college, paid a monthly salary.	Example — the same lecturer paid a fee by a university for evaluating answer scripts.

Cases that are regularly asked

Receipt	Head of income	Why
Salary received by a Member of Parliament or of a State Legislature	Income from other sources	An MP or MLA is not an employee of the Government; he holds an elected office. His constituency and daily allowances are exempt under Schedule III, Sl. Nos. 5 to 7.
Remuneration, bonus or commission received by a **partner** from his firm	Profits and gains of business or profession	Section 15(4) says in terms that such a receipt "shall not be regarded as salary". The partner's **share of profit** is separately excluded by Schedule III, Sl. No. 2.
Salary received by a **working director** of a company	Salaries	A company is a separate legal person, and a whole-time director works under a contract of service.
Sitting fees received by a **non-executive** director	Income from other sources	There is no employment; he is not under the company's control.
Fees received by a teacher for setting or marking examination papers of another institution	Income from other sources	Paid by a body which is not his employer, for work done independently.
Salary received by a teacher from his own school or college	Salaries	Ordinary employment.
Commission received by an insurance agent	Profits and gains of business or profession	An agent is not a servant; he is not subject to the insurer's control as to the manner of work.
Pension received by a retired employee from his former employer	Salaries	Section 15(2) provides that "employer includes former employer".
Family pension received by the widow or heirs of a deceased employee	Income from other sources	She was never the employee. A standard deduction of one-third of the pension, subject to the prescribed ceiling, is allowed there — not here.
Salary received by a partner's son who is genuinely employed by the firm	Salaries	He is an employee, even though his father is a partner.

The one line to remember

No employer, no salary. Test the relationship FIRST; only then start valuing perquisites. A candidate who values a car perquisite beautifully but has put the income under the wrong head has lost the whole question.

1.3 Basis of charge [Section 15]

Section 15(1) charges the following to tax under the head "Salaries":

1. any salary **due** from an employer to the assessee in the tax year, whether paid or not;

2. any salary **paid or allowed** to him in the tax year by or on behalf of an employer though not due, or before it became due to him;
3. any **arrears** of salary paid or allowed to him in the tax year by or on behalf of an employer, if not charged to income-tax for any earlier tax year.

Section 15(2) adds that “employer includes former employer”. Section 15(3) provides that salary once taxed in advance is not taxed again when it falls due. Section 15(4) takes the partner's remuneration out of the head altogether.

What follows from this

- **Due basis or receipt basis, whichever is earlier.** Salary for March 2027, payable on 31 March 2027 but actually paid on 5 April 2027, is taxable in Tax Year 2026-27 because it fell due in that year. Salary for April 2027 drawn in advance in March 2027 is also taxable in Tax Year 2026-27, because it was received in that year.
- **No income is taxed twice.** This is now express, in section 15(3).
- **Salary from more than one employer** is aggregated under this one head.
- **Present, past and prospective employer.** Salary from a present or a past employer is chargeable under section 15. Salary received from a **prospective** employer — one with whom employment has not yet begun — is not salary under section 15; but note that section 18(1)(b)(i) brings it in as profits in lieu of salary, so it lands under this head after all.
- **Salary foregone is still taxable.** Once salary has become due, a voluntary giving up of it is only an application of income. Salary **surrendered** to the Central Government under the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961 is, however, not taxable.
- **Place of accrual.** Salary is deemed to accrue where the **services are rendered**, not where it is paid. But salary payable by the Government to a citizen of India for services rendered outside India is deemed to accrue in India.
- **Advance against salary is not advance salary.** A loan or advance taken from the employer and recoverable from future salary is not income at all in the year of receipt. Advance **salary** — salary of a future period paid now — is income of the year of receipt. Note the difference; it is a favourite short question.

Illustration 1.1 — due basis and receipt basis

Shri Mahesh is employed at ₹80,000 per month. Salary falls due on the last day of each month and is paid on the 7th of the following month. In March 2027 he also drew, in advance, his salary for April 2027. State the salary taxable for Tax Year 2026-27.

Solution. Salary of March 2026, paid on 7 April 2026 — fell **due** on 31 March 2026, so it belongs to Tax Year 2025-26. Not taxable now.

Salary of April 2026 to March 2027 — twelve months × ₹80,000 = **₹9,60,000**, all of it having fallen due within the year.

Salary of April 2027 received in advance in March 2027 — **₹80,000**, taxable now because it was RECEIVED in this year.

Salary chargeable for Tax Year 2026-27 = ₹9,60,000 + ₹80,000 = ₹10,40,000

And note the consequence: the April 2027 salary having been taxed now, section 15(3) forbids taxing it again in Tax Year 2027-28.

1.4 Salary in cash or in kind

Salary may be paid in money or in money's worth. A benefit given in kind — a flat, a car, a servant, free electricity — is a perquisite, and is brought to tax at the value fixed by Rule 15. The Act does not allow an employer and employee to escape tax by converting cash into benefits; that is the entire purpose of the perquisite rules in Chapter 4 of this booklet.

1.5 Tax paid by the employer on the employee's behalf

Where an employer pays the employee's own income-tax or other personal obligation, that payment is itself a perquisite in the employee's hands under section 17(1)(f) — “any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee”. It must therefore be added to salary. Tax paid by the employer on a **non-monetary** perquisite, at the employer's option, is however not included in total income at all: Schedule III, Sl. No. 10.

Chapter 2

The Meaning of Salary [Section 16]

Section 16 does not define salary; it gives an inclusive list. Anything in the list is salary; and anything else that answers the ordinary description of salary is salary too.

2.1 What section 16 includes

Cl.	Item	Note
(a)	Wages	Whatever the payment is called — wages, salary, pay, remuneration.
(b)	Any annuity or pension	Pension from a former employer is salary. Family pension to a widow is not.
(c)	**Any gratuity**	The **whole** of it enters salary. The deduction is given separately by section 19(1), Table, Sl. Nos. 3 to 6.
(d)	Any fees or commission	Commission may be a fixed sum or a percentage of turnover; the distinction matters for HRA and for rent-free accommodation.
(e)	Perquisites	Defined by section 17; valued by Rule 15.
(f)	Profits in lieu of, or in addition to, any salary or wages	Defined by section 18.
(g)	Any advance of salary	Salary of a future period paid now. Not the same as a loan against salary.
(h)	**Any payment received in respect of any period of leave not availed of**	Leave encashment. The **whole** of it enters salary; the deduction is in section 19(1), Table, Sl. Nos. 13 and 14.
(i)	The annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent chargeable under paragraph 6 of Part A of Schedule XI	Interest credited above the notified rate.
(j)	The aggregate of sums comprised in the transferred balance of an employee participating in a recognised provident fund, to the extent chargeable under paragraph 11(4) and (5) of Part A of Schedule XI	Arises when an unrecognised fund is later recognised.
(k)	The contribution made by the Central Government or any other employer to the account of an employee under a pension scheme referred to in section 124	The employer's contribution to the National Pension System. A matching deduction is given by section 124(2).
(l)	The contribution made by the Central Government to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme	A matching deduction is given by section 125.

Read clauses (b), (c) and (h) together with section 19

Pension, gratuity and leave encashment are **salary** under section 16. Nothing in section 16 takes any part of them out. The relief comes later, and comes as a **deduction** under section 19. That is why your gross salary figure must show these receipts at their full amount, and why an answer that leaves them out of gross salary is wrong even if it arrives at the right total.

2.2 The components, one by one

- **Basic salary.** Fully taxable, without exception.
- **Dearness allowance.** Fully taxable. But watch the words used in the question. Where the DA is said to be "forming part of salary", or "under the terms of employment", or "entering into the pay for retirement benefits", it is included in "salary" for computing HRA, gratuity, the rent-free accommodation value and so on. Where the question is silent, DA is excluded from those computations.
- **Bonus.** Fully taxable, on a receipt basis, in the year of receipt.
- **Commission.** Fully taxable. Where it is a fixed percentage of turnover achieved by the employee, it forms part of "salary" for HRA and accommodation; a lump-sum or fixed commission does not.
- **Fees.** Fully taxable.
- **Advance salary and arrears of salary.** Taxable in the year of receipt. Relief under section 157 may be claimed.
- **Annuity or pension.** An annuity from a present or a former employer is salary. An annuity from a person who was never the employer is income from other sources.
- **Salary in lieu of notice.** Fully taxable.
- **Overtime, city compensatory allowance, servant allowance, tiffin allowance.** Fully taxable.
- **Employer's contribution to a recognised provident fund.** Not salary at all. It is taxable only as a perquisite, and only where the aggregate of the employer's contributions to the provident fund, an approved superannuation fund and the National Pension System exceeds ₹7,50,000 in the tax year — see Chapter 7.

2.3 "Salary" has THREE different meanings in this chapter

This single point causes more lost marks than any other in the whole paper. The word "salary" is used in three senses, depending on what is being computed. Learn the table and write the working out in the examination.

Meaning	What it consists of	Used for
MEANING 1 — the widest	Everything chargeable under section 16 — basic, DA, all taxable allowances, bonus, commission, all perquisites, profits in lieu of salary, and (now) gratuity, commuted pension and leave encashment at their full amounts.	Computing **GROSS SALARY**.
MEANING 2 — the retirement meaning	Basic salary **+** dearness allowance (only if the terms of employment so provide) **+** commission at a fixed percentage of turnover.	**House rent allowance** [Rule 279(2)(b)]; **gratuity** where the Payment of Gratuity Act does not apply and **leave encashment** [section 19(2)(b)]; **commuted pension**; the provident fund percentages.
MEANING 3 — the perquisite meaning	Basic salary + DA (if the terms so provide) + bonus + commission + fees + all taxable allowances and monetary payments — **but excluding** all perquisites, DA not forming part of salary, the employer's provident fund contribution, and lump-sum receipts such as gratuity, commuted pension, leave encashment and retrenchment compensation.	**Rent-free and concessional accommodation** [Rule 15(2)]; **hotel accommodation** at 24%.
A special case	Last drawn basic salary **+ the whole** of the dearness allowance, whether or not the terms so provide.	**Gratuity where the Payment of Gratuity Act, 1972 applies** — because the 15/26 formula is taken from section 4(2) of that Act, and "wages" is there defined to include the whole DA.

Two warnings on Meaning 3

- The lump-sum retirement receipts are **excluded** from the accommodation salary even though, from Tax Year 2026-27, they now sit inside gross salary. The exclusion is a feature of the perquisite rule, not of section 19, and it has not changed. In the year of retirement, therefore, gross salary and accommodation salary will differ by a very large figure. Show the accommodation salary separately in a working note.
- Do not carry one figure of "salary" through the whole answer. Compute it afresh for each purpose and show the working in a bracket — for example, "Salary for HRA = Basic ₹6,00,000 + DA in terms ₹1,20,000 + commission on turnover ₹40,000 = ₹7,60,000". An examiner gives marks for the working even where the final figure is wrong.

2.4 Categories of employee, and why the category matters

Several deductions in section 19 turn on who the employer is. Fix the four categories now.

Category	Who is covered	Where it matters
Central or State **Government** employee	A person employed by the Union or a State Government.	Gratuity fully deductible [Sl. 3]; commuted pension fully deductible [Sl. 7]; leave encashment fully deductible [Sl. 13]; accommodation valued by the licence-fee method.
Employee of a **local authority** or a **statutory corporation**	Municipal corporations, LIC, RBI, nationalised banks, universities set up by statute.	Treated as a Government employee for **gratuity** [Sl. 3 read with section 19(2)(g)(B)(iv)] and for **commuted pension** [Sl. 7(b)(v)] — but **not** for leave encashment, where Sl. 13 covers only Central and State Government employees, and not for accommodation.
Non-Government employee **covered by** the Payment of Gratuity Act, 1972	Employees of factories, mines, shops and establishments employing ten or more persons.	Gratuity under Sl. 5 — the 15/26 formula of section 4(2) of that Act.
Any **other** non-Government employee	Private sector employees not covered by that Act.	Gratuity under Sl. 6 — the half-month average-salary formula.

A distinction that is easily missed

It is natural to carry over from the 1961 Act the idea that an employee of a local authority or a statutory corporation is treated as a Government employee "for gratuity and for leave encashment". For leave encashment that is not the position under the 2025 Act. Serial number 13 of the section 19 Table speaks only of "an employee of the Central Government or a State Government". An employee of LIC, of the Reserve Bank or of a municipal corporation must therefore compute his leave encashment deduction under serial number 14, on the four-limb formula. He is, however, within serial number 7(b)(v) for commuted pension and within section 19(2)(g)(B)(iv) for gratuity.

Chapter 3

Allowances [Schedule III, Rules 279 and 280]

An allowance is a fixed monetary amount paid by the employer to the employee, over and above basic salary, to meet some particular requirement. Because it is money, an allowance is taxable in full unless the Act excludes it. Note that allowances did **not** follow the retirement benefits into section 19: they remain **exemptions**, and they live in Schedule III. Allowances fall into three classes.

Class	Treatment	Examples
FULLY TAXABLE	The whole amount is added to gross salary.	Dearness allowance, city compensatory allowance, medical allowance, tiffin allowance, servant allowance, overtime allowance, project allowance, warden allowance, non-practising allowance, family allowance, holiday allowance, **entertainment allowance**.
PARTLY EXEMPT	Exempt up to a limit or up to the amount spent; the balance is taxable.	House rent allowance; the special allowances of Rule 280; children education and hostel allowances; transport allowance for a disabled employee.
FULLY EXEMPT	Not included in gross salary at all.	Allowances paid by the Government to a citizen of India for services rendered outside India; allowances of High Court and Supreme Court judges; allowances received from the United Nations Organisation; the constituency and daily allowances of an MP or MLA.

Two structural points before you begin

- **Allowances are exemptions, not deductions.** An exempt allowance never enters gross salary. Contrast the section 19 items of Chapter 6, which do. Keep the two movements distinct in your answer: an exempt allowance is netted off **above** the gross salary line; a section 19 item is deducted **below** it.
- **The default regime withdraws almost all of this.** Section 202(2)(a)(i) and (ii) deny Schedule III serial numbers 5, 6, 7, 8, 11, 12 and 13 — which between them cover MP and MLA allowances, leave travel concession, house rent allowance and every special allowance except those prescribed. Only a very short list survives. Everything in this chapter is therefore worth full marks under the optional regime and, for the most part, nothing at all under the default one.

Every figure in this chapter was rewritten on 1 April 2026

The Income-tax Rules, 2026 replaced the Income-tax Rules, 1962 in their entirety. Rule 279 governs house rent allowance (the old Rule 2A) and Rule 280 the special allowances (the old Rule 2BB). Several limits that had stood unchanged for two or three decades were revised at the same time, so any figure taken from material that predates April 2026 should be checked against the new Rules.

3.1 House Rent Allowance [Schedule III, Sl. No. 11, with Rule 279]

Schedule III, Sl. No. 11 excludes from total income "any special allowance from employer" granted specifically to meet expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee, to such extent as may be prescribed, provided the accommodation is **not owned by him** and he has **actually incurred** the rent. Rule 279 prescribes the extent.

The computation — least of three

	The three amounts	Note
(a)	The actual house rent allowance received for the relevant period	For the relevant period only, not necessarily the whole year.

	The three amounts	Note
(b)	Rent actually paid **minus** one-tenth of salary	If rent paid is less than 10% of salary, this figure is nil or negative and the exemption is NIL.
(c)	**50%** of salary where the accommodation is in one of the eight cities listed below; **40%** of salary in any other place	It is the location of the **accommodation** that matters, not the place of the office.

The list of cities is now EIGHT, not four

For more than two decades only four cities carried the 50% rate. The Table to Rule 279(1)(c) now reads: **"Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad and Bengaluru"** — 50%; **"Any other place"** — 40%.

Gurugram, Noida, Jaipur, Lucknow, Kochi, Chandigarh and every other city remain at 40%. The four new entrants are Hyderabad, Pune, Ahmedabad and Bengaluru.

- **"Salary" here** means basic salary + dearness allowance if the terms of employment so provide + commission at a fixed percentage of turnover. Rule 279(2)(b) puts it thus: "'salary' includes dearness allowance, if provided for under the terms of employment, but excludes all other allowances and perquisites." This is Meaning 2 of paragraph 2.3.
- **"Relevant period"** is defined by Rule 279(2)(a) as the period during which the accommodation was occupied by the assessee during the tax year. Salary is taken for that period only.
- **No exemption at all** is available if the employee lives in his own house, or in a house for which he pays no rent.
- **Where any of the figures changes** during the year — salary, rent, city, or the allowance itself — the exemption must be computed **separately for each period** and the results added.
- **Rent above ₹1,00,000 a year** requires the landlord's Permanent Account Number to be reported to the employer. From 1 April 2026 the employee's declaration to the employer is made in **Form 124**, which has replaced Form 12BB. Rent paid to a parent or spouse is not forbidden, but must be genuine, actually paid, and supported by the owner's return of income.

Illustration 3.1 — house rent allowance, with a change during the year

Shri Naresh is employed in Delhi. His basic salary is ₹50,000 per month and dearness allowance ₹10,000 per month, 60% of which enters into retirement benefits. He receives house rent allowance of ₹20,000 per month throughout Tax Year 2026-27. He paid rent of ₹22,000 per month for the first six months in Delhi, and on 1 October 2026 was transferred to Jaipur, where he paid rent of ₹18,000 per month. Compute the exemption.

First period — Delhi, 1 April to 30 September 2026 (6 months)

Salary = Basic ₹50,000 × 6 = ₹3,00,000 + DA in terms (60% of ₹10,000 = ₹6,000) × 6 = ₹36,000. **Total ₹3,36,000**

(a) HRA received ₹20,000 × 6 = ₹1,20,000 (b) Rent ₹1,32,000 less 10% of ₹3,36,000 (₹33,600) = ₹98,400 (c) 50% of ₹3,36,000 = ₹1,68,000. **Least = ₹98,400**

Second period — Jaipur, 1 October 2026 to 31 March 2027 (6 months)

Salary ₹3,36,000 (unchanged). (a) ₹1,20,000 (b) Rent ₹1,08,000 less ₹33,600 = ₹74,400 (c) 40% of ₹3,36,000 (Jaipur is not on the list) = ₹1,34,400. **Least = ₹74,400**

Total exemption = ₹98,400 + ₹74,400 = ₹1,72,800. Taxable HRA = ₹2,40,000 – ₹1,72,800 = ₹67,200

Observe two things. The whole computation was done twice because the city changed; and the DA was taken at 60% only, because only that much enters into retirement benefits.

And now test the new rule. Suppose he had been transferred to **Pune** instead. Pune is now one of the eight, so limb (c) would have been ₹1,68,000 instead of ₹1,34,400. But the exemption would still have been ₹74,400, because it is the **second** limb that binds. The enlarged city list helps only where rent is high relative to salary, so that the 50% limb is the lowest of the three. Always compute all three.

3.2 Special allowances to meet the duties of the office [Schedule III, Sl. No. 12, with Rule 280(1)]

These are allowances granted to meet expenses wholly, necessarily and exclusively incurred in the performance of duties. They are exempt to the extent **actually spent** for the purpose; any unspent balance is taxable. There is no monetary ceiling — the ceiling is the expenditure itself. Rule 280(1) lists seven. Note the third column: it decides the answer under the default regime.

	The allowance, as Rule 280(1) describes it	Survives in the default regime?
(a)	Any allowance granted to meet the cost of travel on tour or on transfer	**YES**
(b)	Any sum paid in connection with transfer, packing and transportation of personal effects on such transfer	**YES**
(c)	Any allowance, whether on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty	**YES**
(d)	Any allowance granted to meet the expenditure incurred on conveyance in performance of duties, where no free conveyance is provided by the employer	**YES**
(e)	Any allowance granted to meet the expenditure incurred on a **helper** engaged for the performance of duties	**NO**
(f)	Any allowance granted for encouraging **academic, research and training** pursuits in educational and research institutions	**NO**
(g)	Any allowance granted to meet the expenditure incurred on the purchase or maintenance of **uniform** for wear during the performance of duties	**NO**

Rule 280(3) — read this carefully, and know the anomaly

Rule 280(3) reads, in terms: "An employee, being an assessee, **who has exercised an option under section 202(4)** shall be entitled to exemption only in respect of allowances mentioned in sub-rule (1)(a) to (d) and in sub-rule (2) [Table: Sl. No. 10], to the extent and subject to the conditions, if any, specified therein."

Taken literally that is the wrong way round. Section 202(4) is the provision under which a person **opts out** of the default regime. So the rule, read literally, restricts the person in the **optional** regime and leaves the default-regime employee unrestricted — which cannot have been intended and would contradict section 202(2)(a)(ii) of the Act itself.

The correct working rule. Section 202(2)(a)(ii) denies, in the default regime, Schedule III serial numbers 12 and 13 "other than those **as may be prescribed** for this purpose". Rule 280(3) is the only prescription there is. Read as it must have been meant, it identifies the survivors: **sub-rule (1)(a) to (d)** and **sub-rule (2), Sl. No. 10**. Work every problem on that basis. The anomaly lies in the wording of the rule alone and changes no figure in any computation.

Rule 280(3) had no counterpart before April 2026, so no earlier material can be expected to deal with it. The statement above is taken from the rule as notified.

3.3 Special allowances to meet personal expenses [Schedule III, Sl. No. 13, with Rule 280(2)]

These are exempt up to prescribed monetary limits, whether or not the amount is actually spent. Learn this table; a figure from it appears in almost every practical problem. The Rule describes the eligible places district by district and tehsil by tehsil; that detail is summarised here, and the **amount** — which is what a question asks for — is given exactly as the Rule gives it.

Sl.	Allowance and place	Extent to which exempt
1	Special Compensatory (Remote Locality) Allowance — **Tough Location Allowance-I**: specified islands of the Andaman & Nicobar	**₹7,000 per month**, where exemption at Sl. No. 4, 5 or 9 is not claimed

Sl.	Allowance and place	Extent to which exempt
	group; throughout Arunachal Pradesh; specified areas of Himachal Pradesh; specified areas of Jammu & Kashmir and Ladakh; the whole of Lakshadweep; Chhimtuipui and Lunglei districts of Mizoram; the entire State of Sikkim; specified districts of Uttarakhand; throughout Nagaland; difficult areas of Tripura	
2	The same allowance — **Tough Location Allowance-II**: specified areas of Himachal Pradesh; Poonch and Rajouri and specified areas of Jammu & Kashmir and Ladakh; the entire State of Manipur; Aizawl district of Mizoram; Tripura other than the areas at Sl. No. 1	**₹4,500 per month**, where exemption at Sl. No. 4, 5 or 9 is not claimed
3	The same allowance — **Tough Location Allowance-III**: the remaining areas of Himachal Pradesh; the entire States of Meghalaya and Assam; the Sundarban areas of West Bengal; and scheduled tribal and bad-climate areas where such an allowance is admissible by order of the Government	**₹1,500 per month**
4	**Compensatory Field Area Allowance** — specified areas of Arunachal Pradesh, Manipur, Nagaland, Sikkim, Himachal Pradesh, Uttarakhand, Jammu & Kashmir and Ladakh	**₹13,500 per month**
5	**Compensatory Modified Field Area Allowance** — specified areas of Punjab, Rajasthan, Haryana, Himachal Pradesh, Arunachal Pradesh, Assam, Mizoram, Tripura, Sikkim, West Bengal, Uttarakhand and Jammu & Kashmir	**₹8,000 per month**
6	Allowance to an employee working in any **transport system** to meet personal expenditure during duty performed in the course of running such transport, where he is not in receipt of daily allowance — whole of India	**70% of such allowance, up to a maximum of ₹25,000 per month**
7	**Children Education Allowance** — whole of India	**₹3,000 per month per child**, up to a maximum of two children
8	Allowance granted to meet the **hostel expenditure** on a child — whole of India	**₹9,000 per month per child**, up to a maximum of two children
9	**Counter-insurgency allowance** to members of the armed forces operating in areas away from their permanent locations — whole of India	**₹22,000 per month**
10	**Transport allowance** to an employee who is **blind, or deaf and dumb, or orthopaedically handicapped with disability of the lower or upper extremities**, to meet the expenditure of commuting between residence and place of duty — whole of India	Metro cities: **₹15,000 plus dearness allowance thereon** per month. Other cities: **₹8,000 plus dearness allowance thereon** per month
11	**High altitude (uncongenial climate) allowance** to a member of the armed forces	(a) 9,000 to 15,000 feet, and below 9,000 feet with uncongenial climate — **₹4,500 p.m.** (b) above 15,000 feet — **₹7,000 p.m.** (c) all locations in Jammu & Kashmir, Ladakh, Sikkim and Uttarakhand — **₹30,000 p.m.**
12	**Underground allowance** to an employee working in uncongenial, unnatural climate in underground mines — whole of India	**15% of basic pay**
13	**Special compensatory highly active field area allowance** to members of the armed forces — whole of India	**₹22,000 per month**
14	**Island (duty) allowance** or Island Special Duty Allowance to a member of the armed forces	(a) around the capital towns of Port Blair, Kavaratti and Agatti — **10% of basic pay** (b) difficult areas — **16% of basic pay**

Sl.	Allowance and place	Extent to which exempt
		(c) more difficult areas — **20% of basic pay**
15	**Siachen Allowance** to members of the armed forces — Siachen area of Ladakh	**₹42,500 per month**

What changed on 1 April 2026

Set these against the figures that applied until 31 March 2026 and the scale of the revision is plain: children education **₹100 → ₹3,000**; hostel **₹300 → ₹9,000**; transport for a disabled employee **₹3,200 → ₹15,000 plus DA**; the transport-system running allowance ceiling **₹10,000 → ₹25,000**; Siachen **₹42,500** (was ₹42,500 already); high altitude in J&K, Ladakh, Sikkim and Uttarakhand **₹30,000**.

Two entries repay careful reading. Sl. Nos. 1 and 2 are available only "where exemption mentioned at Sl. No. 4, 5 or 9 is not claimed" — a soldier cannot stack the remote-locality allowance on top of the field area or counter-insurgency allowance. And Sl. No. 10 is the **only** entry of this table that survives in the default regime.

3.4 What became of entertainment allowance

It has been abolished. There is no deduction for it under the Income-tax Act, 2025.

Section 16(ii) of the 1961 Act allowed a Government employee to deduct the least of ₹5,000, one-fifth of basic salary, and the entertainment allowance actually received. **Section 19 of the 2025 Act contains no such entry.** The word "entertainment" does not appear anywhere in Part B of Chapter IV of the Act, nor in Rule 280, nor in Schedule III.

The consequence is simple and should be stated in one line in any answer: **entertainment allowance is now fully taxable, for every employee including a Government employee, under both regimes.** It is added to gross salary in full and nothing comes off.

Take care with the wording. To say that the deduction is "not available under the default regime" carries the implication that it is available under the optional regime; it is not. The accurate sentence is that the Act creates no such deduction, so no question of regime arises. Problem 8 in Chapter 10 turns on the point, and the answer there differs from the pre-2026 answer by ₹5,000 of income and ₹1,560 of tax.

3.5 Allowances that are fully exempt

- Allowances and perquisites paid or allowed as such **outside India by the Government** to a citizen of India for rendering service outside India [Schedule III, Sl. No. 9].
- Sumptuary allowance granted to High Court and Supreme Court judges, and their other prescribed allowances.
- Allowances received by an employee of the United Nations Organisation.
- The **daily allowance** of an MP or MLA [Sl. No. 5], the **constituency allowance** of an MP under the 1986 Rules [Sl. No. 6] and of an MLA under State law [Sl. No. 7] — though these are not salary at all, the holder of an elected office not being an employee. **All three are denied in the default regime** by section 202(2)(a)(i).

3.6 Summary — where each allowance goes

Allowance	Optional regime	Default regime [section 202]
Dearness allowance, city compensatory, medical, tiffin, servant, overtime, project, warden, non-practising — and **entertainment allowance**	Fully taxable	Fully taxable
House rent allowance [Sch. III Sl. 11]	Exempt — least of the three	**Fully taxable**
Children education and hostel allowances [Rule	Exempt up to ₹3,000 / ₹9,000	**Fully taxable**

Allowance	Optional regime	Default regime [section 202]
280(2), Sl. 7 and 8]	per month per child, two children	
Travel on tour or transfer; packing and transportation on transfer; daily allowance; conveyance allowance [Rule 280(1)(a) to (d)]	Exempt to the extent spent	Exempt to the extent spent — **these four survive**
Helper allowance; academic and research allowance; uniform allowance [Rule 280(1)(e) to (g)]	Exempt to the extent spent	**Fully taxable** — these do not survive
Transport allowance to a disabled employee [Rule 280(2), Sl. 10]	₹15,000 + DA per month (metro); ₹8,000 + DA (other cities)	Same — **the only entry of that table that survives**
Every other allowance in the Rule 280(2) table — remote locality, field area, counter-insurgency, high altitude, underground, island duty, Siachen	Exempt up to the prescribed amount	**Fully taxable**
Leave travel concession [Sch. III Sl. 8]	Exempt on the prescribed conditions	**Fully taxable**
MP and MLA daily and constituency allowances [Sch. III Sl. 5 to 7]	Exempt	**Fully taxable**

Chapter 4

Perquisites [Section 17 and Rule 15]

A perquisite is a benefit in kind — something the employer gives or does for the employee over and above salary. Section 17 says what counts as a perquisite; Rule 15 of the Income-tax Rules, 2026 says what each one is worth. The general principle of valuation is the cost to the employer, reduced by anything recovered from the employee — but for the common perquisites the Rules substitute a fixed figure, and where they do, the actual cost becomes irrelevant.

4.1 What section 17(1) includes

1. the value of **rent-free accommodation** provided by the employer, computed as prescribed [cl. (a)];
2. the value of any **accommodation at a concessional rate**, to the extent it exceeds the rent recoverable from the employee [cl. (b)];
3. the value of any **benefit or amenity** granted free of cost or at a concessional rate (i) by a company to a director or a person with a substantial interest, or (ii) by any employer to an employee whose income under the head "Salaries" by way of monetary payment exceeds the prescribed amount — the **specified employee** [cl. (c)];
4. the value of any **specified security or sweat equity share** allotted or transferred by the current or former employer free of cost or at a concessional rate [cl. (d)];
5. the value of any other benefit or amenity as may be prescribed [cl. (e)];
6. any sum paid by the employer in respect of an **obligation of the employee** [cl. (f)];
7. any sum payable by the employer to effect an **assurance on the life** of the employee or a contract for an annuity, other than to a recognised provident fund, an approved superannuation fund or a deposit-linked insurance fund [cl. (g)];
8. the aggregate **employer's contribution in excess of ₹7,50,000** in a tax year to a recognised provident fund, the section 124(1) scheme and an approved superannuation fund taken together [cl. (h)];
9. the **annual accretion** by way of interest, dividend or the like on the excess at clause (h), computed as prescribed [cl. (i)].

4.2 The three classes of perquisite

Class	Taxable in whose hands	Examples
Class A — taxable in the hands of ALL employees	Every employee, whether specified or not.	Rent-free or concessional accommodation; an obligation of the employee met by the employer; life insurance premium paid by the employer; sweat equity shares and stock options; employer's contributions above ₹7,50,000 and the accretion on them.
Class B — taxable ONLY in the hands of SPECIFIED employees	Only specified employees, as defined below.	Motor car; services of a sweeper, gardener, watchman or personal attendant; supply of gas, electricity or water for household consumption; free or concessional education; free or concessional transport by an employer in the carriage business.
Class C — exempt for all employees	Nobody.	Medical facilities within the limits; refreshment during working hours; telephone and mobile bills; employer's contributions within the limits; free education in the employer's institution up to ₹3,000 per month per child; accommodation in a remote area; and the rest of the list at paragraph 4.13.

4.3 Who is a "specified employee"?

An employee is a specified employee if he satisfies **any one** of three tests:

1. he is a **director** of the company (whether or not he holds any shares); or
2. he has a **substantial interest** in the company — beneficial ownership of shares carrying 20% or more of the voting power; or
3. his **income under the head "Salaries" by way of monetary payment**, from one or more employers, exceeds the prescribed amount.

The prescribed amount is now ₹4,00,000, not ₹50,000

For many years the third test used a fixed figure of ₹50,000 written into section 17(2)(iii)(c) of the 1961 Act. The Income-tax Act, 2025 replaced the figure with the words "such amount as may be prescribed", and **Rule 17 of the Income-tax Rules, 2026** prescribes: "For the purposes of section 17(1)(c)(ii), the prescribed income under the head 'Salaries' shall be **₹4,00,000**."

At ₹50,000 almost every employee crossed the line and the distinction had become ornamental. At ₹4,00,000 it is alive again, and Problem 7 in Chapter 10 turns entirely on it.

How to compute the salary for this test

	Particulars	₹
	Basic salary, dearness allowance, bonus, commission, fees	xxx
Add	All taxable allowances (after their exemptions)	xxx
Add	**Monetary** perquisites — for example, an obligation of the employee met by the employer	xxx
Add	Gratuity, commuted pension, leave encashment and other terminal benefits **received** — these are monetary payments	xxx
Less	All **non-monetary** benefits and amenities	(xxx)
Less	**All deductions under section 19** — standard deduction, professional tax, and the terminal-benefit deductions at Sl. Nos. 3 to 14	(xxx)
	SALARY FOR THE SPECIFIED EMPLOYEE TEST	**XXX**

A new point, and a neat one

Because gratuity and leave encashment are now **monetary payments** included in salary, they enter the fourth line of that working — and because they are also section 19 deductions, they come out again at the sixth. The net effect on the test is nil. But the two movements must both be shown, and a candidate who writes only one of them will get a wrong figure.

One practical warning: the deductions differ between the regimes (₹75,000 and no professional tax in the default regime; ₹50,000 and professional tax in the optional one), so in a borderline case the **same employee could pass the test in one regime and fail it in the other**. Where a question does not say which regime, compute under the default regime and say so.

Salary from **all** employers is aggregated, and only the employee's own salary is taken — not that of his family. A director and a person with a substantial interest are specified employees however small their salary.

4.4 Rent-free and concessional accommodation [Rule 15(2)]

(a) Where the employer is the Central or a State Government

The value is the **licence fee** determined by that Government in accordance with the rules framed by it, as reduced by the rent actually paid by the employee. The percentage table below has no application to such an employee.

(b) Where the employer is any other person — accommodation OWNED by the employer

Population of the city where the accommodation is situated (2011 census)	Value of the perquisite
Exceeding **40 lakh**	**10%** of salary
Exceeding **15 lakh** but not exceeding 40 lakh	**7.5%** of salary
Not exceeding **15 lakh**	**5%** of salary

These percentages have NOT changed — do not be misled

You will see articles describing 10%, 7.5% and 5% as "new rates introduced by the Income-tax Rules, 2026". They are not new. They came in on 1 September 2023, when the Central Board of Direct Taxes amended Rule 3 of the 1962 Rules and replaced the old 15% / 10% / 7.5% scale together with the old 25-lakh and 10-lakh population bands. The 2026 Rules simply carried the 2023 position forward. The figures that really did change in 2026 are the motor car values, the meal and gift limits, the loan threshold, the children education and hostel allowances, and the list of HRA cities.

(c) Where the accommodation is TAKEN ON LEASE OR RENT by the employer

The **lower** of (i) the actual lease rental paid or payable by the employer, and (ii) 10% of salary — in each case for the period of occupation, as reduced by any rent actually paid by the employee.

(d) Furniture

Where the accommodation is furnished, add **10% per annum of the original cost** of the furniture if it is owned by the employer, or the **actual hire charges** if it is hired, less anything paid by the employee. "Furniture" includes television sets, radio sets, refrigerators, other household appliances and air-conditioning plant or equipment.

(e) Deductions and exceptions

- From the value so computed, deduct any rent actually paid by the employee. Where the rent paid equals or exceeds the value, nothing is taxable.
- **Remote area.** Accommodation temporarily provided at a mining site, an onshore oil exploration site, a project execution site, a dam site, a power generation site or an offshore site is not a perquisite, if it has a plinth area of not more than 1,000 square feet and is at least eight kilometres from municipal limits, or is located in a remote area.
- **Deputation.** Where a Government employee is on deputation to a body or undertaking under that Government's control, that body is deemed to be the employer and the value is computed under the 10% / 7.5% / 5% table as if the accommodation were owned by it [Rule 15(2)(f)].
- Accommodation provided to a judge of the High Court or the Supreme Court, to an official of Parliament, to a Union Minister or to the Leader of the Opposition is not taxable.

(f) The Cost Inflation Index cap

This is a protection for the long-serving employee, and it is regularly missed. Where the accommodation is owned or taken on lease by the employer and the **same** accommodation continues to be provided to the **same** employee for more than one tax year, the value computed from the table shall not exceed the value computed for the **first** tax year, adjusted by the movement in the Cost Inflation Index:

Adjusted first-year value = First-year value × CII of the current tax year ÷ CII of the first tax year

The perquisite for the later year is therefore the **lower** of (i) the value computed from the table on the current year's salary and (ii) that adjusted first-year value. Rule 15(2)(g)(ii) defines "first tax year" as **the tax year 2023-24, or the tax year in which the accommodation was provided, whichever is later**.

Illustration 4.1A — the inflation cap

An employee has occupied the same company-owned flat since the first tax year in which it was provided to him. In that first year the value computed from the table was ₹1,20,000. He has since been promoted, and on his present salary the table would give ₹1,80,000 for the current tax year. Assume the Cost Inflation Index is 363 for the first year and 384 for the current year.

Cap = ₹1,20,000 × 384 ÷ 363 = **₹1,26,942**

The value from the table is ₹1,80,000; the cap is ₹1,26,942. **Perquisite = ₹1,26,942**, being the lower.

The purpose is plain: a man should not be taxed more heavily on the very same flat, year after year, merely because his salary has risen faster than prices. The first-year index here is illustrative; 384 is the Cost Inflation Index notified for the Tax Year 2026-27.

"Salary" for this purpose is Meaning 3 of paragraph 2.3 — basic salary, dearness allowance if the terms so provide, bonus, commission, fees and all taxable allowances and monetary payments, but **excluding** all perquisites, the employer's provident fund contribution, and lump-sum receipts such as gratuity, commuted pension, leave encashment and retrenchment compensation.

Illustration 4.1 — furnished accommodation at concessional rent

Smt. Rekha is employed by a private company in Pune (population above 40 lakh). Basic salary ₹60,000 per month; dearness allowance ₹12,000 per month (half of it entering into retirement benefits); bonus ₹50,000; a fixed commission of ₹30,000. The company provides her, throughout Tax Year 2026-27, with a flat which it owns, together with furniture costing ₹4,00,000. She pays ₹5,000 per month to the company for the flat.

Step 1 — salary for accommodation purposes. Basic ₹7,20,000 + DA entering retirement benefits ₹72,000 + bonus ₹50,000 + commission ₹30,000 = **₹8,72,000**

Step 2 — value of the accommodation. Pune's population exceeds 40 lakh and the flat is owned: 10% of ₹8,72,000 = ₹87,200

Step 3 — add furniture. 10% per annum of ₹4,00,000 = ₹40,000. Total ₹1,27,200

Step 4 — less rent recovered. ₹5,000 × 12 = ₹60,000

Taxable perquisite = ₹1,27,200 – ₹60,000 = ₹67,200

Note that only half the DA was taken, and that the whole of the bonus and commission entered the figure. Had the flat been taken on rent by the company at, say, ₹30,000 per month, the value would instead have been the lower of ₹3,60,000 and 10% of salary (₹87,200) — that is, ₹87,200.

4.5 Motor car [Rule 15(3)]

This is the most heavily examined perquisite. The value depends on who owns the car, who pays the running expenses, and what the car is used for. Learn the table as a whole. The values are **per calendar month**.

Owned by	Expenses met by	Wholly OFFICIAL	Wholly PERSONAL	BOTH
Employer (or hired by him)	Employer	**Nil**, if the documents in Rule 15(3)(c) are maintained	Actual running and maintenance expenses + 10% p.a. of the cost of the car (normal wear and tear) + chauffeur's remuneration, **less** any amount charged from the employee	Up to 1.6 litres, **or an electric vehicle**: **₹5,000 p.m.** Above 1.6 litres: **₹7,000 p.m.** Add **₹3,000 p.m.** for a chauffeur
Employer (or hired by him)	Employee	**Nil**, on the same condition	(not applicable)	Up to 1.6 litres or an electric vehicle: **₹2,000 p.m.** Above 1.6 litres: **₹3,000 p.m.** Add **₹3,000 p.m.** for a chauffeur
Employee	Employer	**Nil**, on the same condition	Actual expenditure incurred by the employer	Actual expenditure incurred by the employer **less** ₹5,000 p.m. (up to 1.6 litres or electric) or ₹7,000 p.m. (above 1.6 litres), and less a further ₹3,000 p.m. where a chauffeur is provided

Owned by	Expenses met by	Wholly OFFICIAL	Wholly PERSONAL	BOTH
Employee — any **other** automotive conveyance	Employer	**Nil**, on the same condition	—	Actual expenditure incurred by the employer **less ₹3,000 p.m.**

The car values have gone UP nearly three times — and electric vehicles now have a rule

The figures of ₹1,800, ₹2,400, ₹600, ₹900 and ₹900 for a driver had stood unchanged since 2009. Rule 15 of the Income-tax Rules, 2026 has replaced them with **₹5,000, ₹7,000, ₹2,000, ₹3,000 and ₹3,000**. And the first column of Table II now reads "where cubic capacity of engine does not exceed 1.6 litres **or the motor car is an electric vehicle**" — an electric car, which has no cubic capacity at all, therefore falls into the lower slab whatever its size or price. Every past-paper answer on this topic is now wrong by a factor of about three.

- **The prescribed documents [Rule 15(3)(c)].** For the nil valuation, or for claiming a higher official-use figure, the employer must maintain complete details of the journeys — date, destination, mileage and expenditure — and must certify that the expenditure was incurred wholly and exclusively for official duties.
- **More than one car [Rule 15(3)(b)].** Where more than one car is provided for other than wholly official use, **one** car is valued under Sl. No. (1)(c)(i) — the fixed monthly figure — and **every other** car under Sl. No. (1)(b), that is, as if used wholly for personal purposes.
- **Conveyance from residence to office.** Use of the car for going from residence to the place of work and back is treated as **official** use, and is not taxable.
- **Pooled transport.** Where the employer provides a bus or other transport for a group of employees between residence and office, nothing is taxable.
- **Normal wear and tear [Rule 15(3)(d)]** is taken at 10% per annum of the actual cost of the car.

Illustration 4.2 — motor car

Shri Sanjay, a specified employee, is provided by his employer with a 1,800 cc car which the employer owns, used for both official and personal purposes. The employer meets all running and maintenance expenses of ₹1,60,000 during the year and also provides a driver at ₹15,000 per month. Shri Sanjay pays the employer ₹2,000 per month for the personal use.

Solution. The car exceeds 1.6 litres and the employer meets the expenses, so the value is ₹7,000 per month.

Car ₹7,000 × 12 = ₹84,000; Driver ₹3,000 × 12 = ₹36,000. **Taxable perquisite = ₹1,20,000**

The actual expenditure of ₹1,60,000 and the driver's actual salary of ₹1,80,000 are **irrelevant** — the Rule substitutes a fixed value. And the ₹24,000 recovered from the employee is **not** deducted, because the Rule provides for a reduction only in the wholly-personal-use case at Sl. No. (1)(b), not in the mixed-use case. Both points are examined every year.

Under the old figures this perquisite would have been ₹39,600; the Rules of 2026 have raised it to ₹1,20,000.

4.6 Domestic servants, and utilities [Rule 15(4)]

Perquisite	Value
Services of a **sweeper, gardener, watchman or personal attendant**	The total amount of salary paid or payable by the employer, or by any other person on his behalf, less any amount paid by the employee.
Supply of **gas, electric energy or water** for household consumption, **purchased from an outside agency**	The amount paid by the employer to that agency, less any amount paid by the employee.
The same, supplied **from resources owned by the employer**	The **manufacturing cost per unit** incurred by the employer, less any amount paid by the employee.

Perquisite	Value
Free or concessional **education** for a member of the employee's household — employer pays a third party	The expenditure incurred by the employer, less any amount paid or recovered from the employee.
Free or concessional education where the institution is **owned or maintained by the employer**, or where free education is provided in any other institution **by reason of the employment**	The cost of such education in a similar institution in or near the locality, less any amount recovered — **where the cost or value per child exceeds ₹3,000 per month**.
Free or concessional **transport** provided by an employer engaged in the business of carriage of passengers or goods	The value at which the benefit is offered to the public, less any amount recovered. Employees of **airlines and railways are excluded** from this charge.

The ₹3,000 education figure — read it carefully

- It applies to the **education perquisite**, where the employer runs the school or arranges the education. It is not the children education **allowance** of Rule 280(2), which is a different thing with a different limit (also ₹3,000, which is why students confuse them).
- There is **no limit on the number of children** for the perquisite. The allowance is capped at two children.
- It is a **threshold, not a slab**. Rule 15(4), Table III, Sl. No. 3(b) and (c) charge "cost of such education in a similar institution ... where the cost of such education or value of such benefit per child **exceeds ₹3,000 per month**". If the cost is ₹3,100 per month, the **whole** ₹3,100 is taxable — not ₹100. If it is ₹2,900, nothing at all is taxable. This is the single most-tested trap in the perquisite chapter.

4.7 Interest-free or concessional loans [Rule 15(5), Table IV, Sl. No. 1]

1. Take the **maximum outstanding monthly balance** — the aggregate outstanding balance on the last day of each month.
2. Apply the rate charged by the **State Bank of India as on the first day of the tax year** in respect of loans of the same type and for the same purpose advanced by it to the general public.
3. From the interest so computed, deduct the interest actually recovered from the employee. The balance is the perquisite.

No perquisite arises at all where —

- the amount of the loans does not exceed **₹2,00,000 in the aggregate** — raised from ₹20,000 by the Income-tax Rules, 2026; or
- the loan is made for medical treatment of a disease specified in Rule 18(3) — but this exemption does not apply to so much of the loan as has been **reimbursed** to the employee under a medical insurance scheme.

4.8 The remaining perquisites [Rule 15(5)]

Perquisite	Value and conditions
Holiday — travelling, touring, accommodation and other expenses	The amount incurred by the employer. Where the facility is maintained by him and is not available uniformly to all employees, the value at which such facilities are offered to the public. Where an official tour is **extended as a vacation**, only the expenses of the extended period are charged; where a family member accompanies the employee on tour, the expenditure on that member is an amenity. Less any amount recovered.
Free meals	The actual cost to the employer, less any amount recovered. **Not** taxable where the food and non-alcoholic beverages are provided during working hours at office or business premises, or through **paid vouchers not transferable and usable only at eating joints**, to the extent the value does not exceed **₹200 per meal** — raised from ₹50. Tea and snacks during working hours, and food in a remote area or an offshore

Perquisite	Value and conditions
	installation, are never taxable.
Gift, voucher or token	The value of the gift. The value is taken as **nil** where the aggregate value of such gifts during the tax year is **below ₹15,000** — raised from ₹5,000. Note the Rule's word is “below”, not “not exceeding”. A gift of **cash**, or convertible into money, is fully taxable whatever the amount.
Credit card — annual fee and expenditure met by the employer	The actual expenditure, less any amount recovered. **Not** taxable where the expenditure is wholly and exclusively for official purposes and the prescribed details are maintained.
Club expenditure, including membership and annual fees	The actual expenditure, less any amount recovered. The **initial fee** for a corporate membership obtained by the employer is excluded. Not taxable where the expenditure is wholly and exclusively for business purposes and the details are kept, or where health club and sports facilities are provided **uniformly to all employees**.
Use of a movable asset belonging to the employer	**10% per annum** of the actual cost, or the hire charges paid by the employer, less any amount recovered. **Laptops and computers are expressly excluded**, as are telephones and mobile phones.
Transfer of a movable asset to the employee	The actual cost to the employer, reduced by depreciation for each **completed year** of use, less the amount paid by the employee. Depreciation: **computers and electronic items 50% on the written down value; motor cars 20% on the written down value; any other asset 10% of actual cost on the straight line basis**.
Any **other** benefit, amenity, service, right or privilege	The cost to the employer, less any amount recovered. Telephone and mobile phone expenses, including a broadband connection, are expressly excluded.

Illustration 4.3 — transfer of movable assets

On 1 January 2027 an employer sold to its employee — (i) a laptop bought on 1 July 2024 for ₹80,000, sold for ₹6,000; (ii) a car bought on 1 August 2023 for ₹8,00,000, sold for ₹2,00,000; and (iii) a refrigerator bought on 1 May 2022 for ₹40,000, sold for ₹5,000.

(i) Laptop — 50% on the written down value; completed years of use = 2 (1.7.2024 to 30.6.2026). Cost ₹80,000; after year 1 ₹40,000; after year 2 ₹20,000. Less ₹6,000 paid → **₹14,000**

(ii) Car — 20% on the written down value; completed years = 3 (1.8.2023 to 31.7.2026). ₹8,00,000 → ₹6,40,000 → ₹5,12,000 → ₹4,09,600. Less ₹2,00,000 paid → **₹2,09,600**

(iii) Refrigerator — 10% of cost on the straight line basis; completed years = 4 (1.5.2022 to 30.4.2026). Depreciation ₹4,000 × 4 = ₹16,000; written down value ₹24,000. Less ₹5,000 paid → **₹19,000**

Total perquisite = ₹14,000 + ₹2,09,600 + ₹19,000 = ₹2,42,600

Count **completed** years only, from the date of purchase. A period of eleven months counts as nothing. And note that the laptop, exempt while merely **used**, becomes taxable when **transferred**.

4.9 Medical facilities [Section 17(2)]

Section 17(2) provides that nothing in section 17(1) shall apply to the following, which are therefore not perquisites at all:

- the value of any medical treatment provided to the employee or any member of his family in a hospital **maintained by the employer**;
- any sum paid by the employer for medical treatment of the employee or a family member in a hospital maintained by the Government or a local authority, or approved by the Government for the treatment of its own employees, or approved by the Principal Chief Commissioner or Chief Commissioner in respect of the **prescribed diseases** — cancer, tuberculosis, AIDS, and the other ailments listed in Rule 18(3);

- any portion of the **premium** paid by the employer to keep in force an insurance on the **health** of the employee under a scheme approved by the Central Government or the Insurance Regulatory and Development Authority;
- any sum paid by the employer in respect of a health insurance **premium paid by the employee** under such an approved scheme;
- expenditure incurred by the employer on **conveyance from residence to office** and back.

Medical treatment outside India. Expenditure incurred by the employer on medical treatment of the employee or a family member outside India, and on the travel and stay abroad of the patient and **one attendant**, is not a perquisite, subject to two conditions in section 17(3):

- the expenditure on **treatment and stay** abroad is excluded only to the extent permitted by the **Reserve Bank of India**;
- the expenditure on **travel** is excluded only where the employee's **gross total income**, computed before including that expenditure, does not exceed the prescribed amount.

The second prescribed limit that has changed

The gross total income limit for the **travel** exclusion stood at ₹2,00,000 for many years. **Rule 19 of the Income-tax Rules, 2026** now provides: "For the purposes of section 17(3)(b), the prescribed gross total income shall be **₹8,00,000**."

So the employee's gross total income (computed before including the travel expenditure) must not exceed ₹8,00,000 for the **travel** to escape tax. The treatment and stay abroad are not subject to this limit — only to the Reserve Bank's permission.

4.10 Leave travel concession [Schedule III, Sl. No. 8, with Rule 277]

- The exclusion covers the value of travel concession or assistance received from the employer for the employee and his **family**, for proceeding on leave to any place **in India**, or for proceeding to any place in India after retirement or after termination of service.
- It is available for **two journeys in a block of four calendar years**. The current block is **2026 to 2029**.
- Where the concession is not availed at all, or is availed for only one journey, in a block, **one** journey may be carried forward and taken in the **first calendar year** of the next block, over and above the two available in that block.
- The exclusion is limited to the actual expenditure on **fare only**. Nothing is allowed for local conveyance, sight-seeing, hotels or food. And in no case can it exceed the expenses actually incurred for the travel.
- **By air** — the fare admissible for the **class of travel to which the employee is entitled**, by the shortest route. (Until 31 March 2026 the cap was the economy class fare of the national carrier; the 2026 Rules replaced it with this entitlement-based test.) **By rail** — first class air-conditioned fare by the shortest route. Where the places are not connected by rail, the first class or deluxe class fare of a recognised public transport system, or the air-conditioned first class rail fare for the distance by the shortest route where no such system exists.
- **"Family"** means the spouse and children of the individual, and parents, brothers and sisters wholly or mainly dependent on him. The concession is restricted to **two surviving children** born on or after 1 October 1998; children born before that date, and multiple births after the first child, are not counted against the limit.
- **Denied in the default regime** by section 202(2)(a)(i).

4.11 Employer's contributions to retirement funds

These are dealt with fully in Chapter 7, but the perquisite rule may be stated here. Under section 17(1)(h) the employer's contribution is a taxable perquisite in the year of contribution to the extent that the **aggregate** of the contributions to —

- a recognised provident fund,

- the pension scheme referred to in section 124(1) (the National Pension System), and
- an approved superannuation fund

exceeds **₹7,50,000** in the tax year. In addition, under section 17(1)(i) the **annual accretion** — the interest, dividend or other amount of a similar nature accruing during the year on that excess — is itself a taxable perquisite, computed in the manner prescribed by Rule 16.

4.12 Sweat equity shares and stock options [Section 17(1)(d) and (4)]

- **What is taxed.** The value of any specified security or sweat equity share allotted or transferred, directly or indirectly, by the current or a former employer, free of cost or at a concessional rate.
- **When it is taxed.** In the tax year in which the shares are allotted or transferred, as salary. When the employee later sells them, the difference between the sale price and that fair market value is a **capital gain** — and the fair market value already taxed as salary becomes the cost of acquisition. The same gain is never taxed twice.
- **Eligible start-ups.** Where the employer is an eligible start-up, payment of the tax on this perquisite may be deferred, broadly to the earliest of five years from the end of the year of allotment, the date of sale of the shares, or the date on which the employee ceases to be an employee.

4.13 Tax-free perquisites — a consolidated list

- Medical facilities within the limits of paragraph 4.9, including the employer's own hospital, Government and approved hospitals, and health insurance premia.
- Refreshments, tea and snacks during working hours; free meals up to **₹200 per meal** at office premises or through non-transferable vouchers.
- Telephone, mobile phone and broadband expenses, including rental and call charges.
- **Laptops and computers provided for use** — their **transfer** to the employee is taxable.
- Employer's contribution to a recognised provident fund, an approved superannuation fund and the pension scheme, within the ₹7,50,000 aggregate of section 17(1)(h).
- Free education in an institution maintained by the employer, where the cost does not exceed ₹3,000 per month per child.
- Interest-free loans where the aggregate does not exceed ₹2,00,000, and loans for treatment of the diseases specified in Rule 18(3).
- Gifts in kind where the aggregate for the year is below ₹15,000.
- Recreational and sports facilities, and a health club, provided **uniformly to all employees**.
- Accommodation in a remote area.
- Conveyance from residence to office and back; and pooled transport for a group of employees.
- Periodicals and journals required for the discharge of duties.
- Rent-free official residence provided to a judge of the High Court or the Supreme Court, to an official of Parliament, to a Union Minister or to the Leader of the Opposition.
- Perquisites provided outside India by the Government to a citizen of India for services rendered outside India [Schedule III, Sl. No. 9].
- **Tax on a non-monetary perquisite paid by the employer at his own option** [Schedule III, Sl. No. 10].
- Employer's contribution to a group insurance, annuity, pension or deposit-linked insurance scheme.

Chapter 5

Profits in Lieu of Salary [Section 18]

Section 18 catches payments which are not salary in the ordinary sense but arise out of the employment. Section 16(f) then brings "profits in lieu of, or in addition to, any salary or wages" into salary, so that whatever section 18 catches is taxed under this head.

18(1) — what is included

1. the amount of any **compensation** due to, or received by, an assessee from his employer or former employer at or in connection with the **termination** of his employment, or the **modification** of the terms and conditions relating thereto;
2. any amount due to, or received, whether in lump sum or otherwise, by any assessee from any person — (i) **before** his joining any employment with that person; or (ii) **after cessation** of his employment with that person;
3. any payment due to or received by an assessee — (i) from an employer or former employer; or (ii) from a **provident or other fund**, to the extent to which it does not consist of contributions by the assessee or interest on such contributions; or (iii) any sum received under a **Keyman insurance policy**, including the sum allocated by way of bonus on such policy.

18(2) — what is taken out

The payments at clause (c) do **not** include any payment referred to in —

- **Schedule II, Sl. No. 3** — payments from a provident fund to which the Provident Funds Act, 1925 applies, or from any other provident fund set up and notified by the Central Government (the Public Provident Fund);
- **Schedule II, Sl. No. 4** — the accumulated balance due and becoming payable from a recognised provident fund;
- **Schedule II, Sl. No. 8** — payments from an approved superannuation fund;
- **Schedule III, Sl. No. 11** — house rent allowance.

The second clause is worth noticing

A **joining bonus** paid before the employment begins, and a payment made **after** the employment has ceased — a non-compete payment, an ex gratia from a former employer, a settlement on a wrongful-dismissal claim — are both expressly caught by section 18(1)(b). The 1961 Act reached the same result through section 17(3)(iii), but the 2025 Act states it more plainly and puts it second in the list.

Note the practical consequence: a payment from a **prospective** employer is not salary under section 15, but it **is** profits in lieu of salary under section 18, and so is chargeable under the head "Salaries" after all. Read paragraph 1.3 with this.

Where the section 19 deductions meet section 18

Retrenchment compensation and voluntary retirement compensation are profits in lieu of salary under section 18(1)(a). They therefore enter gross salary in full, and the relief comes as a **deduction** under section 19(1), Table, serial numbers 10 to 12. This is the clearest example of the new architecture: section 18 lets the money in, section 19 lets it out.

Chapter 6

Section 19 — The Fourteen Deductions from Salary

6.1 The architecture of section 19

Section 19(1) opens with words you should be able to quote:

Section 19(1)

"The income chargeable under the head 'Salaries' shall be computed after making the deductions in respect of sums of the nature mentioned in column B of the following Table, not exceeding the amount as mentioned in column C thereof."

Three things follow, and each of them decides how you write your answer.

1. **Everything in the Table is a deduction, not an exemption.** The sum comes in, and then goes out. Gratuity, commuted pension, leave encashment, retrenchment and voluntary retirement compensation are therefore part of **gross salary** at their full received amount.
2. **There is one Table and one place to look.** The 1961 Act put the standard deduction and professional tax in section 16 and the five terminal benefits in six clauses of section 10. The 2025 Act gathers all fourteen into a single Table, running from professional tax to leave encashment.
3. **Column C is a ceiling, not an amount.** The words are "**not exceeding** the amount as mentioned in column C". Where column C says "entire amount", the whole receipt is deducted. Where it prescribes a formula, the deduction is the lower of the receipt and the formula figure. You can never deduct more than you received.

The 1961 Act said	The 2025 Act says
Section 16(ia) — standard deduction	Section 19(1), Table, Sl. No. **2**
Section 16(ii) — entertainment allowance	**No counterpart. Abolished.**
Section 16(iii) — tax on employment	Section 19(1), Table, Sl. No. **1**
Section 10(10) — gratuity	Section 19(1), Table, Sl. Nos. **3, 4, 5, 6**
Section 10(10A) — commuted pension	Section 19(1), Table, Sl. Nos. **7, 8, 9**
Section 10(10AA) — leave encashment	Section 19(1), Table, Sl. Nos. **13, 14**
Section 10(10B) — retrenchment compensation	Section 19(1), Table, Sl. Nos. **10, 11**
Section 10(10C) — voluntary retirement	Section 19(1), Table, Sl. No. **12**

6.2 The Table, complete

Learn this page. It is the whole of section 19(1), abridged only in the descriptive words of column B.

Sl.	Nature of sum	Amount of deduction
1	Sum paid by the assessee as a **tax on employment** under article 276(2) of the Constitution	Entire amount
2	**Standard deduction**	(a) **₹75,000** or the salary, whichever is less, where income-tax is computed under **section 202(1)**; (b) **₹50,000** or the salary, whichever is less, in any other case
3	**Death-cum-retirement gratuity** as referred to in section 19(2)(g) — Central Government revised pension rules or CCS (Pension) Rules 2021, and similar schemes for civil services of the Union or a State, all-India services, and employees of a local	Entire amount

Sl.	Nature of sum	Amount of deduction
	authority	
4	**Retiring gratuity** received under the Pension Code or Regulations applicable to members of the **defence services**	Entire amount
5	Gratuity received under the **Payment of Gratuity Act, 1972**	Amount received, restricted to the amount calculated under section 4(2) and (3) of that Act
6	**Any other gratuity** received on retirement, on becoming incapacitated before retirement, or on termination of employment	Minimum of — (a) actual gratuity received; (b) the amount notified by the Central Government having regard to the limit for Central Government employees; and (c) **half a month's salary for each completed year of service**, being (A ÷ 2) × B, where A = average salary for the ten months immediately preceding the month in which the event occurs and B = the number of completed years
7	**Commutation of pension** received under the Civil Pensions (Commutation) Rules of the Central Government, or a similar scheme applicable to members of the civil services of the Union, holders of civil posts under the Union or connected with defence, all-India services, defence services, civil services of a State or holders of civil posts under a State, **or employees of a local authority or a corporation established by a Central, State or Provincial Act**	Entire amount
8	**Commutation of pension** received under any scheme from **any other employer**	The commuted value determined having regard to age, health, the rate of interest and officially recognised tables of mortality, and — (a) where the employee **has received gratuity**, the commuted value of **one-third** of the pension he is normally entitled to receive; and (b) in any other case, the commuted value of **one-half** of such pension
9	Commutation of pension received from a fund specified in Schedule VII, Table, Sl. No. 3 (the LIC and other approved pension funds)	Entire amount
10	**Retrenchment compensation** received by a workman under the Industrial Disputes Act, 1947, or under any other Act, rules, orders, notifications, standing orders, award, contract of service or otherwise	Minimum of — (a) compensation received; (b) the amount calculated under section 25F(b) of the Industrial Disputes Act, 1947; and (c) such amount, **not being less than ₹50,000**, as may be notified by the Central Government
11	Compensation at Sl. No. 10 received in accordance with a **scheme approved by the Central Government**, having regard to the need for special protection of the workmen and other relevant circumstances	Compensation received (the whole of it)
12	Amount received or receivable on **voluntary retirement or termination of service** under a scheme of voluntary retirement, by an employee of the bodies listed in section 19(2)(h)	Minimum of — (a) compensation received; and (b) **₹5,00,000**
13	**Cash equivalent of leave salary** in respect of earned leave at credit at the time of retirement, whether on superannuation or otherwise, received by an employee of the **Central Government or a State Government**	Entire amount
14	A payment of the same nature received by an employee **who is not** a Central or State	Minimum of — (a) the cash equivalent of the leave salary in respect of earned leave at credit at retirement, **the entitlement**

Sl.	Nature of sum	Amount of deduction
	Government employee	**of earned leave not to exceed thirty days for every year of actual service**; (b) **10 × B**, where B = average monthly salary for the ten months immediately preceding retirement; (c) the amount notified by the Central Government; and (d) the actual payment received

The notified amounts at Sl. Nos. 6, 10 and 14

Three entries in column C leave the figure to a notification of the Central Government. The amounts in force are —

- Sl. No. 6, **other gratuity — ₹20,00,000**
- Sl. No. 10, **retrenchment compensation — ₹5,00,000** (the Act's own floor is ₹50,000)
- Sl. No. 14, **leave encashment — ₹25,00,000**

Quote them as "the amount notified by the Central Government, at present ₹20,00,000" and so on. That is the accurate form, and it is what the Act itself contemplates. A figure written flatly into the answer without that qualification is not wrong, but the qualified form shows you have read the section.

6.3 Serial number 1 — tax on employment

- The **whole amount** paid, with no ceiling, levied by or under any State law under article 276(2) of the Constitution.
- Deductible in the year of **payment**, not the year of levy.
- Where the **employer** pays it on the employee's behalf, it is first a perquisite under section 17(1)(f) — an obligation of the employee met by the employer — added to gross salary, and then deducted under this entry. The two entries cancel, but both must be shown.
- **This is the only entry of the whole Table that the default regime withdraws.** Section 202(2)(a)(iv) denies "section 19(1) (Table: Sl. No. 1)", and nothing else in section 19.

6.4 Serial number 2 — standard deduction

Regime	Deduction
Income-tax computed under **section 202(1)** — the **default** regime	**₹75,000**, or the salary, whichever is less
Any other case — the optional regime, entered by exercising the option under section 202(4)	**₹50,000**, or the salary, whichever is less

Two points that are new this year

- **The figure is in the Act, not in the Finance Act.** Section 19(1), Table, Sl. No. 2(a) itself keys ₹75,000 to "where income-tax is computed under section 202(1)". Under the 1961 Act the higher standard deduction depended on a proviso to section 16(ia) inserted by a Finance Act. It is now structural.
- **The floor has grown.** The deduction is "₹75,000 **or the salary**, whichever is less". Because gratuity, commuted pension and leave encashment now sit inside salary, a retiree whose only receipt in the year is a terminal benefit has a salary figure large enough to absorb the whole ₹75,000. Under the 1961 Act an exempt receipt gave him no base at all, and the standard deduction was limited to whatever small salary he had drawn before retiring. This is a real, if quiet, gain.

6.5 Serial numbers 3 to 6 — gratuity

Gratuity is a lump sum paid by an employer in recognition of long service, normally on retirement, resignation, death or disablement. Section 16(c) puts the **whole** of it into salary. Serial numbers 3 to 6 then give the deduction, and which serial number applies depends on who the employer is and which statute governs the payment.

Category of employee	Serial No.	Deduction
Government — Central, State, all-India services, holders of civil posts under the Union or a State, or an employee of a **local authority** [section 19(2)(g)]	3	**Entire amount**, whatever it may be. The notified ceiling does not apply.
Member of the **defence services**, under the Pension Code or Regulations	4	**Entire amount**
Non-Government employee **covered by** the Payment of Gratuity Act, 1972	5	The amount received, restricted to the amount under section 4(2) and (3) of that Act — that is, **15 ÷ 26 × last drawn wages × completed years of service**, any part of a year **in excess of six months** counting as a full year; and, by section 4(3), not exceeding the notified ceiling of **₹20,00,000**. "Wages" there means last drawn basic **plus the whole** dearness allowance.
Any **other** non-Government employee	6	Minimum of — (a) actual gratuity received; (b) the notified amount, at present **₹20,00,000**; and (c) **½ × average salary of the last ten months × completed years of service**, any fraction of a year being **ignored**. "Salary" means basic + DA if the terms so provide.

Four points that are always tested

- **Six months up, or ignore?** Under Sl. No. 5 (Payment of Gratuity Act) a part of a year **exceeding six months** is rounded up to a full year. Under Sl. No. 6 every fraction is **ignored**. 24 years 8 months is 25 years in the first case and 24 in the second.
- **Which dearness allowance?** Under Sl. No. 5 the whole DA is taken, because "wages" is so defined in the Payment of Gratuity Act. Under Sl. No. 6 only the DA that enters into retirement benefits is taken, because section 19(2)(b) says "'Salary' includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites".
- **Last drawn, or ten-month average?** Sl. No. 5 uses **last drawn** wages. Sl. No. 6 uses the **average salary of the ten months immediately preceding the month** in which the event occurs.
- **Gratuity received during service** is not within any of these entries. It is fully taxable, with relief under section 157 if applicable.

Illustration 6.1 — gratuity

Shri Prakash retired from a private company on 31 December 2026 after 24 years and 8 months of service. Basic salary ₹70,000 per month; dearness allowance ₹20,000 per month, 50% of which entered into retirement benefits. He received gratuity of ₹18,00,000. Compute the deduction if (a) he is covered by the Payment of Gratuity Act, 1972 and (b) he is not.

(a) Covered — serial number 5. Completed years = 24 years 8 months → **25** (the part exceeds six months). Wages = last drawn basic ₹70,000 + **full** DA ₹20,000 = ₹90,000. 15 ÷ 26 × ₹90,000 × 25 = ₹12,98,077.

Deduction is the amount received restricted to that figure, and to the ₹20,00,000 ceiling of section 4(3). **Deduction ₹12,98,077; taxable ₹18,00,000 – ₹12,98,077 = ₹5,01,923**

(b) Not covered — serial number 6. Completed years = **24** (the 8 months are ignored). Average salary of the last ten months = basic ₹70,000 + DA in terms ₹10,000 = ₹80,000. ½ × ₹80,000 × 24 = ₹9,60,000.

Minimum of ₹20,00,000, ₹9,60,000 and ₹18,00,000 → **Deduction ₹9,60,000; taxable ₹8,40,000**

Two identical employees, ₹3,38,077 apart in taxable income, purely because of which statute covers them. Always look for the words "covered by the Payment of Gratuity Act" in the question — and remember that in **both** cases the whole ₹18,00,000 goes into gross salary first.

6.6 Serial numbers 7 to 9 — pension

Kind of pension	Treatment
UNCOMMUTED pension — the monthly pension received periodically	**Fully taxable** as salary, for every employee, Government or not. There is no entry in the Table for it.
COMMUTED pension — Government employee, member of an all-India or defence service, holder of a civil post, **or an employee of a local authority or a corporation established by a Central, State or Provincial Act**	**Sl. No. 7 — entire amount deductible**, whether or not he also receives gratuity.
COMMUTED pension — any other employee	**Sl. No. 8** — where he **has received gratuity**, the commuted value of **one-third** of the pension he is normally entitled to receive; in any other case, the commuted value of **one-half**.
Commutation received from an **approved pension fund** (Schedule VII, Table, Sl. No. 3 — the LIC pension fund and the like)	**Sl. No. 9 — entire amount deductible**.
FAMILY pension received by the widow or heirs of a deceased employee	Not salary at all. Taxable as **income from other sources**, with the one-third standard deduction subject to the prescribed ceiling. Family pension received by the family of a member of the armed forces who died in the circumstances prescribed by Rule 281 is wholly excluded [Schedule III, Sl. Nos. 15 and 16].

Note who is in serial number 7

Serial number 7(b)(v) extends the full deduction to "the employees of a **local authority or a corporation established by a Central Act or State Act or Provincial Act**". So an officer of the Life Insurance Corporation, the Reserve Bank, a nationalised bank or a municipal corporation gets his **commuted pension** wholly deducted, like a Government servant. He does **not** get the same treatment for leave encashment — serial number 13 is confined to Central and State Government employees. Keep the two apart.

Illustration 6.2 — commuted pension

Shri Ravi retired from a private company. His pension was fixed at ₹30,000 per month. On 1 October 2026 he commuted 60% of his pension and received ₹9,00,000. He also received gratuity. Compute his taxable pension for Tax Year 2026-27.

Uncommuted. April to September (6 months) at ₹30,000 = ₹1,80,000. October to March (6 months) at 40% of ₹30,000 = ₹12,000 × 6 = ₹72,000. **Total ₹2,52,000 — fully taxable.**

Commuted. 60% was commuted for ₹9,00,000, so the **full value** of the pension = ₹9,00,000 × 100 ÷ 60 = ₹15,00,000. He received gratuity, so serial number 8(a) gives the commuted value of **one-third** = ₹5,00,000.

Deduction ₹5,00,000. Taxable commuted pension = ₹9,00,000 – ₹5,00,000 = ₹4,00,000

Total pension taxable = ₹2,52,000 + ₹4,00,000 = ₹6,52,000

The commonest error is to take one-third of the ₹9,00,000 received instead of one-third of the **full value** of ₹15,00,000. Always gross up first. And remember that the whole ₹9,00,000 goes into gross salary before the ₹5,00,000 comes out.

6.7 Serial numbers 13 and 14 — leave encashment

When received	Treatment
During service	**Fully taxable** for every employee, Government or not. No entry in the Table covers it. Relief under section 157 may be claimed.
On **retirement** — Central or State	**Sl. No. 13 — entire amount deductible.** No formula, no ceiling, no

When received	Treatment
Government employee	computation of average salary or of days at credit.
On **retirement** — any other employee, including an employee of a local authority or statutory corporation	**Sl. No. 14** — minimum of the four limbs below.

The four limbs of serial number 14 — write all four and then take the least:

	Limb	Note
(a)	The cash equivalent of the leave salary in respect of the period of earned leave at credit at the time of retirement	**The entitlement of earned leave shall not exceed thirty days for every year of actual service.** So compute days at credit, cap them at 30 × years of actual service, and value the capped figure at the average monthly salary.
(b)	**10 × B**, where B = average monthly salary for the ten months immediately preceding retirement	Ten months' average salary — a flat cap.
(c)	The amount notified by the Central Government	At present **₹25,00,000**.
(d)	The actual payment received	You can never deduct more than you got.

"Salary" for limbs (a) and (b) is Meaning 2 — basic + DA if the terms so provide + commission at a fixed percentage of turnover — averaged over the ten months immediately preceding retirement [section 19(2)(b)].

6.8 The aggregate ceilings

Two entries carry a lifetime, all-employers ceiling. The drafting is identical in each case:

Section 19(2)(a) — gratuity at Sl. No. 6; section 19(2)(f) — leave encashment at Sl. No. 14

"…the aggregate amount of deduction shall not exceed **A – B**, where A = the limit specified by the Central Government, by notification; and B = the aggregate amount which was received in any one or more earlier tax years and allowed **as an exemption or a deduction** (whether whole or part) from the total income of any such tax year or years."

- **The double expression is deliberate.** "As an exemption **or** a deduction" bridges the 1961 Act with the 2025 Act. An employee who took a gratuity in Tax Year 2024-25 and had it **exempted** under section 10(10), and who takes a second gratuity now, must subtract the earlier exempted amount from the ₹20,00,000 ceiling before claiming a **deduction** under section 19. Service that straddles 31 March 2026 is caught, and this is the provision that catches it.
- **The ceiling is a lifetime one, not per employer, and not per year.** Where gratuity is received from more than one employer in the same year, or in different years, the total over the whole working life cannot exceed the notified amount.

A drafting point worth a mark

Section 19(2)(a) is expressed to apply "in respect of the entries against **serial number 6**". It does **not** in terms extend to serial number 5 — gratuity under the Payment of Gratuity Act. Under the 1961 Act the second proviso to section 10(10)(ii) carried its own aggregate cap for such gratuity.

In practice the point is largely academic, because section 4(3) of the Payment of Gratuity Act carries its own ceiling of ₹20,00,000 and serial number 5 incorporates it. But if a question asks you to comment on the aggregation rules, say that the express cross-year aggregation in section 19(2)(a) is confined to serial number 6, and that for serial number 5 the limit operates through the Payment of Gratuity Act itself. That is the accurate answer.

6.9 Entertainment allowance — what happened to it

There is no deduction for entertainment allowance under the Income-tax Act, 2025

Section 16(ii) of the 1961 Act allowed a **Government** employee to deduct the least of ₹5,000, one-fifth of basic salary, and the entertainment allowance actually received. Look for its counterpart in the Table at paragraph 6.2 and you will not find one. Serial number 1 is professional tax and serial number 2 is the standard deduction; serial numbers 3 to 14 are terminal benefits. There is nothing in between.

Therefore: entertainment allowance is added to gross salary in full, and nothing comes off — for every employee, in both regimes.

A word on how to put it. Avoid writing that "the deduction is not available under the default regime", because that formulation implies it is available under the optional regime. Write instead that the Income-tax Act, 2025 provides no deduction for entertainment allowance at all, so that no question of regime arises.

6.10 A summary of section 19

Sl.	Deduction	Default regime [s. 202(1)]	Optional regime [s. 202(4)]
1	Tax on employment (professional tax)	**NOT ALLOWED** [s. 202(2)(a)(iv)]	Allowed in full
2	Standard deduction	**₹75,000**	₹50,000
3–4	Gratuity — Government and defence services	Allowed in full	Allowed in full
5–6	Gratuity — Payment of Gratuity Act, and any other	Allowed	Allowed
7–9	Commuted pension — Government, others, approved funds	Allowed	Allowed
10–11	Retrenchment compensation	Allowed	Allowed
12	Voluntary retirement compensation	Allowed	Allowed
13–14	Leave encashment — Government and others	Allowed	Allowed
—	**Entertainment allowance**	**Does not exist**	**Does not exist**

The sentence to remember

Of the fourteen deductions in section 19, the default regime withdraws exactly one — serial number 1, professional tax — and raises the standard deduction from ₹50,000 to ₹75,000. Serial numbers 3 to 14 are untouched. Every gratuity, every commuted pension, every leave encashment, every retrenchment and voluntary retirement payment is deducted in full in the default regime, on the same formulae, as it is in the optional one.

What the default regime really takes away from a salaried person lies in **Schedule III** — house rent allowance, leave travel concession, the special allowances — and in **Chapter VIII**, the old sections 80C to 80U. Not in section 19.

Chapter 7

Provident Funds and Retirement Savings

Provident funds are not a section 19 subject. They are dealt with by section 17 (the perquisite on excess contributions), section 16(i) and (j) with **Schedule XI** (the annual accretion and the transferred balance), **Schedule II** (the exclusion of the accumulated balance), section 123 (the deduction for the employee's own contribution) and section 191 (the tax on an accumulated balance that is not excluded). This chapter puts them in one place.

7.1 The four funds compared

This table is the whole of provident fund taxation on one page. The rows are the four occasions on which tax can arise.

	Statutory PF	Recognised PF	Unrecognised PF	Public PF
Employer's contribution	Exempt	Not charged at the time of contribution. Taxable only to the extent that the aggregate of contributions to RPF, superannuation and the section 124 scheme exceeds ₹7,50,000 [s. 17(1)(h)]; the annual accretion on that excess is a further perquisite [s. 17(1)(i)]	Exempt at the time of contribution; **taxed at withdrawal** as salary	Not applicable — there is no employer
Employee's own contribution	Deduction under section 123	Deduction under section 123	**No deduction**	Deduction under section 123
Interest credited	Exempt	Exempt up to the **notified rate of 9.5%** per annum; the excess is taxable as salary [Schedule XI, Part A, para. 6]. Interest on the employee's own contribution above **₹2,50,000** in a year (**₹5,00,000** where the employer makes no contribution) is taxable	Exempt at the time of credit; at withdrawal, interest on the **employer's** contribution is taxable as **salary** and interest on the **employee's own** contribution as **income from other sources**	Exempt
Amount received on retirement	**Fully excluded** [Schedule II, Sl. No. 3]	Excluded if the employee has rendered **continuous service of five years or more**, or if service was terminated by ill health, by the contraction or closure of the employer's business, or for any other cause beyond his control; or if the balance is transferred to another recognised fund or to the section 124 pension scheme [Schedule XI, Part A, para. 8]	Employer's contribution and interest on it — **salary**; employee's own contribution — not taxable; interest on it — **other sources**	**Fully excluded** [Schedule II, Sl. No. 3]

Three practical points on the five-year rule

- The period is one of **continuous** service. Where an employee moves to a new employer and the balance is transferred to the new employer's recognised fund, paragraph 8(2) of Part A of Schedule XI provides that the earlier period **counts**; the clock does not restart.
- Where the balance is **not** excluded, section 191 taxes it as if the fund had never been recognised — the employer's contributions and the interest on them are brought to tax as salary of the years in which they arose, and the tax is recomputed.
- Transfer of the whole balance to a **notified pension scheme under section 124** is expressly protected by paragraph 8(1)(d), whatever the length of service.

7.2 The ceiling on employer contributions

	The ₹7,50,000 test — the ceiling on the employer's side
Where it is	Section 17(1)(h), with the accretion in section 17(1)(i)
What is tested	The **aggregate** of **three** contributions — recognised provident fund + approved superannuation fund + the section 124(1) pension scheme
Against what	A **rupee ceiling** — ₹7,50,000 in the tax year
Charged as	A **perquisite**, under section 17(1)(h) — plus the annual accretion on the excess under section 17(1)(i), computed under Rule 16

The ceiling is a rupee figure and not a percentage, so the three meanings of "salary" in paragraph 2.3 do not come into it. Salary governs the size of the contributions themselves, where the employer's obligation is expressed as a percentage of it, and nothing else. **The charge falls on every employee, specified or not, and under both regimes** — section 202 withdraws deductions, not charges. Problem 6 in Chapter 10 works it.

Three provisions, three different bases

They are not alternatives to one another, and more than one may bite in the same year. **The employer's contribution** is not charged when it is made; it becomes a perquisite under section 17(1)(h) only where it, together with the contributions to an approved superannuation fund and to the section 124(1) pension scheme, exceeds ₹7,50,000 in the tax year, and the annual accretion on that excess is a further perquisite under section 17(1)(i). **The interest credited** on the fund balance above the notified rate of 9.5% per annum is deemed to be received under paragraph 6 of Part A of Schedule XI and enters salary through section 16(i). **The employee's own contribution** is not income at all, and attracts a deduction under section 123 in the optional regime. An answer that works all three is complete; an answer that treats them as one provision is not.

7.3 The National Pension System [section 124]

- The employer's contribution to the pension scheme referred to in section 124 is **included in salary** by section 16(k).
- **Section 124(2)** then gives the employee a deduction of that contribution, up to **14% of salary** where the employer is the Central Government or a State Government, and up to the prescribed percentage in other cases.
- **This deduction survives in the default regime.** Section 202(2)(a)(xii) denies Chapter VIII "other than the provisions of sections 124(1) and 124(2), or 125(2) or 146". It is the one retirement saving for which an employee in the default regime is still rewarded, and it is worth pointing out in any advisory answer.
- The employee's **own** contribution attracts a deduction under section 124(1), which also survives; the additional deduction available to some assessees does not.
- A **partial withdrawal** from the National Pension System Trust is excluded from total income by Schedule III, Sl. No. 4, subject to the PFRDA conditions and to a limit of 25% of the employee's own contributions.

7.4 The Agnipath Scheme [section 125]

- The contribution made by the Central Government to the **Agniveer Corpus Fund** account of an individual enrolled in the Agnipath Scheme is included in salary by section 16(l).
- **Section 125(2)** allows a matching deduction of the whole of that contribution, and **it too survives the default regime** by the express words of section 202(2)(a)(xii).
- The amount received by the Agniveer or his nominee from the Agniveer Corpus Fund is excluded from total income under Schedule II.

Chapter 8

The Salaried Employee under the Default Regime [Section 202]

The default regime is now the norm. Its arithmetic is simple, but its effect on a salary computation is drastic, and every practical question will ask you to work under it or to compare the two. This chapter states exactly what survives and what does not.

8.1 The rates

Section 202(1) provides that the income-tax payable by an individual, a Hindu undivided family, an association of persons other than a co-operative society, a body of individuals, or an artificial juridical person **shall, unless the person exercises the option under sub-section (4), be computed** at the following rates:

Sl.	Total income	Rate of tax
1	Up to ₹4,00,000	Nil
2	From ₹4,00,001 to ₹8,00,000	5%
3	From ₹8,00,001 to ₹12,00,000	10%
4	From ₹12,00,001 to ₹16,00,000	15%
5	From ₹16,00,001 to ₹20,00,000	20%
6	From ₹20,00,001 to ₹24,00,000	25%
7	Above ₹24,00,000	30%

Against these, the **optional** regime — reached by exercising the option under section 202(4) — carries the rates in Paragraph A of Part I-B of the First Schedule to the Finance Act, 2026: **nil up to ₹2,50,000; 5% to ₹5,00,000; 20% to ₹10,00,000; 30% above ₹10,00,000**, with the basic exemption raised to ₹3,00,000 for a resident aged sixty or more and ₹5,00,000 for a resident aged eighty or more. **There is no higher basic exemption for age in the default regime** — the ₹4,00,000 applies to everyone. Health and education cess at 4% is added in both.

8.2 What survives and what is lost

SURVIVES under section 202	LOST under section 202
Standard deduction of ₹75,000 [s. 19(1), Table, Sl. No. 2(a)]	**House rent allowance** exemption [Sch. III, Sl. No. 11]
The whole of section 19 except serial number 1 — gratuity, commuted pension, leave encashment, retrenchment and voluntary retirement compensation, all on the same formulae as in the optional regime	**Leave travel concession** [Sch. III, Sl. No. 8]
Four allowances only, exempt to the extent spent — travel on tour or transfer; packing and transportation of personal effects on transfer; daily allowance; conveyance allowance [Rule 280(1)(a) to (d)]	**Children education and hostel** allowances, and every other entry of the Rule 280(2) table except Sl. No. 10
Transport allowance to a blind, deaf and dumb, or orthopaedically handicapped employee — ₹15,000 + DA per month in a metro city, ₹8,000 + DA elsewhere [Rule 280(2), Sl. No. 10]	**Helper** allowance, **academic and research** allowance and **uniform** allowance [Rule 280(1)(e) to (g)] — though they are allowances to meet the duties of the office
Payments from provident funds and approved superannuation funds under **Schedule II**	**Professional tax** deduction [s. 19(1), Table, Sl. No. 1]

SURVIVES under section 202	LOST under section 202
Employer's contribution to the **National Pension System** under section 124(2), up to 14% of salary — and the employee's own under 124(1)	Deduction under **section 123** (the old 80C) — life insurance premium, provident fund, tuition fees, principal repayment of a housing loan
Employer's contribution to the **Agniveer Corpus Fund**, with the deduction under section 125(2)	Deduction under **section 126** (the old 80D) for health insurance premium
Deduction under section 146 (the old 80JJAA) for additional employee cost	Deduction under **section 129** (the old 80E) for interest on an education loan, and sections 130 to 132 for housing and vehicle loan interest
Rebate under section 156(2) — up to ₹60,000 where total income does not exceed ₹12,00,000, with marginal relief above it	Deduction under **section 133** (the old 80G) for donations and **section 134** (the old 80GG) for rent paid
Interest on a **let-out** house property, within the limits of section 22	Deduction under **section 153** (the old 80TTA and 80TTB) for interest on deposits
The exemptions of section 11 with Schedules II to VII, **except** those specified in section 202(2)(a)(i) and (ii)	Interest on a **self-occupied** house property — nil deduction; and a loss under the head house property cannot be set off against salary [s. 202(2)(b)(ii)]
—	MP and MLA daily and constituency allowances [Sch. III, Sl. Nos. 5 to 7], and the minor's income exclusion [Sl. No. 17]

Two rows that do not belong in this table

Do not carry a row reading “Entertainment allowance deduction [section 19]” in the LOST column. Under the 2025 Act the deduction does not exist at all, so it cannot be lost in one regime and kept in the other. There is no such row here.

And do not head serial numbers 3 to 14 of section 19 as “the exemptions of section 19”. They are deductions. The distinction is set out in Chapter 6, and it changes the shape of the computation.

8.3 How the option works [section 202(4)]

The employee	How and when the option is exercised
A person with **no** income from business or profession — the ordinary salaried employee	**Along with the return of income** furnished under section 263(1) for the tax year. He may therefore choose **afresh every year**, and may switch back and forth without limit, provided each return is filed within the due date.
A person **with** income from business or profession	On or before the due date for furnishing the return. Once exercised the option **applies to subsequent tax years**; it may be **withdrawn only once**; and after withdrawal the person may **never** exercise it again — unless he ceases altogether to have income from business or profession, in which case the annual choice becomes available to him.

The default regime applies **automatically**. An employee who does nothing is in it. It is opting **out** that requires an act.

8.4 The rebate under section 156 and marginal relief

	Optional regime — section 156(1)	Default regime — section 156(2)
Who	A resident **individual**	A resident **individual** whose income is chargeable under section 202(1)

	Optional regime — section 156(1)	Default regime — section 156(2)
Threshold	Total income does not exceed **₹5,00,000**	Total income does not exceed **₹12,00,000**
Rebate	100% of the income-tax payable, or **₹12,500**, whichever is less	100% of the income-tax payable, or **₹60,000**, whichever is less
Above the threshold	Nothing	**Marginal relief** — section 156(2)(b)

Marginal relief — the provision most candidates miss

Section 156(2)(b) provides that where the total income **exceeds** ₹12,00,000 and the income-tax payable on it **exceeds the amount by which the total income exceeds ₹12,00,000**, the rebate shall be "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".

In plainer words: **tax payable is capped at the excess of income over ₹12,00,000.**

Worked in one line. Total income ₹12,62,500. Tax ₹69,375. Excess over ₹12,00,000 = ₹62,500. Since ₹69,375 > ₹62,500, the rebate is ₹69,375 – ₹62,500 = **₹6,875**, and tax after rebate is **₹62,500**.

Whenever a total income under the default regime comes out a little above ₹12,00,000, **stop and test for marginal relief**. Section 156(3) caps the whole deduction at the tax payable under the section 202(1) rates.

The practical result for most salaried people

Because the slabs under section 202 are much wider and the standard deduction higher, a salaried employee with ordinary savings is now usually better off under the default regime. The optional regime tends to win only where the house rent allowance exemption is large — a high rent in one of the eight cities — or where the full ₹1,50,000 under section 123 and ₹25,000 under section 126, or a self-occupied house-property interest deduction, are all being used.

Eight of the twelve problems in Chapter 10 are carried through to a tax figure under both regimes. The default regime wins in seven of them; in the one where the optional regime wins, the whole margin comes from a very large house rent allowance exemption. That ratio is about right for the population at large.

Chapter 9

Relief where Salary is Received in Arrears or in Advance [Section 157 and Rule 73]

Salary is taxed on the due basis or the receipt basis, whichever is earlier. So arrears of several years received in one lump sum are taxed in the single year of receipt, which may push the employee into a higher slab through no fault of his own. Section 157 — the old section 89 — undoes that unfairness.

9.1 When it applies

Section 157(1) applies where the total income is assessed at a rate **higher** than the rate at which it would otherwise have been assessed, because of —

- a sum in the nature of **arrear or advance salary**;
- **salary for more than twelve months** in any one tax year;
- a payment in the nature of **profits in lieu of salary** under section 18(1);
- **arrears of family pension** as defined in section 93(1)(d).

The Assessing Officer shall, **on an application made by the assessee**, grant such relief as may be prescribed.

9.2 The five steps

1. Compute the tax payable on the total income of the year of **RECEIPT, INCLUDING** the arrears.
2. Compute the tax payable on the total income of that year, **EXCLUDING** the arrears.
3. Find the difference — Step 1 minus Step 2. This is the additional tax caused by the arrears in the year of receipt.
4. Go back to the years to which the arrears actually relate. Compute the tax of each of those years, first excluding and then including the portion of the arrears relating to it, and **total the differences**.
5. **Step 3 minus Step 4 is the RELIEF.** Where Step 4 is greater than Step 3, no relief is due.

9.3 Six points of practice

- **The claim must be made in FORM NO. 39** [Rule 73(3)], on or before the due date for furnishing the return under section 263(1)(c). A claim not made in the form is disallowed at the processing stage — a very common cause of demands. Rule 73(4) also allows a Government servant, or an employee of a company, co-operative society, local authority, university or other body, to give the same particulars to the employer under section 392(1) instead.
- **Section 157(2) is a bar.** No relief shall be granted on any income for which a deduction has been claimed under section 19(1), Table, **serial number 12** — voluntary retirement compensation — for that or any other tax year. And section 19(2)(e)(iii) states the converse. The two reliefs are mutually exclusive; compute both and take the greater.
- **Use the rates of each year as they stood.** Where an earlier year fell under the Income-tax Act, 1961, that Act's own rates must be applied to it. Do not project the 2025 Act backwards.
- **Test the rebate in every year.** Under the default regime the ₹60,000 rebate of section 156(2) can make Step 2 nil, which makes Step 3 very large. That is where the relief usually comes from.
- **The relief is deducted from the tax payable**, after the rebate under section 156 and before the health and education cess.
- Relief is available to a **family pensioner** on arrears of family pension, even though family pension is not salary. Section 157(1)(d) says so expressly — a small extension over the old law's practice.

Chapter 10

The Computation, and Twelve Practical Problems

10.1 The format — write it in this order, every time

This format follows the Income-tax Act, 2025. The important point is that the terminal benefits appear twice — once at their full amount inside gross salary, and once as deductions below it. Do not net them off in your head.

PART I — GROSS SALARY

	Particulars	₹	₹
1	Basic salary		xxx
2	Dearness allowance (whether or not entering into retirement benefits)		xxx
3	Bonus, commission, fees		xxx
4	Advance salary; arrears of salary; salary in lieu of notice		xxx
	TERMINAL RECEIPTS — enter at the FULL amount received		
5	Gratuity received		xxx
6	Pension — uncommuted (the monthly pension actually drawn)		xxx
7	Commuted pension received		xxx
8	Leave encashment received		xxx
9	Retrenchment compensation received		xxx
10	Voluntary retirement compensation received		xxx
	ALLOWANCES — net of the Schedule III exemption		
11	House rent allowance received, less exempt [Sch. III Sl. 11, Rule 279]	xxx (xxx)	xxx
12	Children education and hostel allowances, less exempt [Rule 280(2)]	xxx (xxx)	xxx
13	Allowances to meet the duties of the office, less amount spent [Rule 280(1)]	xxx (xxx)	xxx
14	Fully taxable allowances — city compensatory, medical, servant, tiffin, overtime, and **entertainment allowance**		xxx
	PERQUISITES [section 17, Rule 15]		
15	Rent-free or concessional accommodation [Rule 15(2)]		xxx
16	Motor car [Rule 15(3)]		xxx
17	Servants, gas, electricity, water, education, transport [Rule 15(4)] — specified employees only		xxx
18	Loans, holidays, meals, gifts, credit card, club, use and transfer of movable assets [Rule 15(5)]		xxx
19	Sweat equity shares and specified securities [section 17(1)(d)]		xxx
20	Employer's contributions above ₹7,50,000, and the annual accretion [s. 17(1)(h), (i)]		xxx
21	Interest credited on the provident fund balance above the notified rate of 9.5% [Sch. XI, Part A, para. 6]		xxx
22	Employer's contribution to the National Pension System [s. 16(k)]		xxx

	Particulars	₹	₹
23	An obligation of the employee met by the employer, including professional tax paid by him [s. 17(1)(f)]		xxx
24	Profits in lieu of salary not already shown above [section 18]		xxx
	GROSS SALARY		**XXX**

PART II — LESS: DEDUCTIONS UNDER SECTION 19

Sl. in s. 19	Particulars	Default regime [s. 202(1)]	Optional regime [s. 202(4)]
3 to 6	Gratuity — Government, defence, Payment of Gratuity Act, or other	Deductible	Deductible
7 to 9	Commuted pension — Government / local authority / statutory corporation, other employers, approved funds	Deductible	Deductible
10, 11	Retrenchment compensation	Deductible	Deductible
12	Voluntary retirement compensation	Deductible	Deductible
13, 14	Leave encashment — Government, or other	Deductible	Deductible
2	**Standard deduction**	**(75,000)**	(50,000)
1	**Tax on employment (professional tax)**	**NOT ALLOWED**	(actual)
	INCOME UNDER THE HEAD "SALARIES"	**XXX**	**XXX**

Seven habits that earn marks

- **One.** Show the deduction workings in a note below, never inside your head. For every "minimum of" computation, list **all** the limbs and then circle the least. An examiner gives marks for the limbs even where you pick the wrong one.
- **Two.** State at the top which regime you are computing under. If the question asks for both, use two columns; the gross salary line is identical in both, so you write it once.
- **Three.** Put the terminal receipts into gross salary at their **full** amount, and take the deduction below. Do not write "gratuity ₹15,00,000 less exempt ₹10,35,000 = ₹4,65,000" on a single line. That was the old form; it is no longer the form the Act contemplates, and it hides the deduction from the examiner.
- **Four.** Compute "salary" afresh for each purpose, and show which meaning you are using — HRA salary, gratuity salary, accommodation salary.
- **Five.** In the year of retirement, expect gross salary to be very large and the section 19 block to be very large. That is the shape of a correct answer, not a mistake.
- **Six.** Under the default regime, test the section 156(2) rebate and then test **marginal relief** whenever total income is a little over ₹12,00,000.
- **Seven.** Round the tax off to the nearest ten rupees at the very end, after cess — not before.

10.2 Problem 1 — a salaried employee under both regimes

Problem

Shri Arun Kumar, aged 40, is employed with a private company in Delhi. For Tax Year 2026-27: basic salary ₹80,000 per month; dearness allowance ₹20,000 per month, of which 40% enters into retirement benefits; house rent allowance ₹30,000 per month, against which he pays rent of ₹35,000 per month for a flat in Delhi; children education allowance ₹500 per month for his two children; transport allowance ₹2,000 per month for commuting (he is not a disabled employee); professional tax paid ₹2,500. He has deposited ₹1,50,000 in the Public Provident Fund and paid ₹25,000 as health insurance premium. Compute his tax liability under (a) the optional regime and (b) the default regime of section 202, and advise him.

Solution — working notes

Note 1 — house rent allowance (relevant only under the optional regime).

- Salary for HRA = Basic ₹9,60,000 + DA entering retirement benefits (40% of ₹2,40,000) ₹96,000 = **₹10,56,000**
- (a) HRA received ₹30,000 × 12 = ₹3,60,000
- (b) Rent paid ₹4,20,000 less 10% of ₹10,56,000 (₹1,05,600) = **₹3,14,400**
- (c) 50% of ₹10,56,000, Delhi being on the list of eight = ₹5,28,000
- **Least = ₹3,14,400 exempt. Taxable HRA = ₹3,60,000 – ₹3,14,400 = ₹45,600**

Note 2 — children education allowance. Received ₹500 per month, ₹6,000 for the year. Rule 280(2), Sl. No. 7 exempts ₹3,000 per month per child for two children — far more than he receives — so the **whole ₹6,000 is exempt** and nothing is taxable. Under the old limit of ₹100 per month per child, ₹3,600 would have been taxable. Transport allowance is fully taxable, he not being a disabled employee within Sl. No. 10.

Particulars	Optional regime (₹)	Default regime (₹)
Basic salary	9,60,000	9,60,000
Dearness allowance	2,40,000	2,40,000
House rent allowance (taxable portion) [Note 1]	45,600	3,60,000
Children education allowance (taxable portion) [Note 2]	Nil	6,000
Transport allowance	24,000	24,000
GROSS SALARY	**12,69,600**	**15,90,000**
Less: standard deduction [s. 19, Sl. 2]	(50,000)	(75,000)
Less: tax on employment [s. 19, Sl. 1]	(2,500)	Not allowed
INCOME FROM SALARIES = GROSS TOTAL INCOME	**12,17,100**	**15,15,000**
Less: deduction under section 123 (PPF)	(1,50,000)	Not allowed
Less: deduction under section 126 (health insurance)	(25,000)	Not allowed
TOTAL INCOME	**10,42,100**	**15,15,000**
Income-tax on total income	1,25,130	1,07,250
Less: rebate under section 156	Nil	Nil
Add: health and education cess @ 4%	5,005	4,290
TAX PAYABLE (rounded off)	**1,30,140**	**1,11,540**

Tax computation shown

- **Optional regime, ₹10,42,100** — nil up to ₹2,50,000; ₹2,50,000 @ 5% = ₹12,500; ₹5,00,000 @ 20% = ₹1,00,000; ₹42,100 @ 30% = ₹12,630. Total **₹1,25,130**.
- **Default regime, ₹15,15,000** — nil up to ₹4,00,000; ₹4,00,000 @ 5% = ₹20,000; ₹4,00,000 @ 10% = ₹40,000; ₹3,15,000 @ 15% = ₹47,250. Total **₹1,07,250**.

Advice, and the lesson

The default regime saves Shri Arun Kumar **₹18,600**. He should remain in it and need do nothing, the default regime applying automatically.

But notice how close it is. Under the default regime his total income is higher by ₹4,72,900 — he loses the HRA exemption of ₹3,14,400, the whole children education allowance of ₹6,000, the professional tax of ₹2,500 and the Chapter VIII deductions of ₹1,75,000 — and yet he still pays less, because the slabs are so much wider and the standard deduction ₹25,000 higher. Had his rent been ₹50,000 a month instead of ₹35,000, the answer would have gone the other way. **Never advise on this by instinct; always compute both.**

10.3 Problem 2 — perquisites

Problem

Shri Bhaskar is employed by a company in Mumbai. For Tax Year 2026-27: basic salary ₹90,000 per month; dearness allowance ₹30,000 per month, entering fully into retirement benefits; bonus ₹1,00,000. The company provides him with the following, throughout the year: (i) an unfurnished flat in Mumbai which the company owns, free of rent; (ii) a 1,400 cc car owned by the company, used for both official and personal purposes, the company meeting all running expenses of ₹1,80,000 and providing a driver at ₹18,000 per month; (iii) a sweeper engaged by the company at ₹4,000 per month; (iv) free education for his two children in the school run by the company, the cost of similar education in a similar institution being ₹4,000 per month per child; (v) an interest-free loan of ₹5,00,000 given on 1 April 2026 for the purchase of a car, not repaid during the year. The lending rate of the State Bank of India for a car loan on 1 April 2026 was 11% per annum. Compute his income from salaries under the default regime.

Solution — working notes

Note 1 — is he a specified employee? Monetary salary = ₹10,80,000 + ₹3,60,000 + ₹1,00,000 = ₹15,40,000, less the standard deduction of ₹75,000 = **₹14,65,000**. This exceeds the prescribed amount of ₹4,00,000 in Rule 17, so he **is** a specified employee, and the car, the sweeper and the education are all taxable in his hands.

Note 2 — accommodation. Salary for this purpose (Meaning 3) = basic ₹10,80,000 + DA in terms ₹3,60,000 + bonus ₹1,00,000 = ₹15,40,000. Mumbai's population exceeds 40 lakh and the flat is owned by the employer, so the value is 10% of ₹15,40,000 = **₹1,54,000**. It is unfurnished, so nothing is added for furniture.

Note 3 — motor car. Cubic capacity does not exceed 1.6 litres, the employer owns the car and meets the expenses, and it is used for both purposes: Rule 15(3), Table II, Sl. No. (1)(c)(i) gives ₹5,000 per month, plus ₹3,000 per month for the chauffeur — ₹8,000 × 12 = **₹96,000**. The actual expenses of ₹1,80,000 and the driver's actual salary of ₹2,16,000 are irrelevant. Under the pre-2026 figures this would have been only ₹32,400.

Note 4 — education. The cost of similar education is ₹4,000 per month per child, which **exceeds** the ₹3,000 threshold in Rule 15(4), Table III, Sl. No. 3(b). The exemption is therefore lost altogether and the **whole** amount is taxable, not merely the excess: ₹4,000 × 12 × 2 = **₹96,000**. Had the cost been ₹2,900 per month per child, nothing at all would have been taxable.

Note 5 — interest-free loan. ₹5,00,000 exceeds the exempt threshold of ₹2,00,000 (raised from ₹20,000 by the 2026 Rules) and is not for a specified disease. Maximum outstanding monthly balance ₹5,00,000 throughout; State Bank rate 11% → perquisite **₹55,000**.

Particulars	₹
Basic salary (₹90,000 × 12)	10,80,000
Dearness allowance (₹30,000 × 12)	3,60,000
Bonus	1,00,000
Perquisite — rent-free accommodation [Note 2]	1,54,000
Perquisite — motor car with chauffeur [Note 3]	96,000
Perquisite — sweeper (₹4,000 × 12)	48,000

Particulars	₹
Perquisite — free education [Note 4]	96,000
Perquisite — interest-free loan [Note 5]	55,000
GROSS SALARY	**19,89,000**
Less: standard deduction [s. 19, Sl. 2]	(75,000)
INCOME FROM SALARIES	**19,14,000**

Tax. On ₹19,14,000 under section 202 — nil up to ₹4,00,000; ₹20,000 + ₹40,000 + ₹60,000 on the next three slabs; and ₹3,14,000 @ 20% = ₹62,800. Income-tax ₹1,82,800; add cess @ 4% ₹7,312; **tax payable ₹1,90,110** (rounded off).

What this problem is really testing

Four thresholds, each of which behaves differently. The **₹4,00,000** specified-employee figure is a gateway — cross it and four perquisites become taxable. The **₹3,000** education figure is a cliff — cross it by one rupee and the whole cost becomes taxable. The **₹2,00,000** loan figure is also a cliff. And the **car** value is a fixed substitute for actual cost, so the ₹3,96,000 the employer really spent is beside the point.

Note also that no section 19 deduction other than the standard deduction arises here, because he has retired from nothing and paid no professional tax that the question mentions.

10.4 Problem 3 — the year of retirement

Problem

Shri Chandra Mohan retired from a private company on 30 September 2026 after 30 years and 4 months of service. The Payment of Gratuity Act, 1972 does not apply to him. Until retirement he drew basic salary of ₹60,000 per month and dearness allowance of ₹15,000 per month, of which 60% entered into retirement benefits. On retirement he received: (i) gratuity ₹15,00,000; (ii) pension of ₹25,000 per month from 1 October 2026, of which he commuted 50% on 1 January 2027 and received ₹6,00,000; (iii) leave encashment of ₹8,00,000 for 300 days of unavailed leave. Compute his tax liability for Tax Year 2026-27 under the default regime.

Solution — working notes

Note 1 — gratuity [section 19(1), Table, Sl. No. 6]. He is not covered by the Payment of Gratuity Act, so the fraction of 4 months is **ignored** and completed service is **30 years**. Average salary of the last ten months = basic ₹60,000 + DA in terms (60% of ₹15,000 = ₹9,000) = ₹69,000. The deduction is the minimum of —

- (a) actual gratuity received ₹15,00,000;
- (b) the notified amount ₹20,00,000;
- (c) ½ × ₹69,000 × 30 = ₹10,35,000.
- **Deduction ₹10,35,000.** The whole ₹15,00,000 enters gross salary.

Note 2 — pension. *Uncommuted:* October to December at ₹25,000 = ₹75,000; January to March at 50% of ₹25,000 = ₹12,500 × 3 = ₹37,500. Total ₹1,12,500, fully taxable, no deduction. *Commuted [Sl. No. 8]:* 50% was commuted for ₹6,00,000, so the full value of the pension = ₹6,00,000 × 100 ÷ 50 = ₹12,00,000. He received gratuity, so the deduction is the commuted value of **one-third** = **₹4,00,000**.

Note 3 — leave encashment [Sl. No. 14]. The minimum of the four limbs —

- (a) cash equivalent of the leave at credit: 300 days, which is within the ceiling of 30 days × 30 years of actual service = 900 days, valued at (300 ÷ 30) × ₹69,000 = **₹6,90,000**;
- (b) 10 × average monthly salary = 10 × ₹69,000 = ₹6,90,000;
- (c) the notified amount ₹25,00,000;
- (d) the actual payment received ₹8,00,000.

- **Deduction ₹6,90,000.** The whole ₹8,00,000 enters gross salary.

Particulars	₹	₹
Basic salary, April to September (₹60,000 × 6)		3,60,000
Dearness allowance, April to September (₹15,000 × 6)		90,000
Gratuity received [Note 1]		15,00,000
Uncommuted pension [Note 2]		1,12,500
Commuted pension received [Note 2]		6,00,000
Leave encashment received [Note 3]		8,00,000
GROSS SALARY		**34,62,500**
Less: DEDUCTIONS UNDER SECTION 19		
Sl. No. 6 — gratuity [Note 1]	(10,35,000)	
Sl. No. 8 — commuted pension [Note 2]	(4,00,000)	
Sl. No. 14 — leave encashment [Note 3]	(6,90,000)	
Sl. No. 2 — standard deduction (default regime)	(75,000)	(22,00,000)
INCOME FROM SALARIES = TOTAL INCOME		**12,62,500**

Tax computation

- Income-tax on ₹12,62,500 — nil up to ₹4,00,000; ₹4,00,000 @ 5% = ₹20,000; ₹4,00,000 @ 10% = ₹40,000; ₹62,500 @ 15% = ₹9,375. Total **₹69,375**.
- **Rebate under section 156(2).** Total income exceeds ₹12,00,000, so the ₹60,000 rebate of clause (a) is not available — but clause (b), **marginal relief**, applies. Income in excess of ₹12,00,000 = ₹62,500. Since the tax of ₹69,375 exceeds that excess, the rebate is ₹69,375 – ₹62,500 = **₹6,875**.
- Tax after rebate = ₹62,500. Add health and education cess @ 4% = ₹2,500.

TAX PAYABLE = ₹65,000

What this problem is really testing — and how the presentation has changed

Three deductions, each with a different formula and a different definition of "salary"; the grossing up of the commuted pension; and then the marginal relief on the rebate, which most candidates miss because they simply write "rebate not available".

Note the shape of the answer. Gross salary is ₹34,62,500 — a figure that would have looked absurd under the 1961 Act, where the three receipts would have been exempted before they ever appeared. Under section 19 they go in and then come out, and the section 19 block below the gross salary line is ₹22,00,000. The income under the head is the same ₹12,62,500 either way; but this is now the correct way to reach it, and an answer that nets the receipts off inside gross salary is answering a repealed statute.

10.5 Problem 4 — relief under section 157

Problem

Shri Dinesh's total income for Tax Year 2026-27 is ₹14,00,000 under the default regime, which includes ₹3,00,000 received as arrears of salary relating to an earlier year. His total income of that earlier year, as assessed, was ₹6,00,000 and the tax and cess payable was ₹33,800. Had the arrears been received in that year, his total income would have been ₹9,00,000 and the tax and cess ₹96,200. Compute the relief under section 157 and the tax payable. (The earlier year fell under the Income-tax Act, 1961, and its own rates have been used, as they must be.)

Step	Particulars	₹
1	Tax and cess on the total income of Tax Year 2026-27 **including** the arrears — ₹14,00,000. Income-tax ₹90,000 + cess ₹3,600	93,600
2	Tax and cess on the total income of Tax Year 2026-27 **excluding** the arrears — ₹11,00,000. Income-tax ₹50,000, wholly wiped out by the rebate under section 156(2)(a), the income not exceeding ₹12,00,000	Nil
3	Additional tax caused by the arrears in the year of receipt (Step 1 – Step 2)	93,600
4	Additional tax the arrears would have caused in the year to which they relate (₹96,200 – ₹33,800)	62,400
5	**RELIEF UNDER SECTION 157 (Step 3 – Step 4)**	**31,200**
	Tax payable — ₹93,600 less relief ₹31,200	**62,400**

Working for Step 1. ₹14,00,000 under section 202 — nil up to ₹4,00,000; ₹4,00,000 @ 5% = ₹20,000; ₹4,00,000 @ 10% = ₹40,000; ₹2,00,000 @ 15% = ₹30,000. Total ₹90,000. **Working for Step 2.** ₹11,00,000 — ₹20,000 + ₹30,000 (₹3,00,000 @ 10%) = ₹50,000, which is less than ₹60,000, so the rebate extinguishes it entirely.

Why the relief is so large here

Without the arrears Shri Dinesh's income would have been ₹11,00,000, on which the section 156(2) rebate reduced the tax to **nil**. The arrears pushed him past the ₹12,00,000 line, so he lost the rebate **and** entered the 15% slab. Section 157 restores him to roughly the position he would have been in had he been paid on time.

Remember: the relief must be claimed in **Form No. 39** [Rule 73], on or before the due date for the return; and it is not available at all on an amount for which the voluntary retirement deduction under section 19(1), Table, Sl. No. 12 has been claimed [section 157(2)].

10.6 Problem 5 — house rent allowance where salary, rent and city all change

Problem

Smt. Ekta Sharma, aged 45, is employed with a private company. For Tax Year 2026-27 her particulars are these. **1 April 2026 to 30 September 2026** — posted at Delhi. Basic salary ₹70,000 per month; house rent allowance ₹45,000 per month; rent paid ₹60,000 per month. **1 October 2026 to 31 March 2027** — transferred to Pune. Basic salary raised to ₹80,000 per month; house rent allowance ₹50,000 per month; rent paid ₹65,000 per month. Throughout the year she received dearness allowance of ₹25,000 per month, of which 60% enters into retirement benefits, and commission at 1% of the turnover achieved by her. Turnover for the year was ₹50,00,000, achieved evenly in the two halves. She paid professional tax of ₹2,500, deposited ₹1,50,000 in the Public Provident Fund and paid ₹25,000 as health insurance premium for herself and her husband. Compute her tax liability under both regimes and advise her.

Solution — working notes

Note 1 — the exemption must be computed separately for each period. Salary, house rent allowance, rent and city all changed on 1 October. Where any one of them changes, the exemption is worked out period by period and the results added. Never take annual figures.

Note 2 — what goes into "salary" for this purpose. Meaning 2 of paragraph 2.3 — basic salary, plus dearness allowance only to the extent it enters into retirement benefits, plus commission at a fixed percentage of turnover. Her commission is 1% of turnover achieved by her, so it is included; a lump-sum commission would not have been.

	1 April to 30 September (Delhi)	1 October to 31 March (Pune)
Basic salary	4,20,000	4,80,000
Dearness allowance entering retirement benefits (60%)	90,000	90,000
Commission at 1% of turnover	25,000	25,000
SALARY FOR HOUSE RENT ALLOWANCE	**5,35,000**	**5,95,000**
(a) House rent allowance received	2,70,000	3,00,000
(b) Rent paid less 10% of salary	3,06,500	3,30,500
(c) 50% of salary, both being cities on the list of eight	2,67,500	2,97,500
LEAST OF THE THREE — EXEMPT	**2,67,500**	**2,97,500**
Taxable house rent allowance	2,500	2,500

Note 3 — why Pune matters. Until the Income-tax Rules, 2026 came into force on 1 April 2026, only Delhi, Mumbai, Kolkata and Chennai carried the 50% rate. Rule 279 added Bengaluru, Hyderabad, Pune and Ahmedabad. Had Pune still been a 40% city, limb (c) for the second period would have been ₹2,38,000 instead of ₹2,97,500, the exemption would have fallen to ₹2,38,000, and **₹59,500 more would have been taxable**.

Particulars	Optional regime (₹)	Default regime (₹)
Basic salary	9,00,000	9,00,000
Dearness allowance	3,00,000	3,00,000
Commission on turnover	50,000	50,000
House rent allowance (taxable portion)	5,000	5,70,000
GROSS SALARY	**12,55,000**	**18,20,000**
Less: standard deduction [s. 19, Sl. 2]	(50,000)	(75,000)
Less: tax on employment [s. 19, Sl. 1]	(2,500)	Not allowed
INCOME FROM SALARIES = GROSS TOTAL INCOME	**12,02,500**	**17,45,000**
Less: deduction under section 123 (Public Provident Fund)	(1,50,000)	Not allowed
Less: deduction under section 126 (health insurance)	(25,000)	Not allowed
TOTAL INCOME	**10,27,500**	**17,45,000**
Income-tax on total income	1,20,750	1,49,000
Less: rebate under section 156	Nil	Nil
Add: health and education cess @ 4%	4,830	5,960
TAX PAYABLE	**1,25,580**	**1,54,960**

Tax computation shown

- **Optional regime, ₹10,27,500** — ₹12,500 + ₹1,00,000 + ₹27,500 @ 30% = ₹8,250. Total **₹1,20,750**.
- **Default regime, ₹17,45,000** — ₹20,000 + ₹40,000 + ₹60,000 + ₹1,45,000 @ 20% = ₹29,000. Total **₹1,49,000**.

Advice, and the lesson — this is the case where the OPTIONAL regime wins

Smt. Sharma should **opt out** of the default regime. Doing so saves her **₹29,380**. She must say so in her return of income under section 202(4)(b), filed within the due date, and should tell her employer at the start of the year so that tax is deducted on the right basis.

Problems 1, 6, 7 and 8 came out the other way, and so do Problems 9 to 12. The difference here is the size of the house rent allowance exemption — ₹5,65,000 of it, on a rent of ₹7,50,000 a year in two of the eight cities. That single figure outweighs the wider slabs, the extra ₹25,000 of standard deduction and everything else. **The rule of thumb: the optional regime wins where the rent is high and the salary moderate.**

10.7 Problem 6 — provident fund, superannuation and the National Pension System

Problem

Shri Farhan Ali, aged 38, is employed with Meridian Ltd, which maintains a **recognised** provident fund. For Tax Year 2026-27: basic salary ₹1,00,000 per month; dearness allowance ₹40,000 per month, of which 50% enters into retirement benefits. (i) He and his employer each contribute 15% of salary to the recognised provident fund. (ii) Interest of ₹1,32,000 was credited to his provident fund account during the year, calculated at 11% per annum. (iii) The employer also contributed ₹4,00,000 to an approved superannuation fund and 10% of salary to the National Pension System under section 124(2). He paid professional tax of ₹2,500 and health insurance premium of ₹25,000, and claims the maximum deduction under section 123. Compute his tax liability under both regimes.

Solution — working notes

Note 1 — "salary" for the provident fund rules. Meaning 2 again: basic ₹12,00,000 plus dearness allowance entering retirement benefits, 50% of ₹4,80,000 = ₹2,40,000. **Salary = ₹14,40,000.** It is the base on which the employer's 15% and 10% contributions are computed.

Note 2 — interest credited. Interest of ₹1,32,000 at 11% implies a balance of ₹12,00,000. Interest at the notified rate of 9.5% would have been ₹1,14,000. **Taxable excess ₹18,000** [Schedule XI, Part A, para. 6].

Note 3 — the ₹7,50,000 aggregate ceiling [section 17(1)(h)]. The employer contributed ₹2,16,000 to the provident fund (15% of ₹14,40,000), ₹4,00,000 to the superannuation fund and ₹1,44,000 (10% of ₹14,40,000) to the National Pension System — **₹7,60,000** in all. The excess of **₹10,000** over ₹7,50,000 is a taxable perquisite. It is the only charge the employer's provident fund contribution attracts.

Note 4 — the employee's own contribution. ₹2,16,000 is not income at all. It qualifies for deduction under section 123, restricted to ₹1,50,000, and available only under the optional regime.

Two different tests, and both bite in the same year

Note 2 tests the **interest credited** against a **rate** — 9.5% per annum, notified by the Central Government — and charges the excess under paragraph 6 of Part A of Schedule XI. Note 3 tests the **aggregate of three contributions** against a **rupee ceiling** — ₹7,50,000. They are separate provisions with separate bases, and it is not a double charge to apply both: the first taxes an over-generous rate of interest, the second an over-generous total retirement package. See paragraph 7.2.

Particulars	Optional regime (₹)	Default regime (₹)
Basic salary	12,00,000	12,00,000
Dearness allowance	4,80,000	4,80,000
Interest credited above the notified rate [Note 2]	18,000	18,000
Perquisite — employer's contributions above ₹7,50,000 [Note 3]	10,000	10,000
Employer's contribution to the National Pension System [s. 16(k)]	1,44,000	1,44,000
GROSS SALARY	**18,52,000**	**18,52,000**

Particulars	Optional regime (₹)	Default regime (₹)
Less: standard deduction [s. 19, Sl. 2]	(50,000)	(75,000)
Less: tax on employment [s. 19, Sl. 1]	(2,500)	Not allowed
INCOME FROM SALARIES = GROSS TOTAL INCOME	**17,99,500**	**17,77,000**
Less: deduction under section 123	(1,50,000)	Not allowed
Less: deduction under section 124(2) — employer's NPS contribution	(1,44,000)	**(1,44,000)**
Less: deduction under section 126 (health insurance)	(25,000)	Not allowed
TOTAL INCOME	**14,80,500**	**16,33,000**
Income-tax on total income	2,56,650	1,26,600
Add: health and education cess @ 4%	10,266	5,064
TAX PAYABLE (rounded off)	**2,66,920**	**1,31,660**

Tax computation shown

- **Optional regime, ₹14,80,500** — ₹12,500 + ₹1,00,000 + ₹4,80,500 @ 30% = ₹1,44,150. Total **₹2,56,650**.
- **Default regime, ₹16,33,000** — ₹20,000 + ₹40,000 + ₹60,000 + ₹33,000 @ 20% = ₹6,600. Total **₹1,26,600**.

Note the one deduction that survives

The employer's contribution to the National Pension System is added to salary by section 16(k) and then deducted by section 124(2) — and, unlike sections 123 and 126, **that deduction survives the default regime**, up to 14% of salary, by the express words of section 202(2)(a)(xii). It is the only retirement saving for which an employee in the default regime is still rewarded.

The default regime saves Shri Farhan Ali **₹1,35,260**, because his income is high enough that the 30% slab of the optional regime does most of the damage while the default regime is still at 20%.

10.8 Problem 7 — the specified employee test

Problem

Shri Gopal and Shri Harish are both employed by the same company at Delhi. Neither is a director, and neither holds any shares in the company. For Tax Year 2026-27 the company provided **each** of them, for the whole year, with — (i) a 1,300 cc car owned by the company, used for both official and private purposes, the company meeting all running expenses; (ii) a sweeper engaged by the company at ₹3,000 per month; (iii) free electricity for household use, costing the company ₹2,500 per month, the connection standing in the company's name; (iv) free education for one child in the school run by the company, the cost of similar education in a similar institution being ₹4,500 per month. Shri Gopal draws basic salary of ₹28,000 per month and dearness allowance of ₹4,000 per month, not entering into retirement benefits. Shri Harish draws basic salary of ₹40,000 per month, dearness allowance of ₹8,000 per month, not entering into retirement benefits, and a bonus of ₹60,000. Each paid professional tax of ₹2,500. Compute the income of each under the head “Salaries” under the optional regime.

Step one — apply the specified employee test to each of them

Neither is a director and neither has a substantial interest, so everything turns on the third test in section 17(1)(c)(ii) — income under the head “Salaries” by way of **monetary** payment, after the deductions under section 19, must exceed the prescribed amount of **₹4,00,000** [Rule 17].

Particulars	Shri Gopal (₹)	Shri Harish (₹)
Basic salary	3,36,000	4,80,000
Dearness allowance	48,000	96,000
Bonus	—	60,000
MONETARY SALARY	**3,84,000**	**6,36,000**
Less: standard deduction [s. 19, Sl. 2 — optional regime]	(50,000)	(50,000)
Less: tax on employment [s. 19, Sl. 1]	(2,500)	(2,500)
SALARY FOR THE TEST	**3,31,500**	**5,83,500**
Does it exceed ₹4,00,000?	**NO**	**YES**
Is he a specified employee?	**NOT specified**	**SPECIFIED**

Test the answer under the default regime too — it is a fair question

Under the default regime the standard deduction is ₹75,000 and professional tax is not deductible, so the figures would be Gopal ₹3,84,000 – ₹75,000 = **₹3,09,000** and Harish ₹6,36,000 – ₹75,000 = **₹5,61,000**. The conclusions are unchanged: Gopal is not specified, Harish is.

But note the possibility. Between a monetary salary of ₹4,50,000 and ₹4,75,000 the two regimes would give different answers, because the deductions differ by ₹22,500. Where a question does not state the regime, compute under the default regime and say so in one line.

Step two — value the perquisites

Every one of the four benefits is a facility provided by the employer and is chargeable only in the hands of a **specified** employee [section 17(1)(c)(ii)]. In Shri Gopal's hands, therefore, **nothing at all** is taxable. In Shri Harish's hands, all four are.

Perquisite	Working	₹
Motor car not exceeding 1.6 litres, employer meeting all running expenses, mixed use	₹5,000 per month under Rule 15(3), Table II, Sl. No. (1)(c)(i). No chauffeur is provided, so nothing is added	60,000
Sweeper engaged by the employer	Actual cost, ₹3,000 × 12 [Rule 15(4), Table III, Sl. No. 1]	36,000
Free electricity, connection in the employer's name	Amount paid by the employer, ₹2,500 × 12 [Table III, Sl. No. 2(a)]	30,000
Free education of one child in the employer's school	Cost of similar education ₹4,500 per month **exceeds** the threshold of ₹3,000, so the **whole** amount is taxable, not merely the excess [Table III, Sl. No. 3(b)]	54,000
TOTAL PERQUISITES		**1,80,000**

Particulars	Shri Gopal (₹)	Shri Harish (₹)
Basic salary	3,36,000	4,80,000
Dearness allowance	48,000	96,000
Bonus	—	60,000
Perquisites	Nil	1,80,000
GROSS SALARY	**3,84,000**	**8,16,000**

Particulars	Shri Gopal (₹)	Shri Harish (₹)
Less: standard deduction [s. 19, Sl. 2]	(50,000)	(50,000)
Less: tax on employment [s. 19, Sl. 1]	(2,500)	(2,500)
INCOME UNDER THE HEAD "SALARIES"	**3,31,500**	**7,63,500**

What this problem is really testing

Two employees of the same company, given identical benefits, and ₹1,80,000 of perquisite falls on one of them and nothing at all on the other. That is the whole point of the specified employee test, and it has come alive again this year: while the threshold stood at ₹50,000 almost every employee crossed it and the distinction had become ornamental. At **₹4,00,000** it decides real cases.

Note also the cliff at ₹3,000 in the education perquisite. Had the cost of similar education been ₹2,900 a month, Shri Harish's perquisite would have been ₹1,26,000 instead of ₹1,80,000 — a ₹54,000 swing on a ₹1,600-a-month difference in the school's fees.

10.9 Problem 8 — a Central Government employee in the year of retirement

Problem

Shri Iqbal Singh, an officer of the Central Government, retired on 31 December 2026 after 33 years of service. Until retirement he drew basic salary of ₹1,10,000 per month, dearness allowance of ₹44,000 per month entering into retirement benefits, and an **entertainment allowance of ₹2,000 per month**. He was provided with unfurnished rent-free accommodation owned by the Government, the licence fee determined by the Government being ₹3,600 per month; he paid nothing for it. On retirement he received gratuity of ₹22,00,000 and leave encashment of ₹12,00,000 for 240 days of unavailed leave. He was granted a pension of ₹55,000 per month with effect from 1 January 2027, of which he commuted 40% on 1 February 2027 and received ₹18,00,000. He paid professional tax of ₹2,500. Compute his income under the head "Salaries" under the optional regime, and his tax liability under both regimes.

Solution — working notes

Note 1 — everything he received on retirement is deductible in full, but only after it has gone into gross salary. He is a Central Government employee, so —

- **gratuity ₹22,00,000** — serial number 3, "death-cum-retirement gratuity", entire amount. The notified ceiling of ₹20,00,000 has no application to him;
- **leave encashment ₹12,00,000** — serial number 13, entire amount. No computation of average salary or of days at credit is required, and the 240 days are irrelevant;
- **commuted pension ₹18,00,000** — serial number 7, entire amount, whether or not he also received gratuity.
- Three formulae that would have had to be worked out for a private employee simply do not arise. Write one line for each, with the reason and the serial number — an examiner gives the mark for the reason.

Note 2 — the accommodation. Because the employer is the Central Government, Rule 15(2), Table I, Sl. No. 1 applies and the value is the **licence fee** determined by that Government, less any rent paid. The 10% / 7.5% / 5% table has no application to him. Value = ₹3,600 × 9 months = **₹32,400**.

Note 3 — the pension actually drawn. January 2027, full pension ₹55,000. From 1 February 2027, 40% having been commuted, he draws 60% of ₹55,000 = ₹33,000 for February and for March. **Uncommuted pension = ₹55,000 + ₹66,000 = ₹1,21,000**, fully taxable, no deduction.

Note 4 — the entertainment allowance: THIS IS THE TRAP

The entertainment allowance of ₹2,000 per month for nine months — **₹18,000** — is added to gross salary in full,

and nothing comes off.

Under section 16(ii) of the Income-tax Act, 1961 a Government employee could deduct the least of ₹5,000, one-fifth of basic salary and the allowance received — here ₹5,000. **Section 19 of the Income-tax Act, 2025 contains no such entry.** The deduction has been abolished for every employee under both regimes.

Anyone who allows him ₹5,000 here has answered a repealed statute. His income under the head in the optional regime is ₹15,04,900, and his tax ₹2,74,530. On the pre-2026 law the figures would have been ₹14,99,900 and ₹2,72,970 — a difference of ₹1,560. His position under the default regime is the same either way, because the deduction was never available there.

If a question sets an entertainment allowance, that is almost certainly what it is testing. Say in one line: **"No deduction is allowable. Section 19 of the Income-tax Act, 2025 has no counterpart to section 16(ii) of the 1961 Act."**

Particulars	₹	₹
Basic salary, April to December (₹1,10,000 × 9)		9,90,000
Dearness allowance (₹44,000 × 9)		3,96,000
Entertainment allowance (₹2,000 × 9) — fully taxable [Note 4]		18,000
Perquisite — rent-free accommodation, licence fee [Note 2]		32,400
Gratuity received [Note 1]		22,00,000
Leave encashment received [Note 1]		12,00,000
Commuted pension received [Note 1]		18,00,000
Uncommuted pension [Note 3]		1,21,000
GROSS SALARY		**67,57,400**
Less: DEDUCTIONS UNDER SECTION 19 — optional regime		
Sl. No. 3 — death-cum-retirement gratuity, entire amount	(22,00,000)	
Sl. No. 13 — leave encashment, Government employee, entire amount	(12,00,000)	
Sl. No. 7 — commuted pension, Government employee, entire amount	(18,00,000)	
Sl. No. 2 — standard deduction (optional regime)	(50,000)	
Sl. No. 1 — tax on employment	(2,500)	(52,52,500)
INCOME UNDER THE HEAD "SALARIES" — OPTIONAL REGIME		**15,04,900**

The two regimes compared

Particulars	Optional regime (₹)	Default regime (₹)
GROSS SALARY (identical in both)	**67,57,400**	**67,57,400**
Less: gratuity [s. 19, Sl. 3]	(22,00,000)	(22,00,000)
Less: leave encashment [s. 19, Sl. 13]	(12,00,000)	(12,00,000)
Less: commuted pension [s. 19, Sl. 7]	(18,00,000)	(18,00,000)
Less: standard deduction [s. 19, Sl. 2]	(50,000)	**(75,000)**
Less: tax on employment [s. 19, Sl. 1]	(2,500)	**Not allowed**
Less: entertainment allowance	**No such deduction**	**No such deduction**

Particulars	Optional regime (₹)	Default regime (₹)
INCOME FROM SALARIES = TOTAL INCOME	**15,04,900**	**14,82,400**
Income-tax on total income	2,63,970	1,02,360
Add: health and education cess @ 4%	10,559	4,094
TAX PAYABLE (rounded off)	**2,74,530**	**1,06,450**

Tax computation shown

- **Optional regime, ₹15,04,900** — nil up to ₹2,50,000; ₹2,50,000 @ 5% = ₹12,500; ₹5,00,000 @ 20% = ₹1,00,000; ₹5,04,900 @ 30% = ₹1,51,470. Total **₹2,63,970**.
- **Default regime, ₹14,82,400** — nil up to ₹4,00,000; ₹4,00,000 @ 5% = ₹20,000; ₹4,00,000 @ 10% = ₹40,000; ₹2,82,400 @ 15% = ₹42,360. Total **₹1,02,360**.
- The default regime saves him **₹1,68,080**. He should do nothing, and he will be in it.

Three lessons from this problem

One — who the employer is can decide the whole question. Had Shri Iqbal Singh worked for a private company on exactly the same figures, the gratuity would have been tested against serial number 6, the leave encashment against the four limbs of serial number 14 and the commuted pension against the one-third rule of serial number 8, and a large part of ₹52,00,000 would have been taxable. Because his employer is the Central Government, all of it is deducted. Read the **first line** of a retirement problem twice.

Two — the shape of the answer has changed. Gross salary of ₹67,57,400 against an income under the head of ₹15,04,900. Under the 1961 Act the same man would have shown a gross salary of ₹15,57,400 and the ₹52,00,000 would never have appeared. Both routes reach the same income; only one of them is the route section 19 prescribes.

Three — entertainment allowance is a trap now, not a formula. For thirty years the answer to “Government employee + entertainment allowance” was “least of ₹5,000, 20% of basic, actual”. From Tax Year 2026-27 the answer is “no deduction”. Anyone who has learnt the old formula by heart will lose the mark by reflex.

10.10 Problem 9 — the perquisites of Rule 15(5)

Problem

Shri Jatin Malhotra, aged 45, is employed with Coromandel Systems Ltd at Bengaluru. For Tax Year 2026-27: basic salary ₹75,000 per month; dearness allowance ₹25,000 per month, entering fully into retirement benefits; bonus ₹1,20,000. The company provided him, throughout the year, with — (i) a furnished flat at Bengaluru which the company owns, for which he pays the company ₹5,000 per month, the furniture in it having cost the company ₹3,00,000; (ii) leave travel concession of ₹80,000 for a journey with his family to Shimla and back, the first journey in the block 2026 to 2029, of which the air-conditioned first class rail fare by the shortest route was ₹60,000, the balance being hotel and sight-seeing; (iii) free lunch at the office on 240 working days, costing the company ₹250 per meal; (iv) a wrist watch presented to him on his birthday, costing the company ₹22,000; (v) a credit card, the company meeting expenditure of ₹90,000 during the year, of which ₹30,000 is proved by the prescribed records to have been incurred wholly and exclusively for official purposes; (vi) membership of a recreation club, the company paying ₹60,000 for his personal use of it, and, separately, a health club within the office premises available uniformly to all employees; (vii) the use of a music system which the company bought for ₹1,20,000 and of a laptop which it bought for ₹90,000; and (viii) on 1 January 2027, the sale to him for ₹2,00,000 of a motor car which the company had bought on 1 May 2023 for ₹8,00,000. The company also paid his professional tax of ₹2,500. He deposited ₹1,50,000 in the Public Provident Fund and paid ₹25,000 as health insurance premium. Compute his tax liability under both regimes.

Solution — working notes

Note 1 — the specified employee test does not decide this problem. His monetary salary far exceeds ₹4,00,000, so he is a specified employee. But not one of the benefits here is a Rule 15(4) benefit.

Accommodation, leave travel concession, meals, gifts, the credit card, the club, and the use and transfer of movable assets are charged on every employee, specified or not. Say so in one line and move on. Contrast Problem 7, where the whole answer turned on the test.

Note 2 — the accommodation, furnished and at a concessional rent. Salary for this purpose is Meaning 3 of paragraph 2.3 — basic ₹9,00,000 + DA in terms ₹3,00,000 + bonus ₹1,20,000 = ₹13,20,000. Bengaluru's population exceeds 40 lakh and the company owns the flat, so the unfurnished value is 10% of ₹13,20,000 = ₹1,32,000. Add 10% per annum of the cost of the furniture, ₹30,000. Total ₹1,62,000, less the rent he pays of ₹5,000 × 12 = ₹60,000. **Perquisite ₹1,02,000.**

Note 3 — leave travel concession, and the one line where the two regimes part company. The exclusion in Schedule III, Sl. No. 8 with Rule 277 is confined to the fare, and to the air-conditioned first class rail fare by the shortest route. ₹60,000 is therefore excluded and ₹20,000 — the hotel and sight-seeing — is taxable. Under the default regime section 202(2)(a)(i) denies serial number 8 altogether, so the whole ₹80,000 is taxable. This is the only figure in the problem that differs between the two regimes.

Note 4 — three thresholds, and how differently each behaves.

- **Free meals — a slab.** ₹200 per meal is excluded; the excess of ₹50 per meal on 240 meals, ₹12,000, is taxable.
- **The gift — a cliff.** The value is nil only where the aggregate of gifts in the year is below ₹15,000. The watch cost ₹22,000, so the whole ₹22,000 is taxable, not the excess of ₹7,000.
- **The credit card — an exclusion on proof.** ₹30,000 is excluded because the prescribed details are maintained; ₹60,000 is taxable.

Note 5 — the club, and the two things that are not charged. ₹60,000 for the recreation club is taxable. The health club within the premises, being provided uniformly to all employees, is not charged at all; nor is the initial fee of a corporate membership taken by the employer.

Note 6 — use, and transfer, of movable assets.

- Use of the music system — 10% per annum of the actual cost, ₹12,000. Use of the laptop — expressly excluded by Rule 15(5), and therefore nil.
- Transfer of the car — bought 1 May 2023, sold 1 January 2027, so three completed years of use. Depreciation at 20% on the written down value: ₹8,00,000 → ₹6,40,000 → ₹5,12,000 → ₹4,09,600. Less the ₹2,00,000 he paid: **perquisite ₹2,09,600.**
- Note the asymmetry. The laptop is not taxed while it is merely used, and is taxed if it is ever transferred.

Note 7 — the professional tax paid by the employer. It is an obligation of the employee met by the employer, and section 17(1)(f) makes it a perquisite. It goes into gross salary; the deduction at serial number 1 of section 19 is then available against it — but only under the optional regime, so under the default regime it is a straight addition to income.

Particulars	Optional regime (₹)	Default regime (₹)
Basic salary (₹75,000 × 12)	9,00,000	9,00,000
Dearness allowance (₹25,000 × 12)	3,00,000	3,00,000
Bonus	1,20,000	1,20,000
Leave travel concession (taxable portion) [Note 3]	20,000	80,000
Free meals above ₹200 a meal [Note 4]	12,000	12,000
Gift of a wrist watch [Note 4]	22,000	22,000
Credit card expenditure, less the official portion [Note 4]	60,000	60,000
Club membership [Note 5]	60,000	60,000
Use of the music system [Note 6]	12,000	12,000
Perquisite — furnished accommodation at concessional rent [Note 2]	1,02,000	1,02,000

Particulars	Optional regime (₹)	Default regime (₹)
Perquisite — transfer of the motor car [Note 6]	2,09,600	2,09,600
Professional tax paid by the employer [Note 7]	2,500	2,500
GROSS SALARY	**18,20,100**	**18,80,100**
Less: standard deduction [s. 19, Sl. 2]	(50,000)	(75,000)
Less: tax on employment [s. 19, Sl. 1]	(2,500)	Not allowed
INCOME FROM SALARIES = GROSS TOTAL INCOME	**17,67,600**	**18,05,100**
Less: deduction under section 123 (Public Provident Fund)	(1,50,000)	Not allowed
Less: deduction under section 126 (health insurance)	(25,000)	Not allowed
TOTAL INCOME	**15,92,600**	**18,05,100**
Income-tax on total income	2,90,280	1,61,020
Add: health and education cess @ 4%	11,611	6,441
TAX PAYABLE (rounded off)	**3,01,890**	**1,67,460**

Tax computation shown

- **Optional regime, ₹15,92,600** — nil up to ₹2,50,000; ₹2,50,000 @ 5% = ₹12,500; ₹5,00,000 @ 20% = ₹1,00,000; ₹5,92,600 @ 30% = ₹1,77,780. Total **₹2,90,280**.
- **Default regime, ₹18,05,100** — nil up to ₹4,00,000; ₹20,000 + ₹40,000 + ₹60,000 on the next three slabs; ₹2,05,100 @ 20% = ₹41,020. Total **₹1,61,020**.

What this problem is really testing

Eight benefits, and eight different rules — a percentage of salary, a percentage of the cost of furniture, a per-meal slab, a cliff, an exclusion that depends on records, an exclusion that depends on uniform availability, an express statutory exclusion, and a depreciation table. There is no single principle to learn. There is a Rule to look up, and the marks are in looking it up correctly.

Note also the shape of the difference between the regimes. Only one line of gross salary moves — the leave travel concession, by ₹60,000 — and yet the tax differs by ₹1,34,430. Almost the whole of that difference comes from below the gross salary line: ₹25,000 of extra standard deduction and ₹1,75,000 of Chapter VIII deductions on the one side, against far wider slabs on the other. **The default regime saves Shri Jatin Malhotra ₹1,34,430.**

10.11 Problem 10 — voluntary retirement, and three caps of three different kinds

Problem

Shri Kailash Nath, aged 52, had been employed with Novena Textiles Ltd since 1 August 1998. He accepted the company's scheme of voluntary retirement, framed in accordance with the guidelines in Rule 20 of the Income-tax Rules, 2026, and retired on 30 November 2026. The Payment of Gratuity Act, 1972 applies to him. Until retirement he drew basic salary of ₹84,000 per month, dearness allowance of ₹20,000 per month of which 50% entered into retirement benefits, and house rent allowance of ₹20,000 per month, against which he paid rent of ₹22,000 per month for a house at Jaipur. On retirement he received — (i) compensation of ₹20,00,000 under the voluntary retirement scheme; (ii) gratuity of ₹18,00,000; and (iii) leave encashment of ₹10,00,000 for 330 days of unavailed earned leave. He paid professional tax of ₹2,000, deposited ₹1,50,000 in the Public Provident Fund and paid ₹25,000 as health insurance premium. He has never claimed a deduction for voluntary retirement compensation in any earlier year. Compute his tax liability under both regimes.

Solution — working notes

Note 1 — the period. He served from 1 August 1998 to 30 November 2026 — 28 years and 4 months. Salary, dearness allowance and house rent allowance are drawn for eight months, April to November 2026.

Note 2 — house rent allowance (relevant only under the optional regime).

- Salary for HRA = basic ₹6,72,000 + DA entering retirement benefits (50% of ₹1,60,000) ₹80,000 = ₹7,52,000
- (a) HRA received ₹20,000 × 8 = ₹1,60,000
- (b) Rent paid ₹1,76,000 less 10% of ₹7,52,000 (₹75,200) = ₹1,00,800
- (c) 40% of ₹7,52,000 = ₹3,00,800 — Jaipur is not one of the eight cities in Rule 279
- Least = ₹1,00,800 exempt. Taxable HRA = ₹59,200. Under the default regime the exemption is denied and the whole ₹1,60,000 is taxable.

Note 3 — gratuity [section 19(1), Table, Sl. No. 5]. The Payment of Gratuity Act applies, so serial number 5 governs and the measure is section 4(2) of that Act. "Wages" there means last drawn basic plus the **whole** dearness allowance — ₹84,000 + ₹20,000 = ₹1,04,000. The four months are ignored, not being in excess of six, so completed service is 28 years.

- 15 ÷ 26 × ₹1,04,000 × 28 = ₹16,80,000
- The ceiling in section 4(3), at present ₹20,00,000, is not exceeded.
- **Deduction ₹16,80,000. Taxable excess ₹1,20,000. The whole ₹18,00,000 enters gross salary.**
- Had the Act **not** applied to him, serial number 6 would have measured the deduction at ½ × ₹94,000 × 28 = ₹13,16,000, and ₹3,64,000 more would have been taxable. The first line of the question is worth ₹3,64,000.

Note 4 — leave encashment [Sl. No. 14]. Average salary of the ten months preceding retirement = basic ₹84,000 + DA in terms ₹10,000 = ₹94,000. Actual service is 28 years, so the entitlement is capped at 30 × 28 = 840 days, and his 330 days are within it. The minimum of the four limbs —

- (a) cash equivalent of the 330 days at credit = (330 ÷ 30) × ₹94,000 = ₹10,34,000;
- (b) 10 × average monthly salary = 10 × ₹94,000 = ₹9,40,000;
- (c) the amount notified by the Central Government, at present ₹25,00,000;
- (d) the actual payment received ₹10,00,000.
- **Deduction ₹9,40,000 — limb (b) bites here, where in Problem 3 limbs (a) and (b) tied. Taxable excess ₹60,000.**

Note 5 — voluntary retirement compensation [Sl. No. 12]. The deduction is the minimum of the compensation received, ₹20,00,000, and ₹5,00,000. **Deduction ₹5,00,000**, and ₹15,00,000 remains taxable. Three conditions in section 19(2)(e) should be recited in one line each: the scheme is framed in accordance with the Rule 20 guidelines; he has not taken the deduction in any earlier tax year, it being a once-in-a-lifetime relief; and no relief under section 157 has been or will be claimed on the same amount, section 157(2) and section 19(2)(e)(iii) making the two mutually exclusive.

Note 6 — which of the two reliefs should he take? Compute both and take the greater. The deduction here removes ₹5,00,000 from total income, which at his marginal rate is a large sum. Relief under section 157 would notionally spread the compensation over the years of service, and where the income of those years was itself substantial the relief is small. On these figures the deduction is plainly the better. Say in one line that you have compared them — that is where the mark is.

Particulars	Optional regime (₹)	Default regime (₹)
Basic salary (₹84,000 × 8)	6,72,000	6,72,000
Dearness allowance (₹20,000 × 8)	1,60,000	1,60,000
House rent allowance (taxable portion) [Note 2]	59,200	1,60,000
Gratuity received [Note 3]	18,00,000	18,00,000
Leave encashment received [Note 4]	10,00,000	10,00,000
Voluntary retirement compensation received [Note 5]	20,00,000	20,00,000

Particulars	Optional regime (₹)	Default regime (₹)
GROSS SALARY	**56,91,200**	**57,92,000**
Less: Sl. No. 5 — gratuity [Note 3]	(16,80,000)	(16,80,000)
Less: Sl. No. 14 — leave encashment [Note 4]	(9,40,000)	(9,40,000)
Less: Sl. No. 12 — voluntary retirement compensation [Note 5]	(5,00,000)	(5,00,000)
Less: Sl. No. 2 — standard deduction	(50,000)	(75,000)
Less: Sl. No. 1 — tax on employment	(2,000)	Not allowed
INCOME FROM SALARIES = GROSS TOTAL INCOME	**25,19,200**	**25,97,000**
Less: deduction under section 123 (Public Provident Fund)	(1,50,000)	Not allowed
Less: deduction under section 126 (health insurance)	(25,000)	Not allowed
TOTAL INCOME	**23,44,200**	**25,97,000**
Income-tax on total income	5,15,760	3,59,100
Add: health and education cess @ 4%	20,630	14,364
TAX PAYABLE (rounded off)	**5,36,390**	**3,73,460**

Tax computation shown

- **Optional regime, ₹23,44,200** — nil up to ₹2,50,000; ₹12,500 + ₹1,00,000 on the next two slabs; ₹13,44,200 @ 30% = ₹4,03,260. Total **₹5,15,760**.
- **Default regime, ₹25,97,000** — nil up to ₹4,00,000; ₹20,000 + ₹40,000 + ₹60,000 + ₹80,000 + ₹1,00,000 on the next five slabs; ₹1,97,000 @ 30% = ₹59,100. Total **₹3,59,100**.

What this problem is really testing

Three terminal payments, and each capped by a measure of a different kind — a statutory formula in the Payment of Gratuity Act, a ten-month average of his own salary, and a flat ₹5,00,000 that has nothing to do with either salary or service. Of the ₹48,00,000 he received on retirement, ₹31,20,000 is deducted and ₹16,80,000 is taxed.

The flat cap is the point to remember. The voluntary retirement deduction is ₹5,00,000 whether the compensation is ₹6,00,000 or ₹60,00,000, and it may be taken once in a working life. That is why section 19(2)(e) forbids a second claim in a later year and why section 157(2) forbids taking the relief for arrears on the same money. **The default regime saves Shri Kailash Nath ₹1,62,930.**

10.12 Problem 11 — two employers in one year, and the lifetime ceilings

Problem

Shri Lalit Kumar, aged 58, resigned from Alpha Ltd on 31 July 2026 after 24 years and 7 months of service, and joined Beta Ltd on 1 September 2026. The Payment of Gratuity Act, 1972 applies to neither employment. From Alpha Ltd he drew basic salary of ₹90,000 per month and dearness allowance of ₹30,000 per month, of which 60% entered into retirement benefits; on leaving he received gratuity of ₹13,00,000 and leave encashment of ₹9,50,000 for 240 days of unavailed earned leave. From Beta Ltd he draws basic salary of ₹1,00,000 per month and dearness allowance of ₹20,000 per month which does not enter into retirement benefits, and Beta Ltd has provided him, from 1 September 2026, with an unfurnished flat at Indore which it owns, free of rent; the population of Indore exceeds 15 lakh but does not exceed 40 lakh. In Tax Year 2019-20 he had retired from Gamma Ltd and was then allowed ₹8,00,000 as an exemption for gratuity under section 10(10) of the Income-tax Act, 1961 and ₹3,00,000 for leave encashment under section 10(10AA). He paid professional tax of ₹2,500 in all, deposited ₹1,20,000 in the Public Provident Fund and paid ₹32,000 as health insurance premium for himself. Compute his tax liability under both regimes.

Solution — working notes

Note 1 — one standard deduction, not two. Serial number 2 of the Table to section 19(1) allows "₹75,000 or the salary, whichever is less" against income under the head "Salaries". The head is one, however many employers there may be in the year. Two employers do not give two standard deductions. The same is true of serial number 1, which is allowed on the professional tax actually paid, whoever it was paid to.

Note 2 — gratuity [Sl. No. 6], and the ceiling that is not ₹20,00,000. The Payment of Gratuity Act does not apply, so serial number 6 governs. Average salary of the ten months immediately preceding the month of leaving = basic ₹90,000 + DA in terms (60% of ₹30,000 = ₹18,000) = ₹1,08,000. Completed service is 24 years, the seven months being ignored. The minimum of —

- (a) the actual gratuity received ₹13,00,000;
- (b) the notified amount ₹20,00,000, reduced by section 19(2)(a) by the ₹8,00,000 allowed to him in Tax Year 2019-20 = ₹12,00,000;
- (c) ½ × ₹1,08,000 × 24 = ₹12,96,000.
- **Deduction ₹12,00,000. Taxable excess ₹1,00,000.**

Without section 19(2)(a) the deduction would have been ₹12,96,000 and ₹96,000 less would have been taxed. The provision speaks of amounts received in earlier years and allowed **"as an exemption or a deduction"** — and it is the first half of that expression that reaches back into the Income-tax Act, 1961 and catches the ₹8,00,000. Any working life that straddles 31 March 2026 will meet this provision.

Note 3 — leave encashment [Sl. No. 14]. Average salary ₹1,08,000, as above. Actual service 24 years, so the entitlement is capped at 30 × 24 = 720 days and his 240 days are within it. The minimum of —

- (a) (240 ÷ 30) × ₹1,08,000 = ₹8,64,000;
- (b) 10 × ₹1,08,000 = ₹10,80,000;
- (c) ₹25,00,000, reduced by section 19(2)(f) by the ₹3,00,000 allowed in Tax Year 2019-20 = ₹22,00,000;
- (d) the actual payment received ₹9,50,000.
- **Deduction ₹8,64,000 — limb (a) bites. Taxable excess ₹86,000.**

Here the aggregate ceiling makes no difference to the answer, because limb (a) is the smallest in any event. It must still be written out. Limb (c) is a limb, and an examiner marks all four.

Note 4 — the accommodation provided by Beta Ltd. Rule 15(2), Table I. Beta Ltd owns the flat and the population of Indore exceeds 15 lakh but not 40 lakh, so the rate is 7.5%. Salary for this purpose is the salary of the employer who provides the accommodation, for the period of occupation only, and the dearness allowance is excluded, not entering into retirement benefits: ₹1,00,000 × 7 = ₹7,00,000. **Value = 7.5% of ₹7,00,000 = ₹52,500.** Do not aggregate the Alpha Ltd salary into this figure, and do not take twelve months.

Note 5 — health insurance. He is 58, so section 126 allows ₹25,000, not the ₹50,000 available where the assessee or a family member is a senior citizen. He paid ₹32,000; ₹25,000 is deductible, and only under the optional regime.

Particulars	Optional regime (₹)	Default regime (₹)
Basic salary — Alpha Ltd (₹90,000 × 4)	3,60,000	3,60,000
Dearness allowance — Alpha Ltd (₹30,000 × 4)	1,20,000	1,20,000
Gratuity received [Note 2]	13,00,000	13,00,000
Leave encashment received [Note 3]	9,50,000	9,50,000
Basic salary — Beta Ltd (₹1,00,000 × 7)	7,00,000	7,00,000
Dearness allowance — Beta Ltd (₹20,000 × 7)	1,40,000	1,40,000
Perquisite — rent-free accommodation at Indore [Note 4]	52,500	52,500
GROSS SALARY	**36,22,500**	**36,22,500**

Particulars	Optional regime (₹)	Default regime (₹)
Less: Sl. No. 6 — gratuity [Note 2]	(12,00,000)	(12,00,000)
Less: Sl. No. 14 — leave encashment [Note 3]	(8,64,000)	(8,64,000)
Less: Sl. No. 2 — standard deduction, once only [Note 1]	(50,000)	(75,000)
Less: Sl. No. 1 — tax on employment	(2,500)	Not allowed
INCOME FROM SALARIES = GROSS TOTAL INCOME	**15,06,000**	**14,83,500**
Less: deduction under section 123 (Public Provident Fund)	(1,20,000)	Not allowed
Less: deduction under section 126 (health insurance) [Note 5]	(25,000)	Not allowed
TOTAL INCOME	**13,61,000**	**14,83,500**
Income-tax on total income	2,20,800	1,02,525
Add: health and education cess @ 4%	8,832	4,101
TAX PAYABLE (rounded off)	**2,29,630**	**1,06,630**

Tax computation shown

- **Optional regime, ₹13,61,000** — ₹12,500 + ₹1,00,000 + ₹3,61,000 @ 30% = ₹1,08,300. Total **₹2,20,800**.
- **Default regime, ₹14,83,500** — nil up to ₹4,00,000; ₹20,000 + ₹40,000 on the next two slabs; ₹2,83,500 @ 15% = ₹42,525. Total **₹1,02,525**.

What this problem is really testing

The ceilings in section 19(2)(a) and (f) are lifetime ceilings across all employers — not annual, and not per employer. A gratuity exempted under section 10(10) of the 1961 Act in Tax Year 2019-20 reduces the deduction available under section 19 of the 2025 Act seven years later. That is precisely why the Act says "as an exemption or a deduction" instead of simply "as a deduction".

The second point is quieter and is missed more often: one head, one standard deduction. Where a question gives two employers, resist the temptation to write ₹75,000 twice — and value the accommodation on the salary of the employer who provided it, for the months he occupied it. **The default regime saves Shri Lalit Kumar ₹1,23,000.**

10.13 Problem 12 — a senior citizen: pension, re-employment and the rebate

Problem

Smt. Meera Devi, aged 62, retired from Vidya Public School, a private school, on 31 March 2026, when she received gratuity. For Tax Year 2026-27 — (i) she draws a pension of ₹32,000 per month from the school, and on 1 October 2026 she commuted 50% of it and received ₹9,60,000; (ii) from 1 July 2026 she is employed as a faculty member with Prayas Coaching Institute at ₹40,000 per month, and the institute has provided her, from that date, with a 1,200 cc motor car which it owns, used for both official and personal purposes, the institute meeting all running expenses and providing no chauffeur; (iii) she paid professional tax of ₹2,500, deposited ₹90,000 in the Public Provident Fund, paid ₹52,000 as health insurance premium for herself, and paid ₹40,000 as interest on a loan taken from a bank for her daughter's higher education. Compute her tax liability under both regimes and advise her.

Solution — working notes

Note 1 — pension, uncommuted and commuted [Sl. No. 8].

- **Uncommuted.** April to September at ₹32,000 = ₹1,92,000; October to March at 50% of ₹32,000 = ₹16,000 × 6 = ₹96,000. Total ₹2,88,000, fully taxable, with no deduction, in both regimes.
- **Commuted.** She commuted 50% for ₹9,60,000, so the full value of the pension = ₹9,60,000 × 100 ÷ 50 = ₹19,20,000. She is not a Government employee, and she has received gratuity, so serial number 8(a) allows the commuted value of one-third = ₹6,40,000. Deduction ₹6,40,000; the whole ₹9,60,000 enters gross salary and ₹3,20,000 of it remains taxed.
- **Gross up first.** One-third of the ₹9,60,000 received is ₹3,20,000, and that is the commonest error in the chapter — wrong by ₹3,20,000 of deduction.

Note 2 — is she a specified employee? The car is a benefit within section 17(1)(c)(ii) and is chargeable only in the hands of a specified employee. She is not a director and holds no substantial interest, so everything turns on the third test — income under the head "Salaries" by way of monetary payment, after the deductions of section 19, must exceed the prescribed amount of ₹4,00,000 [Rule 17].

Particulars	Optional regime (₹)	Default regime (₹)
Pension, uncommuted	2,88,000	2,88,000
Commuted pension received	9,60,000	9,60,000
Salary from the coaching institute (₹40,000 × 9)	3,60,000	3,60,000
MONETARY SALARY	**16,08,000**	**16,08,000**
Less: Sl. No. 8 — commuted pension	(6,40,000)	(6,40,000)
Less: Sl. No. 2 — standard deduction	(50,000)	(75,000)
Less: Sl. No. 1 — tax on employment	(2,500)	Not allowed
SALARY FOR THE TEST	**9,15,500**	**8,93,000**
Does it exceed ₹4,00,000?	YES	YES
Is she a specified employee?	**SPECIFIED**	**SPECIFIED**

This is the movement described in the Preface. A commuted pension is a monetary payment, so it enters the numerator of the test; and, being a section 19 deduction, it comes out again. The net effect here is neutral, but both movements must be shown. She is a specified employee under either regime, so the car is taxable in her hands.

Note 3 — the motor car [Rule 15(3), Table II, Sl. No. (1)(c)(i)]. The cubic capacity does not exceed 1.6 litres, the institute owns the car and meets the expenses, and the use is mixed: ₹5,000 per month for the nine months from 1 July 2026 = ₹45,000. No chauffeur is provided, so nothing is added.

Note 4 — what her age is worth, and what it is not.

- Under the optional regime the basic exemption for a resident aged sixty or more is ₹3,00,000 instead of ₹2,50,000. At 5% that is worth ₹2,500 of tax.
- Under the default regime there is **no** higher exemption for age at all. The ₹4,00,000 of section 202(1) applies to everyone, at every age.
- Section 126 allows ₹50,000, not ₹25,000, where the assessee is a senior citizen. She paid ₹52,000, so ₹50,000 is deductible — under the optional regime only.
- Section 129 allows the whole of the interest on a loan for higher education, with no ceiling — again under the optional regime only.

Particulars	Optional regime (₹)	Default regime (₹)
Pension — uncommuted [Note 1]	2,88,000	2,88,000
Commuted pension received [Note 1]	9,60,000	9,60,000
Salary from the coaching institute	3,60,000	3,60,000

Particulars	Optional regime (₹)	Default regime (₹)
Perquisite — motor car [Note 3]	45,000	45,000
GROSS SALARY	**16,53,000**	**16,53,000**
Less: Sl. No. 8 — commuted pension [Note 1]	(6,40,000)	(6,40,000)
Less: Sl. No. 2 — standard deduction	(50,000)	(75,000)
Less: Sl. No. 1 — tax on employment	(2,500)	Not allowed
INCOME FROM SALARIES = GROSS TOTAL INCOME	**9,60,500**	**9,38,000**
Less: deduction under section 123 (Public Provident Fund)	(90,000)	Not allowed
Less: deduction under section 126 (health insurance, senior citizen)	(50,000)	Not allowed
Less: deduction under section 129 (interest on an education loan)	(40,000)	Not allowed
TOTAL INCOME	**7,80,500**	**9,38,000**
Income-tax on total income	66,100	33,800
Less: rebate under section 156	Nil	(33,800)
Add: health and education cess @ 4%	2,644	Nil
TAX PAYABLE (rounded off)	**68,740**	**NIL**

Tax computation shown

- **Optional regime, ₹7,80,500** — nil up to ₹3,00,000, she being aged sixty or more; ₹2,00,000 @ 5% = ₹10,000; ₹2,80,500 @ 20% = ₹56,100. Total **₹66,100**. The rebate under section 156(1) is not available, her total income exceeding ₹5,00,000.
- **Default regime, ₹9,38,000** — nil up to ₹4,00,000; ₹4,00,000 @ 5% = ₹20,000; ₹1,38,000 @ 10% = ₹13,800. Total ₹33,800. Total income does not exceed ₹12,00,000, so section 156(2)(a) gives a rebate of the whole ₹33,800, that being less than ₹60,000. Tax after rebate **nil** — and therefore no cess either, cess being charged on the tax that remains after the rebate.

Advice, and the lesson — where the rebate settles the question

Smt. Meera Devi should stay in the default regime, where she pays nothing at all, and she need do nothing to stay in it. Opting out would cost her ₹68,740.

Look at why. Under the optional regime her total income is lower by ₹1,57,500 — ₹1,80,000 of Chapter VIII deductions and ₹2,500 of professional tax, against ₹25,000 less of standard deduction — and she also has the higher basic exemption of ₹3,00,000 that her age gives her. She still pays ₹68,740, because on the default side the ₹60,000 rebate of section 156(2) simply wipes out the whole of a ₹33,800 tax bill.

The working rule for a modest income is therefore this: **where total income under the default regime does not exceed ₹12,00,000, compute the default regime first. If the rebate reduces the tax to nil, the comparison is over** — no amount of deduction under the optional regime can beat nothing. Age helps a little in the optional regime and not at all in the default one; the rebate helps a great deal, and only in the default one.

10.14 The twelve problems at a glance

	Problem	What it tests	Which regime wins
1	Shri Arun Kumar	HRA, children education allowance, the two regimes compared	Default, by ₹18,600
2	Shri Bhaskar	Specified employee; accommodation, car, education, loan —	Default (only regime

	Problem	What it tests	Which regime wins
		four thresholds	asked)
3	Shri Chandra Mohan	Year of retirement, private sector: s. 19 Sl. 6, 8 and 14; marginal relief	Default (only regime asked)
4	Shri Dinesh	Relief under section 157, and the effect of losing the s. 156(2) rebate	Default (only regime asked)
5	Smt. Ekta Sharma	HRA where salary, rent and city all change; the eight-city list	**Optional**, by ₹29,380
6	Shri Farhan Ali	Provident fund: the ₹7,50,000 test, and interest above the notified rate; the NPS deduction that survives	Default, by ₹1,35,260
7	Gopal and Harish	The specified employee test at ₹4,00,000; the ₹3,000 education cliff	Optional (only regime asked)
8	Shri Iqbal Singh	Year of retirement, Government: s. 19 Sl. 3, 7 and 13; entertainment allowance abolished	Default, by ₹1,68,080
9	Shri Jatin Malhotra	The Rule 15(5) perquisites — LTC, meals, gifts, credit card, club, use and transfer of assets	Default, by ₹1,34,430
10	Shri Kailash Nath	Voluntary retirement: s. 19 Sl. 5, 12 and 14; the flat ₹5,00,000 cap	Default, by ₹1,62,930
11	Shri Lalit Kumar	Two employers in one year; the lifetime ceilings of s. 19(2)(a) and (f)	Default, by ₹1,23,000
12	Smt. Meera Devi	A senior citizen; commuted pension; the s. 156(2) rebate that makes the tax nil	Default — tax NIL

Chapter 11

Revision, Ready Reckoner and Question Bank

11.1 Old section to new section — salaries

Concept or provision	Income-tax Act, 2025	Income-tax Act, 1961
Basis of charge — Salaries	Section 15	Section 15
Meaning of salary	Section 16	Section 17(1)
Perquisite	Section 17	Section 17(2)
Profits in lieu of salary	Section 18	Section 17(3)
Standard deduction	Section 19(1), Table, **Sl. No. 2**	Section 16(ia)
Tax on employment (professional tax)	Section 19(1), Table, **Sl. No. 1**	Section 16(iii)
Entertainment allowance deduction	**ABOLISHED — no counterpart**	Section 16(ii)
Gratuity	Section 19(1), Table, **Sl. Nos. 3 to 6**	Section 10(10)
Commuted pension	Section 19(1), Table, **Sl. Nos. 7 to 9**	Section 10(10A)
Retrenchment compensation	Section 19(1), Table, **Sl. Nos. 10 and 11**	Section 10(10B)
Voluntary retirement compensation	Section 19(1), Table, **Sl. No. 12**	Section 10(10C)
Leave encashment	Section 19(1), Table, **Sl. Nos. 13 and 14**	Section 10(10AA)
Leave travel concession	Schedule III, Sl. No. 8, with Rule 277	Section 10(5)
House rent allowance	Schedule III, Sl. No. 11, with Rule 279	Section 10(13A) with Rule 2A
Special allowances — duties of the office	Schedule III, Sl. No. 12, with Rule 280(1)	Section 10(14)(i) with Rule 2BB(1)
Special allowances — personal expenses	Schedule III, Sl. No. 13, with Rule 280(2)	Section 10(14)(ii) with Rule 2BB(2)
Tax on a non-monetary perquisite paid by the employer	Schedule III, Sl. No. 10	Section 10(10CC)
Payments from provident funds	Schedule II, Sl. Nos. 3 and 4	Sections 10(11) and 10(12)
Payment from an approved superannuation fund	Schedule II, Sl. No. 8	Section 10(13)
Recognised provident funds, approved superannuation and gratuity funds	Schedule XI	The Fourth Schedule
Tax on the accumulated balance of a recognised provident fund	Section 191	Section 111
Valuation of perquisites generally	Rule 15	Rule 3
Rent-free and concessional accommodation	Rule 15(2)	Rule 3(1)
Motor car	Rule 15(3)	Rule 3(2)
Servants; gas, electricity and water; education; free transport	Rule 15(4)	Rules 3(3) to 3(6)
Loans, travel, meals, gifts, credit card, club, movable assets, residual	Rule 15(5)	Rule 3(7)
Sweat equity shares and specified securities	Section 17(4), with Rule 15	Rules 3(8) and 3(9)

Concept or provision	Income-tax Act, 2025	Income-tax Act, 1961
Specified employee — salary threshold	**Rule 17 — ₹4,00,000**	₹50,000 (in the Act)
Overseas medical treatment — travel threshold	**Rule 19 — ₹8,00,000**	₹2,00,000 (in the Act)
Rebate for a resident individual	Section 156(1) and (2)	Section 87A
Relief for arrears or advance salary	Section 157(1)	Section 89(1)
The default (new) tax regime	Section 202	Section 115BAC
Deduction for life insurance premia, provident fund, tuition fees	Section 123 with Schedule XV	Section 80C
Deduction for the National Pension System	Section 124	Section 80CCD
Deduction for the Agnipath Scheme	Section 125	Section 80CCH
Deduction for health insurance premia	Section 126	Section 80D
Deduction for interest on an education loan	Section 129	Section 80E
Deduction for rent paid	Section 134	Section 80GG
Deduction for interest on deposits	Section 153	Sections 80TTA and 80TTB
Deduction for donations	Section 133	Section 80G
Deduction for additional employee cost	Section 146	Section 80JJAA
Deduction of tax at source from salary	Section 392	Section 192
Certificate of tax deducted from salary	Form 130	Form 16
Employee's declaration of claims to the employer	Form 124	Form 12BB
Relief for arrears — claim form	Form No. 39 [Rule 73]	Form 10E

11.2 The limits, on one page

Item	Limit for Tax Year 2026-27
Standard deduction — default regime	**₹75,000**
Standard deduction — optional regime	**₹50,000**
Entertainment allowance deduction	**NIL — abolished; no such deduction exists**
Tax on employment (professional tax)	Whole amount; **not allowed** in the default regime
Gratuity — Government, defence, local authority	Entire amount, no ceiling
Gratuity — others; the notified lifetime ceiling	₹20,00,000
Gratuity — Payment of Gratuity Act formula	15 ÷ 26 × last drawn wages × completed years (part over 6 months rounded up)
Gratuity — other employees, formula	½ × ten-month average salary × completed years (fractions ignored)
Leave encashment — Central or State Government	Entire amount
Leave encashment — others; notified lifetime ceiling	₹25,00,000; leave credit capped at 30 days per year of actual service; 10 months' average salary
Retrenchment compensation — notified amount	₹5,00,000 (Act's floor: not less than ₹50,000)
Voluntary retirement compensation	₹5,00,000, once in a lifetime; mutually exclusive with section 157 relief

Item	Limit for Tax Year 2026-27
Commuted pension — Government, local authority, statutory corporation, approved fund	Entire amount
Commuted pension — any other employee	One-third of the full value with gratuity; one-half without
Children education allowance	₹3,000 per month per child, two children
Hostel expenditure allowance	₹9,000 per month per child, two children
Transport allowance for a disabled employee	₹15,000 + DA per month (metro); ₹8,000 + DA (other cities)
Free education **perquisite** threshold	₹3,000 per month per child; **no limit on the number of children**; a threshold, not a slab
Free meals at office or by voucher	₹200 per meal
Gifts in kind	Nil value where the aggregate for the year is **below** ₹15,000
Interest-free loan — no perquisite where the aggregate does not exceed	₹2,00,000
Specified employee — prescribed salary [Rule 17]	₹4,00,000
Overseas medical treatment — gross total income for the travel exemption [Rule 19]	₹8,00,000
Employer's contribution to RPF, superannuation and NPS together	₹7,50,000
Interest credited to a recognised provident fund	9.5% per annum (notified rate)
Employee's own PF contribution — interest above this is taxable	₹2,50,000 (₹5,00,000 where the employer does not contribute)
Rent-free accommodation owned by the employer	10% / 7.5% / 5% of salary by population (40 lakh / 15 lakh)
Accommodation leased by the employer	Lower of actual lease rent and 10% of salary
Furniture owned by the employer	10% per annum of cost
Motor car up to 1.6 litres **or electric** / above 1.6 litres, mixed use, employer bearing expenses	₹5,000 / ₹7,000 per month, plus ₹3,000 for a chauffeur
The same, where the employee bears the running expenses	₹2,000 / ₹3,000 per month, plus ₹3,000 for a chauffeur
Transfer of a movable asset — depreciation	Computers and electronics 50% WDV; motor cars 20% WDV; others 10% of cost, straight line
House rent allowance — the 50% cities	Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad, Bengaluru; 40% everywhere else
Underground allowance	15% of basic pay
Island duty allowance — capital town / difficult / more difficult	10% / 16% / 20% of basic pay
Siachen allowance	₹42,500 per month
High altitude allowance — 9,000–15,000 ft (and below 9,000 ft, uncongenial) / above 15,000 ft / all locations in J&K, Ladakh, Sikkim, Uttarakhand	₹4,500 / ₹7,000 / ₹30,000 per month
Counter-insurgency and highly active field area allowances	₹22,000 per month each
Compensatory field area / modified field area allowance	₹13,500 / ₹8,000 per month
Remote locality allowance — Tough Location I / II / III	₹7,000 / ₹4,500 / ₹1,500 per month
Transport system employees' running allowance	70% of the allowance, maximum ₹25,000 per month

Item	Limit for Tax Year 2026-27
Rebate under section 156(1) — optional regime	₹12,500 where total income does not exceed ₹5,00,000
Rebate under section 156(2) — default regime	₹60,000 where total income does not exceed ₹12,00,000, with **marginal relief** above it
Basic exemption — default regime	₹4,00,000, whatever the age
Basic exemption — optional regime	₹2,50,000; ₹3,00,000 if aged 60 or more; ₹5,00,000 if aged 80 or more
Health and education cess	4%

11.3 Objective questions

A. Choose the correct alternative

1. Income from salary is chargeable under — (a) section 15 (b) section 16 (c) section 17 (d) section 19 of the Income-tax Act, 2025.
2. The meaning of salary is given in — (a) section 15 (b) section 16 (c) section 17 (d) section 18.
3. Salary is taxable on — (a) due basis only (b) receipt basis only (c) due or receipt basis, whichever is earlier (d) due or receipt basis, whichever is later.
4. Remuneration received by a partner from his firm is taxable under the head — (a) salaries (b) profits and gains of business or profession (c) income from other sources (d) exempt.
5. Salary received by a Member of Parliament is taxable under the head — (a) salaries (b) business or profession (c) income from other sources (d) exempt.
6. For Tax Year 2026-27 an employee is a specified employee under the third test if his monetary salary, after the section 19 deductions, exceeds — (a) ₹50,000 (b) ₹1,00,000 (c) ₹4,00,000 (d) ₹8,00,000.
7. The exemption for children education allowance for Tax Year 2026-27 is — (a) ₹100 per month per child for two children (b) ₹3,000 per month per child for two children (c) ₹9,000 per month per child for two children (d) ₹3,000 per month for all children together.
8. House rent allowance is exempt under — (a) section 19 (b) Schedule II (c) Schedule III (d) Rule 15.
9. Where the accommodation is owned by a non-Government employer and is situated in a city with a population exceeding 40 lakh, the perquisite is — (a) 5% of salary (b) 7.5% of salary (c) 10% of salary (d) 15% of salary.
10. Furniture provided with rent-free accommodation and owned by the employer is valued at — (a) 5% per annum of cost (b) 10% per annum of cost (c) 15% per annum of cost (d) 20% per annum of cost.
11. A car of 1,600 cc owned by the employer, used for both purposes, the employer meeting the running expenses, is valued at — (a) ₹2,000 per month (b) ₹3,000 per month (c) ₹5,000 per month (d) ₹7,000 per month.
12. On the transfer of a computer to an employee, depreciation is allowed at — (a) 10% straight line (b) 20% written down value (c) 50% written down value (d) 25% written down value.
13. Gratuity received by a Central Government employee is — (a) fully taxable (b) wholly deductible under section 19 (c) deductible up to ₹20,00,000 (d) deductible up to ₹25,00,000.
14. Where the Payment of Gratuity Act, 1972 applies, service of 16 years and 7 months is taken as — (a) 16 years (b) 17 years (c) 16.5 years (d) 16 years 7 months.
15. Leave encashment received DURING service is — (a) wholly deductible (b) fully taxable (c) deductible up to ₹25,00,000 (d) deductible up to ₹3,00,000.
16. A non-Government employee who receives gratuity gets a deduction on commuted pension of — (a) one-half of the full value (b) one-third of the full value (c) the whole amount (d) nothing.
17. The standard deduction under the default regime of section 202 is — (a) ₹40,000 (b) ₹50,000 (c) ₹60,000 (d) ₹75,000.
18. **Under the Income-tax Act, 2025 the deduction for entertainment allowance is available to** — (a) all employees (b) Government employees only (c) Government employees under the optional regime only (d) **nobody — the deduction has been abolished**.
19. The accumulated balance of a recognised provident fund is excluded if the employee has rendered continuous service of — (a) 3 years (b) 5 years (c) 7 years (d) 10 years.

20. Relief where salary is received in arrears is granted under — (a) section 89 (b) section 156 (c) section 157 (d) section 202 of the Income-tax Act, 2025.
21. Perquisites are valued under — (a) Rule 3 (b) Rule 15 (c) Schedule III (d) Schedule XI of the Income-tax Rules, 2026.
22. The number of cities in which house rent allowance is computed at 50% of salary for Tax Year 2026-27 is — (a) four (b) six (c) eight (d) ten.
23. Which of these is NOT one of the 50% cities? — (a) Pune (b) Ahmedabad (c) Gurugram (d) Hyderabad.
24. Free meals provided at the office are exempt up to — (a) ₹50 per meal (b) ₹100 per meal (c) ₹200 per meal (d) ₹500 per meal.
25. No perquisite arises on an interest-free loan where the aggregate does not exceed — (a) ₹20,000 (b) ₹50,000 (c) ₹1,00,000 (d) ₹2,00,000.
26. **How many deductions does the Table to section 19(1) contain?** — (a) three (b) eight (c) **fourteen** (d) twenty.
27. **Which single entry of section 19 does the default regime withdraw?** — (a) the standard deduction (b) **the tax on employment** (c) the gratuity deduction (d) none of them.
28. **Under the Income-tax Act, 2025 gratuity, commuted pension and leave encashment are** — (a) exemptions under Schedule III (b) exemptions under Schedule II (c) **deductions under section 19** (d) not chargeable at all.
29. The rebate under section 156(2) in the default regime is — (a) ₹12,500 up to ₹5,00,000 (b) ₹25,000 up to ₹7,00,000 (c) **₹60,000 up to ₹12,00,000** (d) ₹75,000 up to ₹15,00,000.

B. State whether True or False

1. Salary from a former employer is chargeable under the head "Salaries".
2. Salary foregone by an employee after it has become due is not taxable.
3. An advance taken against future salary is taxable in the year of receipt.
4. Sitting fees received by a non-executive director are salary.
5. A director is a specified employee whatever his salary may be.
6. The exemption for free education provided by the employer is ₹3,000 per month per child for a maximum of two children.
7. Where the cost of education provided by the employer exceeds ₹3,000 per month per child, only the excess is taxable.
8. The amount recovered from the employee is deducted while valuing a car used for both official and personal purposes.
9. The ₹20,00,000 gratuity ceiling applies separately to each employer.
10. Leave encashment received by a Central Government employee on retirement is wholly deductible under section 19.
11. Professional tax paid by the employer on behalf of the employee is first added to gross salary and then allowed as a deduction.
12. Under the default regime of section 202, house rent allowance continues to be exempt.
13. Family pension received by a widow is taxable under the head "Salaries".
14. Relief under section 157 is claimed in Form 10E.
15. The Public Provident Fund is exempt on contribution, on interest and on withdrawal.
16. Gratuity received by a private-sector employee never enters gross salary.
17. An employee of the Life Insurance Corporation gets his commuted pension wholly deducted, but must compute his leave encashment deduction on the four-limb formula.
18. A person who claims the voluntary retirement deduction under section 19(1), Table, Sl. No. 12 may also claim relief under section 157 on the same amount.
19. Under the default regime the basic exemption is ₹5,00,000 for a resident aged eighty or more.
20. An electric car provided by the employer for mixed use is valued at ₹5,000 per month whatever its size.

C. Fill in the blanks

1. The relationship necessary for income to be taxed as salary is a contract __ service.
2. House rent allowance is exempt to the extent of the __ of three amounts.

3. For an employee living in Chennai, the third limb of the HRA computation is __ per cent of salary.
4. The prescribed amount for the specified employee test is ₹__.
5. The value of the use of a movable asset owned by the employer is __ per cent per annum of its actual cost.
6. On the transfer of a motor car to an employee, depreciation is allowed at __ per cent on the written down value.
7. Gratuity where the Payment of Gratuity Act applies is computed as __ / 26 × last drawn wages × completed years.
8. The notified lifetime ceiling for the deduction of leave encashment is ₹__.
9. The Table to section 19(1) contains __ serial numbers.
10. Relief for arrears of salary is granted under section __ of the Income-tax Act, 2025.
11. The deduction for entertainment allowance under the Income-tax Act, 2025 is __.
12. Under section 202(2)(a)(iv) the only deduction of section 19 that is withdrawn is that at serial number __.

Answers

A. Multiple choice

1 (a) 2 (b) 3 (c) 4 (b) 5 (c) 6 (c) 7 (b) 8 (c) 9 (c) 10 (b) 11 (c) 12 (c) 13 (b) 14 (b) 15 (b)

16 (b) 17 (d) 18 (d) 19 (b) 20 (c) 21 (b) 22 (c) 23 (c) 24 (c) 25 (d) 26 (c) 27 (b) 28 (c) 29 (c)

Note on 11. A car of exactly 1,600 cc does **not exceed** 1.6 litres, so it falls in column C of Table II, not column D. The answer is ₹5,000, not ₹7,000. The trap is deliberate; "1,600 cc" and "exceeding 1.6 litres" are not the same thing.

Note on 18, 26, 27 and 28. These four test the architecture of section 19 rather than any formula, and that is exactly what a new statute gets examined on in its first year.

B. True or False

1 True 2 False — it is an application of income and remains taxable 3 False — a loan against salary is not income 4 False — income from other sources 5 True

6 False — there is no limit on the number of children for the education **perquisite** 7 False — the whole cost is taxable, not the excess 8 False — the Rule provides for a reduction only in the wholly-personal-use case

9 False — it is a lifetime ceiling across all employers [s. 19(2)(a)] 10 True [s. 19(1), Table, Sl. No. 13] 11 True 12 False — it is withdrawn

13 False — income from other sources 14 False — the form prescribed by rule 73 of the Income-tax Rules, 2026 is Form No. 39 15 True 16 False — it enters gross salary in full and is then deducted under section 19

17 True — Sl. No. 7(b)(v) covers him for commuted pension, but Sl. No. 13 does not 18 False — section 157(2) and section 19(2)(e)(iii) forbid it

19 False — the default regime has one exemption limit of ₹4,00,000 for all ages 20 True — Rule 15(3), Table II, column C

C. Fill in the blanks

1. **of** 2. **least** 3. **50** 4. **4,00,000** 5. **10** 6. **20** 7. **15** 8. **25,00,000** 9. **fourteen** 10. **157** 11. **nil — the deduction has been abolished** 12. **1 (tax on employment)**

11.4 Theory questions

Short answer (about 5 marks each)

1. Distinguish between a contract of service and a contract for service, and state why the distinction matters.
2. Explain the basis of charge of salary under section 15.
3. Distinguish between advance salary and an advance against salary.
4. Explain the three different meanings of the word "salary" used in this chapter.
5. Who is a "specified employee"? State the change made in the prescribed amount and where it is now to be found.

6. **"Under the Income-tax Act, 2025 the retirement benefits are deductions, not exemptions." Explain the statement and state two consequences of the change.**
7. State the perquisites which are exempt in the hands of all employees.
8. Explain the valuation of an interest-free or concessional loan.
9. Distinguish between children education allowance and the education perquisite.
10. **Set out the fourteen deductions in the Table to section 19(1), grouped by subject.**
11. **What has become of the deduction for entertainment allowance? State the position under each regime.**
12. Explain the aggregate ceilings in section 19(2)(a) and (f), and why they refer to amounts allowed "as an exemption or a deduction".

Long answer (about 10 to 15 marks each)

1. Explain the provisions relating to the exemption of house rent allowance, and illustrate where salary, rent and city all change during the year.
2. Explain the valuation of rent-free and concessional accommodation under Rule 15(2) in the case of a Government employee and of any other employee, including the Cost Inflation Index cap.
3. Explain the valuation of the motor car perquisite in all the situations contemplated by Rule 15(3).
4. **Discuss the deduction for gratuity under section 19(1), Table, serial numbers 3 to 6, in the case of each category of employee, and distinguish serial number 5 from serial number 6.**
5. **Explain the deduction for leave encashment under serial numbers 13 and 14, and the four limbs of serial number 14.**
6. Explain the tax treatment of a statutory, a recognised, an unrecognised and a public provident fund at each of the four stages.
7. State what a salaried employee keeps and what he loses under the default regime of section 202, and advise how the choice should be made.
8. Explain the relief available under section 157, set out the steps of its computation, and state its relationship with the deduction under section 19(1), Table, serial number 12.
9. **Compare the architecture of the salary provisions of the Income-tax Act, 1961 with that of the Income-tax Act, 2025, and explain how the computation format has changed as a result.**

11.5 Where to go next

- **The bare Act and the Rules.** Sections 15 to 19, 156, 157 and 202, and Schedules II, III and XI of the Income-tax Act, 2025, together with Rules 15, 17, 19, 73, 279 and 280 of the Income-tax Rules, 2026, are available free at **incometaxindia.gov.in**. Read section 19 once with this booklet open beside it — the Table is two pages long and repays the twenty minutes.
- **The Income-tax Rules, 2026.** These replaced the Income-tax Rules, 1962 entirely and rewrote almost every figure in Chapters 3 and 4 — the motor car values, the meal and gift limits, the education and loan thresholds, the children education and hostel allowances, and the list of cities for house rent allowance. Any figure taken from material that predates April 2026 should be checked against them.
- **The prescribing rules that used to be figures in the Act.** Rule 17 (specified employee, ₹4,00,000) and Rule 19 (overseas medical travel, ₹8,00,000). Both figures moved out of the statute and into the Rules, and both were raised at the same time.
- **Your own Form 130 and Form 124.** Anyone in your family who is salaried will have them. Read a real salary certificate against the format in paragraph 10.1; nothing teaches this chapter faster. Note where the employer has put the gratuity — from this year it should be inside gross salary, with the section 19 deduction shown below.
- **This teacher's own material.** Syllabus, question papers, study notes and video links, free at **www.taxclasses.in** and on the YouTube channel **Tax Doctor**.

End of Unit 2, Part A. Part B takes up Income from House Property.

Written on the architecture of section 19 of the Income-tax Act, 2025.