

DEDUCTIONS FROM GROSS TOTAL INCOME

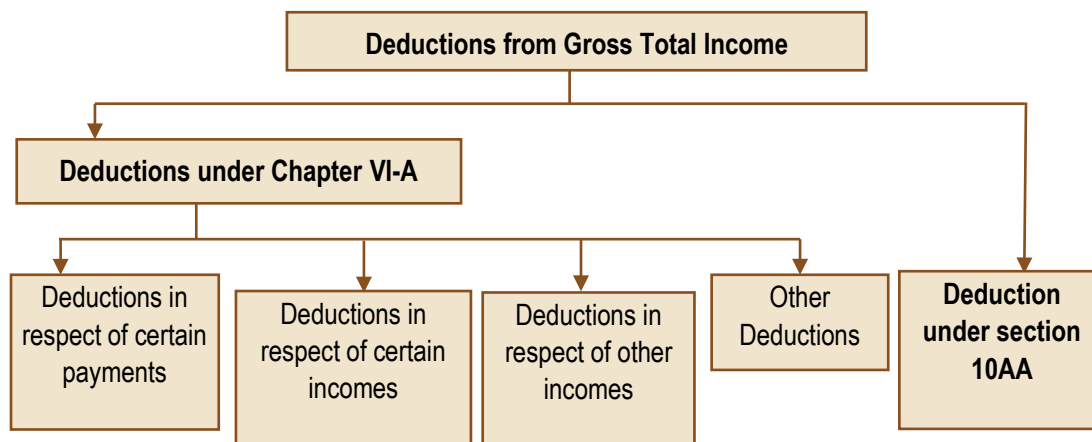


LEARNING OUTCOMES

After studying this chapter, you would be able to:

- ❑ **appreciate** the general provisions contained in “A – General” of Chapter VI-A relating to deductions to be made in computing total income;
- ❑ **analyse and apply** the provisions of Chapter VI-A contained in “B – Deductions in respect of certain payments” in problem solving and addressing related issues;
- ❑ **appreciate** the provisions of Chapter VI-A contained in “C – Deductions in respect of certain incomes” and “CA – Deductions in respect of other incomes”, and **analyse and apply** the provisions in problem solving and addressing related issues;
- ❑ **compute** the deduction allowable in the case of a person with disability under section 80U;
- ❑ **compute** the aggregate deduction available under Chapter VI-A to an assessee, if available, and thereafter, arrive at the total income of the assessee;
- ❑ **compute** the deduction available under section 10AA for units established in SEZs considering the conditions specified thereunder.

CHAPTER OVERVIEW



8.1 GENERAL PROVISIONS

As we have seen earlier, section 10 exempts certain incomes. Such income are excluded from the total income and do not enter into the computation process at all. On the other hand, Chapter VI-A contains deductions from gross total income. Section 10AA also provides for a deduction in respect of units established in SEZ from the total income of the assessee. The important point to be noted here is that if there is no gross total income, then no deductions will be permissible.

This Chapter contains deductions in respect of certain payments, deductions in respect of certain incomes, deductions in respect of other income and other deductions. It also includes deduction under section 10AA.

Section 80A

- (1) Section 80A(1) provides that in computing the total income of an assessee, there shall be allowed from his gross total income, the deductions specified in sections 80C to 80U.
- (2) According to section 80A(2), the aggregate amount of the deductions under this chapter shall not, in any case, exceed the gross total income of the assessee. Therefore, the total income after deductions will either be positive or nil. It cannot be negative due to deductions.

An assessee cannot have a loss as a result of the deduction under Chapter VI-A and claim to carry forward the same for the purpose of set-off against his income in the subsequent year.

- (3) Section 80A(3) provides that in the case of AOP/BOI, if any deduction is admissible under section 80G/80GGA/80GGC/80-IA/80-IB/80-ID/80-IE, no deduction under the same section shall be made in computing the total income of a member of the AOP or BOI in relation to the share of such member in the income of the AOP or BOI.
- (4) The profits and gains allowed as deduction under section 10AA or under any provision of Chapter VI-A under the heading "C.-Deductions in respect of certain incomes" in any assessment year, shall not be allowed as deduction under any other provision of the Act for such assessment year [Section 80A(4)];
- (5) The deduction, referred to in (4) above, shall not exceed the profits and gains of the undertaking or unit or enterprise or eligible business, as the case may be [Section 80A(4)];
- (6) No deduction under any of the provisions referred to in (4) above, shall be allowed if the deduction has not been claimed in the return of income [Section 80A(5)];
- (7) The transfer price of goods and services between such undertaking or unit or enterprise or eligible business and any other business of the assessee shall be determined at the market value of such goods or services as on the date of transfer. This is notwithstanding anything to the contrary contained in section 10AA or in any provision of Chapter VI-A under the heading "C- Deductions in respect of certain incomes" [Section 80A(6)].
- (8) For this purpose, the expression "market value" has been defined to mean,-
 - (a) in relation to any goods or services sold or supplied, the price that such goods or services would fetch if these were sold by the undertaking or unit or enterprise or eligible business in the open market, subject to statutory or regulatory restrictions, if any;
 - (b) in relation to any goods or services acquired, the price that such goods or services would cost if these were acquired by the undertaking or unit or enterprise or eligible business from the open market, subject to statutory or regulatory restrictions, if any;
 - (c) if it is a specified domestic transaction referred to in section 92BA, - in relation to any goods or services sold, supplied or acquired means the arm's length price as defined in section 92F(ii) of such goods or services.
- (9) Where a deduction under any provision of this Chapter under the heading "C – Deductions in respect of certain incomes" is claimed and allowed in respect of the profits of such specified business for any assessment year, no deduction under section 35AD is permissible in relation to such specified business for the same or any other assessment year.

In short, once the assessee has claimed the benefit of deduction under section 35AD for a particular year in respect of a specified business, he cannot claim benefit under Chapter VI-A under the heading “C.-Deductions in respect of certain incomes” for the same or any other year and *vice versa*.

Section 80AB

This section provides that for the purpose of calculation of deductions specified in Chapter VI-A under the heading “C - Deductions in respect of certain incomes”, the income computed in accordance with the provisions of the Act (before making any deduction under Chapter VI-A) shall alone be regarded as income received by the assessee and which is included in his gross total income. Accordingly, the deductions specified in the aforesaid sections will be calculated with reference to the net income as computed in accordance with the provisions of the Act (before making deduction under Chapter VI-A) and not with reference to the gross amount of such income. This is notwithstanding anything contained in the respective sections of Chapter VI-A.

Section 80AC: Furnishing return of income on or before due date mandatory for claiming deduction under Chapter VI-A under the heading “C.- Deductions in respect of certain incomes”

- (1) Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing benefit of deductions under any provision of Chapter VI-A under the heading “C. – Deductions in respect of certain incomes”.

Table showing the deductions contained in Chapter VI-A under the heading “C. – Deductions in respect of certain income”

Section	Deduction
80-IA	Deductions in respect of profits and gains from undertakings or enterprises engaged in infrastructure development/ operation/ maintenance, generation/ transmission/ distribution of power etc.
80-IAB	Deduction in respect of profits and gains derived by an undertaking or enterprise engaged in development of SEZ
80-IAC	Deduction in respect of profits and gains derived by an eligible start-up from an eligible business
80-IB	Deduction in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings
80-IBA	Deduction in respect of profits and gains from housing projects/rental housing projects
80-IE	Deduction in respect of profits and gains from manufacture or production of eligible article or thing, substantial expansion to manufacture or produce any

	eligible article or thing or carrying on of eligible business in North-Eastern States
80JJA	Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste
80JJAA	Deduction in respect of employment of new employees
80LA	Deduction in respect of certain income of Offshore Banking Units and International Financial Services Centre
80M	Deduction in respect of certain inter-corporate dividends
80P	Deduction in respect of income of co-operative societies
80QQB	Deduction in respect of royalty income, etc., of authors of certain books other than text books
80RRB	Deduction in respect of royalty on patents

- (2) The effect of this provision is that in case of failure to file return of income on or before the stipulated due date, the undertakings would lose the benefit of deduction under these sections.

ILLUSTRATION 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (a) *For grant of deduction u/s 80-IB, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.*
- (b) *Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80-IE.*

SOLUTION

- (a) **The statement is not correct.** Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, *inter alia*, under section 80-IB.
- (b) **The statement is correct.** As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, *inter alia*, section 80-IE.

Section 80B(5)

“Gross total income” means the total income computed in accordance with the provisions of the Act without making any deduction under Chapter VI-A. “Computed in accordance with the provisions of the Act” implies —

- (1) that deductions under appropriate computation section have already been given effect to;
- (2) that income of other persons, if includible under sections 60 to 64, has been included;
- (3) the intra head and/or inter head losses have been adjusted; and
- (4) that unabsorbed business losses, unabsorbed depreciation etc., have been set-off.

Two types of deductions are allowable from Gross Total Income - Deductions under Chapter VI-A and Deduction under section 10AA which are discussed in this chapter.

Let us first consider the deductions allowable in respect of certain payments.



8.2 DEDUCTIONS IN RESPECT OF PAYMENTS

(1) Deduction in respect of investment in specified assets [Section 80C]

Section 80C provides for a deduction from the Gross Total Income, of savings in specified modes of investments. The deduction under section 80C is available only to an individual or HUF.

Note - The deduction under section 80C is available only to an individual or HUF exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). It is not available under the default tax regime under section 115BAC.

The maximum permissible deduction under section 80C is ₹ 1,50,000. The following are the investments/contributions eligible for deduction –

(i) Contribution in Unit-linked Insurance Plan 1971

Contributions in the name of the individual, his or her spouse or any child of the individual for participation in the Unit-linked Insurance Plan 1971. In case of a HUF, the contribution can be in the name of any member.

(ii) Contribution in Unit-linked Insurance Plan of LIC Mutual Fund

Contributions in the name of the individual, his or her spouse or any child of the individual for participation in any Unit linked Insurance Plan of the LIC Mutual Fund. In case of a HUF, the contribution can be in the name of any member.

(iii) Premium paid in respect of life insurance policy

Premium paid for insurance on the life of the individual, spouse or any child (minor or major) and in the case of HUF, any member thereof. This will include a life policy and an endowment policy.

The following is a tabular summary of the deduction allowable under section 80C *vis-à-vis* the date of issue of such policies –

	Deduction u/s 80C	
In respect of policies issued before 31.3.2012	Premium paid to the extent of 20% of “actual capital sum assured”	
In respect of policies issued on or after 1.4.2012 but before 1.4.2013	Premium paid to the extent of 10% of “actual capital sum assured”	
In respect of policies issued on or after 1.4.2013	(a)	Where the insurance is on the life of a person with disability or severe disability as referred to in section 80U or a person suffering from disease or ailment as specified under section 80DDB.
		Premium paid to the extent of 15% of “actual capital sum assured”
	(b)	Where the insurance is on the life of any person, other than mentioned in (a) above
		Premium paid to the extent of 10% of “actual capital sum assured”
Meaning of actual capital sum assured - Minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account– (i) the value of any premium agreed to be returned; or (ii) any benefit by way of bonus or otherwise over and above the sum actually assured, which is to be or may be received under the policy by any person.		

ILLUSTRATION 2

Compute the eligible deduction under section 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Hari during the P.Y.2024-25, the details of which are given hereunder, if Mr. Hari has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

	<i>Date of issue of policy</i>	<i>Person insured</i>	<i>Actual capital sum assured (₹)</i>	<i>Insurance premium paid during 2024-25 (₹)</i>
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

SOLUTION

	<i>Date of issue of policy</i>	<i>Person insured</i>	<i>Actual capital sum assured (₹)</i>	<i>Insurance premium paid during 2024-25 (₹)</i>	<i>Deduction u/s 80C for A.Y.2025-26 (₹)</i>	<i>Remark (restricted to % of actual capital sum assured)</i>
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
Total					1,23,000	

ILLUSTRATION 3

What would your answer if Mr. Hari pays tax under default tax regime under section 115BAC?

SOLUTION

If Mr. Hari pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

(iv) Premium paid in respect of a contract for deferred annuity

Premium paid to effect and keep in force a contract for a deferred annuity on the life of the individual and/or his or her spouse or any child, provided such contract does not contain any provision for the exercise by the insured of an option to receive cash payments in lieu of the payment of the annuity.

It is pertinent to note here that a contract for a deferred annuity need not necessarily be with an insurance company. It follows therefore that such a contract can be entered into with any person.

(v) Any sum deducted from the salary payable of a Government employee for securing a deferred annuity

Amount deducted by or on behalf of the Government from the salary of a Government employee in accordance with the conditions of his service for securing a deferred annuity or making provisions for his spouse or children. The excess, if any, over one-fifth of the salary is to be ignored.

(vi) Contribution to SPF/PPF/RPF

Contributions to any provident fund to which the Provident Funds Act, 1925 applies and recognized provident fund qualifies for deduction under section 80C.

Contribution made to any Provident Fund set up by the Central Government and notified in his behalf (i.e., the Public Provident Fund established under the Public Provident Fund Scheme, 1968) also qualifies for deduction under section 80C. Such contribution can be made in the name of the individual, his spouse and any child of the individual, and any member of the family, in case of a HUF. The maximum limit for deposit in PPF is ₹ 1,50,000 in a year.

ILLUSTRATION 4

An individual assessee, resident in India, has made the following deposit/payment during the previous year 2024-25:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2018) (Assured value ₹ 3,00,000)	36,000

What is the deduction allowable under section 80C for A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

Computation of deduction under section 80C for A.Y.2025-26

Particulars	₹
Deposit in public provident fund	1,50,000

Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 3,00,000, as the policy is taken after 31.3.2012)	30,000
Total	1,80,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

(vii) Contribution to approved superannuation Fund

Contribution by an employee to an approved superannuation fund qualifies for deduction under section 80C.

(viii) Any sum paid or deposited in Sukanya Samridhi Account

Subscription to any such security of the Central Government or any such deposit scheme as the Central Government as may notify in the Official Gazette. Accordingly, Sukanya Samriddhi Scheme has been notified to provide that any sum paid or deposited during the previous year in the said Scheme, by an individual in the name of –

- (a) any girl child of the individual; or
- (b) any girl child for whom such individual is the legal guardian

would be eligible for deduction under section 80C.

Exemption on payment from Sukanya Samriddhi Account [Section 10(11A)]

Section 10(11A) provides that any payment from an account opened in accordance with the Sukanya Samriddhi Account Rules, 2014, made under the Government Savings Bank Act, 1873, shall **not** be included in the total income of the assessee. Accordingly, the interest accruing on deposits in, and withdrawals from any account under the said scheme would be exempt.

(ix) Subscription to National Savings Certificates VIII

Subscription to any Savings Certificates under the Government Savings Certificates Act, 1959 notified by the Central Government in the Official Gazette (i.e. National Savings Certificate (VIII Issue) issued under the Government Savings Certificates Act, 1959).

(x) Contribution to approved annuity plan of LIC

Contributions to approved annuity plans of LIC (New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I and New Jeevan Akshay I, II and III) or any other insurer (Tata AIG

Easy Retire Annuity Plan of Tata AIG Life Insurance Company Ltd.) as the Central Government may, by notification in the Official Gazette, specify in this behalf.

(xi) Subscription towards notified units of mutual fund or UTI

Subscription to any units of any mutual fund referred to in section 10(23D) or from the Administrator or the specified company under any plan formulated in accordance with such scheme notified by the Central Government;

(xii) Contribution to notified pension fund set up by mutual fund or UTI

Contribution by an individual to a pension fund set up by any Mutual Fund referred to in section 10(23D) or by the Administrator or the specified company as the Central Government may specify (i.e., UTI-Retirement Benefit Pension Fund set up by the specified company referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 as a pension fund).

“Specified company” means a company formed and registered under the Companies Act, 1956¹ and whose entire capital is subscribed by such financial institutions or banks as may be specified by the Central Government, by notification in the Official Gazette, for the purpose of transfer and vesting of the undertaking

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

“Specified undertaking” includes all business, assets, liabilities and properties of the Trust representing and relating to the schemes and Development Reserve Fund.

(xiii) Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008

Subscription to any deposit scheme or contribution to any pension fund set up by the National Housing Bank i.e., National Housing Bank (Tax Saving) Term Deposit Scheme, 2008.

¹ Now Companies Act, 2013

(xiv) Subscription to notified deposit scheme

Subscription to any such deposit scheme of

- a public sector company which is engaged in providing long-term finance for construction, or purchase of houses in India for residential purposes or
- any such deposit scheme of any authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both.

The deposit scheme should be notified by the Central Government, for example, public deposit scheme of HUDCO.

(xv) Payment of tuition fees to any university, college, school or other educational institutions within India for full-time education for maximum 2 children

Payment of tuition fees by an individual assessee at the time of admission or thereafter to any university, college, school or other educational institutions within India for the purpose of full-time education of any **two children** of the individual. This benefit is only for the amount of tuition fees for full-time education and shall not include any payment towards development fees or donation or payment of similar nature and payment made for education to any institution situated outside India.

(xvi) Repayment of housing loan including stamp duty, registration fee and other expenses

Any payment made towards the cost of purchase or construction of a new residential house property. The income from such property –

- (1) should be chargeable to tax under the head “Income from house property”;
- (2) would have been chargeable to tax under the head “Income from house property” had it not been used for the assessee’s own residence.

The approved types of payments are as follows:

- (1) Any instalment or part payment of the amount due under any self-financing or other schemes of any development authority, Housing Board or other authority engaged in the construction and sale of house property on ownership basis; or
- (2) Any instalment or part payment of the amount due to any company or a cooperative society of which the assessee is a shareholder or member towards the cost of house allotted to him; or

- (3) Repayment of amount borrowed by the assessee from:
- (a) The Central Government or any State Government;
 - (b) Any bank including a co-operative bank;
 - (c) The Life Insurance Corporation;
 - (d) The National Housing Bank;
 - (e) Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is eligible for deduction under section 36(1)(viii);
 - (f) Any company in which the public are substantially interested or any cooperative society engaged in the business of financing the construction of houses;
 - (g) The assessee's employer, where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act;
 - (h) The assessee's employer where such employer is a public company or public sector company or a university established by law or a college affiliated to such university or a local authority or a co-operative society.
- (4) Stamp duty, registration fee and other expenses for the purposes of transfer of such house property to the assessee.

Inadmissible payments: However, the following amounts do not qualify for rebate:

- (1) admission fee, cost of share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming a shareholder or member; or
- (2) the cost of any addition or alteration or renovation or repair of the house property after the issue of completion certificate in respect of the house property or after the house has been occupied by the assessee or any person on his behalf or after it has been let out; or
- (3) any expenditure in respect of which deduction is allowable under section 24.

(xvii) Subscription to certain equity shares or debentures

Subscription to equity shares or debentures forming part of any eligible issue of capital approved by the Board on an application made by a public company or as subscription to any eligible issue of capital by any public financial institution in the prescribed form.

A lock-in period of three years is provided in respect of such equity shares or debentures. In case of any sale or transfer of shares or debentures within three years of the date of acquisition, the aggregate amount of deductions allowed in respect of such equity shares or debentures in the previous year or years preceding the previous year in which such sale or transfer has taken place shall be deemed to be the income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

A person shall be treated as having acquired any shares or debentures on the date on which his name is entered in relation to those shares or debentures in the register of members or of debenture-holders, as the case may be, of the public company.

(xviii) Subscription to certain units of mutual fund

Subscription to any units of any mutual fund referred to in section 10(23D) and approved by the Board on an application made by such mutual fund in the prescribed form.

It is necessary that such units should be subscribed only in the eligible issue of capital of any company.

Eligible issue of capital for (xvii) and (xviii) means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the issue are utilised wholly and exclusively for the purposes of any business referred to in section 80-IA(4).

(xix) Investment in five year Term Deposit

Investment in term deposit -

- (1) for a period of not less than five years with a scheduled bank; and
- (2) which is in accordance with a scheme framed and notified by the Central Government in the Official Gazette

qualifies as an eligible investment for availing deduction under section 80C.

The maximum limit for investment in term deposit is ₹ 1,50,000.

Scheduled bank means -

- (1) the State Bank of India
- (2) a subsidiary bank of SBI, or
- (3) a corresponding new bank constituted under section 3 of the -
 - (a) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, or
 - (b) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, or
- (4) any other bank, being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934.

(xx) Subscription to notified bonds issued by NABARD

Subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) qualifies for deduction under section 80C.

(xxi) Deposit in Senior Citizens Savings Scheme Rules, 2004

Deposit in an account under the Senior Citizens Savings Scheme Rules, 2004 qualifies for deduction under section 80C.

(xxii) Investment in five year Post Office time deposit

Investment in five year time deposit in an account under Post Office Time Deposit Rules, 1981 qualifies for deduction under section 80C.

(xxiii) Contribution to additional account under NPS

Contribution by a Central Government employee to additional account under NPS (specified account) referred to in section 80CCD for a fixed period of not less than 3 years and which is in accordance with the scheme² notified by the Central Government for this purpose qualifies for deduction under section 80C. It may be noted that only the contribution to the **additional account under NPS** will qualify for deduction under section 80C.

There are two types of NPS account i.e., Tier I and Tier II, to which an individual can contribute. Section 80CCD provides deduction in respect of contribution to individual pension account [Tier I account] under the NPS [referred to in section 20(2)(a) of the Pension Fund

² National Pension Scheme Tier II- Tax Saver Scheme, 2020 notified for this purpose.

Regulatory and Development Authority Act, 2013 (PFRDA)] whereas deduction under section 80C is allowable in respect of contribution by Central Government employee to additional account [Tier II account] of NPS [referred to in section 20(3) of the PFRDA], which does not qualify for deduction under section 80CCD. **Thus, Tier II account is the additional account under NPS, contribution to which would qualify for deduction under section 80C only in the hands of a Central Government employee.**

Termination of Insurance Policy or Unit Linked Insurance Plan or transfer of House Property or withdrawal of deposit:

Where, in any previous year, an assessee:

- (1) terminates his contract of insurance referred to in (iii) above, by notice to that effect or where the contract ceases to be in force by reason of not paying the premium, by not reviving the contract of insurance, -
 - (a) in case of any single premium policy, within two years after the date of commencement of insurance; or
 - (b) in any other case, before premiums have been paid for two years; or
- (2) terminates his participation in any Unit Linked Insurance Plan referred to in (i) or (ii) above, by notice to that effect or where he ceases to participate by reason of failure to pay any contribution, by not reviving his participation, before contributions in respect of such participation have been paid for five years, or
- (3) transfers the house property referred to in (xvi) above, before the expiry of five years from the end of the financial year in which possession of such property is obtained by him, or receives back, whether by way of refund or otherwise, any sum specified in (xvi) above,

then, no deduction will be allowed to the assessee in respect of sums paid during such previous year and the total amount of deductions of income allowed in respect of the previous year or years preceding such previous year, shall be deemed to be income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

Further, where any amount is withdrawn by the assessee from his account under the Senior Citizens Savings Scheme or under the Post Office Time Deposit Rules before the expiry of a period of 5 years from the date of its deposit, the amount so withdrawn shall be deemed to be the income of the assessee of the previous year in which the amount is withdrawn. Accordingly, the amount so withdrawn would be chargeable to tax in the assessment year relevant to such previous year. The amount chargeable to tax would also include that part of the amount withdrawn which represents interest accrued on the deposit.

However, if any part of the amount relating to interest so received or withdrawn has been subject to tax in any of the earlier years, such amount shall not be taxed again.

If any amount has been received by the nominee or legal heir of the assessee, on the death of such assessee, the amount would not be chargeable to tax. But if the amount relating to interest on deposit was not included in the total income of the assessee in any of any earlier years, then such interest would be chargeable to tax.

ILLUSTRATION 5

Mr. Binu, aged about 40 years, has earned a lottery income of ₹ 1,30,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of ₹ 35,000. He invested an amount of ₹ 20,000 in Public Provident Fund account and ₹ 34,000 in five years term deposit. What is the total income of Mr. Binu for the A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

Computation of total income of Mr. Binu for A.Y.2025-26

Particulars	₹	₹
Income from Other Sources		
- Interest on Fixed Deposit		35,000
- Lottery income		1,30,000
Gross Total Income		1,65,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	20,000	
- Investment in five years term deposit	34,000	
	54,000	
Restricted to		35,000
Total Income		1,30,000

Note: Though the value of eligible investments is ₹ 54,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long term capital gains u/s 112/112A, short-term capital gains covered under section 111A, winnings of lotteries etc. of the assessee.

Therefore, the maximum permissible deduction u/s 80C = ₹ 1,65,000 – ₹ 1,30,000 = ₹ 35,000.

(2) Deduction in respect of contribution to certain pension funds [Section 80CCC]

- (i) **Eligible assessee** - Where an assessee, being an individual, has in the previous year paid or deposited any amount out of his income chargeable to tax to effect or keep in force a contract for any **annuity plan of LIC** of India or any **other insurer** for receiving pension from the fund set up by LIC or such other insurer, he shall be allowed a deduction in the computation of his total income.

For this purpose, the interest or bonus accrued or credited to the assessee's account shall not be reckoned as contribution.

Note: Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a deduction under section 80C shall not be allowed with reference to such amount.

- (ii) **Maximum Deduction:** The maximum permissible deduction is ₹ 1,50,000 [Further, the overall limit of ₹ 1,50,000 prescribed in section 80CCE will continue to be applicable i.e. the maximum permissible deduction under sections 80C, 80CCC and 80CCD(1) put together is ₹ 1,50,000].
- (iii) **Deemed Income:** Where any amount standing to the credit of the assessee in the fund in respect of which a deduction has been allowed, together with interest or bonus accrued or credited to the assessee's account is received by the assessee or his nominee on account of the surrender of the annuity plan in any previous year or as pension received from the annuity plan, such amount will be deemed to be the income of the assessee or the nominee in that previous year in which such withdrawal is made or pension is received. It will be chargeable to tax as income of that previous year.

Note - The deduction under section 80CCC is available only to an individual exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). It is not available under the default tax regime under section 115BAC.

(3) Deduction in respect of contribution to pension scheme notified by the Central Government [Section 80CCD]

- (i) **Pension Scheme of Central Government:** As per the "Restructured Defined Contribution Pension System" applicable to new entrants to Government service, it is mandatory for persons entering the service of the Central Government on or after 1st January, 2004, to contribute 10% of their salary every month towards their pension account. A matching

contribution is required to be made by the Government to the said account. The benefit of this scheme is also available to individuals employed by any other employer as well as to self-employed individuals.

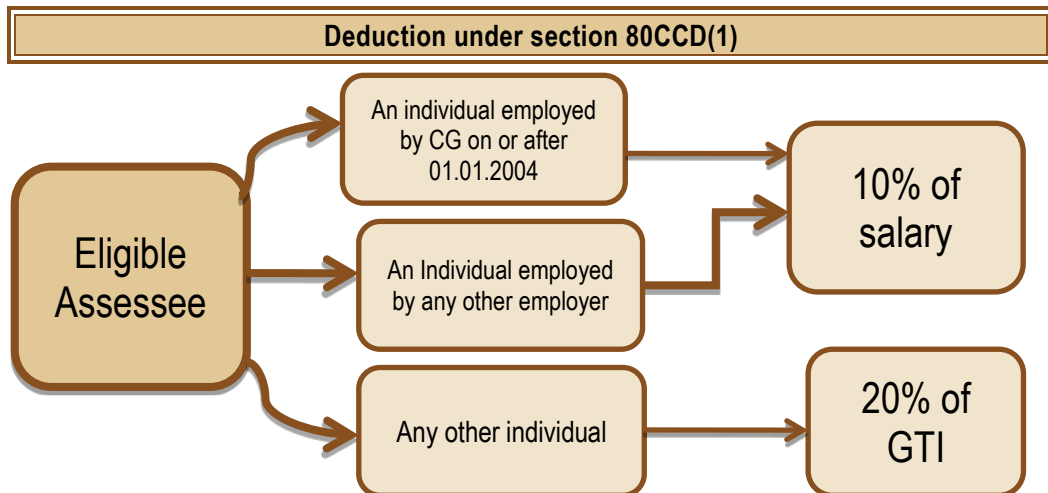
- (ii) **Deduction:** Section 80CCD provides deduction in respect of contribution made to the pension scheme notified by the Central Government.

Accordingly, in exercise of the powers conferred by section 80CCD(1), the Central Government has notified the 'Atal Pension Yojana (APY)' as a pension scheme, contribution to which would qualify for deduction under section 80CCD in the hands of the individual.

(iii) **Quantum of deduction**

- (a) Section 80CCD(1) provides a deduction for the amount paid or deposited by an employee in his pension account subject to a maximum of 10% of his salary. The deduction in the case of a self-employed individual would be restricted to 20% of his gross total income in the previous year.

Note - Deduction u/s 80CCD(1) would be available to an individual only if he exercises the option of shifting out of the default tax regime u/s 115BAC(1A) (i.e., if he pays tax under the optional tax regime – the normal provisions of the Act).



- (b) Section 80CCD(1B) provides for an additional deduction of up to ₹ 50,000 in respect of the whole of the amount paid or deposited by an individual assessee under NPS in the previous year, whether or not any deduction is allowed under section 80CCD(1).

Note - Deduction u/s 80CCD(1B) would be available to an individual only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (i.e., it is available only if he pays tax under the optional tax regime – normal provisions of the Act)

- (c) Whereas the deduction under section 80CCD(1) is subject to the overall limit of ₹ 1.50 lakh under section 80CCE (i.e., the maximum permissible deduction under sections 80C, 80CCC and 80CCD(1) put together is ₹ 1,50,000), the deduction of upto ₹ 50,000 under section 80CCD(1B) is in addition to the overall limit of ₹ 1.50 lakh provided under section 80CCE.
- (d) Under section 80CCD(2), contribution made by the Central Government or State Government or any other employer in the previous year to the said account of an employee, is allowed as a deduction in computation of the total income of the assessee.
- (e) The entire employer's contribution would be included in the salary of the employee. However, deduction under section 80CCD(2) would be restricted to,
 - In case of contribution made by the Central Government or State Government - 14% of salary and
 - In case of contribution made by any other employer - 10% of salary (**14% of salary in case assessee is paying tax as per default tax regime under section 115BAC**).

Notes:

1. Deduction u/s 80CCD(2) would be available to an individual irrespective of the regime under which he pays tax.
2. The limit of ₹ 1,50,000 under section 80CCE does not apply to employer's contribution to pension scheme of Central Government which is allowable as deduction under section 80CCD(2).
3. No deduction will be allowed u/s 80C in respect of amounts paid or deposited by the assessee, for which deduction has been allowed u/s 80CCD(1) or 80CCD(1B).
4. For computation of limit under section 80CCD(1) and (2), salary includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

(iv) **Deemed income:** The amount standing to the credit of the assessee in the pension account (for which deduction has already been claimed by him under this section) and accretions to such account, shall be taxed as income in the year in which such amounts are received by the assessee or his nominee on -

- (a) closure of the account or
- (b) his opting out of the said scheme or
- (c) receipt of pension from the annuity plan purchased or taken on such closure or opting out.

However, the amount received by the nominee on the death of the assessee under the circumstances referred to in (a) and (b) above, shall not be deemed to be the income of the nominee.

Further, the assessee shall be deemed not to have received any amount in the previous year if such amount is used for purchasing an annuity plan in the same previous year.

Notes:

1. Exemption on payment from NPS Trust to an assessee on closure of his account or on his opting out of the pension scheme [Section 10(12A)]

- (i) As per section 80CCD, any payment from National Pension System Trust to an assessee on account of closure or his opting out of the pension scheme is chargeable to tax.
- (ii) Section 10(12A) provides that any payment from National Pension System Trust to an assessee on account of closure or his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed **60%** of the total amount payable to him at the time of closure or his opting out of the scheme, shall be exempt from tax.

2. Exemption on payment from NPS Trust to an employee on partial withdrawal [Section 10(12B)]

To provide relief to an employee subscriber of NPS, section 10(12B) provides that any payment from National Pension System Trust **to an employee** under the pension scheme referred to in section 80CCD, on partial withdrawal made out of his account in accordance with the terms and conditions specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made there under, shall be exempt from tax to the extent it does not exceed **25%** of amount of contributions made by him.

(4) Limit on deductions under sections 80C, 80CCC & 80CCD(1) [Section 80CCE]

This section restricts the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) to ₹ 1,50,000. It may be noted that the deduction of upto ₹ 50,000 under section 80CCD(1B) and employer's contribution to pension scheme, allowable as deduction under section 80CCD(2) in the hands of the employee, would be outside the overall limit of ₹ 1,50,000 stipulated under section 80CCE.

The following table summarizes the ceiling limit under these sections –

Section	Particulars	Ceiling limit (₹)
80C	Investment in LIP, Deposit in PPF/SPF/RPF etc.	1,50,000
80CCC	Contribution to certain pension funds	1,50,000
80CCD(1)	Contribution to NPS of Government	10% of salary or 20% of GTI, as the case may be.
80CCE	Aggregate deduction under sections 80C, 80CCC & 80CCD(1)	1,50,000
80CCD(1B)	Contribution to NPS notified by the Central Government (outside the limit of ₹ 1,50,000 under section 80CCE)	50,000
80CCD(2)	Contribution by the Central Government or State Government to NPS A/c of its employees (outside the limit of ₹ 1,50,000 under section 80CCE)	14% of salary
	Contribution by any other employer to NPS A/c of its employees (outside the limit of ₹ 1,50,000 under section 80CCE)	
	- Where assessee is paying tax as per optional tax regime - where assessee is paying tax as per default regime u/s 115BAC(1A)	10% of salary 14% of salary

ILLUSTRATION 6

The basic salary of Mr. Arjun is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. Arjun and his employer contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Examine the tax treatment in respect of such contribution in the hands of Mr. Arjun if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be your answer if Mr. Arjun pays tax under the default tax regime under section 115BAC?

SOLUTION

(i) Tax treatment in the hands of Mr. Arjun in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. Arjun has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. Arjun pays tax under the normal provisions of the Act]

- (a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. Arjun's salary.
- (b) Mr. Arjun's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay for retirement benefits.

Therefore, deduction under section 80CCD for Mr. Arjun would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- (c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section

80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. Arjun pays tax under the default tax regime under section 115BAC

Mr. Arjun would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of upto ₹ 2,01,600 being 14% of salary [₹ 14,40,000, computed in (i) above] under section 80CCD(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contribution of ₹ 1,80,000 would be allowed as deduction under section 80CCD(2).

ILLUSTRATION 7

The gross total income of Mr. Neeraj for the A.Y.2025-26 is ₹ 9,00,000. He has made the following investments/ payments during the F.Y.2024-25 –

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

Compute the eligible deduction under Chapter VI-A for the A.Y.2025-26 if Mr. Neeraj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of deduction under Chapter VI-A for the A.Y.2025-26

Particulars		₹
Deduction under section 80C		
-	Contribution to PPF	1,30,000
-	Payment of tuition fees to Sunrise School, Mumbai, for education of his son studying in Class X	95,000
-	Repayment of housing loan	30,000
		2,55,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C		1,50,000

Deduction under section 80CCC	
- Contribution to approved pension fund of LIC	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the A.Y.2025-26	1,50,000

(5) Deduction in respect of contribution to Agnipath Scheme [Section 80CCH]

- (i) **Meaning of Agnipath scheme:** Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces.
- (ii) **Meaning of Agniveer Corpus Fund:** The Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.
- (iii) **Features of the Agnipath Scheme:** Each Agniveer is to contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. Further, the Government will also contribute a matching amount to the 'Agniveer Corpus Fund'. The Government will also pay to the subscriber interest as approved from time to time on the contributions standing in his account.
- (iv) **Quantum of deduction:**
 - (a) Section 80CCH(1) provides a deduction for the amount paid or deposited by an assessee, being an individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after 1.11.2022, in his account in the Agniveer Corpus Fund.

Note - Deduction u/s 80CCH(1) would be available to an individual only if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- (b) Under section 80CCH(2), the whole amount of contribution made by the Central Government to the said account of an assessee in the Agniveer Corpus Fund, is allowed as a deduction in computation of the total income of the assessee.
- (e) The entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee. However, deduction under section 80CCH(2) would be available for the same.

Note - Deduction u/s 80CCH(2) would be available to an individual irrespective of the regime under which he pays tax.

Exemption on payment from Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee [Section 10(12C)]

Any payment from the Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee would be exempt from tax.

(6) Deduction in respect of medical insurance premium [Section 80D]

(i) In case of an Individual

- (a) **Deduction in respect of insurance premium paid for family:** A deduction to the extent of ₹ 25,000 is allowed in respect of the following payments–
- (1) premium paid to effect or keep in force an insurance on the health of self, spouse and dependant children or
 - (2) any contribution made to the Central Government Health Scheme or
 - (3) such other health scheme as may be notified by the Central Government. Contributory Health Service Scheme of the Department of Atomic Energy has been notified by the Central Government.
- (b) **Deduction in respect of insurance premium for parents:** A further deduction up to ₹ 25,000 is allowable to effect or to keep in force an insurance on the health of parents of the assessee.

Quantum of deduction in case of senior citizen: An increased deduction of **₹ 50,000** (instead of ₹ 25,000) shall be allowed in case any of the persons mentioned above is a **senior citizen** i.e., an individual resident in India of the age of 60 years or more at any time during the relevant previous year.

- (c) **Deduction in respect of payment towards preventive health check-up:** Section 80D provides that deduction to the extent of ₹ 5,000 shall be allowed in respect payment made on account of preventive health check-up of self, spouse, dependant children or parents made during the previous year. However, the said deduction of ₹ 5,000 is within the overall limit of ₹ 25,000 or **₹ 50,000**, specified in (a) and (b) above.
- (d) **Mode of payment:** For claiming such deduction under section 80D, the payment can be made:

- (1) by any mode, including cash, in respect of any sum paid on account of preventive health check-up;
 - (2) by any mode other than cash, in all other cases.
- (e) **Deduction for medical expenditure incurred on senior citizens:** As a welfare measure towards **senior citizens** i.e., person of the age of 60 years or more and resident in India, who are unable to get health insurance coverage, deduction of upto **₹ 50,000** would be allowed in respect of any payment made on account of medical expenditure in respect of a such person(s), if no payment has been made to keep in force an insurance on the health of such person(s).

'Senior citizen' means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year.

(ii) In case of a HUF

Deduction under section 80D is allowable in respect of premium paid to insure the health of any member of the family. The maximum deduction available to a HUF would be ₹ 25,000 and in case any member is a senior citizen, **₹ 50,000**.

Further, the amount paid on account of medical expenditure incurred on the health of any member(s) of a family who is a **senior citizen** would qualify for deduction subject to a maximum of **₹ 50,000** provided no amount has been paid to effect or keep in force any insurance on the health of such person(s).

(iii) Other conditions

The other conditions to be fulfilled are that such premium should be paid by any mode, other than cash, in the previous year out of his income chargeable to tax. Further, the medical insurance should be in accordance with a scheme made in this behalf by -

- (a) the General Insurance Corporation of India and approved by the Central Government in this behalf; or
- (b) any other insurer and approved by the Insurance Regulatory and Development Authority.

The following table summarizes the provisions of section 80D –

S. No.	Nature of payment/ expenditure	Expenditure on behalf of		Deduction
I	(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health	In case of individual	Self, spouse and dependent children	₹ 25,000
	In case of HUF	Family member		
	(ii) Contribution to Central Government Health Scheme (CGHS) (iii) Preventive health check up expenditure	In case any of the above persons is of the age of 60 years or more (+) resident in India		₹ 50,000
II	(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health	In case either or both the parents is of the age of 60 years or more + Resident in India		₹ 25,000
	(ii) Preventive health check up	Parents		₹ 50,000
Maximum ₹ 5,000 allowed as deduction for aggregate of preventive health check up expenditure, by any mode including cash, mentioned in I and II (Subject to overall limit of ₹ 25,000 or ₹ 50,000, as the case may be)				
III	Amount paid on account of medical expenditure	For self/ spouse/ parents + who is of the age of 60 years or more + Resident in India + no payment has been made to keep in force an insurance on the health of such person		₹ 50,000

Note: In case the individual or any of his family members is a senior citizen, the aggregate of deduction, in respect of payment of premium, contribution to CGHS and medical expenditure incurred, as specified in (I) & (III) above, cannot exceed **₹ 50,000**.

In case one of the parents is a senior citizen who is covered under mediclaim policy and another is also a senior citizen but not covered under mediclaim policy, the aggregate of deduction, in respect of payment of medical insurance premium and medical expenditure incurred, as specified in (II) & (III) above, cannot exceed **₹ 50,000**.

(iv) Deduction where premium for health insurance is paid in lump sum [Section 80D(4A)]

(a) **Appropriate fraction of lump sum premium allowable as deduction:** In a case where mediclaim premium is paid in lumpsum for more than one year by:

- (1) an individual, to effect or keep in force an insurance on his health or health of his spouse, dependent children or parents; or
- (2) a HUF, to effect or keep in force an insurance on the health of any member of the family,

then, the deduction allowable under this section for each of the relevant previous year would be equal to the appropriate fraction of such lump sum payment.

(b) Meaning of certain terms

Term	Meaning
Appropriate fraction	$1 \div \text{Total number of relevant previous years}$
Relevant previous year	The previous year in which such lump sum amount is paid; and the subsequent previous year(s) during which the insurance would be in force.

Note - Deduction under section 80D would be available to an individual/ HUF only if he/it exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 8

Mr. Ravi, aged 45 years, paid medical insurance premium of ₹ 22,000 during the P.Y.2024-25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 65 years, who is not dependant on him. He contributed ₹ 4,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,500 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if Mr. Ravi has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION**Deduction allowable under section 80D for the A.Y.2025-26**

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
	(i) Medical insurance premium paid for self and spouse	22,000	22,000

B.	(ii) Contribution to CGHS	4,600	3,000
	(iii) Exp. on preventive health check-up of self & spouse	3,000	Nil
		29,600	25,000
	Premium paid and medical expenditure incurred for father, who is a senior citizen		
	(i) Medici claim premium paid for father, who is over 60 years of age	47,000	47,000
	(ii) Expenditure on preventive health check-up of father	4,500	3,000
		51,500	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A.(i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the contribution to CGHS would be restricted to ₹ 3,000 [₹ 25,000 (-) ₹ 22,000] and expenditure on preventive health check-up for self and spouse would be Nil [₹ 25,000 (-) ₹ 22,000 (-) ₹ 3,000].
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being [₹ 50,000 (-) ₹ 47,000].
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 3,000, which is less than the maximum permissible limit of ₹ 5,000.

ILLUSTRATION 9

Mr. Yatin, aged 48 years, paid medical insurance premium of ₹ 23,000 during the P.Y.2024-25 to insure his health as well as the health of his spouse and dependant children. He also paid medical insurance premium of ₹ 35,000 during the year to insure the health of his mother, aged 71 years, who is not dependant on him. He incurred medical expenditure of ₹ 24,000 on his father, aged 78 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,500 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y.2025-26 if Mr. Yatin has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION**Deduction allowable under section 80D for the A.Y.2025-26**

Particulars		₹
(i) Medical insurance premium paid for self, spouse and dependent children	₹ 23,000	

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

(7) Deduction in respect of maintenance including medical treatment of a dependant disabled [Section 80DD]

(i) **Eligible assessee:** Section 80DD provides deduction to an assessee, who is a resident in India, **being an individual or Hindu undivided family.**

(ii) **Payment qualifying for deduction:**

(a) Any amount –

- incurred for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability, or
- paid or deposited under a scheme framed in this behalf by the Life Insurance Corporation or any other insurer or the Administrator or the Specified Company as referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, for the maintenance of a dependant, being a person with disability

qualifies for deduction.

(b) The benefit of deduction under this section is also available to assessee incurring expenditure on maintenance including medical treatment of persons suffering from autism, cerebral palsy and multiple disabilities.

(iii) **Quantum of deduction:** The quantum of deduction is **₹ 75,000** and in case of severe disability (i.e. person with 80% or more disability) the deduction shall be **₹ 1,25,000**.

(iv) Conditions:

- (a) The scheme should provide for payment of annuity or a lump sum amount for the benefit of a dependant, being a person with disability,
- I in the event of the death of the individual or member of the HUF, in whose name subscription was made; or
 - II on attaining the age of 60 years or more by such individual or the member of the HUF, and the payment or deposit to such scheme has been discontinued
- and the assessee must nominate either the dependant, being a person with disability or any other person or a trust to receive the payment on his behalf, for the benefit of the dependant, being a person with disability.
- (b) For claiming the deduction, the assessee shall have to furnish a copy of the certificate issued by the medical authority under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 along with the return of income under section 139.
- (c) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.

- (v) Deemed income:** If the dependent, being a person with disability, predeceases the individual or the member of HUF, in whose name subscription was made, then, the amount paid or deposited under the said scheme would be chargeable to tax in the hands of the assessee (individual or member of HUF) in the previous year in which such amount is received by him.

However, such deeming provisions would not apply, to the amount received by the dependant, being a person with disability, before his death, by way of annuity or lump sum under the scheme mentioned in II of (a) above i.e., when the individual or member of HUF attains the age of 60 years or more, and the payment or deposit to such scheme has been discontinued.

(vi) Meaning of “Dependant”:

	Assessee	Dependant
(1)	Individual	the spouse, children, parents, brother or sister of the individual who is wholly or mainly dependant on such individual and not claimed deduction under section 80U in the computation of his income

(2)	HUF	a member of the HUF, wholly or mainly dependant on such HUF and not claimed deduction under section 80U in the computation of his income
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Note - Deduction under section 80DD would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 10

Mr. Mohan is a resident individual. He deposits a sum of ₹ 60,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependant upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2025-26 if Mr. Mohan has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Since the amount deposited by Mr. Mohan was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the meaning of "dependant" as defined under section 80DD.

ILLUSTRATION 11

What will be the deduction if Mr. Mohan had made this deposit for his dependant father?

SOLUTION

Since the expense was incurred for a dependant disabled relative, Mr. Mohan will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

(8) Deduction in respect of medical treatment etc. [Section 80DDB]

- (i) **Eligible assessee:** This section provides deduction to an assessee, who is resident in India, being an individual and Hindu undivided family. The deduction is available to an individual for medical expenditure incurred on himself or a dependant. It is also available to a Hindu undivided family (HUF) for such expenditure incurred on any of its members.

(ii) **Meaning of “Dependant”:**

	Assessee	Dependant
(1)	Individual	the spouse, children, parents, brother or sister of the individual or any of them, wholly or mainly dependant on such individual for his support and maintenance.
(2)	HUF	a member of the HUF, wholly or mainly dependant on such HUF for his support and maintenance.

(iii) **Payment qualifying for deduction:** Any amount actually paid for the medical treatment of such disease or ailment as may be specified in the rules made in this behalf by the Board for himself or a dependant, in case the assessee is an individual or for any member of a HUF, in case the assessee is a HUF will qualify for deduction.

(iv) **Quantum of deduction:** The amount of deduction under this section shall be equal to the amount actually paid or ₹ 40,000, whichever is less, in respect of that previous year in which such amount was actually paid.

In case the amount is paid in respect of a senior citizen, i.e., a resident individual of the age of 60 years or more at any time during the relevant previous year, then the deduction would be the amount actually paid or ₹ 1,00,000, whichever is less.

The deduction under this section shall be reduced by the amount received, if any, under insurance from an insurer, or reimbursed by an employer, for the medical treatment of the assessee or the dependant.

(v) **Maximum deduction:** The maximum limit of deduction under section 80DDB for the various categories of dependant are summarized hereunder:

	Dependant	Maximum limit (₹)
(1)	A senior citizen, being a resident individual	1,00,000
(2)	Other than a senior citizen	40,000

(vi) **Condition:** No such deduction shall be allowed unless the assessee obtains the prescription for such medical treatment from a neurologist, an oncologist, a urologist, a hematologist, an immunologist or such other specialist, as may be prescribed.

Note - Deduction under section 80DDB would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

(9) Deduction in respect of interest loan taken for higher education [Section 80E]

- (i) **Eligible assessee:** Section 80E provides deduction to an individual-assessee in respect of any interest on loan paid by him in the previous year out of his income chargeable to tax.
- (ii) **Conditions:** The loan must have been taken for the purpose of pursuing his higher education or for the purpose of higher education of his or her relative. The loan must have been taken from any financial institution or approved charitable institution.
- (iii) **Meaning of certain terms:**

	Term	Meaning
(a)	Relative	Spouse and children of the individual or the student for whom the individual is the legal guardian
(b)	Higher education	It means any course of study (including vocational studies) pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State Government or local authority or by any other authority authorized by the Central Government or State Government or local authority to do so. Therefore, interest on loan taken for pursuing any course after Class XII or its equivalent, will qualify for deduction under section 80E.
(c)	Period of deduction	The deduction is allowed in computing the total income in respect of the initial assessment year (i.e., the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan) and seven assessment years immediately succeeding the initial assessment year or until the interest is paid in full by the assessee, whichever is earlier.
(d)	Approved charitable institution	It means an institution established for charitable purposes and approved by the prescribed authority under section 10(23C) or an institution referred to in section 80G(2)(a).
(e)	Financial institution	It means – (a) a banking company to which the Banking Regulation Act, 1949 applies (including a bank or banking institution referred to in section 51 of the Act); or (b) any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf

Note - Deduction under section 80E would be available to an individual only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 12

Mr. Gopal has taken three education loans on April 1, 2024, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	Gopal	Son of Gopal	Daughter of Gopal
Purpose of loan	MBA	B. Tech.	B. Tech.
Amount of loan (₹)	6,00,000	3,00,000	4,50,000
Annual repayment of loan (₹)	1,20,000	48,000	88,000
Annual repayment of interest (₹)	24,000	12,000	16,000

Compute the amount deductible under section 80E for the A.Y.2025-26 if Mr. Gopal has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Deduction under section 80E is available to an individual assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

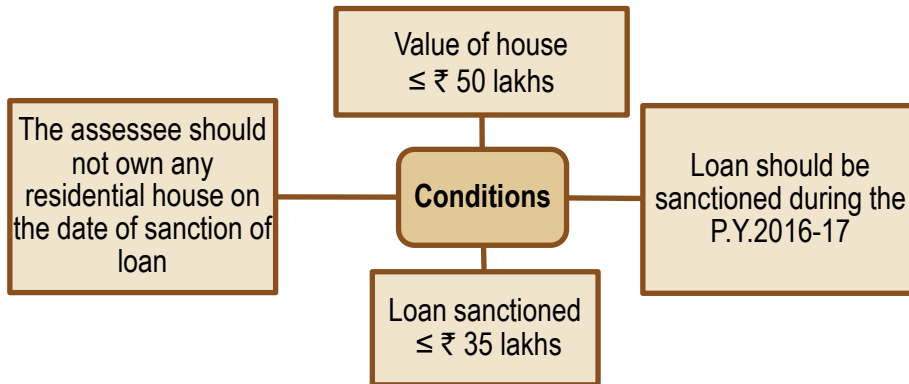
Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹ 24,000 + ₹ 12,000 + ₹ 16,000 = ₹ 52,000.

(10) Deduction for interest on loan borrowed for acquisition of house property by an individual [Section 80EE]

- (i) **Eligible assessee:** An individual who has taken a loan for acquisition of residential house property from any financial institution. Interest payable on such loan would qualify for deduction under this section.

- (ii) **Conditions:** The conditions to be satisfied for availing this deduction are as follows –



- (iii) **Period of benefit:** The benefit of deduction under this section would be available till the repayment of loan continues.
- (iv) **Quantum of deduction:** The maximum deduction allowable is ₹ 50,000. The deduction of upto ₹ 50,000 under section 80EE is over and above the deduction of upto ₹ 2,00,000 available under section 24 for interest paid in respect of loan borrowed for acquisition of a self-occupied property.
- (v) **No deduction under any other provision:** The interest allowed as deduction under section 80EE will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.
- (vi) **Meaning of certain terms:**

	Term	Meaning
(a)	Financial institution	- A banking company to which the Banking Regulation Act, 1949 applies; or - Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or - A housing finance company.
(b)	Housing finance company	A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

Note - Deduction under section 80EE would be available to an individual only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 13

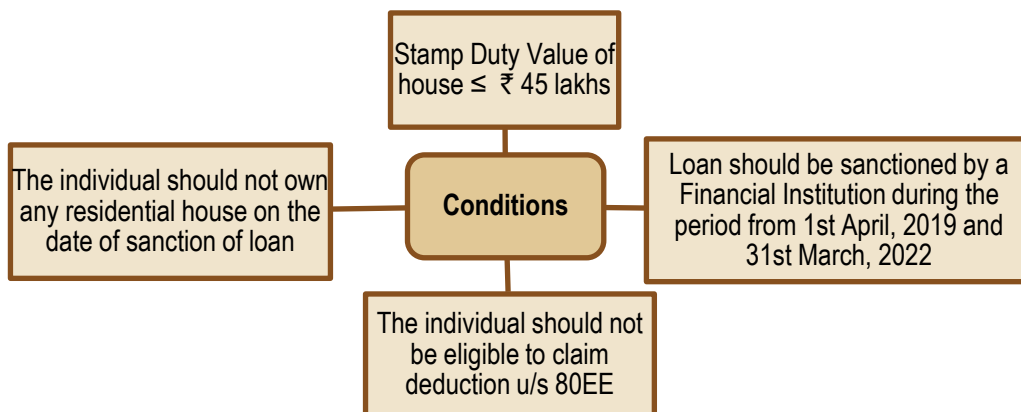
Mr. Ankur purchased a residential house property for self-occupation at a cost of ₹ 48 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 10th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2025-26 if Mr. Ankur has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2025 and he does not own any other house property.

SOLUTION

Particulars	₹
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head “Income from house property”	
Deduction under section 24(b) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction under section 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000)	
Restricted to	50,000

(11) Deduction in respect of interest payable on loan taken for acquisition of residential house property [Section 80EEA]

- (i) **Eligible assessee:** An individual who has taken a loan for acquisition of residential house property from any financial institution. Interest payable on such loan would qualify for deduction under this section.
- (ii) **Conditions:** The conditions to be satisfied for availing this deduction are as follows –

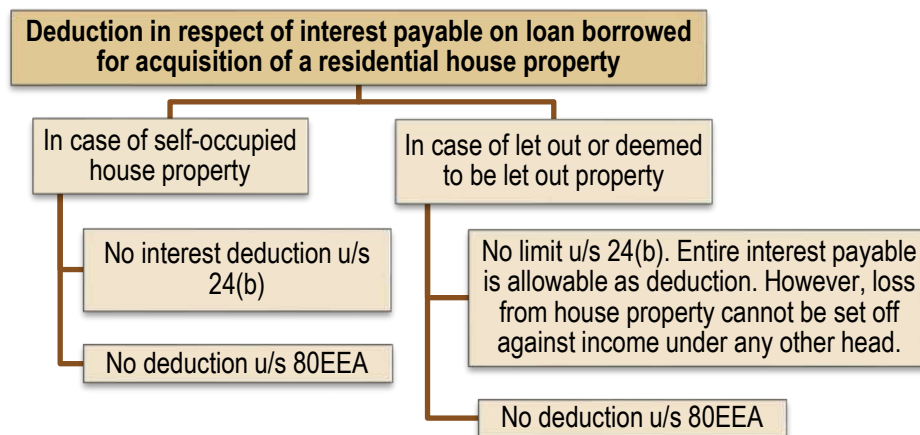


- (iii) **Period of benefit:** The benefit of deduction under this section would be available for interest payable for each assessment year.
- (iv) **Quantum of deduction:** The maximum deduction allowable is ₹ 1,50,000. The deduction of upto ₹ 1,50,000 under section 80EEA is over and above the deduction available under section 24(b) in respect of interest payable on loan borrowed for acquisition of a residential house property.
- (v) **No deduction under any other provision:** The interest allowed as deduction under section 80EEA will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.
- (vi) **Meaning of certain terms:**

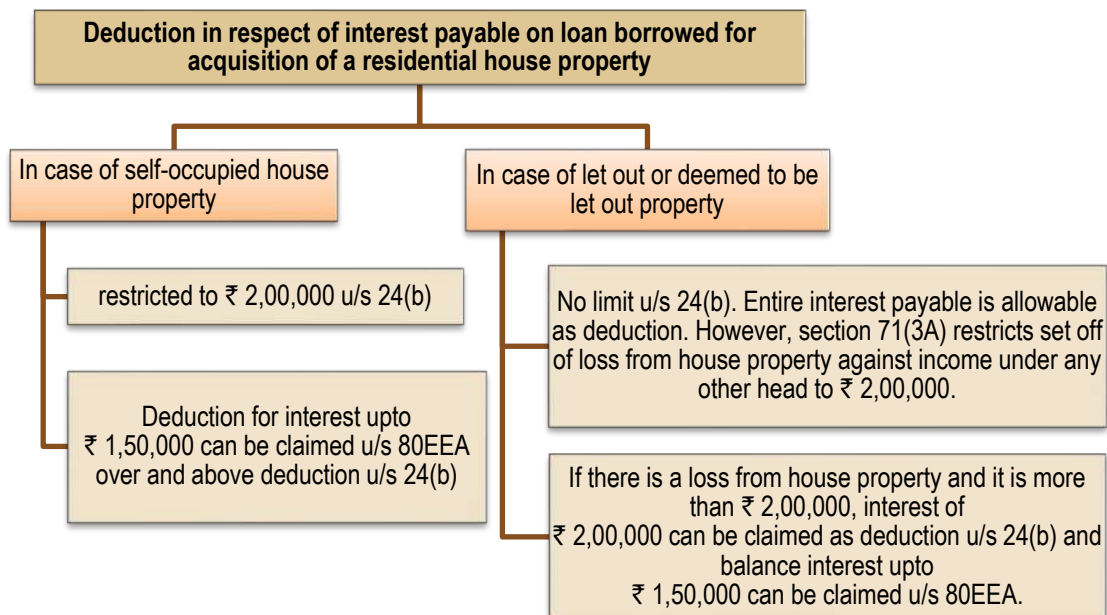
	Term	Meaning
(a)	Financial institution	• A banking company to which the Banking Regulation Act, 1949 applies; or • Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or • A housing finance company.
(b)	Housing finance company	A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

Note - Deduction under section 80EEA would be available to an individual only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

In case the individual assessee pays tax under default tax regime under section 115BAC

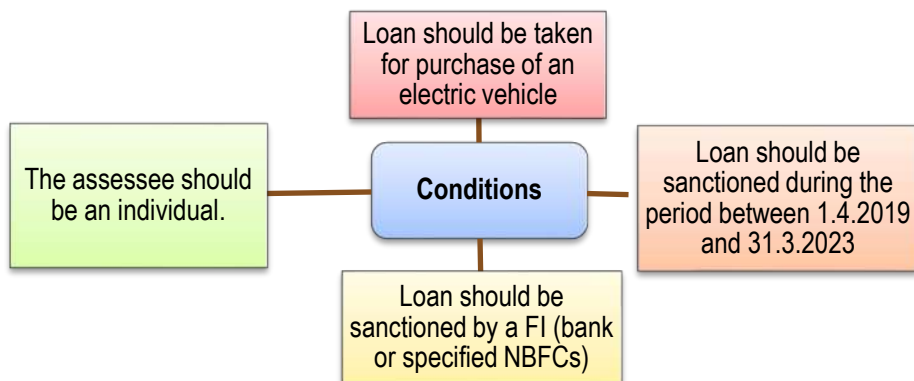


In case the individual assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)



(12) Deduction in respect of interest payable on loan taken for purchase of electric vehicle [Section 80EEB]

- (i) **Eligible Assessee:** An individual who has taken a loan for purchase of an electric vehicle from any financial institution. Interest payable on such loan would qualify for deduction under this section.
- (ii) **Conditions:** The conditions to be satisfied for availing this deduction are as follows –



- (iii) **Period of benefit:** The benefit of deduction under this section would be available for interest payable on such loan for each assessment year.
- (iv) **Quantum of deduction:** Interest payable, subject to a maximum of ₹ 1,50,000.
- (v) **No deduction under any other provision:** The interest allowed as deduction u/s 80EEB will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.
- (vi) **Meaning of certain terms:**

	Term	Meaning
(a)	Financial institution	• A banking company to which the Banking Regulation Act, 1949 applies; or • Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or • Any deposit taking NBFC • A systemically important non-deposit taking NBFC i.e., a NBFC which is not accepting or holding public deposits and having total assets of not less than ₹ 500 crore as per the last audited balance sheet and is registered with the RBI.
(b)	Electric Vehicle	A vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle. The vehicle should have electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy.

Note - Deduction under section 80EEB would be available to an individual only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 14

The following are the particulars relating to Mr. Arun, Mr. Barun, Mr. Chetan and Mr. Dinesh, salaried individuals, for A.Y.2025-26 –

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

Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. Arun, Mr. Barun, Mr. Cehtan and Mr. Dinesh if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

SOLUTION

Particulars		₹
Mr. Arun		
Interest deduction for A.Y.2025-26		
(i)	Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%] Restricted to	2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000) Restricted to	1,50,000
Mr. Barun		
Interest deduction for A.Y.2025-26		
(i)	Deduction allowable while computing income under the head "Income from house property"	

(ii)	Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%] Restricted to	2,00,000
	Deduction under Chapter VI-A Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	Nil
Mr. Chetan		
	Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
	Mr. Dinesh Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

(13) Deduction in respect of donations to certain funds, charitable institutions etc. [Section 80G]

- (i) **Eligible assessee:** Where an assessee pays any sum as donation to eligible funds or institutions, he is entitled to a deduction, subject to certain limitations, from the gross total income.

Note - In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction u/s 80G would not be available under the default tax regime under section 115BAC(1A). Deduction under section 80G would be available only if such person has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and pays tax as per the optional tax regime under the regular provisions of the Act.

In case of companies and co-operative societies, deduction would not be available if they opt for the special provisions u/s 115BAA/115BAB and section 115BAD/115BAE, respectively. In other words, deduction would be available only if companies and co-operative societies pay tax under the normal provisions of the Act.

- (ii) **Quantum of deduction:** There are four categories of deductions. The following table gives the details of the institutions and funds to which donations can be made for the purpose of claiming deduction under section 80G, –

I	Donation qualifying for 100% deduction, without any qualifying limit
(1)	The National Defence Fund set up by the Central Government
(2)	Prime Minister's National Relief Fund.
(3)	Prime Minister's Armenia Earthquake Relief Fund
(4)	The Africa (Public Contributions-India) Fund
(5)	The National Children's Fund
(6)	The National Foundation for Communal Harmony
(7)	Approved University or educational institution of national eminence
(8)	Chief Minister's Earthquake Relief Fund, Maharashtra
(9)	Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of the Gujarat earthquake
(10)	Any Zila Saksharta Samiti for primary education in villages and towns and for literacy and post-literacy activities
(11)	National Blood Transfusion Council or any State Blood Transfusion Council whose sole objective is the control, supervision, regulation or encouragement of operation and requirements of blood banks
(12)	Any State Government Fund set up to provide medical relief to the poor
(13)	The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependants.
(14)	The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
(15)	The National Illness Assistance Fund
(16)	The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory
(17)	<i>The National Sports Development Fund set up by the Central Government</i>
(18)	The National Cultural Fund set up by the Central Government
(19)	The Fund for Technology Development and Application set up by the Central Government
(20)	National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
(21)	The Swachh Bharat Kosh, set up by the Central Government, other than the sum spent by the assessee in pursuance of CSR u/s 135(5) of the Companies Act, 2013

(22)	The Clean Ganga Fund, set up by the Central Government, where such assessee is a resident, other than the sum spent in pursuance of CSR u/s 135(5) of the Companies Act, 2013
(23)	The National Fund for Control of Drug Abuse constituted under section 7A of the Narcotic Drugs and Psychotropic Substances Act, 1985
(24)	Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM Cares Fund)
II	Donation qualifying for 50% deduction, without any qualifying limit
(1)	Prime Minister's Drought Relief Fund
III	Donation qualifying for 100% deduction, subject to qualifying limit
(1)	The Government or to any approved local authority, institution or association as may be approved for promotion of family planning
(2)	Sum paid by a company as donation to the Indian Olympic Association or any other association/institution established in India, as may be notified by the Government established – - for the development of infrastructure for sports or games, or - the sponsorship of sports and games in India
IV	Donation qualifying for 50% deduction, subject to qualifying limit
(1)	Any Institution or Fund established in India for charitable purposes fulfilling prescribed conditions under section 80G(5).
(2)	The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning.
(3)	An authority constituted in India by or under any other law enacted either for the purpose - of dealing with and satisfying the need for housing accommodation or - of planning, development or improvement of cities, towns and villages, or both.
(4)	Any Corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community as referred in section 10(26BB).
(5)	for renovation or repair of any such temple, mosque, gurdwara, church or other place as notified by the Central Government to be of historic, archaeological or artistic importance or to be a place of public worship of renown throughout any State or States.

- (iii) **Qualifying limit:** The eligible donations referred to in III and IV should be aggregated and the sum total should be limited to 10% of the adjusted gross total income. This would be the maximum permissible deduction.

The donations qualifying for 100% deduction would be first adjusted from the maximum permissible deduction and thereafter 50% deduction of the balance would be allowed.

Steps for computation of qualifying limit

Step 1:	Compute adjusted total income i.e., the GTI as reduced by the following: (i) Deductions under Chapter VI-A, except under section 80G (ii) Short-term capital gain taxable under section 111A (iii) Long-term capital gains taxable under sections 112 & 112A (iv) Any income on which income-tax is not payable (v) Income referred to in section 115A(1)(a), 115AB, 115AC, 115AD and 115D
Step 2:	Calculate 10% of adjusted total income
Step 3:	Calculate the actual donation, which is subject to qualifying limit (Total of Category III and IV donations, shown in the table above)
Step 4:	Lower of Step 2 or Step 3 is the maximum permissible deduction.
Step 5:	The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., Category III donations). Thereafter, 50% of balance qualifies for deduction under section 80G.

(iv) **Conditions:** Donation to any institution or fund referred in point no. (1) of (IV) above i.e., donation to whom would qualify for 50% deduction, subject to qualifying limit, shall be eligible for deduction if it is established in India for charitable purposes and fulfill the following conditions:

- (1) The institution or fund is:
 - (a) constituted as a public charitable trust, or
 - (b) registered under the Societies Registration Act, 1860 or under any corresponding law or under section 25 of the Companies Act, 1956³, or
 - (c) a University established by law or
 - (d) any other educational institution recognized by the Government or by a university established by law or affiliated to any university established by law
 - (e) an institution financed wholly or in part by the Government or a local authority [Section 80G(5)(v)].

³ Section 8 of the Companies Act, 2013

- (2) Where such institution or fund derives any income, such income should not be liable to inclusion in its total income under the provisions of section 10(23AA), 10(23C) or 11 or 12 [Section 80G(5)(i)].

However, in respect of profits and gains of business, the condition of such income should not be liable to inclusion in its total income under the provisions of section 11 shall not be applicable if –

- the institution or fund maintains separate books of account in respect of such business;
- the donation made to it are not used by it, directly or indirectly, for the purpose of such business; and
- the institution or fund issues certificate to the donor in respect of the above compliance.

Further, it may be noted that the assessee will not lose the benefit of deduction if:

- (a) subsequent to the donation, any part of the income of the Institution has become chargeable to tax due to non-compliance with any of the provisions of section 11 or section 12 or section 12A.
 - (b) as a result of the operation of section 13(1)(c), exemption under section 11 or section 12 is denied to the institution in relation to any income arising to it from any investment made in a concern in which the person specified under section 13(3) has substantial interest and aggregate of fund so invested does not exceed 5% of the capital of that concern. [*Explanation 2 to section 80G*]
- (3) No part of the income or assets of the Institution or Fund is transferable or applied at any time for any purposes other than charitable purpose [Section 80G(5)(ii)].

Such charitable purpose however does not include any purpose the whole or substantially the whole of which is of a religious nature [*Explanation 3 to Section 80G*].

However, where an institution or fund incurs expenditure of a religious nature for an amount not exceeding 5% of its total income in that previous year, such institution or fund shall be deemed to be a fund or institution to which the provisions of this section apply [Section 80G(5B)].

- (4) For the purposes of this section, an association or institution having as its object the control, supervision, regulation or encouragement in India of such games or sports as the Central Government may, by notification in the Official Gazette, specify in this behalf, shall be deemed to be an institution established in India for a charitable purpose. *[Explanation 4 to Section 80G]*
- (5) The Institution or Fund is not expressed to be for the benefit of any particular religious community or caste *[Section 80G(5)(iii)]*.

An institution or fund established for the benefit of women and children or of Scheduled Castes, Backward classes or Scheduled Tribes is not however to be treated as an institution or fund for the benefit of a religious community or caste. *[Explanation 1 to Section 80G]*

- (6) The Institution or Fund maintains regular accounts of its receipt and expenditure *[Section 80G(5)(iv)]*.
- (7) Such institution or fund must be approved by the Principal Commissioner or Commissioner *[Section 80G(5)(vi)]*

First, second, third and fourth provisos to section 80G(5) provide that the institution or fund has to make an application in the prescribed form and manner to the Principal Commissioner (PC) or Commissioner (C), for grant of approval within the prescribed time period and the PC or C will pass an order for grant of approval.

- (8) **Filing of statement of donation received by the institution or fund:** The institution or fund is required to prepare such statement for such period as may be prescribed and deliver or cause to be delivered to the prescribed income-tax authority or the person authorised by such authority such statement in such form and verified in such manner and setting forth such particulars and within such time as may be prescribed *[Section 80G(5)(viii)]*.

The institution or fund can also deliver to the said prescribed authority a correction statement for rectification of any mistake or to add, delete or update the information furnished in the statement delivered under this sub-section in such form and verified in such manner as may be prescribed.

- (9) **Furnishing of certificate to the donor:** The institution or fund is also required to furnish to the donor, a certificate specifying the amount of donation in such manner, containing such particulars and within such time from the date of receipt of donation, as may be prescribed *[Section 80G(5)(ix)]*

Consequently, *Explanation 2A* to section 80G provides that claim of the assessee for a deduction in respect of any donation made to an institution or fund, in the return of income for any assessment year filed by him, is allowed on the basis of information relating to said donation furnished by the institution or fund, subject to verification in accordance with the risk management strategy formulated by the Board from time to time.

(v) Other points:

- (a) Where an assessee has claimed and has been allowed any deduction under this section in respect of any amount of donation, the same amount will not qualify for deduction under any other provision of the Act for the same or any other assessment year [Section 80G(5A)].
- (b) Donations in kind shall not qualify for deduction.
- (c) No deduction shall be allowed in respect of donation of any sum exceeding **₹ 2,000** unless such sum is paid by any mode other than cash [Section 80G(5D)].
- (d) The deduction under section 80G can be claimed whether it has any nexus with the business of the assessee or not.
- (e) As per *Circular No.2/2005 dated 12.1.2005*, in cases where employees make donations to the Prime Minister's National Relief Fund, the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund through their respective employers, it is not possible for such funds to issue separate certificate to every such employee in respect of donations made to such funds as contributions made to these funds are in the form of a consolidated cheque. An employee who makes donations towards these funds is eligible to claim deduction under section 80G. It is, hereby, clarified that the claim in respect of such donations as indicated above will be admissible under section 80G on the basis of the certificate issued by the Drawing and Disbursing Officer (DDO)/ Employer in this behalf.

ILLUSTRATION 15

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

- (i) *Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000*
- (ii) *Medical Insurance premium for self – ₹ 14,000; Spouse – ₹ 15,000*

- (iii) Donation to a public charitable institution registered under 80G ₹ 50,000 by way of cheque
- (iv) LIC Pension Fund – ₹ 60,000
- (v) Donation to National Children's Fund - ₹ 25,000 by way of cheque
- (vi) Donation to PM CARES Fund – ₹ 10,000 by way of cheque.
- (vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- (viii) Deposit in PPF - ₹ 1,20,000

Compute the total income of Mr. Arjun for A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of Total Income of Mr. Arjun for A.Y. 2025-26

Particulars	₹	₹
Gross Total Income		8,85,000
Less: Deduction under section 80C		
Deposit in PPF	1,20,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,38,000	
Deduction u/s 80CCC in respect of LIC pension fund	60,000	
	1,98,000	
As per section 80CCE, deduction u/s 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	29,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		90,500
Total income		6,19,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	PM Cares Fund	10,000	100%	10,000
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	15,500
				90,500

Note - Adjusted total income = Gross Total Income (–) Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 7,10,000, in this case., ₹ 71,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to ₹ 31,000 (being, ₹ 71,000 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 15,500, which is 50% of ₹ 31,000.

(14) Deduction in respect of rent paid [Section 80GG]

- (i) **Eligible assessee:** Assessee, who is not in receipt of HRA qualifying for exemption under section 10(13A) from employer and who pays rent for accommodation occupied by him for residential purposes.
- (ii) **Conditions:** The following conditions have to be satisfied for claiming deduction under section 80GG -
 - (a) The assessee should not be receiving any house rent allowance exempt under section 10(13A).

- (b) The expenditure incurred by him on rent of any furnished or unfurnished accommodation should exceed 10% of his total income arrived at after all deductions under Chapter VI A except section 80GG.
- (c) The accommodation should be occupied by the assessee for the purposes of his own residence.
- (d) The assessee should fulfill such other conditions or limitations as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations.
- (e) The assessee or his spouse or his minor child or an HUF of which he is a member should not own any accommodation at the place where he ordinarily resides or perform duties of his office or employment or carries on his business or profession; or
- (f) If the assessee owns any accommodation at any place other than that referred to above, such accommodation should not be in the occupation of the assessee and its annual value is not required to be determined under section 23(2)(a) or section 23(4)(a).
- (g) The assessee should file a declaration in the prescribed form, confirming the details of rent paid and fulfillment of other conditions, with the return of income.

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

- (a) Actual rent paid minus 10% of the total income of the assessee before allowing the deduction, or
- (b) 25% of such total income (arrived at after making all deductions under Chapter VI-A but before making any deduction under this section), or
- (c) Amount calculated at ₹ 5,000 p.m.

Note - Deduction under section 80GG would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 16

Mr. Rakesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2025-26 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

The deduction under section 80GG will be computed as follows:

- (i) Actual rent paid less 10% of total income
 $\text{₹ } 1,44,000 (-) \text{ ₹ } 46,000 (10\% \times \text{₹ } 4,60,000) = \text{₹ } 98,000$
- (ii) 25% of total income i.e., ₹ 4,60,000
 $= \text{₹ } 1,15,000$
- (iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

(15) Deduction in respect of donations for scientific research or rural development [Section 80GGA]

- (i) **Eligible assessee:** Section 80GGA grants deduction in respect of the donations made for scientific research or rural development by any assessee not having income chargeable under the head “Profits and gains of business or profession”.
- (ii) **Donations qualifying for deduction:**
 - (a) Any sum paid by the assessee in the previous year to a research association which has, as its object, the undertaking of scientific research or to a University, college or other institution to be used for scientific research; and

Such research association, University, college or institution must be approved under section 35(1)(ii).
 - (b) Any sum paid to a research Association which has as its object the undertaking of research in social science or statistical research, University, College or other institution to be used for research in social science or statistical research.

Such Research Association, University, College or institution must be approved under section 35(1)(iii).
 - (c) Any sum paid by the assessee in the previous year
 - to an association or institution which has as its object the undertaking of any programme of rural development to be used for carrying out any programme of rural development approved by the prescribed authority for purposes of section 35CCA or

- to an institution or association which has as its object the training of persons for implementing programmes of rural development.

It is, however, essential that assessee furnishes the certificate from such institution or association as referred to in section 35CCA(2) & (2A).

- (d) Any sum paid to a public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project or scheme.
- (e) Further, it has been clarified that the deduction to which an assessee (i.e. donor) is entitled on account of payment of any sum
 - to a research association or university college or other institution for scientific research or research in a social science or statistical research,
 - an association or institution for carrying out the programme of rural development
 - public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project or scheme

shall not be denied merely on the ground that subsequent to payment of such sum by the assessee, the approval granted to any of the aforesaid entities or to such programme is withdrawn.

- (f) Any sum paid to a rural development fund set up and notified under section 35CCA.
- (g) Any sum paid by the assessee in the previous year to National Urban Poverty Eradication Fund (NUPEF).

(iii) Restrictions on deduction:

- (a) No deduction under this section would be allowed in the case of an assessee whose gross total income includes income which is chargeable under the head "Profits and gains of business or profession.
- (b) Where a deduction under this section is claimed and allowed for any assessment year, deduction shall not be allowed in respect of such payment under any provision of this Act for the same or any other assessment year.
- (c) No deduction shall be allowed in respect of donation of any sum exceeding **₹ 2,000** unless such sum is paid by any mode other than cash.

- (d) Deduction under this section claimed by the assessee in the return of income for any assessment year would be allowable on the basis of the information relating to donation furnished by the payee to the prescribed income-tax authority or person specified by such authority, subject to verification in accordance with the risk management strategy formulated by the CBDT from time to time.

Note - An individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person will be eligible for deduction u/s 80GGA only if such person has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(16) Deduction in respect of contributions given by companies to political parties [Section 80GGB]

- (i) **Deduction & Conditions:** This section provides for deduction of any sum contributed in the previous year by an Indian company not opting for section 115BAA/ 115BAB to any political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.
- (ii) **Meaning of “contribute”:** For the purposes of this section, the word “contribute” has the same meaning assigned to it under section 293A of the Companies Act, 1956⁴, which provides that -
- (a) a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose;
 - (b) the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.
- (iii) **Meaning of “Political party”:** It means a political party registered under section 29A of the Representation of the People Act, 1951.

⁴ Now section 182 of the Companies Act, 2013

ILLUSTRATION 17

During the P.Y.2024-25, Sky Ltd., an Indian company contributed a sum of ₹ 3.5 lakh to an electoral trust; and incurred expenditure of ₹ 52,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? Sky Ltd. does not opt for section 115BAA/115BAB.

SOLUTION

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, Sky Ltd. is eligible for a deduction of ₹ 4,02,000 under section 80GGB in respect of sum of ₹ 3.5 lakh contributed to an electoral trust and ₹ 52,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 52,000 would be disallowed while computing business income/ gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

(17) Deduction in respect of contributions given by any person to political parties [Section 80GGC]

- (i) **Deduction & Conditions:** This section provides for deduction of any sum contributed in the previous year by any person to a political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.
- (ii) **Persons not eligible for deduction:** This deduction will, however, not be available to a local authority and an artificial juridical person, wholly or partly funded by the Government.
- (iii) **Meaning of “Political party”:** It means a political party registered under section 29A of the Representation of the People Act, 1951.

Note - An individual, HUF, AoP (other than a co-operative society) or BoI would be eligible for deduction u/s 80GGC only if such person has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). A co-operative society will not be eligible for deduction if it opts for special provisions of section 115BAD/115BAE.



8.3 DEDUCTIONS IN RESPECT OF CERTAIN INCOMES

(1) Deductions in respect of profits and gains from undertakings or enterprises engaged in infrastructure development, etc. [Section 80-IA]

Applicability

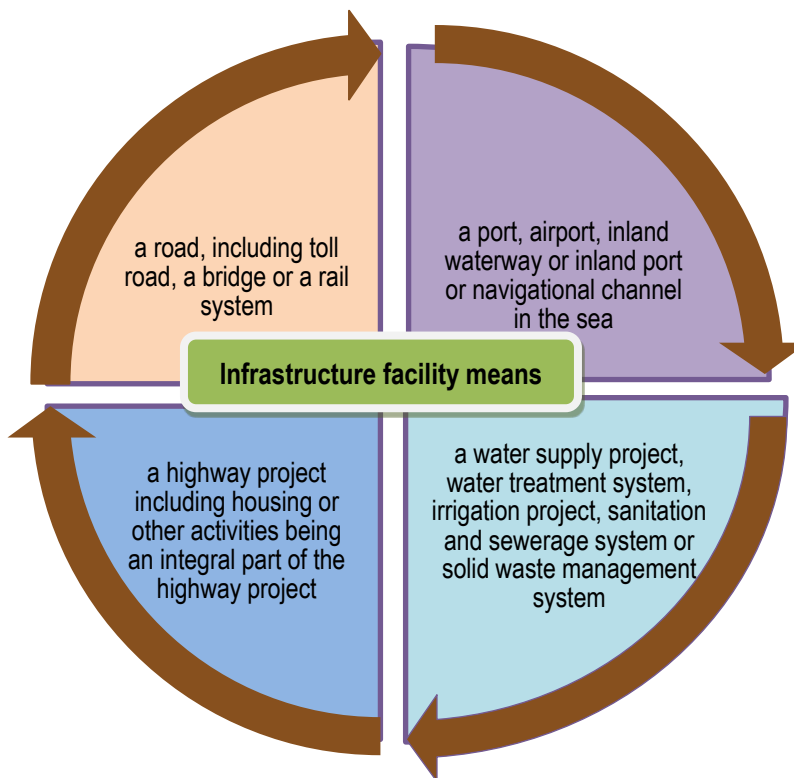
Section 80-IA(1) provides a 10 year tax holiday to an assessee, whose gross total income includes any profits and gains derived by an undertaking or enterprise from an eligible business i.e., business referred to in sub-section (4), namely :

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

- (a) developing; or
- (b) operating and maintaining; or
- (c) developing, operating and maintaining
- (d) any infrastructure facility.

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

- (1) It must be owned by a company registered in India or by a consortium of such companies or by an authority or a board or a corporation or any other body established or constituted under any Central or State Act.
- (2) It has entered into an agreement with the Central or a State Government or a local authority or statutory body for (i) developing or (ii) operating and maintaining, or (iii) developing, operating and maintaining a new infrastructure facility.
- (3) It starts operating and maintaining such infrastructure facility on or after 1-4-1995.
- (4) However, where an enterprise which developed such infrastructure facility transfers it to another enterprise on or after 1-4-1999, and such transferee enterprise operates and maintains it according to the agreement drawn up with the Government, etc., this section will apply to the transferee enterprise for the unexpired period of deduction (which was available to the first enterprise).

Meaning of “infrastructure facility”:**Note:**

1. Structures at the ports for storage, loading and unloading etc. will be included in the definition of port for the purpose of section 80-IA, if the concerned port authority has issued a certificate that the said structures form part of the port.
2. Effluent treatment and conveyance system is a part of water treatment system and would accordingly, qualify as an infrastructure facility for the purpose of section 80-IA.
3. The CBDT has, vide *Circular No. 4/2010 dated 18.5.2010*, clarified that widening of an existing road by constructing additional lanes as a part of a highway project by an undertaking would be regarded as a new infrastructure facility for the purpose of section 80-IA(4)(i). However, simply relaying of an existing road would not be classifiable as a new infrastructure facility for this purpose.

Note – Any enterprise which starts the development or operation and maintenance of the infrastructure facility on or after 1.4.2017 will not be eligible for deduction under section 80-IA. Instead, they would be eligible for investment-linked tax deduction under section 35AD.

(ii) **Industrial parks** : Any undertaking which

- develops,
- develops and operates, or
- maintains and operates

an industrial park.

Conditions:

- (1) The undertaking begins to operate an industrial park in accordance with the scheme framed and notified by the Central Government.
- (2) The scheme is notified by the Government for the period beginning on 1-4-1997 and ending on 31-3-2011 for industrial parks
- (3) However, where an undertaking develops an industrial park on or after 1.4.1999 and transfers the operation and maintenance to another undertaking (transferee undertaking), the deduction to the transferee undertaking shall be available for the remaining period in the ten consecutive assessment years, in such a manner as would have been available to the transferor undertaking, as if the operation and maintenance were not so transferred to the transferee undertaking.

Rule 18C lays down the following eligibility criteria for Industrial Parks to claim benefit under section 80-IA(4)(iii) -

- (1) The undertaking should begin to develop, develop and operate or maintain and operate an industrial park any time during the period from 1.4.2006 to 31.3.2011.
- (2) The undertaking and the Industrial Park should be notified by the Central Government under the Industrial Park Scheme, 2008.
- (3) The undertaking should continue to fulfill the conditions envisaged in the Industrial Park Scheme, 2008.

(iii) **Power undertakings:** Any undertaking which



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



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



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

Meaning of “Substantial renovation and modernisation”:

‘Substantial renovation and modernisation’ means an increase in the plant and machinery in the network of transmission or distribution lines by at least fifty per cent of the book value of such plant and machinery as on 1st April, 2004.

(iv) **Undertakings owned by an Indian company and set up for reconstruction or revival of a power generating plant:**

An undertaking owned by an Indian company and set up for reconstruction or revival of a power generating plant

Such Indian company should be formed before 30.11.2005 with majority equity participation by public sector companies for the purposes of enforcing the security interest of the lenders to the company owning the power generating plant

Such Indian company should have been notified before 31.12.2005 by the Central Government for the purposes of this clause

Such undertaking should begin to generate or transmit or distribute power before 31.3.2011

Rate of Deduction

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

Period of tax holiday/concession

	Eligible business	Period of tax holiday
1.	For all eligible business except business mentioned in point 2 below.	Assessee has the option to claim deduction for 10 consecutive assessment years out of 15 years beginning from the year in which the undertaking or the enterprise develops or begins to operate the infrastructure facility or develops industrial park or generates power or commences transmission or distribution of power or undertakes substantial renovation and modernization of the existing transmission or distribution lines.
2.	In case of an infrastructure facility being a public facility like – (i) a road, including a toll road, bridge or rail system; or (ii) a highway project including housing or other activities which are an integral part of the highway project; or (iii) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system	Assessee has the option to claim deduction for 10 consecutive assessment years out of 20 years beginning from the year in which the undertaking or the enterprise develops or begins to operate the eligible business

Other provisions

- (1) **Eligible business to be considered as the only source of income:** For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years [Sub-section (5)].
- (2) **Conditions to exempt profit from housing or other activities, being integral part of highway project:** Where housing or other activities are an integral part of a highway project

and the profits and gains have been calculated in accordance with the section, the profits shall not be liable to tax if the following conditions have been fulfilled:

- (a) The profit has been transferred to a special reserve account; and
 - (b) the same is actually utilised for the highway project excluding housing and other activities before the expiry of 3 years following the year of transfer to the reserve account;
 - (c) The amount remaining unutilised shall be chargeable to tax as income of the year in which the transfer to the reserve account took place [Sub-section (6)].
- (3) **Audit of accounts:** The deduction shall be allowed to the undertaking only if the accounts of the undertaking for the relevant previous year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant, before the specified date referred to in section 44AB i.e., the date one month prior to due date for filing return of income under section 139(1) [Sub-section (7)].
- (4) **Transfer of goods/services between eligible business and other business of the assessee:** Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the eligible business shall be computed as if the transfer was made at market value.

However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit [Sub-section (8)].

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

- (i) the price that such goods or services would ordinarily fetch in the open market; or
 - (ii) the arm's length price as defined under section 92F, where the transfer of such goods or services is a specified domestic transaction referred to in section 92BA.
- (5) **Deduction not to exceed profits of eligible business:** The deductions claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year no deduction in respect of such profits will be allowed under any other section under this chapter under the heading "Deductions in respect of certain incomes" [Sub-section (9)].

- (6) **Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:** The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case due to close connection or for any other reason the transaction between the assessee carrying on the eligible business under section 80-IA and any other person is so arranged that the transaction produces excessive profits to the eligible business [Sub-section (10)].

If the aforesaid arrangement between the assessee carrying on the eligible business and any other person is a specified domestic transaction referred to in section 92BA, then, the amount of profit of such transaction shall be determined having regard to arm's length price as defined under section 92F and not as per the reasonable profit from such transaction.

- (7) **Central Government empowered to deny deduction to any class of eligible undertaking or enterprise:** The section empowers the Central Government to declare any class of industrial undertaking or enterprise as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette [Sub-section (11)].

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

- (a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/ demerger.
- (b) The provisions of this section will apply to the amalgamated/ resulting company as they would have applied to the amalgamating/ demerged company if the amalgamation/ demerger had not taken place [Sub-section (12)].

However, such transfer of benefit of deduction to the amalgamated/ resulting company would not be available in respect of any enterprise or undertaking which is transferred in a scheme of amalgamation or demerger effected on or after 1.4.2007 [Sub-section (12A)].

- (9) **No deduction to any business carrying on specified activities in the nature of a work contract:** The tax holiday under section 80-IA would not be available in relation to a business referred to in sub-section (4) which is in the nature of a works contract awarded by any person (including the Central or State Government) and executed by the undertaking or enterprise referred to in section 80-IA(1).

(2) Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of SEZ [Section 80-IAB]

(i) Quantum of deduction:

Sub-section (1) provides for a deduction of 100% of profits and gains derived by an undertaking or an enterprise from any business of developing a SEZ for 10 consecutive assessment years.

(ii) Eligible assessee:

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

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

(iii) Meaning of Developer:

- (a) a person who, or
- (b) a State Government which

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

A developer includes –

- (a) an authority and
- (b) a Co-developer.

Co-developer means -

- (a) a person who, or
- (b) a State Government which

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

(iv) Option to choose 10 consecutive A.Y.s out of 15 years to claim deduction:

The assessee has the option of claiming the said deduction for any ten consecutive assessment years out of fifteen years beginning from the year in which a SEZ has been notified by the Central Government.

(v) Deduction to transferee in case of transfer of operation and maintenance of such SEZ:

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

(vi) The provisions of sub-section (5) and sub-section (7) to (12) of section 80-IA shall apply to the Special Economic Zone for the purpose of allowing deductions under 80-IA(1).

Lease rent from letting out buildings/developed space along with other amenities in an Industrial Park /SEZ - to be treated as business income [Circular No. 16/2017, dated 25.04.2017]

The issue whether income arising from letting out of premises/developed space along with other amenities in an Industrial Park/SEZ is to be charged under head 'Profits and Gains of Business' or under the head 'Income from House Property' has been subject matter of litigation in recent years. Assessee claim the letting out as business activity, the income arising from which to be charged to tax under the head 'Profits and Gains of Business', whereas the Assessing Officers hold it to be chargeable under the head 'Income from House Property'.

In the case of Velankani Information Systems Pvt Ltd (NJRS Citation [2013-LL-0402-44]), the Karnataka High Court observed that any other interpretation would defeat the object of section 80-IA and Government schemes for development of Industrial Parks in the country. SLPs filed in this case by the Department have been dismissed by the Supreme Court.

In a subsequent judgment dated 30.04.2014 in ITA No. 76 & 78/2012 in the case of CIT v. Information Technology Park Ltd. (NJRS Citation [2014-LL-0430-141]), the Karnataka High Court has reaffirmed its earlier views. It has held that, since the assessee-company was engaged in the business of developing, operating and maintaining an Industrial Park and providing infrastructure facilities to different companies as its business, the lease rent received by the assessee from letting out buildings along with other amenities in a software technology park would be chargeable to tax under the head "Profits and gains of business or profession" and not under the head "Income from house property". The judgment has been accepted by the CBDT.

In view of the above, it is now a settled position that in the case of an undertaking which develops, develops and operates or maintains and operates an industrial park/SEZ notified in accordance with the scheme framed and notified by the Government, the income from letting out of premises/developed space along with other facilities in an industrial park/SEZ is to be charged to tax under the head 'Profits and Gains of Business'.

(3) Tax incentives for new start-ups [Section 80-IAC]

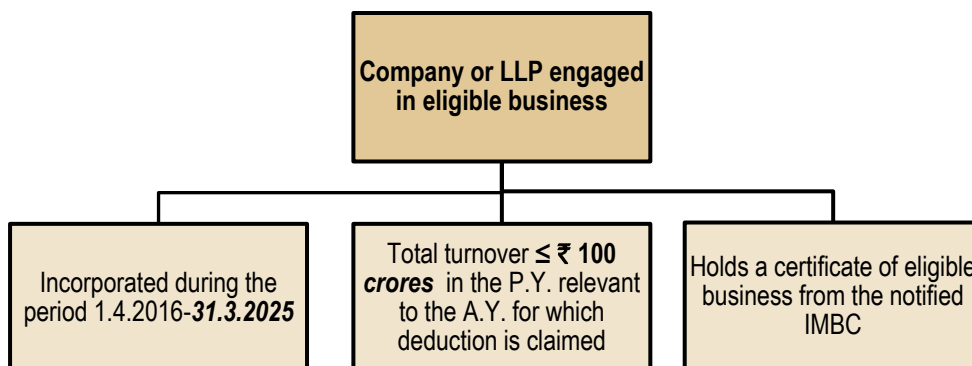
(i) Objective:

Section 80-IAC provides an incentive to start-ups in order to aid their growth in the early phase of their business.

(ii) Quantum of deduction:

Accordingly, a deduction of **100%** of the profits and gains derived by an eligible start-up from an eligible business is allowed for any **three consecutive assessment years out of ten** years beginning from the year in which the eligible start up is incorporated.

(iii) Meaning of eligible start-up:



(iv) Meaning of eligible business:

A business carried out by an eligible start-up engaged in –

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

(v) **Conditions to be fulfilled:**

This incentive is available to an eligible start-up which fulfils the following conditions:

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

Exception: However, this condition shall not apply in the case of an undertaking which is formed as a result of reconstruction, re-establishment or revival of the business of any undertaking which has been discontinued in any previous year due to extensive damage or destruction of any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business. Further, the reason for damage or destruction is due to any natural calamity or other unforeseen circumstances such as the following:

- (i) Flood, typhoon, hurricane, cyclone, earthquake or other natural calamity, or
- (ii) riot or civil disturbance, or
- (iii) accidental fire or explosion, or
- (iv) enemy action or action taken in combat,

and such business is re-established or revived within 3 years from the end of such previous year.

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

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

- (a) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;
- (b) such machinery or plant is imported into India;
- (c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of the Income-tax Act, 1961 in computing the total income of any person for any period prior to the date of the installation of the machinery or plant by the assessee.

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

- (vi) The provisions of sub-section (5) and sub-section (7) to (11) of section 80-IA shall apply to the start-ups for the purpose of allowing deductions under 80-IAC(1).

(4) Deductions in respect of profits and gains from certain undertaking [Section 80-IB]

Applicability

This section will be applicable to assessee, whose gross total income includes any profits and gains from the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains [Sub-section (11A)].

Conditions to be fulfilled, amount of deduction and period of deduction

In order to claim deduction, the undertaking should fulfill the following conditions:

- (i) It should be deriving profits from the business of processing, preservation and packaging of fruits or vegetables or meat or meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains.
- (ii) It should begin to operate such business on or after 1.4.2001.
- (iii) It should begin operates such business on or after 1.4.2009 in case of an undertaking deriving profit from the business of processing, preservation and packaging of meat or meat products or poultry or marine or dairy products.

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

The provisions of sub-section (5) and sub-section (7) to (12) of section 80-IA shall apply to the eligible business under section 80-IB.

(5) Deductions in respect of profits and gains from housing projects/rental housing project [Section 80-IBA]

(i) Objective:

Section 80-IBA provides impetus to affordable housing sector to achieve the larger objective of 'Housing for All'.

(ii) Quantum of deduction:

Where the gross total income of an assessee includes any profits and gains derived from

- the business of developing and building housing projects an amount equal to 100% of the profits and gains derived from such business is allowable as deduction under section 80-IBA, subject to fulfilment of certain conditions [Section 80-IBA(1)].
- the business of developing and building rental housing project an amount equal to 100% of the profits and gains derived from such business is allowable as deduction [Section 80-IBA(1A)].

(iii) Conditions to be fulfilled for claim of deduction in respect of housing project referred under section 80-IBA(1):

- (a) the project is approved by the competent authority after 1st June, 2016 but on or before 31st March, 2022;
- (b) the project is completed within a period of **five years** from the date of approval by the competent authority:

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

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

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

- (a) where a residential unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual;
- (b) **Conditions relating to size of plot of land, residential units etc.**

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

- (c) The project is the only housing project on the plot of land [referred to in column (3)].
- (d) the assessee maintains separate books of account in respect of the housing project.

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

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

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

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

- (c) The project is the only housing project on the plot of land [referred to in column (3) above].
- (d) the assessee maintains separate books of account in respect of the housing project.
- (e) the stamp duty value of a residential unit in the housing project does not exceed ₹ 45 lakhs.

(iv) No deduction for person executing the housing project as a works contract:

An assessee who merely executes the housing project as a works-contract awarded by any person (including the Central Government or the State Government) would not be eligible for deduction under this section.

(v) Consequence of non-completion of housing project within 5 years:

In a case where the housing project is not completed within the period of five years from the date of approval by the competent authority and in respect of which a deduction has been claimed and allowed under this section, the total amount of deduction so claimed and

allowed in one or more previous years, shall be deemed to be the income of the assessee chargeable under the head "Profits and gains of business or profession" of the previous year in which the period for completion so expires.

(vi) No deduction under any other provision of the Act in respect of such profits:

Where any amount of profits and gains derived from the business of developing and building housing projects is claimed and allowed under this section for any assessment year, deduction to the extent of such profit and gains shall not be allowed under any other provision of this Act.

(vii) Meaning of certain terms:

	Term	Meaning
(a)	Carpet area	Net usable floor area of an apartment Excluding – • The area covered by the external walls, • areas under service shafts • exclusive balcony or verandah area and • exclusive open terrace area However, carpet area includes the area covered by the internal partition walls of the apartment. Exclusive balcony or verandah and exclusive open terrace area means the area of the balcony or verandah and the area of open terrace respectively, which is appurtenant to the net usable floor area of an apartment, meant for the exclusive use of the allottee.
(b)	Competent authority	The authority empowered by the Central Government to approve the building plan by or under any law for the time being in force.
(c)	Floor area ratio	The quotient obtained by dividing the total covered area of plinth area on all the floors by the area of the plot of land
(d)	Housing project	A project consisting predominantly of residential units with such other facilities and amenities as the competent authority may approve subject to the provisions of this section
(e)	Rental housing project	A project which is notified by the Central Government under this clause on or before the 31.03.2022 and fulfils such conditions as may be specified in the said notification.
(f)	Residential unit	An independent housing unit with separate facilities for living, cooking and sanitary requirements, distinctly

		separated from other residential units within the building, which is directly accessible from an outer door or through an interior door in a shared hallway and not by walking through the living space of another household.
(g)	Stamp duty value	Value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property.

(6) Tax holiday in respect of profits and gains from eligible business of certain undertakings in North-Eastern States [Section 80-IE]

(i) Applicability:

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

- (1) to manufacture or produce any eligible article or thing;
- (2) to undertake substantial expansion to manufacture or produce any eligible article or thing;
- (3) to carry on any eligible business.

(ii) Meaning of certain terms:

	Terms	Meaning
(a)	Eligible article or thing	the article or thing other than - goods falling under Chapter 24 of the First Schedule to the Central Excise Tariff Act, 1985 which pertains to tobacco and manufactured tobacco substitutes; - pan masala as covered under Chapter 21 of the First Schedule to the Central Excise Tariff Act, 1985; - plastic carry bags of less than 20 microns; and - goods falling under Chapter 27 of the First Schedule to the Central Excise Tariff Act, 1985 produced by petroleum oil or gas refineries
(b)	Substantial expansion	Increase in the investment in the plant and machinery by at least 25% of the book value of plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is undertaken

(c)	Eligible business	Business of - - hotel (not below two star category); - adventure and leisure sports including ropeways; - providing medical and health services in the nature of nursing home with a minimum capacity of 25 beds; - running an old-age home; - operating vocational training institute for hotel management, catering and food craft, entrepreneurship development, nursing and para-medical, civil aviation related training, fashion designing and industrial training; - running information technology related training centre; - manufacturing of information technology hardware; and - Bio-technology.
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(iii) Quantum of deduction and period:

Where the gross total income of an assessee includes any profits and gains derived by such an undertaking, a deduction of 100% of the profits and gains derived from such business for 10 consecutive assessment years commencing with the initial assessment year shall be allowed in computing the total income of the assessee. Initial assessment year means the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce articles or things or completes substantial expansion.

(iv) No deduction under any other section of Chapter VIA or section 10AA of the Act in respect of such profits:

No benefit to these undertakings will be available under any of the sections in Chapter VIA or in section 10AA in relation to the profits and gains of such undertakings.

(v) Maximum permissible deduction:

While computing the total period of 10 years the period for which the benefit under section 80-IC has already been availed, if any, shall also be included.

(vi) The provisions of sub-section (5) and sub-section (7) to (12) of section 80-IA shall apply to the eligible undertaking under this section.

**SUMMARY OF DEDUCTIONS IN RESPECT OF CERTAIN
INCOMES: SECTIONS 80-IA to 80-IE**

Section	Eligible Business		Year of commencement of eligible business	Period of Deduction	Quantum of Deduction
80-IA	(1)	(i) Developing or (ii) Operating and maintaining or (iii) Developing, operating and maintaining any infrastructure facility	On or after 1.4.1995 but not later than 1.4.2017	Infrastructure Facility of road, or a bridge or a rail system or a highway project or a water supply project: 10 consecutive assessment years out of 20 years beginning from the year in which the enterprise develops or begins to operate the eligible business.	100% of the profits and gains derived from such business for 10 consecutive assessment years.
	(2)	Industrial parks	Industrial parks: Notified by the Central Government for the period on or after 1.4.1997 & ending on 31.3.2011.		
	(3)	Power undertakings	Generation or Generation and distribution: Set up between 1.4.1993 & 31.3.2017. Transmission or distribution: Start transmission during the period from 1.4.1999 & 31.3.2017. Renovation and modernisation of existing network: Undertakes substantial renovation and modernisation during the period on or after 1.4.2004 & ending on 31.3.2017.	Other eligible businesses: 10 consecutive assessment years out of 15 years beginning from the year in which the enterprise develops or begins to operate the eligible business.	

	(4)	Undertaking owned by an Indian Company set up for Reconstruction or revival of a power generating plant	Company formed on or before 30 th November, 2005 and begins to generate or transmit or distribute power before 31 st March 2011 and notified before 31.12.2005 by Central Government		
80-IAB		Development of Special Economic Zones(SEZs)	Develops SEZ, notified on or after 1 st April 2005 but before 1 st April 2017.	10 consecutive AYs out of 15 years beginning from the year in SEZ has been notified.	100% of the profits and gains derived from such business.
80-IAC		A business carried out by an eligible start-up engaged in Innovation, Development or Improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation	The company or LLP is incorporated during the period 1.4.2016 - 31.3.2025	3 consecutive AYs out of 10 years beginning from the year in which company or LLP, incorporated.	100% of the profits and gains derived from such business.
80-IB		Processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains	<u>Processing, preservation and packaging of meat or meat products or poultry or marine or dairy products:</u> On or after 1.4.2009 <u>Other eligible businesses:</u> On or after 1.4.2001	10 consecutive AYs beginning with the initial AY	100% of the profits and gains derived from such business for 5 AYs beginning with the initial AY 25% (30% in case of company) for remaining 5 years
80-IBA		Developing and building housing projects or rental housing project	Housing Project referred under section 80-IBA(1) is	----	100% of the profits and gains derived from

		approved after 1 st June 2016 but on or before 31 st March 2022		such housing project.
80-IE	Undertaking begun or begins, in any of the North-Eastern States (i.e., the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) - (1) to manufacture or produce any eligible article or thing; (2) to undertake substantial expansion to manufacture or produce any eligible article or thing; (3) to carry on any eligible business.	between 1st April, 2007 and ending before 1st April, 2017	10 consecutive AYs commencing with the initial AY	100% of the profits and gains derived from such business

Note - In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction under section 80-IA to 80-IE would be available only if such person has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). It would not be available if such person pays concessional rates of tax under the default tax regime u/s 115BAC.

In case of companies and co-operative societies, deduction under section 80-IA to 80-IE would not be available if they opt for the special provisions u/s 115BAA/115BAB and section 115BAD/115BAE, respectively. In other words, deduction would be available only if companies and co-operative societies pay tax under the normal provisions of the Act.

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

Chapter VI-A of the Income-tax Act, 1961, provides for deductions in respect of certain incomes. In computing the profits and gains of a business activity, the Assessing Officer may make certain disallowances, such as disallowances pertaining to sections 32, 40(a)(ia), 40A(3), 43B etc., of the Act. At times, disallowance out of specific expenditure claimed may also be made. The effect of such disallowances is an increase in the profits.

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

The courts have generally held that if the expenditure disallowed is related to the business activity against which the Chapter VI-A deduction has been claimed, the deduction needs to be allowed on the enhanced profits. Some illustrative cases upholding this view are as follows:

- (i) *If an expenditure incurred by assessee for the purpose of developing a housing project was not allowable on account of non-deduction of TDS under law, such disallowance would ultimately increase assessee's profits from business of developing housing project. The ultimate profits of assessee after adjusting disallowance under section 40(a)(ia) would qualify for deduction under section 80-IB.*
- (ii) *If deduction under section 40A(3) is not allowed, the same would have to be added to the profits of the undertaking on which the assessee would be entitled for deduction under section 80-IB.*

In view of the aforesaid judgements, the CBDT has accepted the settled position that the disallowances made under sections 32, 40(a)(ia), 40A(3), 43B, etc. and other specific disallowances, related to the business activity against which the Chapter VI-A deduction has been claimed, result in enhancement of the profits of the eligible business, and that deduction under Chapter VI-A is admissible on the profits so enhanced by the disallowance.

(7) Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste [Section 80JJA]

- (i) **Eligible business:** The deduction is allowable where the gross total income of an assessee includes any profits and gains derived from the business of collecting and processing or treating of bio-degradable waste -
 - (1) for generating power, or
 - (2) producing bio-fertilizers, bio-pesticides or other biological agents, or
 - (3) for producing bio-gas, or
 - (4) making pellets or briquettes for fuel or organic manure.
- (ii) **Quantum of deduction and period:** The deduction allowable under this section is an amount equal to the whole of such profits and gains for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the business commences.

Note - In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction under section 80JJA would be available only if such person has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). It would not be available if such person pays concessional rates of tax under the default tax regime u/s 115BAC.

In case of companies and co-operative societies, deduction under section 80JJA would not be available if they opt for the special provisions u/s 115BAA/115BAB and section 115BAD/115BAE, respectively. In other words, deduction would be available only if companies and co-operative societies pay tax under the normal provisions of the Act.

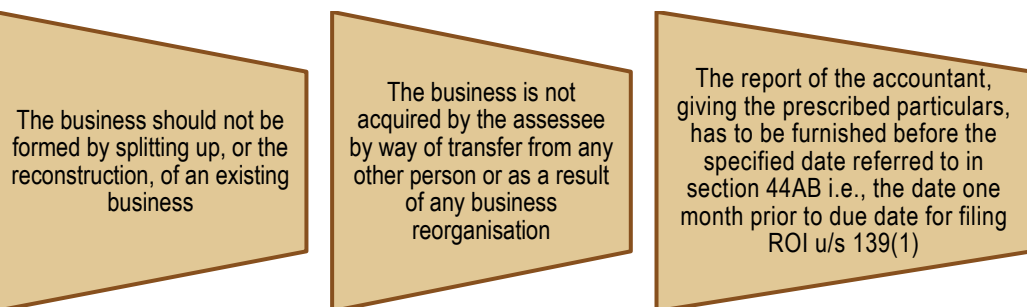
(8) Deduction in respect of employment of new employees [Section 80JJAA]

(i) Quantum and period of deduction:

Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for three assessment years including the assessment year relevant to the previous year in which such employment is provided.

(ii) Conditions to be fulfilled:

The deduction would be allowed only subject to fulfilment of the following conditions:



(iii) Meaning of certain terms:

	Term	Meaning
(a)	Additional employee cost	Total emoluments paid or payable to additional employees employed during the previous year.
		In the case of an existing business The additional employee cost shall be Nil, if— (a) there is no increase in the number of employees from the total number of

			employees employed as on the last day of the preceding year; (b) emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through any other prescribed electronic mode [credit card, debit card, net banking, IMPS (Immediate Payment Services), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer), BHIM (Bharat Interface for Money) Aadhar Pay].
		In the first year of a new business	The emoluments paid ⁵ or payable to employees employed during that previous year shall be deemed to be the additional employee cost.
(b)	Additional employee	An employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year. <u>Exclusions from the definition:</u> (a) an employee whose total emoluments are more than ₹ 25,000 per month; or (b) an employee for whom the entire contribution is paid by the Government under the Employees' Pension Scheme notified in accordance with the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952; or	

⁵ As per Form No.10DA read with Rule 19AB, the amount shall **not** include emoluments paid otherwise than by way of account payee cheque/bank draft/ECS through a bank account and prescribed electronic modes

		(c) an employee employed for a period of less than 240 days during the previous year. In case of an assessee engaged in the business of manufacturing of apparel or footwear or leather products, an employee employed for a period of less than 150 days during the previous year; or (e) an employee who does not participate in the recognised provident fund. Note – If an employee is employed during the previous year for less than 240 days or 150 days, as the case may be, but is employed for a period of 240 days or 150 days, as the case may be, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year. Accordingly, the employer would be entitled to deduction of 30% of additional employee cost of such employees for three years from the succeeding year.
(c)	Emoluments	any sum paid or payable to an employee in lieu of his employment by whatever name called. Exclusions from the definition: (a) any contribution paid or payable by the employer to any pension fund or provident fund or any other fund for the benefit of the employee under any law for the time being in force; and (b) any lump-sum payment paid or payable to an employee at the time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.

Note - Deduction u/s 80JJAA would be available to an assessee irrespective of the regime under which such assessee pays tax.

ILLUSTRATION 18

Mr. Vikas has commenced the business of manufacture of computers on 1.4.2024. He employed 420 new employees during the P.Y.2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2024	Regular	24,000
(ii)	125	1.5.2024	Regular	26,000

(iii)	120	1.7.2024	Casual	24,500
(iv)	100	1.9.2024	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. Vikas for A.Y.2025-26, if the profits and gains derived from manufacture of computers that year is ₹ 90 lakhs and his total turnover is ₹ 11.48 crores.

What would be your answer if Mr. Vikas has commenced the business of manufacture of leather products on 1.4.2024?

SOLUTION

Mr. Vikas is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2025-26, and he has employed “additional employees” during the P.Y.2024-25.

I. If Mr. Vikas is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		420
Less: Casual employees employed on 1.7.2024 who do not participate in recognized provident fund	120	
Regular employees employed on 1.5.2024, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25.	100	345
Number of “additional employees”		75

Notes –

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify

as additional employees for the P.Y.2024-25, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. Vikas for the A. Y. 2026-27.

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

If Mr. Vikas is engaged in the business of manufacture of leather products, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000

(9) Deduction in respect of certain income of Offshore Banking Units and International Financial Services Centre [Section 80LA]

(i) Eligible assessee:

This section is applicable to the following assessees -

- (a) a scheduled bank having an Offshore Banking Unit in a SEZ; or
- (b) any bank, incorporated by or under the laws of a country outside India, and having an Offshore Banking Unit in a SEZ; or
- (c) a Unit of an International Financial Services Centre (IFSC).

(ii) Eligible income qualifying for deduction:

The deduction will be allowed on account of the following income included in the gross total income of such assessees -

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

- (b) income from the business referred to in section 6(1) of the Banking Regulation Act, 1949, with -
- (1) an undertaking located in a SEZ or
 - (2) any other undertaking which develops, develops and operates or develops, operates and maintains a SEZ; or
- (c) income from any Unit of the IFSC from its business for which it has been approved for setting up in such a Centre in a SEZ.
- (d) income arising from the transfer of an asset, being an aircraft or a ship or a helicopter or an engine of an aircraft or a helicopter, or any part thereof, which was leased by a unit of an IFSC referred to in clause (c) to a person, subject to the condition that the unit has commenced operation on or before **31.03.2025**.

(iii) **Quantum and period of deduction:**

S. No.	Eligible assessee	Quantum and period of deduction	Relevant previous year from which deduction is allowed
(a)	a scheduled bank having an Offshore Banking Unit in a SEZ, whose GTI includes any income referred to in (ii) above	100% of such income for 5 consecutive AYs. Thereafter, 50% of such income for the next 5 consecutive AYs. However, w.e.f. A.Y. 2023-24, such deduction of 50% available for next 5 consecutive assessment years has been enhanced to 100% of such income.	Beginning with the assessment year relevant to the previous year in which (1) the permission under section 23(1)(a) of the Banking Regulation Act, 1949 was obtained; or
(b)	any bank, incorporated by or under the laws of a country outside India, and having an Offshore Banking Unit in a SEZ, whose GTI includes any income referred to in (ii) above		(2) the permission or registration under the SEBI Act, 1992 was obtained; or
(c)	Unit of an International Financial Services Centre (IFSC), whose GTI includes any income referred to in (ii) above	100% of such income for any 10 consecutive AYs at the option of the assessee, out of 15 years.	(3) the permission or registration under the International Financial Services Centre Authority Act, 2019 was obtained.

(iv) Conditions:

The following conditions have to be fulfilled for claiming deduction under this section-

- (a) The report of a Chartered Accountant in the prescribed form certifying that the deduction has been correctly claimed in accordance with the provisions of this section, should be submitted along with the return of income.
- (b) A copy of the permission obtained under section 23(1)(a) of the Banking Regulation Act, 1949 or copy of permission or registration obtained under the International Financial Services Centre Authority Act, 2019 should also be furnished along with the return of income.

(10) Deduction in respect of inter-corporate dividends [Section 80M]

- (i) **Eligible assessee:** Deduction under this section would be allowable to a domestic company if its gross total income includes in any previous year, any income by way of dividends received from any other domestic company or foreign company or a business trust.
- (ii) **Quantum of deduction:** In computing the total income of such domestic company, a deduction of an amount equal to the amount of dividends received from other domestic company or foreign company or business trust as does not exceed the amount of dividend distributed by such domestic company on or before the due date.

In simple words, deduction under this section would be amount of dividend received from other domestic company/foreign company/business trust or dividend distributed by the domestic company, whichever is lower.

Example: X Ltd. a domestic company received dividend of ₹ 10 lakhs from "Y Ltd", a domestic company (100% subsidiary of X Ltd.) during the previous year 2024-25. On 15th May, 2025, X Ltd. declared and distributed dividend of ₹ 5 lakhs.

In this case, X Ltd. would be eligible for deduction under section 80M in respect of dividend received from Y Ltd. to the extent of ₹ 5 lakhs, being the amount of dividend declared and distributed by X Ltd. Hence, the deduction under section 80M would be ₹ 5 lakhs.

- (iii) **Meaning of due date:** "Due date" means the date one month prior to the date for furnishing the return of income under section 139(1).
- (iv) **No deduction:** Where any deduction, in respect of the amount of dividend distributed by the domestic company, has been allowed under this section in any previous year, no deduction shall be allowed in respect of such amount in any other previous year.

Note - Deduction u/s 80M would be available to Indian company irrespective of the regime under which it pays tax.

(11) Deduction in respect of income of co-operative societies [Section 80P]**(i) Applicability:**

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

(ii) Eligible income for deduction and quantum of deduction:**Deduction in respect of profit attributable to certain specified activities**

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

- (1) carrying on the business of banking or providing credit facilities to its members; or
- (2) a cottage industry; or
- (3) the marketing of the agricultural produce grown by its members; or
- (4) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture or for the purpose of supplying them to its members; or
- (5) the processing without the aid of power, of the agricultural produce of its members; or
- (6) the collective disposal of the labour to its member; or
- (7) fishing and other allied pursuits, such as catching, curing, processing, preserving, storing and marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to their members.

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

- (i) members who contribute their labour force or who actually carry on the fishing or other allied activities,
- (ii) the co-operative credit societies which provide financial assistance to the society and
- (iii) the State Government.

Deduction in respect of profit of primary co-operative societies

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

- a federal co-operative society engaged in supplying milk, oilseeds, fruits or vegetables, as the case may be, or
- the Government or a local authority or
- a Government company as defined in section 617⁶ of the Companies Act, 1956 or a corporation established by or under a Central, State or Provincial Act (engaged in supplying milk, oilseeds, fruits or vegetables, as the case may be, to the public),

Deduction in respect of other activities

A co-operative society which is engaged in activities other than to those mentioned above either independently of, or in addition to, all or any of the activities so specified, is eligible for deduction upto ₹ 50,000 to the extent of its business income arising from other activities. The limit is ₹ 1,00,000 in the case of consumer co-operative societies.

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

Deduction in respect of Interest or dividend income

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

Deduction in respect of letting-out income for certain purpose

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

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

Any income arising to a co-operative society by way of 'Interest on securities' or 'Income from house property' (chargeable under section 22) is fully deductible under this section

⁶ As defined in section 2(45) of the Companies Act, 2013

where the gross total income of the co-operative society does not exceed ₹ 20,000 and it is not a housing society or an urban consumer's society or a society carrying on transport business or a society engaged in the performance of any manufacturing operations with the aid of power. Thus, a majority of small co-operative societies would not have to pay any income-tax.

(iii) Meaning of urban consumers' co-operative society:

It means a society for the benefit of the consumers within the limits of a municipal corporation, municipality, municipal committee, notified area committee, town area or cantonment.

(iv) Deduction under other section of Chapter VI-A of the Act:

Where the co-operative society is also entitled to the deduction available under section 80-IA, the deduction under this section shall be allowed with reference to the gross total income as reduced by the deduction allowable under section 80-IA.

(v) Non-eligible co-operative societies:

Co-operative banks, other than primary agricultural credit societies (i.e. as defined in Part V of the Banking Regulation Act, 1949) and primary co-operative agricultural and rural development banks (i.e. societies having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities) are not eligible to claim deduction under section 80P. Moreover, the CBDT has, vide *Circular No. 6/2010 dated 20.9.2010* clarified that the Regional Rural Banks are not eligible for deduction under section 80P.

However, co-operative societies engaged in providing credit facilities solely to its members cannot be said to be a co-operative bank. Thus, such co-operative societies are eligible for deduction under section 80P [*PCIT v. Annasaheb Patil Mathadi Kamgar Sahakari Pathpedi Ltd. [2023] 454 ITR 117 (SC)*].

Note - In case of co-operative societies, deduction under section 80P would not be available if they opt for the special provisions u/s 115BAD/115BAE. In other words, deduction would be available only if they pay tax under the normal provisions of the Act.

(12) Deduction in respect of royalty income, etc., of authors of certain books other than text books [Section 80QQB]

(i) **Eligible assessee and Quantum of deduction:** Under section 80QQB, deduction of up to a maximum ₹ 3,00,000 is allowed to an individual resident in India, being an author including a joint author in respect of income derived by him in the exercise of his profession i.e., the deduction shall be the income derived as author or ₹ 3,00,000, whichever is less.

(ii) **Eligible income:**

- (a) This income may be received either by way of a lumpsum consideration for the assignment or grant of any of his interests in the copyright of any book.
- (b) Such book should be a work of literary, artistic or scientific nature, or of royalties or copyright fees (whether receivable in lump sum or otherwise) in respect of such book.
- (c) This deduction shall not, however, be available in respect of royalty income from brochures, commentaries, diaries, guides, journals, magazines, newspapers, pamphlets, textbook for schools, tracts and other publications of similar nature.

Note - Where an assessee claims deduction under this section, no deduction in respect of the same income may be claimed under any other provision of the Income-tax Act, 1961.

(iii) **Manner of computation of deduction:** For the purpose of calculating the deduction under this section, the amount of eligible income (royalty or copyright fee received otherwise than by way of lumpsum) before allowing expenses attributable to such income, shall not exceed 15% of the value of the books sold during the relevant previous year.

However, this condition is not applicable where the royalty or copyright fees is receivable in lump sum in lieu of all rights of the author in the book.

(iv) **Conditions:**

- (a) **Furnishing of certificate in prescribed form:** For claiming the deduction, the assessee shall have to furnish a certificate in the prescribed manner in the prescribed format, duly verified by the person responsible for making such payment, setting forth such particulars as may be prescribed.
- (b) **Period for repatriation of income earned outside India:** Where the assessee earns any income from any source outside India, he should bring such income into India in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the

competent authority may allow in this behalf for the purpose of claiming deduction under this section.

The competent authority shall mean the Reserve Bank of India or such other authority as is authorised under any law for the time being in force for regulating payments and dealings in foreign exchange.

Note - Deduction under section 80QQB would be available to an individual resident in India only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 19

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2026. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder –

	₹
Deduction u/s 80QQB:	
Royalty ₹ 2,88,000 × 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QQB	1,90,000

(13) Deduction in respect of royalty on patents [Section 80RRB]

- (i) **Eligible assessee:** This deduction shall be available only to a resident individual who is registered as the true and first inventor in respect of an invention under the Patents Act, 1970, including the co-owner of the patent and earning income by way of royalty of a patent registered on or after 1.4.2003.

- (ii) **Quantum of deduction:** This section allows deduction to a resident individual in respect of income by way of royalty of a patent registered on or after 1.4.03 up to an amount of **₹ 3 lakhs**.

Note - No deduction in respect of such income will be allowed under any other provision of the Income-tax Act, 1961

- (iii) **Eligible income:** This deduction shall be restricted to the royalty income including consideration for transfer of rights in the patent or for providing information for working or use of a patent, use of a patent or the rendering of any services in connection with these activities.

The deduction shall not be available on any consideration for sale of product manufactured with the use of the patented process or patented article for commercial use.

- (iv) **Conditions:**

(a) In respect of any such income which is earned from sources outside India, the deduction shall be restricted to such sum as is brought to India in convertible foreign exchange within a period of 6 months or extended period as is allowed by the competent authority (Reserve Bank of India).

(b) For claiming this deduction the assessee shall be required to furnish a certificate in the prescribed form signed by the prescribed authority, alongwith the return of income.

- (v) **Rectification of assessment where patent is revoked subsequently:** Where the patent is subsequently revoked or the name of the assessee was excluded from the patents register as patentee in respect of that patent, the deduction allowed during the period shall be deemed to have been wrongly allowed and the assessment shall be rectified under the provisions of section 155.

The period of 4 years for rectification shall be reckoned from the end of the previous year in which the order of the revocation of the patent is passed.

Note - Deduction under section 80RRB would be available to an individual resident in India only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).



8.4 DEDUCTIONS IN RESPECT OF OTHER INCOME

- (1) **Deduction in respect of interest on deposits in savings accounts [Section 80TTA]**

- (i) **Eligible assessee and Quantum of deduction:** Section 80TTA provides that in case the gross total income of an assessee, being an individual or a Hindu Undivided Family, includes any income by way of an interest on deposits in a saving account (not being time deposits,

which are deposits repayable on expiry of fixed periods), deduction upto ₹ 10,000 in aggregate shall be allowed while computing the total income of such assessee. Such deduction shall be allowed in case the saving account is maintained with:

- (a) a banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act);
- (b) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
- (c) a post office.

Note - Deduction under this section would, however, not be available to a senior citizen eligible for deduction under section 80TTB.

- (ii) **Restriction:** If the aforesaid income is derived from any deposit in a savings account held by, or on behalf of, a firm, an AOP/BOI, no deduction shall be allowed in respect of such income in computing the total income of any partner of the firm or any member of the AOP or any individual of the BOI.

In effect, the deduction under this section shall be allowed only in respect of the income derived in form of the interest on the saving bank deposit (other than time deposits) made by the individual or Hindu Undivided Family directly.

Note - Deduction under section 80TTA would be available to an individual/HUF only if he/it exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) Deduction in respect of interest on deposits in case of senior citizens [Section 80TTB]

- (i) **Eligible assessee:** A senior citizen (a resident individual who is of the age of 60 years or more at any time during the relevant previous year), whose gross total income includes income by way of interest on deposits (both fixed deposits and saving accounts) with –
 - (a) a banking company to which Banking Regulation Act, 1949 applies
 - (b) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank)
 - (c) a Post Office.
- (ii) **Quantum of deduction:** Actual amount of interest on deposits or ₹ 50,000, whichever is lower.

(iii) Non-availability of deduction to partner/member, where deposit held by firm/AOP/BOI:

Where interest income is derived from any deposit held by, or on behalf of, a firm, an AOP or a BOI, the partner of the firm or member of AOP/BOI would not be allowed deduction in respect of such income while computing their total income.

Note - Deduction under section 80TTB would be available an individual only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 20

Mr. Shivpal, a resident individual aged about 64 years, has earned business income (computed) of ₹ 1,40,000, lottery income of ₹ 1,60,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of ₹ 51,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. Shivpal for the A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION**Computation of total income of Mr. Shivpal for A.Y.2025-26**

Particulars	₹	₹
Profits and gains of business or profession		1,40,000
Income from other sources		
- Interest on Fixed Deposit with banks		51,000
- lottery income		1,60,000
Gross Total Income		3,51,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks, allowable as deduction to the extent of	50,000	
	2,00,000	
Restricted to		1,91,000
Total Income		1,60,000

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 under section 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 2,00,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 3,51,000 – ₹ 1,60,000 = ₹ 1,91,000.



8.5 OTHER DEDUCTIONS

Deduction in the case of a person with disability [Section 80U]

- (1) Section 80U harmonizes the criteria for defining disability as existing under the Income-tax Rules with the criteria prescribed under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995.

- (2) **Eligible assessee:** This section is applicable to a resident individual, who, at any time during the previous year, is certified by the medical authority to be a person with disability.

The benefit of deduction under this section has also been extended to persons suffering from autism, cerebral palsy and multiple disabilities.

- (3) **Quantum of deduction:** A deduction of ₹ 75,000 in respect of a person with disability and ₹ 1,25,000 in respect of a person with severe disability (having disability over 80%) is allowable under this section.

- (4) **Conditions:**

- (a) The assessee claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority in the form and manner, as may be prescribed, along with the return of income under section 139, in respect of the assessment year for which the deduction is claimed.
- (b) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

Note - Deduction under section 80U would be available to an individual only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).



8.6 DEDUCTION UNDER SECTION 10AA

A deduction of profits and gains which are derived by an assessee being an entrepreneur from the export of articles or things or providing any service, shall be allowed from the total income of the assessee.

Note - In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction would be available only if such person has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction would be available only under the optional tax regime, where they pay tax under the normal provisions of the Act.

In case of companies and co-operative societies, deduction would not be available if they opt for the special provisions u/s 115BAA/ 115BAB and section 115BAD/ 115BAE, respectively. The deduction would be available if they pay tax under the normal provisions of the Act.

(1) Assesseees who are eligible for deduction

Deduction is available to all categories of assesseees who derive any profits or gains from an undertaking, being a unit, engaged in the manufacturing or production of articles or things or things or provision any service. Such assessee should be an entrepreneur referred to in section 2(j) of the SEZ Act, 2005 i.e., a person who has been granted a letter of approval by the Development Commissioner under section 15(9) of the said Act.

(2) Essential conditions to claim deduction

The deduction would be available to an undertaking which fulfils the following conditions:

- (i) It has begun to manufacture or produce articles or things or provide any service in any SEZ during the previous year relevant to A.Y.2006-07 or any subsequent assessment year but not later than A.Y.2020-21.

However, in case where letter of approval, required to be issued in accordance with the provisions of the SEZ Act, 2005, has been issued on or before 31st March, 2020 and the manufacture or production of articles or things or providing services has not begun on or before 31st March, 2020 then, the date for manufacture or production of articles or things or providing services has been extended to 31st March, 2021 or such other date after 31st March, 2021, as notified by the Central Government.

Example: If SEZ unit has received the necessary approval by 31.3.2020 and begins manufacture or production of articles or things or providing services on or

before 31st March, 2021, then it would be deemed to have begun manufacture or production of articles or things or providing services during the A.Y. 2020-21 and would be eligible for exemption under section 10AA. [The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020]

- (ii) The assessee should furnish in the prescribed form, before the date specified in section 44AB i.e., one month prior to the due date for furnishing return of income u/s 139(1), the report of a chartered accountant certifying that the deduction has been correctly claimed.
- (iii) **No deduction** under section 10AA would be allowed to an assessee **who does not furnish a return of income on or before the due date specified u/s 139(1).**

Example: An individual, subject to tax audit u/s 44AB, claiming deduction u/s 10AA is required to furnish return of income on or before 31.10.2025 for A.Y. 2025-26 and the report of a chartered accountant before 30.9.2025, certifying the deduction claimed u/s 10AA.

- (iv) Deduction under section 10AA would be available to a Unit, if the proceeds from sale of goods or provision of services is received in, or brought into, India by the assessee in convertible foreign exchange, within a period of 6 months from the end of the previous year or, within such further period as the competent authority may allow in this behalf.

The export proceeds from sale of goods or provision of services shall be deemed to have been received in India where such export turnover is credited to a separate account maintained for that purpose by the assessee with any bank outside India with the approval of the Reserve Bank of India.

Meaning of Competent authority – Competent authority means RBI or such authority as is authorized under any law for the time being in force for regulating payments and dealings in foreign exchange.

(3) **Period for which deduction is available**

The unit of an entrepreneur, which begins to manufacture or produce any article or thing or provide any service in a SEZ on or after 1.4.2005, shall be allowed a deduction of:

- (i) 100% of the profits and gains derived from the export, of such articles or things or from services for a period of 5 consecutive assessment years beginning with the

assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, and

- (ii) 50% of such profits and gains for further 5 assessment years.
- (iii) so much of the amount not exceeding 50% of the profit as is debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account (to be called the "Special Economic Zone Re-investment Reserve Account") to be created and utilised in the manner laid down under section 10AA(2) for next 5 consecutive years.

However, *Explanation* below section 10AA(1) has been inserted to clarify that amount of deduction under section 10AA shall be allowed from the total income of the assessee computed in accordance with the provisions of the Act before giving effect to the provisions of this section and the deduction under section 10AA shall not exceed such total income of the assessee.

Example: An undertaking is set up in a SEZ and begins manufacturing on 15.10.2010. The deduction under section 10AA shall be allowed as under:

- (a) 100% of profits of such undertaking from exports from A.Y.2011-12 to A.Y.2015-16.
- (b) 50% of profits of such undertaking from exports from A.Y.2016-17 to A.Y. 2020-21.
- (c) 50% of profits of such undertaking from exports from A.Y.2021-22 to A.Y.2025-26 provided certain conditions are satisfied.

**(4) Conditions to be satisfied for claiming deduction for further 5 years (after 10 years)
[Section 10AA(2)]**

Sub-section (2) provides that the deduction under (3)(iii) above shall be allowed only if the following conditions are fulfilled, namely:-

- (i) the amount credited to the Special Economic Zone Re-investment Reserve Account is utilized -
 - (1) for the purposes of acquiring machinery or plant which is first put to use before the expiry of a period of three years following the previous year in which the reserve was created; and
 - (2) until the acquisition of the machinery or plant as aforesaid, for the purposes of the business of the undertaking. However, it should not be utilized for

- (i) distribution by way of dividends or profits; or
 - (ii) for remittance outside India as profits; or
 - (iii) for the creation of any asset outside India;
- (ii) the particulars, as may be specified by the CBDT in this behalf, have been furnished by the assessee in respect of machinery or plant. Such particulars include details of the new plant/ machinery, name and address of the supplier of the new plant/ machinery, date of acquisition and date on which new plant/machinery was first put to use. Such particulars have to be furnished along with the return of income for the assessment year relevant to the previous year in which such plant or machinery was first put to use.

(5) Consequences of mis-utilisation / non-utilisation of reserve [Section 10AA(3)]

Where any amount credited to the Special Economic Zone Re-investment Reserve Account -

- (i) has been utilised for any purpose other than those referred to in sub-section (2), the amount so utilized shall be deemed to be the profits in the year in which the amount was so utilised and charged to tax accordingly; or
- (ii) has not been utilised before the expiry of the said period of 3 years, the amount not so utilised, shall be deemed to be the profits in the year immediately following the said period of three years and be charged to tax accordingly.

(6) Computation of profit and gains from exports of such undertakings

The profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the unit, the same proportion as the export turnover in respect of such articles or things or computer software bears to the total turnover of the business carried on by the undertaking i.e.

$$\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit SEZ}}{\text{Total turnover of Unit SEZ}}$$

Clarification on issues relating to export of computer software

Section 10AA provides deduction to assessee who derive any profits and gains from export of articles or things or services (including computer software) from the year in which the Unit

begins to manufacture or produce such articles or things or provide services, as the case may be, subject to fulfillment of the prescribed conditions. The profits and gains derived from the on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

Meaning of Export turnover: It means the consideration in respect of export by the undertaking, being the unit of articles or things or services received in India or brought into India by the assessee in convertible foreign exchange within 6 months from the end of the previous year or within such further period as the competent authority may allow in this behalf.

However, it does not include

- ✓ freight
- ✓ telecommunication charges
- ✓ insurance

attributable to the delivery of the articles or things outside India or expenses incurred in foreign exchange in rendering of services (including computer software) outside India

Computation of admissible deduction u/s 10AA of the Income-tax Act, 1961 [Circular No. 4/2018, Dated 14-8-2018]

As per the provisions of section 10AA(7), the profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the undertaking.

Further as per clause (ia) to *Explanation 1* to section 10AA, "export turnover" means the consideration in respect of export by the undertaking, being the unit of articles or things or services received in India or brought into India by the assessee in convertible foreign exchange within 6 months from the end of the previous year or within such further period as the competent authority may allow in this behalf, but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

The issue of whether freight, telecommunication charges and insurance expenses are to be excluded from both "export turnover" and "total turnover" while working out deduction

admissible under section 10AA on the ground that they are attributable to delivery of articles or things outside India has been highly contentious. Similarly, the issue whether charges for rendering services outside India are to be excluded both from "export turnover" and "total turnover" while computing deduction admissible under section 10AA on the ground that such charges are relatable towards expenses incurred in convertible foreign exchange in rendering services outside India has also been highly contentious.

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

The issue had been examined by CBDT and it is clarified, in line with the above decision of the Supreme Court, that **freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover", while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India.**

Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.

***Note:** Though this CBDT Circular is issued in relation to erstwhile section 10A, the same is also relevant in the context of section 10AA. Accordingly, the reference to section 10A in the Circular and the relevant sub-section and Explanation number thereto have been modified and given with reference to section 10AA and the corresponding sub-sections, Explanation number and clause of Explanation.*

(7) Restriction on other tax benefits

- (i) During the period of deduction, depreciation is deemed to have been allowed on the assets. Written Down Value shall accordingly be reduced.
- (iii) No deduction under section 80-IA and 80-IB shall be allowed in relation to the profits and gains of the undertaking.
- (iv) Any unabsorbed depreciation under section 32(2) or business loss under section 72(1) or loss under the head "Capital gains" under section 74 of the undertaking, being the Unit shall be allowed to be carried forward or set off.
- (v) The conditions laid down in section 80-IA(8) (relating to inter-unit transfer) and in section 80-IA(10) (relating to showing excess profit from such unit) shall, so far as

may be, apply in relation to the undertaking referred to in this section as they apply for the purposes of the undertaking referred to in section 80-IA.

Conditions laid down in section 80-IA(8): Where any goods or services held for the purposes of eligible business are transferred to any other business carried on by the assessee, or where any goods or service held for any other business carried on by the assessee are transferred to the eligible business and, in either case, if the consideration for such transfer as recorded in the accounts of the eligible business does not correspond to the market value thereof, then the profits eligible for deduction shall be computed by adopting market value of such goods or services on the date of transfer.

In case of exceptional difficulty in this regard, the profits shall be computed by the Assessing Officer on a reasonable basis as he may deem fit.

Conditions laid down in section 80-IA(10): Where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profits of eligible business is increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits of such eligible business on a reasonable basis for allowing the deduction.

- (vii) Where a deduction under this section is claimed and allowed in relation to any specified business eligible for investment-linked deduction under section 35AD, no deduction shall be allowed under section 35AD in relation to such specified business for the same or any other assessment year.

(8) Deduction allowable in case of amalgamation and demerger

In the event of any undertaking, being the Unit which is entitled to deduction under this section, being transferred, before the expiry of the period specified in this section, to another undertaking, being the Unit in a scheme of amalgamation or demerger, -

- (i) no deduction shall be admissible under this section to the amalgamating or the demerged Unit for the previous year in which the amalgamation or the demerger takes place; and
- (ii) the provisions of this section would apply to the amalgamated or resulting Unit, as they would have applied to the amalgamating or the demerged Unit had the amalgamation or demerger had not taken place.

Circular No. 1/2013, dated 17.01.2013 provides certain clarifications in respect of following issues arising out of the said provisions:

	Issue	Clarification given by the CBDT
(1)	Would “On-site” development of computer software qualify as an export activity for tax benefit under section 10AA?	The software developed abroad at a client’s place would be eligible for such benefit, because these would amount to ‘deemed export’. However, it is necessary that there must exist a direct and intimate nexus or connection of development of software done abroad with the eligible units set up in India and such development of software should be pursuant to a contract between the client and the eligible unit.
(2)	Would receipts from deputation of technical manpower for such “On-site” software development abroad at the client’s place be eligible for deduction under section 10AA?	<i>Explanation 2</i> to section 10AA clarifies that profits and gains derived from ‘services for development of software’ outside India would also be deemed as profits derived from export. Therefore, profits earned as a result of deployment of technical manpower at the client’s place abroad specifically for software development work pursuant to a contract between the client and the eligible unit should not be denied benefit under section 10AA provided such deputation of manpower is for the development of such software and all the prescribed conditions are fulfilled.
(3)	Is it necessary to have separate master service agreement (MSA) for each work contract?	As per the practice prevalent in the software development industry, generally two types of agreement are entered into between the Indian software developer and the foreign client. Master Services Agreement (MSA) is an initial general agreement between a foreign client and the Indian software developer setting out the broad and general terms and conditions of business under the umbrella of which specific and individual Statement of Works (SOW) are formed. These SOWs, in fact, enumerate the specific scope and nature of the particular task or project that has to be rendered by a particular unit under the overall ambit of the MSA. Clarification has been sought whether more than one SOW can be executed under the ambit of a particular MSA and whether SOW should be given precedence over MSA. It is clarified that the tax benefits under section 10AA would not be denied merely on the ground that a separate and specific MSA does not exist for each SOW. The SOW would normally prevail over the MSA in determining the eligibility for tax benefits unless the Assessing Officer is able to establish that there has been splitting up or reconstruction of

		an existing business or non-fulfillment of any other prescribed condition.
(4)	Would tax benefit under section 10AA continue to be available in case of a slump sale of a unit?	The answer to this issue would depend on the facts of each case, such as how a slump-sale is made and what is its nature. It will also be important to ensure that the slump sale would not result into any splitting or reconstruction of existing business. It is, however, clarified that on the sole ground of change in ownership of an undertaking, the claim of exemption cannot be denied to an otherwise eligible undertaking and the tax holiday can be availed of for the unexpired period at the rates as applicable for the remaining years, subject to fulfillment of prescribed conditions.
(5)	Can tax benefits under section 10AA be enjoyed by an eligible SEZ unit consequent to its transfer to another SEZ?	It is clarified that the tax holiday should not be denied merely on the ground of physical relocation of an eligible SEZ unit from one SEZ to another in accordance with Instruction No. 59 of Department of Commerce, if all the prescribed conditions are satisfied under the Income-tax Act, 1961. It is further clarified that the unit so relocated will be eligible to avail of the tax benefit for the unexpired period at the rates applicable to such years.

ILLUSTRATION 21

ABC Ltd. furnishes you the following information for the year ended 31.3.2025:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	120
Profit of the business of Unit A	45
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2025	60
Total turnover of Unit B located in Domestic Tariff Area (DTA)	225
Profit of the business of Unit B	25

Compute deduction under section 10AA for the A.Y. 2025-26, assuming that ABC Ltd. commenced operations in SEZ and DTA in the year 2019-20.

SOLUTION

50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y.2024-25 is the sixth year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$\begin{aligned}
 &= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\% \\
 &\quad \text{₹45 lakhs} \quad \times \quad \frac{\text{₹ 60 lakhs}}{\text{₹ 120 lakhs}} \quad \times 50\% \quad = \text{₹ 11.25 lakhs}
 \end{aligned}$$

Note – No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

SIGNIFICANT SELECT CASES

S. No.	Case Law	
1.	CIT v. Reliance Energy Ltd. (2022) 441 ITR 346 (SC)	
	Issue Does profit-linked deduction under Chapter VI-A have to be restricted to income computed under the head "Profits and gains of business or profession"?	Analysis & Decision For the purpose of calculating profit-linked deduction under any section of Chapter VI-A, loss sustained in other divisions or units cannot be taken into account, as only profits from the eligible business have to be taken into account as if it was the only source of income. Profits and gains from eligible business cannot be reduced by the loss suffered in any other business owned by the assessee for consideration of deduction, <i>inter alia</i> , under section 80-IA. The deduction admissible under section 80-IA could not be limited to income under the head "Profits and gains of business or profession", by setting-off losses from non-eligible business against profits from eligible business. Note – The issue arises in a case where loss from non-eligible business is being set-off against profits from eligible business, which results in income under the head "Profits and gains of business and profession" being lower than the profits from eligible business. In such a case, deduction under Chapter VI-A in respect of profits from eligible business would not be restricted to income computed under the head "Profits and gains of business and profession". The same would however be restricted to gross total income as per the requirement in section 80A(2). For example, let us take the case of XYZ Ltd., an Indian company, for P.Y.2024-25. The following are the particulars relating to the said company – (i) Profits from eligible business - ₹ 90 lakhs, (ii) Loss from non-eligible business - ₹ 20 lakhs (which is set-off against profits from eligible business) (iii) Income under the head "Profits and gains of business or profession" – ₹ 70 lakhs [₹ 90 lakhs – ₹ 20 lakhs] (iv) Income from Other Sources, comprising of interest income - ₹ 15 lakhs (v) Gross total income – ₹ 85 lakhs In this case, assuming deduction under section 80-IA is the only deduction under Chapter VI-A for XYZ Ltd., the same would not be restricted to ₹ 70 lakhs (being the income under the head "Profits and gains of business or profession"). However, the same would be

		restricted to ₹ 85 lakhs, being the gross total income as per the requirement in section 80A(2). If, in the above example, the gross total income was ₹ 95 lakhs (instead of ₹ 85 lakhs), then, the entire profits of ₹ 90 lakhs from eligible business would be allowed as deduction u/s 80-IA.
2.	CIT v. Container Corporation of India Limited (2018) 404 ITR 397 (SC)	
	Issue	Analysis & Decision
	Can Inland Container Depots (ICDs) be treated as infrastructure facility, for profits derived therefrom to be eligible for deduction u/s 80-IA?	Inland Container Depots function for the benefit of exporters and importers located in industrial centres which are situated at distance from sea ports. The purpose of establishing them was to promote the export and import in the country as these depots act as a facilitator and reduce inconvenience to the exporter or importer. Section 80-IA provides for a deduction of profits derived from operation of an infrastructure facility. The definition of “infrastructure facility” in <i>Explanation</i> to section 80-IA(4)(i) includes an inland port. Considering the nature of work such as custom clearance carried out at inland container depots, it can be considered as an inland port within the meaning of section 80-IA(4).
3.	CIT v. Meghalaya Steels Ltd (2016) 383 ITR 217 (SC)	
	Issue	Analysis & Decision
	Can transport subsidy, interest subsidy and power subsidy received from the Government be treated as profits “derived from” business or undertaking to qualify for deduction u/s 80-IE?	There is a direct nexus between profits and gains of the undertaking or business, and reimbursement of such subsidies. Transport subsidy, interest subsidy and power subsidy from Government were revenue receipts which were reimbursed to the assessee for elements of cost relating to manufacture or sale of their products. Thus, the subsidies were only in order to reimburse, wholly or partially, costs actually incurred by the assessee in the manufacturing and selling of its products. Accordingly, these subsidies qualify for deduction u/s 80-IE. Note – Though this decision was in relation to deduction under section 80-IB, presently, it is relevant in the context of section 80-IE.
4.	CIT v. Orchev Pharma P. Ltd. (2013) 354 ITR 227 (SC) [Liberty India v. CIT (2009) 317 ITR 218 (SC) followed]	
	Issue	Analysis & Decision
	Can Duty Drawback be treated as profit derived from the business of the eligible business to be	DEPB / Duty drawback are incentives which flow from the schemes framed by the Central Government or from section 75 of the Customs Act, 1962. Section 80-IE provides for allowing of deduction in respect of profits and gains derived by undertaking

	eligible for deduction u/s 80-IE?	from business mentioned therein. However, incentive profits are not profits derived from eligible business u/s 80-IE. They belong to the category of ancillary profits of such undertaking. Profits derived by way of incentives such as DEPB/Duty drawback cannot be credited against the cost of manufacture of goods debited in the statement of profit and loss and they do not fall within the expression "profits derived from undertaking from manufacturing" u/s 80-IE. Hence, Duty drawback receipts and DEPB benefits do not form part of the profits derived by undertaking from manufacturing business for the purpose of the deduction u/s 80-IE. <i>Note – Though this decision was in relation to deduction under section 80-IB, presently, it is relevant in the context of section 80-IE.</i>
5.	CIT v. Swarnagiri Wire Insulations Pvt. Ltd. (2012) 349 ITR 245 (Kar.)	
	Issue	Analysis & Decision
	Can unabsorbed depreciation of a business of an industrial undertaking eligible for deduction u/s 80-IA be set off against income of another non-eligible business of the assessee?	The deeming provision contained in section 80-IA(5) cannot override the provisions of section 70(1). The assessee had incurred loss in eligible business after claiming depreciation. Hence, section 80-IA becomes insignificant, since there is no profit from which this deduction can be claimed. It is thereafter that section 70(1) comes into play, whereby the assessee is entitled to set off the losses from one source against income from another source under the same head of income. Therefore, the assessee was entitled to the benefit of set off of loss of eligible business against the profits of non-eligible business. However, once set-off is allowed u/s 70(1) against income from another source under the same head, a deduction to such extent is not possible in any subsequent assessment year i.e., the loss (arising on account of balance depreciation of eligible business) so set-off u/s 70(1) has to be first deducted while computing profits eligible for deduction u/s 80-IA in the subsequent year.
6.	CIT v. Sunil Vishwambharnath Tiwari (2016) 388 ITR 630 (Bom)	
	Issue	Decision
	Is the increase in gross total income consequent to disallowance u/s 40(a)(ia) eligible for profit-linked deduction under Chapter VI-A?	The assessee is entitled to claim deduction u/s 80-IBA in respect of the enhanced gross total income as a consequence of disallowance of expenditure u/s 40(a)(ia). Note - The CBDT has, in its Circular No.37/2016 dated 2.11.2016, mentioned that the courts have generally held that if the expenditure disallowed is related to the business activity against which the Chapter VI-A deduction has been claimed, the deduction needs to be allowed on the enhanced profits. Thus, the settled

		position is that the disallowances made under sections 32, 40(a)(ia), 40A(3), 43B, etc. and other specific disallowances, relating to the business activity against which the Chapter VI-A deduction has been claimed, result in enhancement of the profits of the eligible business, and that deduction under Chapter VI-A is admissible on the profits so enhanced on account of such disallowance.
7.	CIT v. Nestor Pharmaceuticals Ltd. / Sidwal Refrigerations Ind Ltd. v. DCIT (2010) 322 ITR 631 (Delhi)	
	Issue	Analysis & Decision
	Does the period of exemption u/s 80-IE commence from the year of trial production or year of commercial production? Would it make a difference if sale was effected from out of the trial production?	The assessee had started trial production in March 2015 whereas commercial production started only in April, 2015. With mere trial production, the manufacture for the purpose of marketing the goods had not started which starts only with commercial production, namely, when the final product to the satisfaction of the manufacturer has been brought into existence and is fit for marketing. However, in this case, since the assessee had effected sale in March 2015, it had crossed the stage of trial production and the final saleable product had been manufactured and sold. The quantum of commercial sale and the purpose of sale (namely, to obtain registration of excise / sales-tax) is not material. With the sale of those articles, marketable quality was established. Therefore, the conditions stipulated in section 80-IE were fulfilled with the commercial sale of the two items in that assessment year, and hence the ten year period has to be reckoned from A.Y.2015-16. Note – Though this decision was in relation to deduction under section 80-IA, as it stood prior to its substitution by the Finance Act, 1999 w.e.f. 1.4.2000, presently, it is relevant in the context of section 80-IE.
8.	CIT v. Chetak Enterprises Pvt. Ltd. [2020] 423 ITR 267 (SC)	
	Issue	Analysis & Decision
	Can an agreement entered into by a firm with a State Government and work done in pursuance thereof survive upon its conversion into a company and be considered compliant with sub-clauses (a)	Section 80-IA(4)(i) requires that the assessee must be an enterprise carrying on business of (i) developing, (ii) maintaining and operating or (iii) developing, maintaining and operating any infrastructure facility, which enterprise is owned by a company registered in India fulfilling the conditions mentioned in sub-clauses (a) to (c) thereunder. Sub-clause (a) requires that the enterprise should be owned by a company registered in India. Sub-clause (b) requires that the enterprise should have entered into an agreement with the Central Government or State Government or local authority or any other statutory body for developing, operating and maintaining or

	and (b) of section 80-IA(4)(i), to qualify for deduction thereunder?	developing, operating and maintaining a new infrastructure facility. Sub-clause (c) requires that the enterprise should start operating and maintaining infrastructure facility on or after 1.4.1995. The assessee-company Memorandum of Association states that its main object was to acquire as a going concern, and continue the business carried on by the firm. The effect of conversion of the firm into a company was that all the properties of the firm, in law, vested in the company and the firm ceased to exist and assumed the status of a company after its registration as a company. Accordingly, the assessee-company is qualified for the deduction under section 80-IA being an enterprise carrying on the stated business pertaining to infrastructure facility and owned by a company registered in India on the basis of the agreement executed with the State Government to which the assessee-company has succeeded in law after conversion of the partnership firm into a company.
9.	Praveen Soni v. CIT (2011) 333 ITR 324 (Delhi)	
	Issue	Analysis & Decision
	Can an assessee who has not claimed deduction under section 80-IE in the initial years, start claiming deduction thereunder for the remaining years during the period of eligibility, if the conditions are satisfied?	On this issue, the Delhi High Court held that the provisions of section 80-IE nowhere stipulated a condition that the claim for deduction under this section had to be made from the first year of qualification of deduction failing which the claim will not be allowed in the remaining years of eligibility. Therefore, the deduction under section 80-IE should be allowed to the assessee for the remaining years up to the period for which his entitlement would accrue, provided the conditions mentioned under section 80-IE are fulfilled. Note – <i>Though this decision was in relation to deduction under section 80-IB, presently, it is relevant in the context of section 80-IE.</i>
10.	PCIT v. Annasaheb Patil Mathadi Kamgar Sahakari Pathpedi Ltd. [2023] 454 ITR 117 (SC)	
	Issue	Analysis & Decision
	Would a co-operative society engaged in providing credit facilities solely to its members be eligible for deduction under section 80P?	Merely because a co-operative society gives credit to its members, it cannot be said to be a co-operative bank under the Banking Regulation Act, 1949. Banking activities under that Act are altogether different activities. There is a vast difference between credit societies giving credit to their own members only and banks providing banking services including the credit to the public at large also. Considering the CBDT Circulars and the definition of bank under

		the Banking Regulation Act, the assessee cannot be said to be a co-operative bank/bank, and, therefore, section 80P(4) denying benefit of deduction to a co-operative bank would not be applicable in this case. Accordingly, the assessee could not be termed as a bank or cooperative bank. Being a credit society, it is entitled to deduction under section 80P.
11.	<i>CIT v. Cognizant Technology Solutions of India Pvt. Ltd. [2023] 454 ITR 1 (SC)</i>	
	Issue	Analysis & Decision
	Is deduction under section 10AA available in respect of foreign exchange gain solely relating to the export business of the assessee?	In order to avail deduction under section 10AA, benefit earned by the assessee derived by virtue of export made by the assessee is considered. The exchange value based on upward or downward of the rupee value is not in the hands of the assessee. The assessee does not determine the exchange value of the Indian rupee. But for the fact that, the assessee is an export house, there was no question of earning any foreign exchange. Therefore, when the fluctuation in foreign exchange rate was solely relatable to the export business of the assessee and the higher rupee value was earned by virtue of such exports carried out by the assessee, the deduction under section 10AA would be available in respect of such foreign exchange gains.
12	<i>CIT v. HCL Technologies Limited (2018) 404 ITR 719 (SC)</i>	
	Issue	Analysis & Decision
	Can expenditure incurred in foreign exchange for provision of technical services outside India, which is deductible for computing export turnover, be excluded from total turnover also for the purpose of computing deduction u/s 10AA?	Deduction u/s 10AA is based on the profit from export business, thus, expenses excluded from “export turnover” must also be excluded from “total turnover”, since one of the components of “total turnover” is export turnover. Expenses incurred in foreign exchange for providing the technical services outside are thus, to be excluded from total turnover also. If deductions in respect of freight, telecommunication charges and insurance attributable to delivery of articles, things etc. or expenditure incurred in foreign exchange in rendering of services outside India are allowed only against export turnover but not from the total turnover for computing deduction u/s 10AA, then, it would give rise to inadvertent, unlawful, meaningless and illogical results causing grave injustice, which could have never have been the intent of the Legislature. Hence, such expenditure incurred in foreign exchange for providing technical services outside India is deductible from total turnover also.

TEST YOUR KNOWLEDGE**Questions**

1. Mr. Srinivasan, aged 61 years, furnishes the following particulars for the year ending 31.03.2025:
 - (a) Life Insurance Premium paid – ₹ 15,000, actual capital sum of the policy assured for ₹ 2,30,000. The insurance policy was taken on 31.03.2012;
 - (b) Contribution to Public Provident Fund – ₹ 40,000 in the name of father;
 - (c) Tuition fee payment – ₹ 8,000 each for 2 sons pursuing full time graduation course in Calcutta; Tuition fee for daughter pursuing PHD in Kellogg University, USA – ₹ 2.50 lakhs;
 - (d) Housing loan principal repayment – ₹ 32,000 to Axis Bank. This property is under construction at Calcutta as on 31.03.2025;
 - (e) Principal repayment of housing loan taken from a relative – ₹ 70,000. The property is self-occupied situated at Pune;
 - (f) Deposit under Senior Citizens Savings Scheme – ₹ 15,000;
 - (g) Five-year deposits in an account under Post Office Time Deposit Scheme – ₹ 50,000;
 - (h) Investment in National Savings Certificate – ₹ 70,000;

Compute the deduction eligible under appropriate provisions of section 80C for A.Y. 2025-26 if he shifts out of the default tax regime under section 115BAC.
2. X Ltd. has two units, unit 'N' and unit 'Y'. Unit 'N' engaged in the business of power generation installed a windmill in March, 2025 and had a profit of ₹ 100 lakhs in Assessment Year 2025-26. X Ltd. claimed depreciation of ₹ 120 lakhs on windmill against the profit of ₹ 100 lakhs from power generation business which was eligible for deduction under section 80-IA. Unit 'Y', engaged in manufacturing of wires, non-eligible business, had a profit of ₹ 70 lakhs for Assessment Year 2025-26. The loss of ₹ 20 lakhs, i.e., balance depreciation not set off pertaining to unit 'N' was set-off against the profits of unit 'Y' carrying on non-eligible business, by the assessee, X Ltd. The Assessing Officer was of the view that depreciation relating to a business eligible for deduction under section 80-IA cannot be set-off against non-eligible business income. Hence, unabsorbed depreciation should be carried forward to

the subsequent year to be set off against eligible business income of the assessee of that year.

Examine the correctness of the action of the Assessing Officer.

3. From the following details, compute the total income of Mr. A, Mr. B and Mr. C for A.Y.2025-26 if they shift out of the default tax regime under section 115BAC –

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

The particulars of their other investments/payments made during the P.Y.2024-25 are given hereunder –

	Particulars	₹																
(1)	Deposit in Public Provident Fund (PPF) by Mr. A	1,50,000																
(2)	Life insurance premium paid by Mr. C, the details of which are as follows –																	
	<table><tr><th>Date of issue of policy</th><th>Person insured</th><th>Actual capital sum assured (₹)</th><th>Insurance premium paid during 2024-25 (₹)</th></tr><tr><td>31/3/2012</td><td>Self</td><td>2,48,000</td><td>15,000</td></tr><tr><td>11/6/2018</td><td>Spouse</td><td>1,25,000</td><td>15,000</td></tr><tr><td>31/7/2019</td><td>Handicapped son (Section 80U disability)</td><td>2,00,000</td><td>32,000</td></tr></table>	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)	31/3/2012	Self	2,48,000	15,000	11/6/2018	Spouse	1,25,000	15,000	31/7/2019	Handicapped son (Section 80U disability)	2,00,000	32,000	
Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)															
31/3/2012	Self	2,48,000	15,000															
11/6/2018	Spouse	1,25,000	15,000															
31/7/2019	Handicapped son (Section 80U disability)	2,00,000	32,000															
(3)	Payment of medical insurance premium by the following persons to insure their health: <table><tr><th>Payer</th><th>Amount in ₹</th><th>Mode of payment</th></tr><tr><td>Mr. A (aged 55 years)</td><td>30,000</td><td>Account payee cheque</td></tr><tr><td>Mr. B (aged 52 years)</td><td>15,000</td><td>Cash</td></tr><tr><td>Mr. C (aged 48 years)</td><td>20,000</td><td>Crossed cheque</td></tr></table>	Payer	Amount in ₹	Mode of payment	Mr. A (aged 55 years)	30,000	Account payee cheque	Mr. B (aged 52 years)	15,000	Cash	Mr. C (aged 48 years)	20,000	Crossed cheque					
Payer	Amount in ₹	Mode of payment																
Mr. A (aged 55 years)	30,000	Account payee cheque																
Mr. B (aged 52 years)	15,000	Cash																
Mr. C (aged 48 years)	20,000	Crossed cheque																

(4)	Mr. B paid interest on loan taken for the purchase of house in which he currently resides. He is claiming benefit of self-occupation under section 23(2) in respect of this house. He does not own any other house.	2,20,000
	Repayment of principal amount of loan taken for purchase of the said house	1,70,000
(5)	Contribution by Mr. A by cheque to National Children's Fund during the year.	30,000
(6)	Mr. B makes the following donations during the P.Y.2024-25 -	
	Donation to BJP by crossed cheque	50,000
	Donation to Electoral trust by cash	50,000

4. Following issues have been raised by Navi Limited in connection with its eligibility for claiming deduction under Chapter VI-A for your consideration and advice for the assessment year 2025-26:

- (i) It operates two separate undertakings. One undertaking is eligible for deduction under section 80-IB, while the other undertaking is not eligible for such deduction. If the eligible undertaking has profit and the other undertaking has loss, should it claim deduction after setting off the loss of the other undertaking against profit of the eligible undertaking?
- (ii) Its profit from one undertaking in North Eastern States which is eligible for deduction u/s 80-IE includes sale of import entitlement, duty drawback and interest from customers for delayed payment. Is it permissible to claim deduction u/s 80-IE on these items of income?

5. PQR Co-operative Bank, a co-operative society, having its area of operation confined to Gubbi Taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities, has received the following amounts during the year ending 31.3.2025:

- (i) Interest amounting to ₹ 1,00,000 from its members on loans advanced to them.
- (ii) Interest amounting to ₹ 1,50,000 on deposits with other co-operative societies.
- (iii) Rent amounting to ₹ 2,00,000 from letting out its godowns for storage of commodities.

PQR Co-operative Bank seeks your advice in the matter of eligibility for deduction, if any, in respect thereof for the assessment year 2025-26.

Answers

1. Computation of eligible deduction under section 80C for A.Y.2025-26

Particulars	₹
Life Insurance Premium (See Note 1)	15,000
Contribution to Public Provident fund (See Note 2)	Nil
Tuition fee of 2 sons for graduation course (See Note 3)	16,000
Housing loan principal repayment (See Notes 4 & 5)	Nil
Senior Citizen Savings Scheme deposit (See Note 6)	15,000
Post Office Time Deposit Scheme (See Note 6)	50,000
Investment in National Savings Certificate (See Note 6)	70,000
Total Investment	1,66,000
Eligible deduction under section 80C restricted to	1,50,000

Notes:

- Any amount of life insurance premium paid in excess of the specified percentage of actual capital sum assured shall be ignored for the purpose of deduction under section 80C. In the given case, since the insurance policy has been issued before 1.04.2012, therefore, premium paid upto 20% of actual capital sum assured i.e., ₹ 46,000 shall be allowed as deduction. Hence, the premium of ₹ 15,000 paid during the year is allowable as deduction under section 80C.
- In the case of an individual, contribution to PPF can be made in his name or in the name of his spouse or children to qualify for deduction under section 80C. **As the contribution was made in the name of his father, deduction is not allowable.**
- Tuition fee paid is eligible for deduction under section 80C for a maximum of two children. Therefore, ₹ 16,000 shall be allowed as deduction. **Tuition fee paid to an educational institution situated outside India is not eligible for deduction.**
- In order to claim the principal repayment on loan borrowed for house property as deduction, the construction of such property should have been completed and should be chargeable to tax under the head "Income from house property". In the given case, since the property is under construction, principal repayment does not qualify for deduction.

5. Repayment of principal on housing loan is not allowed as deduction in case the loan is borrowed from friends, relatives etc. In order to qualify for deduction, the loan should have been obtained from Central Government / State Government / bank / specified employer / institution.
6. The following investments are also eligible for deduction under section 80C:-
 - (1) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and
 - (2) deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.
 - (3) investment in National Savings Certificate.
2. In *CIT v. Swarnagiri Wire Insulations Pvt. Ltd.* (2012) 349 ITR 245, the Karnataka High Court observed that it is a generally accepted principle that the deeming provision of a particular section cannot be breathed into another section. Therefore, the deeming provision contained in section 80-IA(5) cannot override the provisions of section 70(1).

In this case, X Ltd. had incurred loss in eligible business (power generation) on account of claiming depreciation of ₹ 120 lakhs. Hence, section 80-IA becomes insignificant, since there is no profit from which this deduction can be claimed.

It is, thereafter, that section 70(1) comes into play, whereby an assessee is entitled to set off the losses from one source against income from another source under the same head of income. Accordingly, X Ltd. is entitled to the benefit of set off of loss of ₹ 20 lakhs (representing balance depreciation not set-off) pertaining to Unit N engaged in eligible business of power generation against profit of ₹ 70 lakhs of Unit Y carrying on non-eligible business. Therefore, the net profit of ₹ 50 lakhs would be taxable in the A.Y.2025-26.

However, once set-off is allowed under section 70(1) against income from another source under the same head, a deduction to such extent is not possible in any subsequent assessment year i.e., the loss (arising on account of balance depreciation of eligible business) so set-off under section 70(1) has to be first deducted while computing profits eligible for deduction under section 80-IA in the subsequent year. Accordingly, in the A.Y.2026-27, the net profits of Unit N has to be reduced by ₹ 20 lakhs for computing the profits eligible for deduction under section 80-IA in that year.

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

3. Computation of total income for A.Y.2025-26

	Particulars	Mr. A	Mr. B	Mr. C
		₹	₹	₹
(A)	Salary	9,25,000	10,45,000	11,15,000
	Income from house property [See Note 4]		(2,00,000)	
	Income from other sources (Interest)	75,000	85,000	95,000
	Gross total income	10,00,000	9,30,000	12,10,000
	Less: Deductions under Chapter VIA			
	<u>Under section 80C</u>			
	Deposit in PPF [See Note 3]	1,50,000		
	LIC premium paid [See Note 1]			57,500
	Principal repayment of housing loan (restricted to ₹ 1,50,000) [See Note 4]		1,50,000	
	<u>Under section 80D</u>			
(B)	Medical insurance premium [See Note 2]	25,000	Nil	20,000
	<u>Under section 80G</u>			
	Contribution to National Children's Fund [See Note 5]	30,000		
	<u>Under section 80GGC [See Note 6]</u>			
	Donation to BJP by crossed cheque Cash donation to Electoral Trust		50,000 Nil	
(B)	Total deduction under Chapter VIA	2,05,000	2,00,000	77,500
(C)	Total Income (A) – (B)	7,95,000	7,30,000	11,32,500

Notes:

(1)	Deduction u/s 80C in respect of life insurance premium paid by Mr. C					
	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2024-25	Restricted to % of sum assured	Deduction u/s 80C
	31/3/2012	Self	2,48,000	15,000	20%	15,000
	11/6/2018	Spouse	1,25,000	15,000	10%	12,500
	31/7/2019	Handicapped Son (section 80U disability)	2,00,000	32,000	15%	30,000
	Total					57,500
(2)	Medical Insurance Premium					
	(i) Medical insurance premium of ₹ 30,000 paid by account payee cheque by Mr. A is allowed as a deduction under section 80D, subject to a maximum of ₹ 25,000.					
	(ii) Medical insurance premium paid by cash is not allowable as deduction. Hence, Mr. B is not eligible for deduction under section 80D in respect of medical insurance premium of ₹ 15,000 paid in cash.					
	(iii) Mr. C is eligible for deduction of ₹ 20,000 under section 80D in respect of medical insurance premium paid by crossed cheque.					
(3)	The maximum amount eligible for deduction under section 80C shall not exceed ₹ 1,50,000. Mr. A would be eligible for deduction of ₹ 1,50,000 in respect of PPF under section 80C.					
(4)	Deduction in respect of interest and principal repayment of housing loan					
	Mr. B is eligible for a maximum deduction of ₹ 2,00,000 under section 24 in respect of interest on housing loan taken in respect of a self-occupied property, for which he is claiming benefit of "Nil" annual value. Therefore, ₹ 2,00,000 would represent his loss from house property.					
	Further, the maximum amount eligible for deduction under section 80C should not exceed ₹ 1,50,000. Since, Mr. B has no other investment under section 80C during the previous year 2024-25, he would be eligible for deduction of ₹ 1,50,000 in respect of principal repayment of housing loan.					
(5)	Contribution to National Children's Fund qualifies for 100% deduction under section 80G. Therefore, Mr. A is entitled to 100% deduction of the sum of ₹ 30,000 contributed by him by way of cheque to National Children's Fund.					
(6)	Mr. B is eligible for deduction under section 80GGC in respect of donation to a political party made otherwise than by way of cash. However, cash donations to electoral trust do not qualify for deduction under section 80GGC.					

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

Therefore, Navi Limited should claim deduction under section 80-IB on profit from the eligible undertaking without considering the set off of losses suffered in the other undertaking. It may be noted that the aggregate deduction under Chapter VI-A, however, cannot exceed the gross total income of the assessee. It was held in case of *Reliance Energy Ltd. (2022) 441 ITR 346 (SC)*.

- (ii) Under section 80-IE, where the gross total income of an assessee includes any profits and gains derived by an undertaking referred to in the section, there shall be allowed, in computing the total income of the assessee, a deduction from such profits and gains at the specified percentage and for such number of years as specified in the section. In *CIT vs. Sterling Foods (1999) 237 ITR 579 (SC)* and *Liberty India vs. CIT (2009) 317 ITR 218 (SC)*, it was held that sale of import entitlement and duty drawback cannot be construed as income derived from undertaking. Therefore, such income cannot be included in computing income for the purpose of deduction under section 80-IE.

Interest income derived by an undertaking on delayed collection of sale proceeds shall be treated as income derived from the undertaking, and therefore, the same would be eligible for deduction under section 80-IE. [*Phatela Cotgin Industries Private Limited vs CIT (2008) 303 ITR 411 (P & H)*].

5. Sub-section (4) of section 80P provides that section 80P shall not apply to any co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

Explanation to section 80P(4) defines a primary co-operative agricultural and rural development bank to mean a society having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities.

PQR Co-operative Bank is a primary co-operative agricultural and rural development bank as defined in the said *Explanation* since it is a co-operative society having its area of operation confined to Gubbi Taluk and its principal object is to provide long-term credit for agricultural and rural development activities. Therefore, it is eligible for deduction under section 80P.

Interest of ₹ 1,00,000 received by the bank on loans advanced to its members is eligible for deduction in full under section 80P(2)(a)(i).

Interest of ₹ 1,50,000 received by the bank from deposits with other co-operative societies qualifies for deduction in full under section 80P(2)(d).

Rent of ₹ 2,00,000 received by the bank from letting out its godowns for storage of commodities is eligible for deduction in full under section 80P(2)(e).

