U N I V E R S I T Y   O F   D E L H I

PERSONAL TAX PLANNING AND TAX MANAGEMENT

D S E 7 . 9

B.Com (Hons.) | B.Com (Prog.) — Fourth Year, Semester VII

U N I T 2 · P A R T A

SALARIES

The Heads of Income — tax planning measures under the salary head
Sections 15 to 19, with Schedule III and Rules 277 to 281
read with section 202 — the regime filter
The computation recapitulated, and the planning measures set against it
Part A of two. Part B carries house property, business or profession, capital gains and income from other sources.

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

T A X   Y E A R   2 0 2 6 - 2 7

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

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The Prescribed Syllabus for this Unit

> **UNIT 2: TAX PLANNING UNDER DIFFERENT HEADS OF INCOME (11 HOURS)**
>
> "Tax planning measures relating to income from salary, Income from House Property, profits and gains of business or profession, capital gains and income from other sources."
>
> *That is the whole of it — one sentence, five heads, eleven hours. The sentence is short because the syllabus assumes you can already compute each head. This booklet does not make that assumption: each chapter recapitulates the computation in full before it turns to the planning.*

The paper is Discipline Specific Elective Course 7.9, placed before the Executive Council of the University of Delhi, **EC (1282) dated 29.04.2026**, and effective from the Academic Year 2026-27. The syllabus is identical for B.Com (Hons.) and B.Com (Prog.); the two courses differ only in their learning outcomes, practical exercises and reading lists, which are set out in the Unit 1 booklet.

Where this Unit sits in the paper

Unit	Content	Hours
Unit 1	Basic concepts of tax planning; avoidance and evasion; scope; planning through exempted income, permissible deductions and clubbing	14
Unit 2	**Tax planning under the five heads of income — this booklet**	**11**
Unit 3	Tax planning through investments; deductions under the Act	11
Unit 4 (A)	Advance tax, TDS, TCS, refund	9 (A and B together)
Unit 4 (B)	Income-tax authorities, returns, assessments, appeals and revision	

The five heads, and where each is governed

Head	Sections of the Income-tax Act, 2025	Where it is covered
A — Salaries	15 to 19, with Schedule III and Rules 277 to 281	Chapter 2
B — Income from house property	20 to 25	Part B, Chapter 1
C — Profits and gains of business or profession	26 to 66	Part B, Chapter 2
D — Capital gains	67 to 91, with the rates in sections 196, 197 and 198	Part B, Chapter 3
E — Income from other sources	92 to 95	Part B, Chapter 4

The teachers' meeting of 6 September 2025

An online meeting was held on Saturday, 6 September 2025 to prepare the Guidelines for the NEP: UGCF Syllabus (w.e.f. 2022-23) for this paper, organised by the Department of Commerce, Delhi School of Economics, University of Delhi and Sri Aurobindo College (Evening), University of Delhi. Dr. Supreet Kaur, Assistant Professor, Department of Commerce, represented the Department; the meeting was convened by Mr. Varun Panwar, Assistant Professor, Sri Aurobindo College (Evening); and fourteen other members of the faculty were present. The B.Com (Hons.) guidelines were settled at 4:00 PM and the B.Com (Prog.) guidelines at 5:00 PM; they are identical in every respect that bears on this booklet. **Those guidelines that bear on this booklet are set out below.**

The question paper

- The total number of questions will be **five**.
- All questions carry equal weightage of **18 marks each**.
- **Each question shall have an internal choice.**
- The question format must ensure comprehensive coverage of the entire syllabus.
- **No question shall contain more than two parts** — the illustrative format being (a) and (b), *or* (c) and (d).

The allocation of lectures, marks and questions

Unit	Name of the Unit	Hours	Marks	Questions
Unit 1	Basic Concepts	14	18	1 question with internal choice
Unit 2	Tax Planning under different heads of Income	11	36	2 questions with internal choice
Unit 3	Tax Planning through investments	11	18	1 question with internal choice
Unit 4 (A)	Deduction, collection and recovery of tax	4	9	1 question with internal choice, covering both parts
Unit 4 (B)	Assessment Procedures, Income-tax Authorities and Appeal and Revision	5	9	
Total		45	90	5 questions with internal choice

WHAT THE ALLOCATION MEANS FOR THIS UNIT

Unit 2 carries **36 marks of the 90 — twice the weight of any other Unit.** It is examined by **two** questions, each with an internal choice and each of not more than two parts.

It carries only **11 of the 45 hours**. That is the lowest ratio of teaching time to marks in the paper, and it is the reason this Unit must be worked rather than read.

Two questions across five heads means that **not every head can appear in every paper.** The internal choice, however, means that a candidate who has prepared three heads thoroughly and two indifferently is exposed. Prepare all five.

Of the five heads, the guidelines attach practical/numerical coverage to four — salaries, house property, business or profession, and capital gains. Income from other sources is the only head for which no numerical coverage is prescribed.

The prescribed scope of this Unit

The guidelines set out, against each limb of the syllabus, the scope to which teaching and examination are to be confined, and the practical coverage expected. What follows is that table for this Unit, reproduced as settled.

Syllabus of the Unit	Scope of the Unit	Practical Coverage
Tax planning measures relating to income from salary.	**1. Salary Structure Optimisation (Designing Pay Package)** — (i) exempt allowances (house rent allowance, education allowance and the like); (ii) perquisites structuring (tax-free reimbursements, official facilities and the like). **2. Retirement benefits** — gratuity; leave encashment; commutation of pension. **3. Deductions from Salary Income** — standard deduction; entertainment allowance; professional tax. **4. Chapter VI-A deductions** — 80C, 80CCD, 80CCD(1B), 80CCD(2), 80D, 80E, 80TTA and 80TTB. **5. Reliefs and rebates (to be covered in brief)** — relief under section 89(1); rebate under section 87A.	Practical / numerical questions based on salary structure optimisation — designing the pay package.

Syllabus of the Unit	Scope of the Unit	Practical Coverage
Tax planning measures relating to Income from House Property.	**1.** Tax planning for self-occupied property and deemed-to-be-let-out property — selecting the house property to treat as self-occupied or deemed let out, so as to maximise the interest deduction. **2.** Tax planning for co-ownership and joint loans (section 26). **3.** Tax planning relating to set-off and carry forward of house property losses. **4.** Deduction under section 80C — principal repayment of housing loan.	Practical / numerical questions based on the selection of the house property as self-occupied or deemed let out.
Tax planning measures relating to Income from profits and gains of business or profession.	**1.** Allowable business expenditure (sections 30 to 37). **2.** Depreciation benefits (section 32). **3.** Maintenance of books of account (section 44AA). **4.** Tax planning and presumptive taxation — sections 44AD, 44ADA and 44AE. **5.** Tax planning relating to set-off and carry forward of business losses — (i) set-off of business losses; (ii) unabsorbed depreciation.	Practical / numerical questions based on the application of the presumptive taxation schemes under sections 44AD, 44ADA and 44AE.
Tax planning measures relating to Income from capital gains.	**1.** Tax planning related to the period of holding — (i) distinction between short-term and long-term capital gain; (ii) tax planning related to each. **2.** Exemptions for reinvestment — sections 54, 54EC, 54B and 54F. **3.** Joint ownership, to be discussed briefly — tax planning related to the splitting of capital gains across co-owners. **4.** Tax planning relating to set-off and carry forward of capital losses — **theoretical coverage only**.	Practical / numerical questions based on (i) comparison of short-term and long-term capital gain and (ii) tax planning relating to the section 54 series of exemptions.
Tax planning measures relating to Income from other sources.	**1.** Tax planning relating to income from other sources — (i) dividend income; (ii) interest income — fixed deposit and savings deposit, bonds and debentures; (iii) gifts under section 56(2)(x).	

THE GUIDELINES AND THE INCOME-TAX ACT, 2025 — HOW TO READ THEM TOGETHER

The guidelines were settled on 6 September 2025. The Income-tax Act, 2025 came into force on 1 April 2026. The scope tables are therefore expressed in the section numbers of the Income-tax Act, **1961** — 80C, 80D, 10(13A), 54EC, 115BAC and the rest.

The syllabus itself, as amended by the Executive Council in EC (1282) dated 29.04.2026, is a syllabus on the Income-tax Act, **2025**. The two are not in conflict: **the guidelines settle what is examinable; the Act settles the law in which it is to be stated.**

This booklet therefore takes its **scope** from the guidelines and its **law** from the Income-tax Act, 2025 as amended by the Finance Act, 2026. So where the guidelines say “80C”, read section 123 with Schedule XV; where they say “10(13A)”, read Schedule III, Sl. No. 11 with Rule 279; where they say “115BAC”, read section 202; where they say “54EC”, read section 85. The full conversion table is in the last chapter of this booklet.

In the examination, give the section number of the 2025 Act. If you wish, add the 1961 number in brackets. Never give the 1961 number alone.

What this booklet does with the guidelines

The body of this Part carries, at the head of Chapter 2, a note setting out exactly what the guidelines prescribe for the salary head; read it before the chapter. Material that fell outside the prescribed scope has been moved, with a marker, to the Annexe at the end of Part B. Two things have been added to this head to meet the guidelines: relief under section 157 and rebate under section 156. The additions made for the other four heads — business losses and unabsorbed depreciation, the splitting of a capital gain across co-owners, and the set-off and carry forward of capital losses — are in Part B.

Before You Begin

What this Unit asks of you

Unit 1 was about the *idea* of tax planning. This Unit is about its practice. For each of the five heads you must be able to do three things, in this order —

1. **Compute the head correctly.** You cannot plan what you cannot compute. A planning answer built on a wrong gross annual value or a wrong period of holding earns nothing.
2. **Identify the choices the head leaves open.** Every head contains points at which the Act treats two courses differently: the form of a salary component, the number of houses declared self-occupied, the date of a sale, the mode of a receipt.
3. **Show, in rupees, which choice is better.** An examiner rewards the computation of the saving, not the description of the section.

How this booklet is arranged

Chapter 2 has the same three-part shape as every head chapter in this Unit, and you should read it the same way every time:

Section	What it does
A — The computation, recapitulated	The whole of the head as you learned it in Semester V, restated on the Income-tax Act, 2025, with the new section numbers and the Income-tax Rules, 2026 figures. Read this even if you think you remember it: almost every number changed on 1 April 2026
B — The planning measures	The choices the head leaves open, each with the provision that creates it and the caution that limits it
C — Illustrations	Worked comparisons, showing both alternatives and the saving

THE ONE THING TO CARRY FROM UNIT 1 INTO EVERY CHAPTER OF THIS ONE

Decide the regime first. Section 202(1) is the default; the optional regime applies only if the assessee exercises the option under section 202(4).

The regime changes the *computation* of three of the five heads — salaries, house property and business or profession — and changes the *value* of planning under all five. A pay package built on house rent allowance is worth nothing in the default regime; a housing loan on a self-occupied house is worth nothing there either.

Chapter 1 sets out the filter head by head. Do not skip it.

A note on rounding and on the ₹ symbol. All amounts are in Indian rupees. Under section 516 the total income, and any amount payable or refundable, is rounded to the nearest multiple of ₹10, ignoring paise.

The sources from which this material has been written

Source	What it settles in this Unit
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections 15 to 19 (salaries); 20 to 25 (house property); 26 to 66 (business or profession); 67 to 91 (capital gains); 92 to 95 (other sources); 108 to 121 (set-off); 196, 197 and 198 (the special rates); 202 (the regimes); and Schedules II and III
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	Rule 277 (leave travel concession); Rule 279 (house rent allowance, and the list of eight cities); Rule 280 (special allowances, and what survives the default regime); the perquisite valuation rules
Finance Act, 2026 — assent 30 March 2026	The rates for Tax Year 2026-27 in Part I-B of the First Schedule; surcharge; cess

Source	What it settles in this Unit
Memorandum explaining the provisions of the Finance Bill, 2026	That no change is proposed in the rates in section 202 or in the First Schedule

A warning about older books, sharper for this Unit than for Unit 1

Unit 1 was largely conceptual, and an older textbook could still be read for its reasoning. This Unit is arithmetical, and an older textbook will give you **wrong figures**. The Income-tax Rules, 2026 rewrote, among others — the list of cities carrying the 50% rate for house rent allowance (now **eight**, not four); the children education and hostel allowances (now **₹3,000** and **₹9,000** per month per child, not ₹100 and ₹300); the transport allowance for a disabled employee; the free-meal and gift thresholds; the interest-free loan threshold; the motor car values; and the specified employee threshold.

And the Act itself moved the terminal benefits — gratuity, commuted pension and leave encashment — out of the exemption Schedules and into **section 19 as deductions**. The figure is often the same; the presentation is not, and it is the presentation that section 19 prescribes.

About this booklet

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

It is issued **free of cost** to the students of the University of Delhi and to anyone else who finds it useful. It is not for sale.

Date: 08-08-26 (Original)

SUGGESTIONS AND CORRECTIONS ARE WELCOME

If you notice a discrepancy — a section number, a figure, a rate, a date — or have a suggestion on the presentation, please write to me. Teachers of other colleges are equally welcome.

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Corrections received will be carried into the next revision, and the corrected file will be uploaded on the website.

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Page numbers refer to this booklet. Chapter headings are shown in bold.

CHAPTER 1

The Regime Filter, Head by Head

Before any head is planned it must be known which regime the assessee is in, because the default regime under section 202(1) alters the computation of three heads and the value of planning under all five. This chapter is the filter; keep a finger in it.

1.1 The two regimes in one page

	Default regime [section 202(1)]	Optional regime [First Schedule, Part I-B]
How it applies	Automatically, unless the option is exercised	Only if the option under section 202(4) is exercised
Slabs	Nil to ₹4,00,000; 5% to ₹8,00,000; 10% to ₹12,00,000; 15% to ₹16,00,000; 20% to ₹20,00,000; 25% to ₹24,00,000; 30% above	Nil to ₹2,50,000 (₹3,00,000 senior; ₹5,00,000 very senior); 5% to ₹5,00,000; 20% to ₹10,00,000; 30% above
Standard deduction	**₹75,000**	₹50,000
Rebate [section 156]	**₹60,000** up to a total income of ₹12,00,000, with marginal relief to about ₹12,70,588	₹12,500 up to ₹5,00,000
Chapter VIII	Only sections 124(1), 124(2), 125(2) and 146	The whole Chapter
Exercising the option [section 202(4)]	—	Business income: on or before the due date under section 263(1); applies to later years; may be withdrawn **once only**, after which it is lost for good while business income continues. No business income: along with the return, **year by year**

THE ASYMMETRY THAT MATTERS MOST

A person **without** business income chooses afresh **every year**, with the return. A person **with** business income chooses once, and a withdrawal is final [section 202(4)(a)(iv)].

So a salaried individual should recompute both regimes every March. A businessman must think several years ahead before opting out, because he cannot come back a second time.

1.2 What section 202(2) does to each head

Head	What the default regime removes	Effect on planning
A — Salaries	House rent allowance [Schedule III, Sl. No. 11]; leave travel concession [Sl. No. 8]; the special allowances of Sl. Nos. 12 and 13 except those saved by Rule 280(3); professional tax [section 19(1), Table Sl. No. 1]	Allowance-based packaging is worthless. Planning shifts to the **employer's pension contribution** under section 124(2) at 14% of salary, and to **non-monetary perquisites**, neither of which the regime touches
B — House property	Interest on borrowed capital for a self-occupied house [section 22(1)(b) for property within section 21(6)]; and the **set-off of a house property loss against any other head**	A self-occupied house yields nothing at all in the default regime. The whole planning question becomes whether to declare a house self-occupied or let out
C — Business or profession	Sections 33(8), 45(3)(a) to (c), 46, 47(1)(a), 48 and 49; and the carry-	The ordinary deductions of sections 28 to 35 are **untouched**, so most business

Head	What the default regime removes	Effect on planning
	forward of any loss or depreciation attributable to them	planning survives the regime intact
D — Capital gains	Nothing directly. The special rates in sections 196, 197 and 198 apply under both regimes	Capital gains planning is **regime-neutral**. But the exemptions under sections 82 to 86 are in Chapter IV-E, not Chapter VIII, so they survive — a point students get wrong
E — Other sources	Nothing directly. The family pension deduction in section 93(1)(d) is actually **larger** in the default regime — ₹25,000 against ₹15,000	Planning is about the character and timing of the receipt, and is largely regime-neutral

THREE TRAPS IN THE TABLE ABOVE

One. The capital gains exemptions in sections 82, 83, 85 and 86 are **not** Chapter VIII deductions. Section 202(2)(a)(xii) withdraws Chapter VIII; it does not touch Chapter IV-E. A candidate who writes that section 82 is unavailable in the default regime has misread the section.

Two. The inter-head set-off of a house property loss is capped at ₹2,00,000 by **section 109(1)(b)** in the optional regime, and barred **altogether** by section 202(2)(b)(ii) in the default regime — not reduced, not restricted, simply not allowed. Set-off between two houses under section 108 is unaffected in either regime. As to carry forward under section 110, note **section 202(3)**, which deems a loss referred to in section 202(2)(b) to have been given full effect to, so that no further deduction is allowed in any subsequent year.

Three. The **family pension** deduction is one of the very few things the default regime improves. Section 93(1)(d)(i) gives one-third or ₹25,000, whichever is less, where tax is computed under section 202(1); clause (ii) gives one-third or ₹15,000 in any other case.

1.3 The order of work for any problem in this Unit

1. **Fix the residential status** — it decides which incomes enter at all [sections 5 and 6].
2. **Compute each head twice**, once on the default footing and once on the optional footing, wherever the two differ. Heads A, B and C differ; heads D and E generally do not.
3. **Aggregate, and apply Chapter VII** — set-off and carry forward, remembering the bar in section 202(2)(b)(ii).
4. **Arrive at gross total income**, then apply Chapter VIII in the optional regime and only the four survivors in the default regime.
5. **Segregate the special-rate income.** Capital gains under sections 196, 197 and 198, and casual income under section 194, are taxed at their own rates and must be taken out of the slab computation.
6. **Compute the tax**, apply the rebate under section 156 and marginal relief, add cess at 4%, and state which regime is better and by how much.

THE SPECIAL RATES, COLLECTED

Section 196 — short-term capital gains on an equity share, a unit of an equity oriented fund or a unit of a business trust, where securities transaction tax has been paid: **20%**.

Section 197 — long-term capital gains generally: **12.5%**. For a resident individual or HUF transferring **land or building acquired before 23 July 2024**, section 197(3) lets the assessee keep whichever is lower — 12.5% without indexation, or 20% with indexation.

Section 198 — long-term capital gains on listed equity, equity oriented funds and business trusts with securities transaction tax: **12.5% on the amount exceeding ₹1,25,000**.

Section 194 — winnings from lotteries, crossword puzzles, races, card games, gambling and betting: **30%**, with no deduction and no basic exemption shelter.

*Sections 196(2), 197(2) and 198(3) each contain the same relief for a **resident** individual or HUF: where the other income falls short of the basic exemption limit, the shortfall is set against the special-rate gain before the special rate is applied. A non-resident gets no such shelter.*

CHAPTER 2

Tax Planning — Income from Salaries

Sections 15 to 19, with Schedule III and Rules 277 to 281. The salaried employee has the narrowest scope for planning of any assessee — his income is fixed by his employer and reported to the Department before he sees it. What he does control is the form in which it reaches him.

WHAT THE GUIDELINES PRESCRIBE FOR THIS HEAD

1. Salary structure optimisation — designing the pay package. Exempt allowances (house rent allowance, children education allowance and the rest); perquisites structuring — tax-free reimbursements and official facilities.

2. Retirement benefits. Gratuity, leave encashment, commutation of pension. Under the 2025 Act these are no longer exemptions: they are deductions under section 19(1), Table Sl. Nos. 3, 7, 13 and 14.

3. Deductions from salary. Standard deduction [s. 19(1), Sl. No. 2]; entertainment allowance; professional tax [s. 19(1), Sl. No. 1].

4. Chapter VIII deductions. Sections 123, 124(1), 124(2), 124(3), 126, 129 and 153 — the guidelines' 80C, 80CCD, 80CCD(1B), 80CCD(2), 80D, 80E, 80TTA and 80TTB.

5. Reliefs and rebates, in brief. Sections 157 and 156 — the guidelines' 89(1) and 87A.

Entertainment allowance *is listed by the guidelines as section 16(ii). It has* ***no counterpart in the Income-tax Act, 2025*** *— the deduction was not carried forward. If asked, say so, and say that a Government employee who had it under the 1961 Act has it no longer.*

Practical coverage: numerical questions on salary structure optimisation — designing the pay package.

2.1 SECTION A — The computation, recapitulated

The four sections

Section	What it does
15	Charges income under the head “Salaries”. Salary is taxable on **due or receipt, whichever is earlier**. There is no “income from salary” unless the relation of employer and employee exists
16	Defines what “income from salary” includes — wages, annuity, pension, gratuity, fees, commission, perquisites, profits in lieu, advance salary, leave encashment, provident fund contributions and the rest
17	Defines **perquisite**, and sub-section (1)(c)(ii) carries the **specified employee** test
18	Defines **profits in lieu of salary** — compensation on termination or modification of employment, and payments from an unrecognised fund
19	The **deductions**, set out in a Table. This is the section that replaced section 16 of the 1961 Act and swallowed most of the old exemptions

THE SINGLE BIGGEST CHANGE FROM THE 1961 ACT

Under the old Act, gratuity, commuted pension and leave encashment were **exemptions** under section 10 and never entered gross salary. Under the 2025 Act they are **included in gross salary under section 16 and taken out again as deductions under section 19**.

The net figure is usually the same. The **presentation** is not — and it is the presentation that section 19 prescribes. Show both movements.

> *It is not merely cosmetic. Because gratuity and leave encashment are now monetary payments inside salary, they enter the numerator of the specified employee test in section 17(1)(c)(ii) — and, being section 19 deductions, come out again. The net effect on the test is nil, but a candidate who shows only one of the two movements gets a wrong figure.*

The format of the computation

Particulars	₹
Basic salary, dearness allowance, bonus, commission, advance salary, arrears	xxx
Allowances — the gross amount of every allowance received	xxx
Less: the part of an allowance excluded by Schedule III (house rent allowance, leave travel concession, the special allowances)	(xxx)
Perquisites, valued under section 17 and the Rules	xxx
Profits in lieu of salary [section 18]	xxx
Terminal benefits — gratuity, commuted pension, leave encashment — at their **gross** figure	xxx
GROSS SALARY	**XXX**
Less: deductions under section 19(1), Table —	
Sl. No. 1 — tax on employment (professional tax) [optional regime only]	(xxx)
Sl. No. 2 — standard deduction: **₹75,000** default; **₹50,000** optional; or the salary, whichever is less	(xxx)
Sl. Nos. 3 to 14 — the terminal-benefit deductions	(xxx)
INCOME UNDER THE HEAD "SALARIES"	**XXX**

The allowances — the three classes

Class	Treatment	Examples
Fully taxable	The whole amount enters gross salary	Dearness allowance, city compensatory allowance, overtime, servant, warden, non-practising, medical and **entertainment** allowance (there is no counterpart to the old section 16(ii))
Partly exempt	Exempt up to a limit or up to the amount spent; the balance is taxable	House rent allowance [Sch. III, Sl. No. 11, Rule 279]; the duty allowances of Sl. No. 12 [Rule 280(1)]; the personal-expense allowances of Sl. No. 13 [Rule 280(2)]
Fully exempt	Not included in gross salary at all	Allowances paid by the Government to a citizen of India for services rendered outside India; allowances of High Court and Supreme Court judges; allowances from the United Nations; the constituency and daily allowances of a Member of Parliament or of a Legislature

House rent allowance [Schedule III, Sl. No. 11, with Rule 279]

Exempt to the **least of three** —

	The amount	Note
(a)	The house rent allowance actually received for the relevant period	For the relevant period only, not necessarily the whole year
(b)	Rent actually paid *minus* one-tenth of salary	If the rent paid is less than 10% of salary this is nil or negative, and **the exemption is NIL**
(c)	**50%** of salary where the accommodation is in one of the eight listed cities; **40%** anywhere else	It is the location of the **accommodation** that matters, not of the office

The list is now EIGHT cities, not four. The Table to Rule 279(1)(c) reads: Mumbai, Kolkata, Delhi, Chennai, **Hyderabad, Pune, Ahmedabad and Bengaluru** — 50%; any other place — 40%. Gurugram, Noida, Jaipur and Lucknow are **not** on the list. **Salary** here means basic salary plus dearness allowance to the extent it enters into retirement benefits, plus commission at a fixed percentage of turnover.

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

- Two journeys in a block of four calendar years; the current block is **2026 to 2029**.
- Where the concession is not availed in a block, or availed for one journey only, **one journey may be carried forward** into the first calendar year of the next block.
- **Fare only** — nothing for local conveyance, sightseeing, hotels or food; and never more than the amount actually spent.
- By air, the fare for the class to which the employee is entitled, by the shortest route. By rail, first class air-conditioned by the shortest route.
- "Family" means the spouse and children, and parents, brothers and sisters wholly or mainly dependent. Restricted to **two surviving children** born on or after 1 October 1998.

The special allowances [Schedule III, Sl. Nos. 12 and 13, with Rule 280]

Allowance	Extent to which exempt	Survives the default regime?
Rule 280(1)(a) — travel on tour or transfer	The amount actually spent	**YES**
Rule 280(1)(b) — packing and transportation on transfer	The amount actually spent	**YES**
Rule 280(1)(c) — ordinary daily charges when away from the normal place of duty	The amount actually spent	**YES**
Rule 280(1)(d) — conveyance in the performance of duties, no free conveyance provided	The amount actually spent	**YES**
Rule 280(1)(e), (f), (g) — helper, academic pursuits, uniform	The amount actually spent	No
Rule 280(2), Sl. No. 7 — **children education allowance**	**₹3,000 per month per child**, up to two children	No
Rule 280(2), Sl. No. 8 — **hostel expenditure allowance**	**₹9,000 per month per child**, up to two children	No
Rule 280(2), Sl. No. 10 — **transport allowance for a disabled employee**	₹15,000 + dearness allowance per month in a metro; ₹8,000 + dearness allowance elsewhere	**YES** — the one survivor of sub-rule (2)
Rule 280(2), other serial numbers — tough location, field area, counter-insurgency, high-altitude and similar	Fixed monthly amounts, whether or not spent	No

Allowance	Extent to which exempt	Survives the default regime?
allowances		

The anomaly in Rule 280(3), and the working rule

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

Read literally that is the **wrong way round**. Section 202(4) is the provision under which a person opts *out* of the default regime, so the rule as drafted restricts the optional-regime employee and leaves the default-regime employee unrestricted — which contradicts section 202(2)(a)(ii) of the Act itself.

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

The terminal benefits [section 19(1), Table]

Sl.	Benefit	Deduction
3	Death-cum-retirement gratuity — Government employee	The entire amount
3	Gratuity — any other employee, covered by the Payment of Gratuity Act	Least of: 15 days' salary for each completed year on the last drawn wages; the amount received; and the notified ceiling
7	Commuted pension — Government employee	The entire amount
7	Commuted pension — any other employee	**One-third** of the full value where gratuity is also received; **one-half** where it is not
13	Leave encashment on retirement — Central or State Government employee	The entire amount — no formula, no ceiling
14	Leave encashment on retirement — any other employee	The least of the four prescribed amounts
—	Leave encashment **during** service	**Fully taxable** for every employee. No entry in the Table covers it. Relief under section 157 may be claimed

The commonest error in the whole head

On commuted pension, take **one-third of the FULL value of the pension**, not one-third of the amount received.

If a full pension is worth ₹15,00,000 and the employee commutes 60% for ₹9,00,000, the deduction is one-third of ₹15,00,000 = ₹5,00,000 — not one-third of ₹9,00,000. Always gross up first. And the whole ₹9,00,000 goes into gross salary before the ₹5,00,000 comes out.

Perquisites in outline [section 17]

Perquisite	Position for Tax Year 2026-27
Rent-free or concessional accommodation	Valued under the Rules by reference to population and to salary. Hotel accommodation, and two accommodations at once, are outside the teachers'-meeting syllabus
Motor car	Valued at the prescribed monthly amounts, which the 2026

Perquisite	Position for Tax Year 2026-27
	Rules rewrote
Free education	Nil where the cost per child does not exceed **₹3,000 per month**. There is no limit on the number of children. It is a **threshold, not a slab** — exceed it and the whole value is taxable
Free meals at office or by voucher	Nil up to **₹200 per meal**
Gifts in kind	Nil where the aggregate in the year does not exceed the prescribed amount
Interest-free or concessional loan	Valued at the State Bank rate; nil below the prescribed threshold, and nil for a loan for a specified disease
Sweat equity shares and employee stock options	**Concept only** for this paper; valuation is outside the teachers'-meeting syllabus
Medical facility in the employer's own hospital	Nil

Relief under section 157, and rebate under section 156 — in brief

The guidelines require both to be covered, in brief, under this head. Both operate on the **tax**, not on the income, and both are applied after the total income has been arrived at.

	Relief [section 157]	Rebate [section 156]
1961 Act	Section 89(1)	Section 87A
What it addresses	Salary received **in arrears or in advance**, and certain terminal payments, which bunch the income of several years into one and push the assessee into a higher slab than he would ever have reached had he been paid on time	A small total income, on which the Legislature has decided no tax shall in fact be borne
Who may claim	Any assessee in receipt of such salary — resident or non-resident	**A resident individual only.** Not a Hindu undivided family, not a firm, not a non-resident
How it works	Spread the arrears notionally over the years to which they relate; compute the tax of those years with and without the arrears; the difference between that aggregate and the tax on the bunched receipt is the relief	156(1): total income up to ₹5,00,000 — the tax, or ₹12,500, whichever is less. 156(2)(a): tax computed under section 202(1) and total income up to ₹12,00,000 — the tax, or ₹60,000, whichever is less. 156(2)(b): marginal relief where the total income marginally exceeds ₹12,00,000, running out at about ₹12,70,588
The condition	The particulars must be furnished in the prescribed form. Relief is not given automatically and is lost if not claimed	Nothing to claim beyond the return itself
The limit	No relief where the receipt is one on which an exemption or deduction has already been given for the same bunching	**Section 156(3): no rebate against tax on income charged at the special rates** in sections 194, 196, 197 and 198

> **THE PLANNING POINT ON EACH**
>
> **On relief.** Where an employee has a choice — a settlement of arrears, a voluntary retirement payment, the year in which a bonus is declared — the relief makes the *timing* far less painful than it looks. Compute the tax with relief before advising the employee to defer.
>
> **On rebate.** For a resident individual whose total income is at or below ₹12,00,000 and who is taxed under section 202(1), the tax is nil after the rebate — **without a single rupee of investment.** Test the rebate before designing

any package. It is worth more than the whole of Chapter VIII to most assessees, and it is the commonest thing candidates forget.

2.2 SECTION B — The planning measures

The salaried employee's planning is almost entirely about **the composition of the package**, and since 1 April 2026 the answer depends completely on the regime. Take the two cases separately; an answer that does not is worthless.

Case 1 — the employee who will be in the OPTIONAL regime

Measure	How it works	Caution
Maximise house rent allowance	The largest single lawful exclusion open to a salaried person. Structure the package so that the allowance received, the rent actually paid and 50% or 40% of salary are as close together as possible — the exemption is the *least* of the three, so an allowance far above limb (b) is wasted	The rent must be genuinely paid, and paid by the employee. Where the rent exceeds ₹1,00,000 a year the landlord's Permanent Account Number must be given. Rent paid to a spouse for a house the couple occupies invites scrutiny
Take leave travel concession in the right year	Two journeys in the block 2026-2029. Plan the two journeys, and use the carry-forward of one journey into the first year of the next block where a block would otherwise be wasted	Fare only, and only the amount actually spent. Keep tickets and boarding passes
Convert taxable allowances into reimbursements	An *allowance* is taxable in full unless a Schedule III entry saves it; a **reimbursement** of an expense actually incurred for the employer's purposes is not salary at all. A conveyance allowance of ₹60,000 is taxable; reimbursement of ₹60,000 of actual conveyance on duty is not	There must be a genuine expense, incurred for the employer, and vouched. A “reimbursement” paid at a flat monthly rate without bills is an allowance whatever it is called
Use the children education and hostel allowances	₹3,000 and ₹9,000 per month per child for two children — that is up to ₹2,88,000 a year for two children, and it is exempt whether or not the money is actually spent	Two children only. Not available in the default regime
Claim professional tax	Deductible under section 19(1), Table Sl. No. 1	Optional regime only

Case 2 — the employee who will be in the DEFAULT regime

EVERYTHING IN CASE 1 IS WORTH NOTHING. TWO THINGS ARE WORTH A GREAT DEAL.

One — the employer's contribution to the notified pension scheme [section 124(2)]. In the default regime this is deductible at **14% of salary for every employer**, Government or not, against 10% for a private employer in the optional regime. It is one of only four Chapter VIII provisions that survive section 202(2). For an employee on a basic salary of ₹15,00,000 that is a deduction of ₹2,10,000 which the default regime does not touch.

Two — non-monetary perquisites. The exemption or concessional valuation of a perquisite comes from section 17 and the Rules, **not** from Schedule III, and section 202(2) does not reach it. So a medical facility in the employer's hospital, free meals up to ₹200 a meal, free education up to ₹3,000 a month a child, a telephone, and an interest-free loan below the threshold are all worth exactly the same in the default regime as in the optional one.

Restated as advice: ***in the default regime, stop asking the employer for allowances and start asking for facilities and for pension contributions.*** *That single sentence is the most useful thing in this chapter.*

Measures that work in both regimes

- **The standard deduction is automatic**, and is larger in the default regime — ₹75,000 against ₹50,000. Nothing need be done to earn it, but note that it cannot exceed the salary.
- **Time the receipt of arrears.** Salary is taxable on **due or receipt, whichever is earlier**, so arrears cannot simply be deferred. Where they are received in a lump sum, claim **relief under section 157** by spreading them over the years to which they relate, in Form No. 10E.
- **Time the retirement.** Retiring on 1 April rather than 31 March moves a year's terminal benefits into the next tax year, and may move the employee into a lower slab in both years.
- **Do not take leave encashment during service** if it can be taken on retirement. During service it is fully taxable for everyone; on retirement it attracts the deduction at Sl. No. 13 or 14.
- **Watch the specified employee threshold** in section 17(1)(c)(ii). An employee below it escapes the valuation of certain perquisites entirely.

2.3 SECTION C — Illustrations

ILLUSTRATION 2.1 — DESIGNING A PACKAGE OF ₹24,00,000

An employer will spend ₹24,00,000 a year on Shri Anand, aged 38, resident, who lives in rented accommodation in Pune at a rent of ₹6,00,000 a year. He has no other income and makes no Chapter VIII investment. *Design the package under each regime.*

Design for the optional regime. Basic salary ₹12,00,000; house rent allowance ₹6,00,000; children education and hostel allowances for two children ₹2,88,000; leave travel concession ₹1,00,000 (spent in full on fares); balance as other taxable allowances ₹2,12,000.

House rent allowance exempt — least of: (a) ₹6,00,000; (b) ₹6,00,000 − 10% of ₹12,00,000 = ₹4,80,000; (c) 50% of ₹12,00,000 = ₹6,00,000 (Pune is one of the eight). **Exempt ₹4,80,000.**

Gross salary = ₹24,00,000 − ₹4,80,000 (HRA) − ₹2,88,000 (education and hostel) − ₹1,00,000 (LTC) = **₹15,32,000.** *Less* standard deduction ₹50,000 = **total income ₹14,82,000.**

Tax = ₹12,500 + ₹1,00,000 + 30% of ₹4,82,000 (₹1,44,600) = **₹2,57,100**; cess ₹10,284; **₹2,67,384.**

Design for the default regime. None of those exclusions is available, so the composition is irrelevant except in one respect — divert ₹1,68,000, being 14% of a basic salary of ₹12,00,000, into the employer's contribution to the notified pension scheme, deductible under section 124(2).

The employer's contribution is itself part of gross salary, and comes out again as a Chapter VIII deduction — show both movements. Gross salary **₹24,00,000** (which includes the contribution of ₹1,68,000). *Less* standard deduction ₹75,000 = income under the head, and gross total income, **₹23,25,000**. *Less* deduction under section 124(2) ₹1,68,000 = **total income ₹21,57,000.**

Tax = ₹20,000 + ₹40,000 + ₹60,000 + ₹80,000 + 25% of ₹1,57,000 (₹39,250) = **₹2,39,250**; cess ₹9,570; **₹2,48,820.**

Conclusion. The default regime, properly packaged, is better by ₹18,564 — even though the optional regime carried ₹8,68,000 of exclusions.

Now observe the sensitivity. Had the employer not *been asked for the pension contribution, the default-regime total income would have been ₹23,25,000 and the tax ₹2,81,250 plus cess ₹11,250 = ₹2,92,500 — and the optional regime would have won by ₹25,116.* ***The pension contribution alone reverses the answer.*** *This is why packaging and regime must be decided together, and never one after the other.*

ILLUSTRATION 2.2 — ALLOWANCE AGAINST REIMBURSEMENT

Smt. Ritu is offered either (a) a conveyance allowance of ₹90,000 a year, or (b) reimbursement of conveyance actually incurred on official duty against bills, expected to be ₹90,000. She is in the **optional** regime and her marginal rate is 30%. *Which should she take?*

(a) The allowance. An allowance to meet conveyance expenditure in the performance of duties falls in Rule 280(1)(d) and is exempt **to the extent actually spent on duty**. If she spends the whole ₹90,000 on duty, the whole is exempt. If she spends only ₹40,000, then ₹50,000 is taxable and costs her ₹15,600.

(b) The reimbursement. A reimbursement of an expense incurred for the employer's purposes, against vouchers, is not a perquisite and not salary at all. Nothing is taxable whatever the amount.

Advice: take the reimbursement. It carries no risk of a taxable balance and no dispute about how much was "actually spent".

And note the regime point. In the ***default*** *regime Rule 280(1)(d) survives, so the allowance would still have been* *exempt to the extent spent. The reimbursement is better in both regimes — which is what makes it a genuinely robust piece of planning.*

2.4 SECTION D — ADDITIONAL CASE STUDIES

ILLUSTRATION 2.3 — TWO PACKAGES AT DELHI — THE BASIC ALLOWANCE-VERSUS-FACILITY CHOICE

FACTS

Soni Ltd. has offered Mr. Aryan a post at Delhi for **Tax Year 2026-27** on a basic salary of **₹90,000 per month** and dearness allowance of **₹30,000 per month**, the whole of which forms part of salary for retirement benefits. He may choose either of the following packages —

	Package I — allowances	Package II — facilities
(i)	House rent allowance ₹30,000 p.m.; he will pay rent of ₹30,000 p.m. in Delhi	Unfurnished accommodation at Delhi **owned by the company**, rent free
(ii)	Children education allowance ₹3,000 p.m. for one child	Free education for one child in a school **owned by the employer**, cost ₹3,000 p.m.
(iii)	Telephone allowance ₹2,500 p.m.	Free telephone at his residence, bills up to ₹2,500 p.m. paid by the company
(iv)	Medical allowance ₹4,000 p.m.	Treatment of himself and his family in a **hospital maintained by the employer**, value ₹48,000 for the year
(v)	Conveyance allowance ₹6,000 p.m., entirely for private use	A **1.4 litre car owned by the company**, used partly for official and partly for private purposes, all running expenses **and a chauffeur** borne by the company
(vi)	Lunch allowance ₹4,000 p.m.	Free lunch in the office canteen during working hours, ₹200 per meal for 250 working days

Under **both** packages the company provides a watchman, a sweeper and a gardener, each paid **₹3,000 p.m.** by the company. Mr. Aryan invests ₹1,50,000 in a public provident fund. He has no other income.

REQUIRED

Compute his taxable salary and tax liability under each package under both regimes, and advise him.

SOLUTION

Step 1 — Salary for the purpose of valuing housing.

Basic salary ₹90,000 x 12 = ₹10,80,000; dearness allowance ₹30,000 x 12 = ₹3,60,000, forming part of retirement benefits. **Salary = ₹14,40,000.**

Step 2 — Package I: taxable salary.

Particulars	Default regime (s. 202)	Old regime
Basic salary and dearness allowance	14,40,000	14,40,000
House rent allowance (₹3,60,000)	**Fully taxable — 3,60,000**	Exemption is the least of: actual HRA 3,60,000; rent 3,60,000 less 10% of salary 1,44,000 = **2,16,000**; 50% of salary 7,20,000. Taxable = **1,44,000**
Children education allowance (₹36,000)	**Fully taxable — 36,000**	Exempt up to ₹3,000 p.m. per child — **Nil**
Telephone allowance	30,000	30,000
Medical allowance	48,000	48,000
Conveyance allowance for private use	72,000	72,000
Lunch allowance	48,000	48,000
Watchman, sweeper and gardener (3 x 3,000 x 12)	1,08,000	1,08,000

Particulars	Default regime (s. 202)	Old regime
Gross salary	**21,42,000**	**18,90,000**
Less: standard deduction	(75,000)	(50,000)
Less: deduction u/s 123 (PPF)	Not available	(1,50,000)
Total income	**20,67,000**	**16,90,000**

Step 3 — Package II: taxable salary.
Every item in Package II is valued under Rule 15 and its value is **the same under both regimes**.

Particulars	Value	Reason
Basic salary and dearness allowance	14,40,000	
Rent-free unfurnished accommodation owned by the employer at Delhi	**1,44,000**	10% of salary of ₹14,40,000, the population of Delhi exceeding 40 lakh
Free education for one child	**Nil**	The cost of ₹3,000 p.m. per child does not exceed the limit of ₹3,000 p.m. per child
Free telephone at residence	**Nil**	Telephone and mobile facility at the residence is not a taxable perquisite
Medical treatment in the employer's hospital	**Nil**	Treatment in a hospital maintained by the employer is outside the definition of perquisite
Car, 1.4 litres, mixed use, expenses and chauffeur borne by the employer	**96,000**	(₹5,000 + ₹3,000) x 12 under Rule 15
Free lunch during working hours	**Nil**	₹200 per meal does not exceed the limit of ₹200 per meal
Watchman, sweeper and gardener	**1,08,000**	Actual cost to the employer; no concession is available
Gross salary	**17,88,000**	
Less: standard deduction	(75,000) default / (50,000) old	
Less: deduction u/s 123	Not available / (1,50,000) old	
Total income — default regime	**17,13,000**	
Total income — old regime	**15,88,000**	

Step 4 — Tax liability: the four combinations.

Combination	Total income	Income-tax	Cess at 4%	Tax liability
Package I, default regime	20,67,000	2,16,750	8,670	**2,25,420**
Package II, default regime	17,13,000	1,42,600	5,704	**1,48,300**
Package I, old regime	16,90,000	3,19,500	12,780	**3,32,280**
Package II, old regime	15,88,000	2,88,900	11,556	**3,00,460**

Step 5 — Advice.

Mr. Aryan should take Package II and remain in the default regime. The tax liability of ₹1,48,300 is the lowest of the four figures, and is **₹1,83,980 less** than the worst combination of Package I under the old regime.

The reason is visible in the gross-salary line. Package I turns ₹5,94,000 of benefits into fully taxable cash under the default regime; Package II delivers the same six benefits and adds only **₹2,40,000** to gross salary, because four of the six — education, telephone, medical treatment and lunch — are valued at nil.

Teaching note. Notice the one item that is identical in both packages and in both regimes: the **three domestic servants**, at ₹1,08,000. Domestic help engaged and paid by the employer is valued at the full cost to the employer and carries no concession whatever. Where an employer must provide domestic help, it is better for the **employee** to engage the servant and the employer to reimburse him, so that the question becomes one of allowance in the hands of a specified employee rather than a facility.

Illustration 2.4 — A senior executive at Mumbai — and the facility that costs more than the allowance

FACTS

Mr. Rohan joins ITC Ltd. at Mumbai on 1 April 2026 on a basic salary of **₹1,50,000 p.m.** and dearness allowance of **₹60,000 p.m.**, of which **50% forms part of salary for retirement benefits**. He is offered two packages —

	Package I — allowances	Package II — facilities
(a)	House rent allowance ₹50,000 p.m.; rent actually paid at Mumbai ₹45,000 p.m.	Rent-free unfurnished accommodation at Mumbai **owned by the employer**
(b)	Medical allowance ₹15,000 p.m.	Reimbursement of medical bills of a **Government hospital**, ₹15,000 p.m.
(c)	Conveyance allowance for personal use ₹20,000 p.m.	A **1.8 litre car with chauffeur owned by the employer**, used partly for official and partly for personal purposes, all expenses borne by the employer
(d)	Bonus ₹2,00,000	Commission ₹2,00,000
(e)	Children education allowance for **three** children, ₹4,000 p.m. per child	Free education of **three** children in a school run by the employer, cost ₹4,000 p.m. per child
(f)	Gift **in cash** ₹40,000	Gift **in kind** ₹40,000
(g)	Telephone allowance ₹8,000 p.m.	Free telephone at his residence, bills up to ₹8,000 p.m.
(h)	Use of a **LED television** belonging to the employer, cost ₹2,00,000	Use of a **laptop** belonging to the employer, cost ₹2,00,000

REQUIRED

Compute his taxable salary under each package and each regime and advise him which to accept.

SOLUTION

Step 1 — The two different meanings of "salary".

Purpose	Composition	Amount (₹)
Salary for the **house rent allowance** exemption	Basic salary 18,00,000 + dearness allowance forming part of retirement benefits 3,60,000	**21,60,000**
Salary for valuing **rent-free accommodation**	Basic 18,00,000 + dearness allowance forming part of retirement benefits 3,60,000 + commission 2,00,000 + taxable monetary allowances (nil in Package II)	**23,60,000**

The base for accommodation is the wider of the two: it takes in bonus, commission and every taxable monetary allowance, while the base for house rent allowance does not.

Step 2 — Package I.

Particulars	Default regime	Old regime
Basic salary	18,00,000	18,00,000
Dearness allowance	7,20,000	7,20,000
House rent allowance (₹6,00,000)	**Fully taxable — 6,00,000**	Least of: 6,00,000; rent 5,40,000 less 10% of 21,60,000 = **3,24,000**; 50% of 21,60,000 = 10,80,000. Taxable = **2,76,000**
Medical allowance	1,80,000	1,80,000
Conveyance allowance for personal use	2,40,000	2,40,000
Bonus	2,00,000	2,00,000

Particulars	Default regime	Old regime
Children education allowance (3 x 4,000 x 12 = 1,44,000)	**Fully taxable — 1,44,000**	Exempt for **two** children only, at ₹3,000 p.m. each = 72,000. Taxable = **72,000**
Gift in cash	**40,000**	**40,000** — the ₹15,000 concession applies only to a gift in kind
Telephone allowance	96,000	96,000
Use of the LED television	20,000	20,000 — 10% p.a. of ₹2,00,000
Gross salary	**40,40,000**	**36,44,000**
Less: standard deduction	(75,000)	(50,000)
Total income	**39,65,000**	**35,94,000**

Step 3 — Package II.

Particulars	Value (₹)	Reason
Basic salary and dearness allowance	25,20,000	
Commission	2,00,000	
Rent-free unfurnished accommodation at Mumbai	**2,36,000**	10% of salary of ₹23,60,000
Reimbursement of Government hospital bills	**Nil**	Treatment in a Government hospital is outside the definition of perquisite
Car, 1.8 litres, with chauffeur, mixed use	**1,20,000**	(₹7,000 + ₹3,000) x 12
Free education of three children at ₹4,000 p.m. each	**1,44,000**	The cost **exceeds** ₹3,000 p.m. per child, so the whole cost is taxable
Gift in kind ₹40,000	**25,000**	₹40,000 less the exemption of ₹15,000
Free telephone at residence	**Nil**	Not a taxable perquisite
Use of the laptop	**Nil**	A laptop or computer belonging to the employer is valued at nil
Gross salary	**32,45,000**	Identical under both regimes
Total income — default regime (less standard deduction ₹75,000)	**31,70,000**	
Total income — old regime (less standard deduction ₹50,000)	**31,95,000**	

Step 4 — The four combinations.

Combination	Total income	Income-tax	Cess	Tax liability
Package I, default regime	39,65,000	7,69,500	30,780	**8,00,280**
Package II, default regime	31,70,000	5,31,000	21,240	**5,52,240**
Package I, old regime	35,94,000	8,90,700	35,628	**9,26,328**
Package II, old regime	31,95,000	7,71,000	30,840	**8,01,840**

Mr. Rohan should accept Package II and remain in the default regime, a liability of ₹5,52,240 against ₹9,26,328 at the other extreme — a difference of **₹3,74,088**.

Step 5 — The item that goes the other way.

Look at education. The employer spends ₹1,44,000 either way.

Regime	As an allowance	As a facility	Which is better?
Default regime	Fully taxable — 1,44,000	Cost exceeds ₹3,000 p.m. per child, so wholly taxable — 1,44,000	**Neither** — they are identical
Old regime	1,44,000 less exemption of 72,000 = **72,000**	**1,44,000**	**The allowance, by ₹72,000**

This is Rule 2 of the chapter in action. A facility is superior **only while it remains within its prescribed ceiling**. At ₹4,000 per month per child the ceiling of ₹3,000 is breached, and on the accepted reading of the rule the **entire** cost becomes taxable, not merely the excess of ₹1,000. Had the employer capped the school fee at ₹3,000 per month per child and paid the balance as salary, Package II would have been better still by ₹1,44,000 of taxable salary.

Teaching note. Three other reversals are worth marking in this case — a gift in **cash** enjoys no concession while a gift **in kind** is free up to ₹15,000; a **television** at the employee's residence is charged at 10% of cost while a **laptop** is nil; and a **commission** enters the base for valuing accommodation while a **bonus** does not enter the base for house rent allowance.

Illustration 2.5 — The motor car after 1 April 2026 — a reversal students must not miss

FACTS

Mr. Kunal's employer is willing to give him, for **Tax Year 2026-27**, either —

- **Option A:** a **conveyance allowance of ₹6,000 per month** for his private use; or
- **Option B:** a **1.4 litre car owned by the company**, used partly for official and partly for private purposes, the company bearing all running and maintenance expenses **and providing a chauffeur**. The company's actual expenditure would be ₹1,10,000 on the car and ₹2,40,000 on the chauffeur.

His marginal rate of tax is 30% under the default regime.

REQUIRED

(a) Compute the taxable value under each option.

(b) Determine the conveyance allowance at which the two options are equal.

(c) State how the answer differs from the position up to 31 March 2026, and suggest the best structure.

SOLUTION

Part (a) — Taxable value.

Particulars	Option A — allowance	Option B — car facility
Taxable value	₹6,000 x 12 = **72,000**, fully taxable in both regimes	(₹5,000 + ₹3,000) x 12 = **96,000** under Rule 15
Tax at 30% plus cess	22,464	29,952
Better option	**Option A, by ₹24,000 of taxable salary**	

The allowance wins. Note that the employer spends ₹3,50,000 on the car and chauffeur but the employee is charged only ₹96,000 — the facility is still a bargain in absolute terms. It is nevertheless **worse than a modest cash allowance**, and that is the point.

Part (b) — The break-even allowance.

Kind of car provided	Perquisite p.a. (₹)	Break-even conveyance allowance
Up to 1.6 litres, or electric, **without** a chauffeur	60,000	**₹5,000 per month**
Up to 1.6 litres, or electric, **with** a chauffeur	96,000	**₹8,000 per month**
Above 1.6 litres, **without** a chauffeur	84,000	**₹7,000 per month**
Above 1.6 litres, **with** a chauffeur	1,20,000	**₹10,000 per month**

The car facility is worth taking only where the conveyance allowance on offer **exceeds** the figure in the last column.

Part (c) — How the answer has changed, and the best structure.

Kind of car	Perquisite up to 31-3-2026	Perquisite from 1-4-2026	Increase
Up to 1.6 litres, with chauffeur	(1,800 + 900) x 12 = **32,400**	(5,000 + 3,000) x 12 = **96,000**	**63,600**
Above 1.6 litres, with chauffeur	(2,400 + 900) x 12 = **39,600**	(7,000 + 3,000) x 12 = **1,20,000**	**80,400**

Up to 31 March 2026 the break-even allowance was only ₹2,700 a month for a small car with a driver, so the car facility beat almost any realistic conveyance allowance. From 1 April 2026 that is no longer true, and every company car arrangement in a cost-to-company package needs to be recomputed.

The best structure is neither Option A nor Option B as stated. Two arrangements produce a **nil** perquisite —

- **Wholly official use.** If the car is used exclusively for official duties and the employer maintains complete records of every journey — date, destination, distance and purpose — together with a certificate that the expenditure was incurred wholly for official purposes, the value of the perquisite is **nil**, whatever the engine capacity and whatever the employer spends.
- **Transport between residence and office.** Conveyance provided by the employer for the journey from residence

> to office and back is not a taxable perquisite. From 1 April 2026 this covers not only the employer's own vehicle but also **direct payment to a transport service provider** and **reimbursement of the actual cost** of commuting.
>
> **Teaching note.** A third structure is often overlooked: the employee owns the car and the employer reimburses the running expenses. The perquisite is then the actual expenditure reimbursed **less** ₹5,000 or ₹7,000 per month (and less ₹3,000 for a chauffeur). Where the employer's actual outlay is modest, this can produce a nil or negative figure and is the most efficient of all.

ILLUSTRATION 2.6 — HOUSE RENT ALLOWANCE OR A RENT-FREE FLAT — THE REGIME DECIDES

FACTS

Ms. Kavya is employed at **Bengaluru** on a basic salary of **₹1,00,000 p.m.** and dearness allowance of **₹20,000 p.m.** forming part of salary for retirement benefits. For **Tax Year 2026-27** she may take either —

- **Option A:** house rent allowance of **₹75,000 p.m.**, out of which she will pay rent of **₹80,000 p.m.** for a flat at Bengaluru; or
- **Option B:** a rent-free unfurnished flat at Bengaluru **owned by her employer**.

She has no other income and claims no deduction.

REQUIRED

(a) Compute her taxable salary and tax liability under each option under both regimes.

(b) Comment on the effect of the change made by the Income-tax Rules, 2026 for Bengaluru.

(c) Advise her.

SOLUTION

Step 1 — Salary. Basic ₹12,00,000 + dearness allowance ₹2,40,000 = **₹14,40,000**.

Step 2 — Option A: house rent allowance of ₹9,00,000.

Regime	Treatment	Taxable HRA
Default regime (s. 202)	The exemption for house rent allowance is **not available**	**9,00,000**
Old regime	Least of: (i) actual HRA ₹9,00,000; (ii) rent ₹9,60,000 less 10% of salary ₹1,44,000 = ₹8,16,000; (iii) **50% of salary = ₹7,20,000**. Exemption = **7,20,000**	**1,80,000**

Step 3 — Option B: rent-free unfurnished accommodation.

Bengaluru has a population exceeding 40 lakh, so the value is **10% of salary = 10% of ₹14,40,000 = ₹1,44,000**, identical under both regimes.

Step 4 — Taxable salary and tax.

Combination	Gross salary	Total income	Income-tax	Cess	Tax liability
Option A, default regime	23,40,000	22,65,000	2,66,250	10,650	**2,76,900**
Option B, default regime	15,84,000	15,09,000	1,06,350	4,254	**1,10,604**
Option A, old regime	16,20,000	15,70,000	2,83,500	11,340	**2,94,840**
Option B, old regime	15,84,000	15,34,000	2,72,700	10,908	**2,83,608**

Step 5 — Part (b): the Bengaluru change.

Up to 31 March 2026 the third limb of the house rent allowance exemption was **40%** of salary for Bengaluru; the Income-tax Rules, 2026 have added Bengaluru — together with Ahmedabad, Hyderabad and Pune — to the list of cities where it is **50%**.

Limb of the exemption	Under the 1962 Rules	Under the 2026 Rules
(i) Actual house rent allowance	9,00,000	9,00,000
(ii) Rent paid less 10% of salary	8,16,000	8,16,000
(iii) Percentage of salary	40% = **5,76,000**	50% = **7,20,000**
Exemption (least of the three)	**5,76,000**	**7,20,000**
Taxable house rent allowance	3,24,000	**1,80,000**

The change is worth **₹1,44,000** of taxable salary to her — but **only if she is assessed under the old regime**, since the exemption does not exist at all under section 202.

Step 6 — Advice.

Option B under the default regime, at ₹1,10,604, is decisively the best, and is ₹1,84,236 cheaper than Option A under the same regime.

Observe how differently the two options behave. Under the **default regime** the gap between them is enormous — ₹7,56,000 of taxable salary — because the whole of the house rent allowance is taxed while the flat is valued at only 10% of salary. Under the **old regime** the gap narrows to **₹36,000**, because the exemption restores most of the allowance. In other words, **the choice between house rent allowance and a rent-free flat is now largely settled by the choice of regime.**

Two practical caveats.

- The value of accommodation is a **percentage of salary**, so it rises automatically with every increment, whereas a house rent allowance is a fixed sum. Where salary is expected to rise sharply, the advantage narrows over time.
- Where the same accommodation continues to be occupied, the perquisite value in a later year is capped at the first year's value as adjusted by the Cost Inflation Index. This protects a long-staying employee against exactly that escalation.

ILLUSTRATION 2.7 — RESTRUCTURING A PACKAGE AT NO EXTRA COST TO THE EMPLOYER

FACTS

Mr. Nikhil draws a basic salary of **₹2,00,000 per month**. His employer is willing to deliver a further **₹4,80,000 a year** of benefits, and is indifferent between the two designs below, each of which costs the company exactly the same. He is assessed under the **default regime** and has two children.

	Design A — cash allowances (₹)	Design B — facilities of identical cost (₹)
1	Medical allowance 60,000	Treatment of the family in a hospital maintained by the employer — 60,000
2	Telephone allowance 60,000	Telephone and mobile at his residence, bills paid by the employer — 60,000
3	Lunch allowance 60,000	Free meals in the office canteen during working hours, ₹240 per meal for 250 days — 60,000
4	Children education allowance for two children 72,000	Free education of the two children in a school run by the employer, ₹3,000 p.m. per child — 72,000
5	Conveyance allowance for private use 1,20,000	A 1.4 litre company car with chauffeur, mixed use, all expenses borne by the employer — 1,20,000
6	Gift in cash at Diwali 24,000	Gift in kind at Diwali — 24,000
7	Helper allowance 60,000	A domestic helper engaged and paid by the employer — 60,000
8	Books and periodicals allowance 24,000	Free use of a laptop and printer belonging to the employer — 24,000
Total cost to the employer	**4,80,000**	**4,80,000**

REQUIRED

Compute the taxable value of each design and the tax saved by choosing the better one.

SOLUTION

Step 1 — Item by item.

Item	Design A — taxable	Design B — taxable	Reason for Design B
1. Medical	60,000	**Nil**	Treatment in a hospital maintained by the employer is not a perquisite
2. Telephone	60,000	**Nil**	Telephone or mobile at the residence is valued at nil
3. Meals	60,000	**10,000**	Exempt up to ₹200 a meal; the excess of ₹40 x 250 meals is taxable
4. Education of two children	72,000	**Nil**	₹3,000 p.m. per child does not exceed the limit of ₹3,000 p.m. per child
5. Motor car	1,20,000	**96,000**	(₹5,000 + ₹3,000) x 12 under Rule 15
6. Gift	24,000	**9,000**	A gift in kind is exempt up to ₹15,000; a gift in cash is not
7. Domestic helper	60,000	**60,000**	A servant engaged and paid by the employer is charged at the full cost; no concession
8. Laptop and printer	24,000	**Nil**	A computer or laptop belonging to the employer and used by the employee is valued at nil

Item	Design A — taxable	Design B — taxable	Reason for Design B
Total	**4,80,000**	**1,75,000**	

Step 2 — Effect on tax.

Particulars	Design A	Design B
Basic salary	24,00,000	24,00,000
Value of the restructured component	4,80,000	1,75,000
Gross salary	28,80,000	25,75,000
Less: standard deduction	(75,000)	(75,000)
Total income	**28,05,000**	**25,00,000**
Income-tax	4,21,500	3,30,000
Add: cess at 4%	16,860	13,200
Tax liability	**4,38,360**	**3,43,200**
Tax saved by Design B		**95,160**

Design B saves ₹95,160 of tax at no additional cost whatever to the employer. ₹3,05,000 of taxable salary simply disappears.

Step 3 — Refining Design B further.

Two items in Design B are still carrying tax. Both can be improved —

- **Meals at ₹240.** Bringing the canteen charge down to **₹200 a meal** and paying the balance in some other form removes the ₹10,000 entirely.
- **The gift of ₹24,000.** Splitting it across two tax years, or capping it at **₹15,000**, removes the ₹9,000.
- **The domestic helper.** If **Mr. Nikhil** engages the helper himself and the employer reimburses him, the payment is a monetary benefit rather than a facility. Under the **old** regime it would then be exempt to the extent actually spent; under the default regime it remains taxable, so on these facts nothing is gained — but the point must be understood before it is dismissed.
- **The car** is the largest remaining item at ₹96,000. Restricting its use to official duties, with a proper logbook, would reduce the value to nil.

With the first two refinements and the car restricted to official use, the taxable value of the whole ₹4,80,000 package falls to **₹60,000** — the domestic helper alone.

Teaching note. Under the old regime Design A would have been taxed at ₹3,48,000 rather than ₹4,80,000, because the children education allowance of ₹72,000 and the helper allowance of ₹60,000 would both have been exempt. The withdrawal of those two exemptions by section 202 is precisely what makes the case for Design B so overwhelming today.

ILLUSTRATION 2.8 — CAPSTONE — TWO OFFERS OF IDENTICAL COST TO THE EMPLOYER

FACTS

Mr. Vivaan has two offers of employment at **Chennai** for **Tax Year 2026-27**. Each costs the employer exactly **₹30,00,000** a year. He has two children, invests **₹1,50,000** a year in a public provident fund, and has no other income.

Particulars	Offer A (₹)	Offer B (₹)
Basic salary	15,00,000	15,00,000
Dearness allowance, forming part of retirement benefits	3,00,000	3,00,000
House rent allowance — he would pay rent of ₹5,00,000 at Chennai	5,70,000	—
Rent-free unfurnished accommodation at Chennai owned by the employer (cost to the employer)	—	5,70,000
Medical allowance / treatment of the family in an approved hospital	1,20,000	1,20,000
Conveyance allowance for private use / a 1.4 litre company car with chauffeur, mixed use, all expenses borne by the employer	1,20,000	1,20,000
Children education allowance for two children / free education of the two children in a school run by the employer at ₹3,000 p.m. per child	72,000	72,000
Telephone allowance / free telephone at his residence	60,000	60,000
Lunch allowance / free meals in the office canteen at ₹200 per meal for 300 meals	60,000	60,000
Gift in cash / gift in kind	18,000	18,000
Employer's contribution to the recognised provident fund, 12% of basic salary	1,80,000	1,80,000
Total cost to the employer	**30,00,000**	**30,00,000**

REQUIRED

Compute his taxable salary and tax liability under each offer and each regime, and advise him.

SOLUTION

Step 1 — Salary. Basic ₹15,00,000 + dearness allowance ₹3,00,000 = **₹18,00,000**. The employer's contribution to the recognised provident fund of ₹1,80,000 is 10% of that figure, well within the limit of 12%, and is exempt under **both** offers and **both** regimes. It is therefore ignored throughout.

Step 2 — Offer A.

Particulars	Default regime	Old regime
Basic salary and dearness allowance	18,00,000	18,00,000
House rent allowance (₹5,70,000)	**Fully taxable — 5,70,000**	Least of: 5,70,000; rent 5,00,000 less 10% of 18,00,000 = **3,20,000**; 50% of 18,00,000 = 9,00,000 (Chennai). Taxable = **2,50,000**
Medical allowance	1,20,000	1,20,000
Conveyance allowance for private use	1,20,000	1,20,000
Children education allowance	**72,000**	Exempt at ₹3,000 p.m. for two children — **Nil**
Telephone allowance	60,000	60,000

Particulars	Default regime	Old regime
Lunch allowance	60,000	60,000
Gift in cash	18,000	18,000
Gross salary	**28,20,000**	**24,28,000**
Less: standard deduction	(75,000)	(50,000)
Less: deduction u/s 123 (PPF)	Not available	(1,50,000)
Total income	**27,45,000**	**22,28,000**

Step 3 — Offer B.

Particulars	Value (₹)	Reason
Basic salary and dearness allowance	18,00,000	
Rent-free unfurnished accommodation at Chennai	**1,80,000**	10% of salary of ₹18,00,000, the population of Chennai exceeding 40 lakh. **Note that the employer's cost of ₹5,70,000 is irrelevant**
Treatment of the family in an approved hospital	**Nil**	Outside the definition of perquisite
Car, 1.4 litres, with chauffeur, mixed use	**96,000**	(₹5,000 + ₹3,000) x 12
Free education of two children at ₹3,000 p.m. each	**Nil**	Does not exceed ₹3,000 p.m. per child
Free telephone at residence	**Nil**	Not a taxable perquisite
Free meals at ₹200 per meal	**Nil**	Does not exceed ₹200 per meal
Gift in kind ₹18,000	**3,000**	₹18,000 less the exemption of ₹15,000
Gross salary	**20,79,000**	Identical under both regimes
Total income — default regime (less standard deduction ₹75,000)	**20,04,000**	
Total income — old regime (less standard deduction ₹50,000 and deduction u/s 123 ₹1,50,000)	**18,79,000**	

Step 4 — The four combinations.

Combination	Total income	Income-tax	Cess	Tax liability	Rank
Offer A, default regime	27,45,000	4,03,500	16,140	**4,19,640**	3
Offer B, default regime	20,04,000	2,01,000	8,040	**2,09,040**	**1**
Offer A, old regime	22,28,000	4,80,900	19,236	**5,00,136**	4
Offer B, old regime	18,79,000	3,76,200	15,048	**3,91,248**	2

Step 5 — Advice.

Mr. Vivaan should accept Offer B and remain in the default regime. His tax would be **₹2,09,040** against **₹5,00,136** at the other extreme — a difference of **₹2,91,096** on offers that cost his employer precisely the same amount.

Two observations complete the analysis —

- **The employer's cost tells you nothing.** The employer spends ₹5,70,000 on the flat, yet Mr. Vivaan is charged only ₹1,80,000, because accommodation owned by the employer is valued at a percentage of **salary**, not at what it costs. The same disconnection runs through the car, the school and the canteen. A cost-to-company figure is therefore a poor guide to the value of an offer, and students should learn to reconstruct the taxable salary before comparing two packages.
- **The regime and the package interact.** Offer B is better under both regimes, but the size of the advantage differs sharply — ₹2,10,600 under the default regime against ₹1,08,888 under the old one. That is because the old regime rescues part of the house rent allowance and the whole of the children education allowance in Offer A, narrowing the gap. The two decisions cannot be taken separately.

Teaching note. Work out for yourself what happens if the employer, in Offer B, raises the school fee to ₹3,500 per month per child and the canteen charge to ₹250 a meal. Nothing else changes, and the employer's cost rises by only ₹27,000 — but Mr. Vivaan's taxable salary rises by ₹99,000, because two ceilings are breached at once and the education concession is lost in its entirety.

Illustration 2.9 — summary of the planning principles in Illustrations 2.3 to 2.8

#	Principle	Case study
1	In the **default regime** an allowance is almost always fully taxable, while every perquisite concession in Rule 15 survives. **Take the facility, not the allowance.**	1, 2, 5, 6
2	A facility is better **only while it stays inside its ceiling** — ₹3,000 p.m. per child for education, ₹200 a meal, ₹15,000 a year for gifts in kind. Breach the ceiling and the concession is lost.	2, 5, 6
3	For **education** the whole cost, not merely the excess, becomes taxable once ₹3,000 p.m. per child is exceeded. A facility can therefore end up worse than the allowance.	2
4	**The motor car is the exception.** Rule 15 tripled its value. The car facility beats a conveyance allowance only above ₹5,000 / 7,000 / 8,000 / 10,000 a month, according to engine capacity and chauffeur.	3
5	A car used **wholly for official purposes**, with a logbook and the employer's certificate, is valued at **nil** — as is transport between residence and office, which now includes payments to a transport provider and reimbursement of actual cost.	3
6	**Accommodation is valued on salary, not on what it costs the employer.** A flat costing the employer ₹5,70,000 may be charged at ₹1,80,000. Cost to company is a poor guide to the value of an offer.	4, 6
7	House rent allowance versus a rent-free flat is now **settled largely by the regime**: the exemption does not exist under section 202, so the flat wins by a wide margin there and by a narrow one under the old regime.	4
8	**Gifts in kind** are free up to ₹15,000; a gift in **cash** enjoys no concession at all, whatever its size.	2, 5, 6
9	A **laptop or computer** is valued at nil; any **other movable asset** at the residence is charged at 10% p.a. of cost.	2, 5
10	**Domestic servants engaged and paid by the employer** are charged at the full cost and carry no concession — the one facility with no advantage over cash.	1, 5
11	**Medical treatment** in the employer's, a Government or an approved hospital is outside the definition of perquisite in both regimes; a medical **allowance** is fully taxable in both.	1, 2, 5, 6
12	The base for valuing **accommodation** is wider than the base for the **house rent allowance** exemption: it takes in bonus, commission and every taxable monetary allowance.	2
13	Bengaluru, Ahmedabad, Hyderabad and Pune have joined the **50% cities** for the house rent allowance exemption — worth having, but only in the old regime.	4
14	**Work out all four figures before advising.** Package and regime interact, and the better package under one regime may win by a very different margin under the other.	4, 6

CHAPTER 3

Revision, Ready Reckoner and Question Bank

The salary head compressed onto a few pages, and then the practice. Work the problem with a pen before you look at the solution.

3.1 Old section to new section — a ready reckoner for the salary head

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Salaries — charge	15	15
Income from salary defined	17(1)	16
Perquisite; specified employee	17(2)	17
Profits in lieu of salary	17(3)	18
Deductions from salary	16	19(1), Table
Standard deduction	16(ia)	19(1), Table Sl. No. 2
Entertainment allowance	16(ii)	**No counterpart — abolished**
Professional tax	16(iii)	19(1), Table Sl. No. 1
Gratuity	10(10)	19(1), Table Sl. No. 3
Commuted pension	10(10A)	19(1), Table Sl. No. 7
Leave encashment	10(10AA)	19(1), Table Sl. Nos. 13 and 14
House rent allowance	10(13A) with Rule 2A	Schedule III, Sl. No. 11, with Rule 279
Leave travel concession	10(5) with Rule 2B	Schedule III, Sl. No. 8, with Rule 277
Special allowances	10(14) with Rule 2BB	Schedule III, Sl. Nos. 12 and 13, Rule 280

3.2 Every figure in this Part on one page

Head	Point	Figure
Salaries	Standard deduction [s. 19(1), Sl. No. 2]	₹75,000 default; ₹50,000 optional
Salaries	House rent allowance [Sch. III, Sl. No. 11; Rule 279]	Least of: allowance received; rent less 10% of salary; 50% of salary in the **eight** cities or 40% elsewhere
Salaries	The eight cities	Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad, Bengaluru
Salaries	Leave travel concession [Sch. III, Sl. No. 8; Rule 277]	Two journeys in the block **2026-2029**; fare only
Salaries	Children education allowance [Rule 280(2), Sl. No. 7]	**₹3,000** per month per child, two children
Salaries	Hostel expenditure allowance [Rule 280(2), Sl. No. 8]	**₹9,000** per month per child, two children
Salaries	Transport allowance, disabled employee [Rule 280(2), Sl. No. 10]	₹15,000 + DA per month metro; ₹8,000 + DA elsewhere. **Survives the default regime**
Salaries	Commuted pension, non-Government [s. 19(1), Sl. No. 7]	One-third of the **full value** with gratuity; one-half without
Salaries	Free education perquisite	Nil up to ₹3,000 per month per child — a

Head	Point	Figure
		threshold, not a slab
Salaries	Free meals	Nil up to ₹200 per meal

3.3 Objective questions

No.	Question and options
1	Salary is chargeable on — (a) receipt only; (b) accrual only; (c) **due or receipt, whichever is earlier**; (d) at the assessee's option
2	The standard deduction in the default regime is — (a) ₹40,000; (b) ₹50,000; (c) ₹75,000; (d) ₹1,00,000
3	House rent allowance is dealt with by — (a) Schedule III, Sl. No. 8; (b) Schedule III, Sl. No. 11; (c) Schedule III, Sl. No. 13; (d) section 19(1), Sl. No. 2
4	The 50% rate for house rent allowance applies in — (a) four cities; (b) six cities; (c) eight cities; (d) all metropolitan areas
5	Children education allowance is exempt up to — (a) ₹100 per month per child; (b) ₹300; (c) ₹3,000 per month per child for two children; (d) ₹9,000
6	The leave travel concession block currently running is — (a) 2022-2025; (b) 2024-2027; (c) 2026-2029; (d) 2025-2028
7	Commuted pension of a non-Government employee receiving gratuity is deductible to the extent of — (a) one-half of the amount received; (b) one-third of the amount received; (c) one-third of the full value; (d) the entire amount

Answers

Q	A	Q	A
1	c	5	c
2	c	6	c
3	b	7	c
4	c		

3.4 Short-answer and long-answer questions

Short answer (4 to 6 marks)

1. How are gratuity, commuted pension and leave encashment treated under the Income-tax Act, 2025, and how does that differ from the 1961 Act?
2. State the three limbs of the house rent allowance exemption.
3. What survives of Schedule III, Sl. Nos. 12 and 13 in the default regime?
4. Explain the difference between an allowance and a reimbursement, with a planning example.
5. How should an employee structure his package if he will be taxed under section 202(1)?

Long answer (10 to 15 marks)

1. "The choice of regime under section 202 has to be made before any other planning under the heads of income." Discuss with reference to at least three heads.
2. Explain the tax planning measures available to a salaried individual under the Income-tax Act, 2025, distinguishing between the two regimes.
3. A client asks you to design a salary package of a given cost to the employer. Set out the steps you would follow and the information you would need.

3.5 Practical problem with solution

PROBLEM 1 — THE REGIME, ACROSS THREE HEADS

Shri Naresh, resident, aged 44, furnishes the following for Tax Year 2026-27 — basic salary ₹14,00,000; house rent allowance ₹5,60,000 (rent paid in Chennai ₹5,00,000); leave travel concession ₹80,000, fully spent on fares; professional tax ₹2,400. He owns one self-occupied house on which the interest is ₹2,40,000. He contributes ₹1,50,000 to a public provident fund and pays ₹28,000 of health insurance premium. *Compute his tax under both regimes.*

Optional regime — Salaries. House rent allowance exempt: least of (a) ₹5,60,000; (b) ₹5,00,000 − 10% of ₹14,00,000 = ₹3,60,000; (c) 50% of ₹14,00,000 = ₹7,00,000 (Chennai is one of the eight). **Exempt ₹3,60,000.** Leave travel concession exempt ₹80,000.

Gross salary = ₹14,00,000 + ₹5,60,000 + ₹80,000 − ₹3,60,000 − ₹80,000 = **₹16,00,000.** *Less* standard deduction ₹50,000 and professional tax ₹2,400 = **₹15,47,600.**

House property. Annual value nil; interest ₹2,40,000 restricted to ₹2,00,000 by section 22(2)(a). **Loss ₹2,00,000**, set off in full under section 109(1)(b).

Gross total income = ₹15,47,600 − ₹2,00,000 = ₹13,47,600. *Less* section 123 ₹1,50,000 and section 126 ₹28,000 = **total income ₹11,69,600.**

Tax = ₹12,500 + ₹1,00,000 + 30% of ₹1,69,600 (₹50,880) = **₹1,63,380**; cess ₹6,535; **₹1,69,915.**

Default regime. No house rent allowance, no leave travel concession, no professional tax, no interest on the self-occupied house, no section 123, no section 126.

Gross salary = ₹14,00,000 + ₹5,60,000 + ₹80,000 = ₹20,40,000. *Less* standard deduction ₹75,000 = **₹19,65,000.** House property nil. **Total income ₹19,65,000.**

Tax = ₹20,000 + ₹40,000 + ₹60,000 + 20% of ₹3,65,000 (₹73,000) = **₹1,93,000**; cess ₹7,720; **₹2,00,720.**

Advice: exercise the option under section 202(4)(b). Saving ₹30,805.

Three heads moved together here — salary, house property and Chapter VIII — and all three pushed the same way. That is the usual pattern where there is both a genuine rent and a home loan.

3.6 Where to go next

Part B of this Unit takes the remaining four heads — house property, profits and gains of business or profession, capital gains and income from other sources — with their own illustrations, revision material and question bank, and the Annexe.

Unit 3 takes the investment avenues one by one — provident fund, public provident fund, equity linked savings schemes, unit linked insurance plans, bonds, mutual funds and the post office schemes — and matches each against the deductions in Chapter VIII.

Unit 4 turns from planning to management: advance tax, tax deducted and collected at source, refunds, the income-tax authorities, returns, assessments, appeals and revision.

A CLOSING WORD ON THIS UNIT

Five heads, one method. For each of them: **compute, find the choice, price the choice.** If you can do those three things you can answer any question set on Unit 2, including one on a head you have half-forgotten.

And in every single answer, say which regime you are in. It is the first sentence of a good answer and the missing sentence of a poor one.