Deduction under section 80C and Tax Planning:

Background for Section 80C of the Income Tax Act (India) / What are eligible investments for Section 80C:

Section 80C replaced the existing Section 88 with more or less the same investment mix available in Section 88. The new section 80C has become effective w.e.f. 1st April, 2006. Even the section 80CCC on pension scheme contributions was merged with the above 80C. However, this new section has allowed a major change in the method of providing the tax benefit. Section 80C of the Income Tax Act allows certain investments and expenditure to be tax-exempt. One must plan investments well and spread it out across the various instruments specified under this section to avail maximum tax benefit. Unlike Section 88, there are no sub-limits and is irrespective of how much you earn and under which tax bracket you fall.

The total limit under this section is Rs 1 lakh. Included under this heading are many small savings schemes like NSC, PPF and other pension plans. Payment of life insurance premiums and investment in specified government infrastructure bonds are also eligible for deduction under Section 80C

Most of the Income Tax payee try to save tax by saving under Section 80C of the Income Tax Act. However, it is important to know the Section in toto so that one can make best use of the options available for exemption under income tax Act. One important point to note here is that one can not only save tax by undertaking the specified investments, but some expenditure which you normally incur can also give you the tax exemptions.

Besides these investments, the payments towards the principal amount of your home loan are also eligible for an income deduction. Education expense of children is increasing by the day. Under this section, there is provision that makes payments towards the education fees for children eligible for an income deduction

Sec 80C of the Income Tax Act is the section that deals with these tax breaks. It states that qualifying investments, up to a maximum of Rs. 1 Lakh, are deductible from your income. This means that your income gets reduced by this investment amount (up to Rs. 1 Lakh), and you end up paying no tax on it at all!

This benefit is available to everyone, irrespective of their income levels. Thus, if you are in the highest tax bracket of 30%, and you invest the full Rs. 1 Lakh, you save tax of Rs. 30,000. Isn’t this great? So, let’s understand the qualifying investments first.

Qualifying Investments

Provident Fund (PF) & Voluntary Provident Fund (VPF): PF is automatically deducted from your salary. Both you and your employer contribute to it. **While employer's contribution is exempt from tax, your contribution (i.e., employee's contribution) is counted towards section 80C investments**. You also have the option to contribute additional amounts through voluntary contributions (VPF).

Public Provident Fund (PPF): Among all the assured returns small saving schemes, Public Provident Fund (PPF) is one of the best. Current rate of interest is 8% tax-free and the normal maturity period is 15 years. Minimum amount of contribution is Rs 500 and maximum is Rs 70,000. A point worth noting is that interest rate is assured but not fixed.

Life Insurance Premiums: Any amount that you pay towards life insurance premium for yourself, your spouse or your children can also be included in Section 80C deduction. **Please note that life insurance premium paid by you for your parents (father / mother / both) or your in-laws is not eligible for deduction under section 80C.** If you are paying premium for more than one insurance policy, all the premiums can be included. It is not necessary to have the insurance policy from Life Insurance Corporation (LIC) – **even insurance bought from private players can be considered here.**

Equity Linked Savings Scheme (ELSS): There are some mutual fund (MF) schemes specially created for offering you tax savings, and these are called Equity Linked Savings Scheme, or **ELSS.** The investments that you make in ELSS are eligible for deduction under Sec 80C.

Home Loan Principal Repayment: The Equated Monthly Installment (EMI) that you pay every month to repay your home loan consists of two components – Principal and Interest.The principal component of the EMI qualifies for deduction under Sec 80C. Even the interest component can save you significant income tax – but that would be under Section 24 of the Income Tax Act

Stamp Duty and Registration Charges for a home: The amount you pay as stamp duty when you buy a house, and the amount you pay for the registration of the documents of the house **can be claimed as deduction under section 80C in the year of purchase of the house.**

National Savings Certificate (NSC): National Savings Certificate (NSC) is a 6-Yr small savings instrument eligible for section 80C tax benefit. Rate of interest is eight per cent compounded half-yearly, i.e., the effective annual rate of interest is 8.16%. If you invest Rs 1,000, it becomes Rs 1601 after six years. The interest accrued every year is liable to tax (i.e., to be included in your taxable income) but the interest is also deemed to be reinvested and thus eligible for section 80C deduction.

Infrastructure Bonds: These are also popularly called Infra Bonds. These are issued by infrastructure companies, and not the government. The amount that you invest in these bonds can also be included in Sec 80C deductions.

Pension Funds – Section 80CCC: This section – Sec 80CCC – stipulates that an investment in pension funds is eligible for deduction from your income. Section 80CCC investment limit is clubbed with the limit of Section 80C – it maeans that the total deduction available for 80CCC and 80C is Rs. 1 Lakh.This also means that your investment in pension funds upto Rs. 1 Lakh can be claimed as deduction u/s 80CCC. However, as mentioned earlier, the total deduction u/s 80C and 80CCC can not exceed Rs. 1 Lakh.

5-Yr bank fixed deposits (FDs): Tax-saving fixed deposits (FDs) of scheduled banks with tenure of 5 years or more are also entitled for section 80C deduction.

5-Yr post office time deposit (POTD) scheme: POTDs are similar to bank fixed deposits. Although available for varying time duration like one year, two year, three year and five year, only 5-Yr post-office time deposit (POTD) – which currently offers 7.5 per cent rate of interest –qualifies for tax saving under section 80C. Effective rate works out to be 7.71% per annum (p.a.) as the rate of interest is compounded quarterly but paid annually. The Interest is entirely taxable.

NABARD rural bonds: There are two types of Bonds issued by NABARD (National Bank for Agriculture and Rural Development): NABARD Rural Bonds and Bhavishya Nirman Bonds (BNB). Out of these two, only NABARD Rural Bonds qualify under section 80C.

Unit linked Insurance Plan: ULIP stands for Unit linked Saving Schemes. ULIPs cover Life insurance with benefits of equity investments.They have attracted the attention of investors and tax-savers not only because they help us save tax but they also perform well to give decent returns in the long-term.

Tuition/school fees paid for education of children:

Deduction for tuition Fees is available up to Rs.1,00,000. Please Note that aggregate amount of deduction under section 80C , 80CCC and 80CCD shall not exceed Rs. 1,00,000/-

Deduction under this section is available on payment basis. Fees may be related to any period. For example feed paid for April 2009 if Paid in March 2009 will be eligible for deduction u/s. 80C in A.Y. 2009-10.

So, where should you invest?

Like most other things in personal finance, the answer varies from person to person. But the following can be the broad principles:

Provident Fund: This is deducted compulsorily, and there is no running away from it! So, this has to be the first. Also, apart from saving tax now, it builds a long term, tax-free retirement corpus for you.

Home Loan Principal: If you are paying the EMI for a home loan, this one is automatic too! So, it comes as a close second.

Life Insurance Premiums: Every earning person having dependents should have adequate life insurance coverage. Therefore, life insurance premium payments are the next.

Voluntary Provident Fund (VPF) / Public Provident Fund (PPF): If you think that the PF being deducted from your salary is not enough, you should invest some more in VPF, or in PPF.

Equity Linked Savings Scheme (ELSS): After the above, if you have not reached the limit of Rs. 1,00,000, then you should invest the remaining amount in Equity Linked Savings Scheme (ELSS).

Equities provide the best, inflation-beating return in the long term, and should be a part of everyone's portfolio. After all, what can be better than something that gives great return and helps save tax at the same time?

When to Invest?

Many of us start looking for investment avenues only in February or March, just before the Financial Year is getting over. This is a big mistake! One, you would end up investing your money without putting proper thought to it. And secondly, you would end up losing the interest / appreciation for the whole year. Instead, decide where you want to make the investments, and start investing right from the beginning of the financial year – from April. This way, you would not only make informed decisions, but would also earn the interest for the full year from April to March.

Tuition/school fees paid for education of children Sec 80(C):

Who is Eligible: Deduction for tuition fees u/s. 80c of the Income Tax Act 1961 is available to Individual Assessee and is not available to HUF.

Maximum Child: Deduction under this section is available for tuition fees paid on two children's education. If Assessee have more then two children then he can claim tuition fees paid of only two children's. The Deduction is available for any two children.

Here we would like to mention that husband and wife both have a separate limit of two children each, so they can claim deduction for 2 children each.

Expenditure paid for self education not allowable: - This is the only clause u/s 80 C where assessee can not claim tax benefit for expenditure incurred for self. In other words if assessee has paid tuition fees for his own studies, he will not be eligible for deduction.

Fees paid for spouse: Deduction is not available for tuition fees paid for studies of spouse.

Maximum Limit: Deduction for tuition Fees is available up to Rs.1,00,000. Please Note that aggregate amount of deduction under section 80C , 80CCC and 80CCD shall not exceed Rs. 1,00,000/-

Deduction available on payment basis: - Deduction under this section is available on payment basis. Fees may be related to any period. For example feed paid for April 2009 if Paid in March 2009 will be eligible for deduction u/s. 80C in A.Y. 2009-10.

Deduction not available for part time course:- The deduction is available for Full Time courses only. In our opinion no deduction is available for part time or distance learning courses.

Fees for Private tuition/Coaching Classes not eligible for deduction u/s. 80C :- The fees should be paid to university, college, school or other educational institution. No deduction available for fees paid for private tuition's , coaching courses for admission in professional courses or any other type of courses are not covered as that fee is not paid for FULL time education.

Location of University, college, school or other educational institution: University, college, school or other educational institution **must be situated in India** though it can be affiliated to any foreign institutes.

Allowability of pre-nursery, play school and nursery class fees: - Pre-nursery, play school and nursery class fees is also covered under section 80C (circular 9/2008 & 8/2007).

Not allowable Expenses:-

1. **Development fees** or donation not eligible.

2. **Transport charges, hostel charges, Mess charges, library fees, scooter/cycle/car stand charges** incurred for education are not allowed.

3. **Late fees** is not eligible for deduction.

4. **Term Fees** is not eligible for deduction.

Note: Above list is not exhaustive.

FREQUENTLY ASKED QUESTIONS ON DEDUCTION FOR TUITION FEES U/S. 80C

Q. Can an unmarried person can claim deduction u/s 80C of Income tax Act, 1961 for school fee paid for 2 children?

Answer: Yes he can. As clause (c) of subsection 4 of Section 80C only speaks of children's of Individual. Section 80C is silent on legality of child and it does not say that child should be legal child.

Q. Can I claim deduction u/s 80C of Income tax Act, 1961 for my adopted child's school fees?

Answer: Yes you can. As section 80C again silent and do not specify that child should be biological child for the purpose of claiming deduction under clause (xvii) of section 80C.

Q. I have divorced to my wife and have custody of my son with me and paying his school fees. Will I be eligible for deduction u/s 80C of Income tax Act, 1961 for school fee paid on his education?

Answer: Yes you will. As section 80C do not specify that marriage should continue to claim the deduction under clause (xvii) of section 80C.

Q. Can I claim deduction under section 80C for tuition fees paid to an Indian institution for my wife's education?

Answer: No you can't claim. Deduction u/s. 80C is available only for tuition fees paid for two children's education.

Q. I and my wife both paid for education of our one child. My wife paid 70,000 and I paid 1,10,000/- can we both claim deduction?

Answer: Yes both of you can claim deduction u/s 80C up to a maximum of Rs. 1,00,000 each. You can claim deduction up to 100000/- and your wife can claim deduction of Rs. 70,000/-.

Q. I am currently working and studying. If I pay my tuition fees out my own earnings and do not take an educational loan, will I get any tax benefits?

Answer: The tuition fees paid by you will not make you eligible for any tax benefits. You will not be able to claim any income tax deduction.

Q. I am a working women and I am paying the education fees for my husband education. Can I claim the deduction for this?

Answer: Payment of tuition fee up to Rs 1 lakh can be claimed as deduction u/s 80C of the I T Act. But the payment of tuition fee for full time course must be for for any two children of individual. **It follows therefore one can not claim deduction for payment of tuition fee for his/her spouse**.

Question:- Section 80C allows deduction in respect of tuition fee but excludes payments towards development fees, donations or payments of similar nature.

Does this mean that the items not specifically excluded, such as fees for games, magazines, stationery, Parents' Teacher Association fees, Staff Benefit Fund, Gratuity Fund, and hostel will not qualify for the deduction?

Answer:- **None of these will qualify for deduction under Section 80C of the Income-Tax Act, 1961.**

The deduction available under this Section is for sums paid as tuition fees (excluding any payment towards any development fees or donation or payment of a similar nature) whether 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 an individual. The principle requirement for qualifying for deduction under this provision would be that the fee paid should be in the nature of tuition fee. All of the items enumerated by you are essentially not in the nature of tuition fee, and so cannot qualify for deduction.

You may note that the development fee or donation or payments of a similar nature even if they are in the nature of tuition fees will not qualify for the deduction under this Section.

EXTRACT OF SECTION 80C

Clause xvii of section 80C

xvii) as tuition fees (excluding any payment towards any development fees or donation or payment of similar nature), whether at the time of admission or thereafter,

(a) to any university, college, school or other educational institution situated **within India**;

(b) for the purpose of **full-time education** of any of the **persons specified in sub-section (4)**;

Subsection 4 of Section 80C

"(4) The persons referred to in sub-section (2) shall be the following, namely:

(a) …………………..
(b) …………………..

(c) for the purposes of clause (xvii) of that sub-section, in the case of an individual, any two children of such individual

All you want to know about Public Provident Fund Scheme (PPF), 1968

1. Short title and commencement:- This scheme may be called the Public Provident Fund Scheme, 1968. It shall come into force on Ist July, 1968.

2. Definitions:- In this scheme, unless the context otherwise requires:-

(a) '**Account'** means a Public Provident Fund Account under this scheme.

(b) 'Accounts Office' means an office or branch of the State Bank of India, may subsidiary bank of the State Bank of India (excluding a pay office, a sub pay office or any other office managed by single officer or clerk) and any other office authorized by the Central Government to receive subscriptions under the scheme;

(c) '**Accounts Officer'** means the person who for the time being is in charge of an Accounts Office.

(d) '**Act' means** the Public Provident Fund Act, 1968 (23 of 1968)

(e) 'Form' means a form appended to this scheme;

(ee) **'Guardian'** in relation to a minor, means:-'

(i) Father or mother and

(ii) Where neither parent is alive, or where the only living parent is incapable of acting, a person entitled under the law for the time being in force to have care of the property of minor;

(f) '**Year'** means the financial year (Ist April to 31st March)

3. Limit of subscription:-

(1) Any individual may, on his own behalf or on behalf of a minor of whom he is the guardian, subscribe to the Public Provident Fund (thereafter referred to as the fund) any amount not less than **Rs. 500 and not more than Rs. 70,000 in a year.**

Non Resident Indians are not eligible to open an account under the Public Provident Fund Scheme:-

Provided that if a resident who subsequently becomes Non Resident Indian during the currency of the maturity period prescribed under Public Provident Fund Scheme, may continue to subscribe to the Fund till its maturity on a Non Repatriation Basis.

[MOF (DEA) Notification No GSR 585 (E) dated 25.7.2003]

4. Manner of making the subscription:-

(1) Every individual desirous of subscribing to Fund under the Scheme for the first time either on his own behalf or on behalf of a minor of whom he is the guardian or on behalf of a Hindu Undivided Family of which he is a member or on behalf of an Association of persons or a Body of individuals as referred to in sub rule 2(b) of Rule 3 above shall apply to the Accounts Office in Form A, or as near thereto as possible together with the amount of initial subscription which shall be integral multiples of Rs.5

(2) On receipt of an application under sub-paragraph(1), the Accounts Office shall open an account in the name of the subscriber and issue a pass book to him, wherein all amount of deposits, withdrawals, loans and repayment thereof together with interest due shall be entered over the signature of the Accounts Officer with the date stamp.

(3) The subscriber shall deposit his subscription with the Account Office with challan in **Form B,** or as near thereto s possible. The counterfoil of the challan shall be returned to the depositor by the Account Office, duly evidence by receipt. In the case of deposits made by cheques or draft or pay order, the Accounts Office, may issue a paper token to the depositor pending realization of the proceeds.

(4) Every subscription shall be made in cash or by crossed cheques or draft or pay order din favour of the Accounts Officer at the place at which that office is situated.

5. Number of subscription: The subscription, which shall be in multiples of Rs. 5 may, for any year, be paid into the account in one lump sum or installments not exceeding twelve in a year.

6. Transfer of Account:- A subscriber may apply for transfer of his account from one “Account Office” to another “Account Office”.

7. Issue of duplicate pass book, etc.:-

(1) In the event of loss or destruction of a pass book issued by an Accounts Office, the Accounts Office may, on an application made to it in this behalf, and on payment of **rupee one** by the subscriber, issue a duplicate thereof to him.

(2) **Condonation of default:-** A subscriber who fails to subscribe in any year according to the limits specified in paragraph 3, may approach the Accounts Office for condonation of the default, on payment , for each year of default , a fee of Rs. 50 alongwith arrear subscription of Rs. 500 for each year.

8. Interest - Interest at the rate , notified by the Central Government in official gazette from time to time, shall be allowed for calendar month on the lowest balance at credit of an account between the close of the fifth day and the end of the month and shall be credited to the account **at the end of each year.**

Provided that where the interest to be credited contains a part of a rupee. Then, if such part is fifty paise or more, it shall be increased to one complete rupee, and if such part is less than fifty paise, it shall be ignored.

9. Withdrawals from the Fund:-

(1) Any time after the expiry of five years from the end of the year in which the initial subscription was made , a subscriber may, if he so desires, apply in **Form C** or as near thereto as possible, together with his pass book to the Accounts Office withdrawing from the balance to his credit, an amount not exceeding fifty per cent of the amount that stood to his credit at the end of the forth year immediately preceding the year of withdrawal or at the end of preceding year, whichever is lower, less the amount of loan, if any, drawn by him under paragraph 10 and which remains to be repaid:

Provided that not more than one withdrawal shall be permissible during any one year.

(2) On receipt of an application under sub paragraph (1) the Accounts Office may, after satisfying itself that the amount of withdrawal applied for is not in excess of the limit prescribed in sub-paragraph (1) and that the applicant has, till the date of application, been subscribing according to the limit specified in paragraph 3, subject to the provisions of sub-paragraph (4) permit the withdrawal and enter the amount withdrawn in the pass book.

(3) Closure of account or continuation of account without deposits after maturity:- Notwithstanding the provisions of sub-paragraph (1), any time after the expiry of 15 years from the end of the year in which the initial subscription was made by him, a subscriber may, if he so desires, apply in **Form C** or as 'near thereto as possible together with his pass book to the Accounts Office for the withdrawal of the entire balance standing to his credit and the Accounts Office, on receipt of such an application from the subscriber, shall subject to the provisions of sub-paragraph (4) allow the withdrawal of the entire balance (together with interest up to the last day of the month preceding the month in which the application for withdrawals made) after making adjustments, if any, in respect of any interest due from the subscriber on loans taken by him and close his account.

Provided that a subscriber may, if he so desires, make withdrawal of the amount standing to his credit, from time to time, in installments not exceeding one in a year.

(3A) **Continuation of account with deposits after maturity :-** Subject to the provisions of sub-paragraph (3) a subscriber may, on the expiry of 15 years from the end of the year in which the initial subscription was made but before the expiry of one year thereafter, may exercise an option with the Accounts Office in **Form H,** or as near thereto as possible, that he would continue to subscribe for a further block period of 5 years according to the limits of subscription specified in paragraph 3.

(3B) In the event of a subscriber opting to subscribe for the aforesaid block period he shall be eligible to make partial withdrawals not exceeding one every year by applying to the Accounts Office in **Form C,** or as near thereto as possible, subject to the condition that the total of the withdrawals, during the 5 year blcok period , shall not exceed 60 percent of the balance at his credit at the commencement of the said period.

10. Loans:- (1) Notwithstanding the provisions of paragraph 9, any time after the expiry of one year from the end of the year in which the initial subscription was made but before expiry of five years from the end of the year in which the initial subscription was made, a subscriber may, he so desires, apply in **Form D** or as near thereto as possible, together with his pass book to the Accounts Office for obtaining loan consisting of a sum of whole rupees not exceeding twenty five percent of amount that stood to his credit to at the ends of the second year immediately preceding the year in which the loan is applied for.

(2) On receipt of an application under sub-paragraph (1) the Accounts Office may, after satisfying itself that the amount of loan applied for is not in excess of the limit prescribed in sub-paragraph (1) and that the applicant has, till the date of application, been subscribing according to the limit specified in paragraph 3, subject to the provisions of sub paragraph (3), sanction the loan and enter the amount in the pass book.

(3) Where the application is made by a person who has made subscriptions to the Fund on behalf of a minor of whom he is the guardian, he shall furnish a certificate in the following form, namely:-

‘ certified that the amount for which loan is applied for is required for the use of Who is alive and is still a minor.”

11. Repayment of loan and interest :-

(1) The principal amount of a loan under this Scheme shall be repaid by the subscriber before the expiry of thirty six months from the first day of the month following the month in which then loan is sanctioned. The repayment a may be made either in one lump sum or in two or more monthly installments within the prescribed period of thirty six months. The repayment will be credited to the subscriber’s account.

(2) After the principal of the loan is fully repaid, the subscriber shall pay interest thereon in not more than two monthly installments at the rate of **one percent perannum** of the principal for the period of commencing from the first day of the month following the month in which the loan is drawn up to the last day of the month in which the last installment of the loan Provided that where the loan is repaid, only in part within the prescribed period of thirty six months, interest on the amount of loan outstanding shall be charged at **six per cent per annum** instead of at one per cent per annum from the first day of the

month following the month in which the loan was obtained to the last day of the month in which the loan is finally repaid.

(3) The interest on the amount of loan outstanding under the proviso to sub-paragraph (2) and any portion on interest payable, but not paid, on any loan , the principal amount of which has already been repaid within the prescribed period of thirty six months, may, on becoming due, be debited to the subscriber's account.

(4) The interest recoverable shall accrue to the Central Government .

12. Nomination and repayment after death of subscriber :-

(1) subscriber to the fund may nominate in **Form E** or, as near thereto as possible, one or more persons to receive the amount stading to his credit in the event of his death before the amount has become payable or, having become payable , has not been paid.

(2) No Nomination shall be made in respect of an account opened on behalf of minor.

[MOF (DEA) Notification No. GSR 477 (E) dated 25.5.1994]

(3) A nomination made by a subscriber may be cancelled or varied by a fresh nomination in **Form F** or , as near thereto as possible by giving notice in writing to the Accounts Office in which the account stands.

(4) Every nomination and every cancellation or variation thereof shall be registered in the Accounts Office and shall be effective from the date of such registration, the particulars of which shall be entered in the pass book.

(5) If any nominee is a minor, the subscriber may appoint any person to receive the amount due under the account in the event of the death of the subscriber during the minority of the nominee.

(6) Notwithstanding the provisions contained in paragraph 9-

a. If a subscriber to an account in espect of which a nomination is in force dies, the nominee or nominees may make an application in **Form G** or, as near thereto as possible, to the Accounts Office together with proof of death of the subscriber and on receipt of such application all amounts standing to the credit of the subscriber after making adjustment, if any, in respect of interest on loans taken by the subscriber shall be repaid by the Accounts Office itself to the nominee or nominees.

Provided that if any nominee is dead, the surviving nominee or nominees shall, in addition to the proof of death of the subscriber, also furnish proof of the death of the deceased nominee.

b. Where there is no nomination in force at the time of death of the subscriber, the amount standing to the credit of the deceased after making adjustment, if any, in respect of interest on loans taken by the subscriber, shall be repaid by the Accounts Office to the legal heirs of the deceased on receipt of application in **Form G** in this behalf from them.

Provided that the balance **up to Rs. 1 lakh** may be paid to the legal heirs on production of (i) a letter of indemnity, (ii) an affidavit, (iii) a letter of disclaimer on affidavit, and (iv) a certificate of death of subscriber, on stamped paper, in the forms as in **Annexure to Form G.**

(7) A subscriber to the Fund cannot nominee a trust as his nominee.

13. Power to relax:- Where the Central Govt is satisfied that the operation of the any of the provisions of this scheme causes undue hardship to a subscriber, it may, by order for reasons to be recorded in writing , relax the requirements of that provision in a manner not inconsistent with the provisions of the Act.

All about Deduction U/s 80D for Mediclaim Premium available to Individual, HUF and Senior Citizens

Deduction in respect of Medical Insurance Premium (Mediclaim) paid to keep in force insurance by individual either on his own health or on the health of spouse, dependent parents and children or HUF on the health of any members of the family. A Mediclaim policy is a must because should you fall sick or meet with an accident, your medical bills could wipe out your savings.

Features of Mediclaim policy:

1. **Premium based on Age:** - As in term insurance, the premium rates will vary among the insurers and will also depend on your age. The older you are, the heftier the premium. For instance, Mediclaim policy from General Insurance Corporation has a fixed premium till 35 years and then it changes in 10-year slabs.

2. Who is it available to?

- Individual (resident or non resident, Indian Citizen or foreign citizen):- In case an individual is taking the deduction, the medical insurance policy can be taken in the name of any of the following: the taxpayer or the spouse, parents or dependent children* of the taxpayer.
- HUF(Hindu undivided Family may be resident or non resident) :- In case a HUF is taking the deduction, the medical insurance policy can be taken in the name of any member of the family.

Note

- Dependent Children (i.e. legitimate or legally adopted children). Children above 18 years, if employed, can not be covered. Male children, if not employed, but a bonafide student can be covered upto age of 25 years. Female children, if not employed, can be covered until the time she is married.
- parents need not be dependent on the Assessee.
- parents of Individual or Spouse both are covered.

3. **Entry Age:** This insurance is available to a person between the age of 18 to 59 years. However, the Policy can be renewed upto the age of 80 years.

a) Children above the age of 3 months can be covered provided parents are covered concurrently and suitable premium is paid. If the child above 18 years is employed or if the girl child is married, he or she shall cease to be covered under the policy. However male child can be covered upto the age of 25 years if he is a bonafide regular student and fully dependent on primary insured. Female child can be covered upto the time, she is unmarried.

b) If the insured has taken continuous Mediclaim insurance policy with us for at least 5 years prior to attaining the age of 80 years the policy can be renewed beyond the age of 80 upto the age of 90 years as a special case with the approval of Regional Incharge on case to case basis. The premium chargeable shall be 10% of the premium for 75-80 years age slabs for proposers above 85 and 20% of the premium for 75-80 age slabs for proposers above 90.

c) No inclusion of family member during currency of policy is permissible except for a new born child between the ages of 3 months to 6 months and newly married spouse within 60 days of marriage. Otherwise inclusion of family member shall be allowed only at the time of renewal. Prorata premium shall be charged for such inclusion during the currency of the policy for the unexpired period.

4. **Sum Insured:** Minimum sum insured shall be Rs 50,000/- and can be increased in multiples of Rs 25,000/-upto Rs 5 lacs. The sum insured must be identical for primary insured and the dependents. However, the children may be covered for 50% Sum Insured as per 4 above.

5. **Payment of Mediclaim Premium out of taxable Income:-** The amount must have been paid using the taxpayer's income chargeable to tax.

6. In addition to deduction u/s, 80C, 80CC and 80CCD,:- This is an additional deduction available which do not include deduction u/s 80C, 80CCC and 80CCD for which overall limit is is Rs. 1,00,000.

7. Partly contribution: If part payment is done by you and part payment by the parent, both can claim deduction to the extent of their contribution subject to maximum allowed but amount should be paid directly to insurance company and paid through mode other than by cash.

8. **Mode of payment**: The premium may be paid by any mode of payment other than cash. Note prior to 1st April 2009, premium payment was required to be done only by cheque. Credit card or other online payment mechanism where not allowed. Now all payment modes except cash payment are accepted.

9. **Which Mediclaim Premium is allowed?: -** Mediclaim premium paid under Medical insurance scheme of General Insurance Corporation approved by the Central Government, or any other insurer approved by the Insurance Regulatory & Development Authority (IRDA).

10. **What is the amount of the deduction?**

For Individual

- **Basic deduction:** Mediclaim premium paid for Self, Spouse or dependant children. Maximum deduction Rs 15,000. In case any of the persons specified above is a senior citizen (i.e. 65 years or more as of end of the year) and Mediclaim Insurance premium is paid for such senior citizen, deduction amount is enhanced to Rs. 20,000.
- **Additional deduction:** Mediclaim premium paid for parents. Maximum deduction Rs 15,000. In case any of the parents covered by the Mediclaim policy is a senior citizen, deduction amount is enhanced to Rs. 20,000.

For HUF

- Mediclaim premium paid for any member of the HUF. Maximum deduction Rs 15,000. In case any member of the HUF covered by the Mediclaim policy is a senior citizen, deduction amount is enhanced to Rs. 20,000.

Senior citizen: means **who is at least of 65 year of age or more at any time during the previous year.**

EXAMPLE 1:

1. An individual assessee pays (through any mode other than cash) during the previous year medical insurance premia, out of his taxable income, as under:

(i) Rs 12,000/- to keep in force an insurance policy on his health and on the health of his wife and dependent children;

(ii) Rs 17,000/- to keep in force an insurance policy on the health of his parents.

Under the new provisions he will be allowed a deduction of Rs 27,000/- (Rs. 12,000/- + Rs. 15,000/-) if neither of his parents is a senior citizen. However, if any of his parents is a senior citizen, he will be allowed a deduction of Rs 29,000/- (Rs.12,000/- + Rs.17,000/). Whether the parents are dependent or not, is not a consideration for deciding the deduction under the new provisions.

Further, in the above example, if cost of insurance on the health of the parents is Rs 30,000/-, out of which Rs 17,000/- is paid (by any non-cash mode) by the son and Rs 13,000/- by the father (who is a senior citizen), out of their respective taxable income, the son will get a deduction of Rs 17,000/- (in addition to the deduction of Rs 12,000/- for the medical insurance on self and family) and the father will get adeduction of Rs 13,000/-.

EXAMPLE - 2

An individual assessee pays through credit card during the previous year health insurance premium as under:

1. Rs. 12,000 to keep in force an insurance policy on his health and on the health of his wife and children
2. Rs. 17,000 to keep in force an insurance policy on the health of his parents.

Under the proposed new provisions, he will be allowed a deduction of Rs. 27,000 (Rs. 12,000 + Rs. 15,000) if neither of his parents is a senior citizen. However, if any of his parents is a senior citizen, he will be allowed a deduction of Rs. 29,000 (Rs. 12,000 + Rs. 17,000). Whether the parents are dependent or not, is not a consideration for deciding the deduction under Section 80D.

EXAMPLE- 3

Question:- In the last budget, the finance minister announced exemptions for Mediclaim charges paid for senior citizens. However, I am not sure if it has yet been notified and effective. I need to take medical insurance for both my parents, who are senior citizens. I would appreciate if you can let me know.

Answer:- Earlier Sec 80D deduction in respect of medical insurance premium was Rs 15,000 for an individual and Rs 20,000 for a senior citizen. However, from this year, if someone were to buy medical insurance for his parent/s, an additional deduction of Rs 15,000 (over and above Rs 15,000) will be available. If such parent/s were senior citizen, the additional deduction would be Rs 20,000. So a person insuring himself, his spouse, children and parents could potentially get a deduction of Rs 35,000. This provision is effective from 1.4.08.

Appendix: Section 80D of the Income Tax Act

Deduction in respect of medical insurance premium.

80D. (1) In computing the total income of an assessee, being an individual or a Hindu undivided family, there shall be deducted such sum, as specified in sub-section (2) or sub-section (3), payment of which is made by any mode, other than cash, in the previous year out of his income chargeable to tax.

(2) Where the assessee is an individual, the sum referred to in sub-section (1) shall be the aggregate of the following, namely:

(a) the whole of the amount paid to effect or to keep in force an insurance on the health of the assessee or his family as does not exceed in the aggregate fifteen thousand rupees; and

(b) the whole of the amount paid to effect or to keep in force an insurance on the health of the parent or parents of the assessee as does not exceed in the aggregate fifteen thousand rupees.

Explanation.For the purposes of clause (a), family means the spouse and dependant children of the assessee.

(3) Where the assessee is a Hindu undivided family, the sum referred to in sub-section (1) shall be the whole of the amount paid to effect or to keep in force an insurance on the health of any member of that Hindu undivided family as does not exceed in the aggregate fifteen thousand rupees.

(4) Where the sum specified in clause (a) or clause (b) of sub-section (2) or in sub-section (3) is paid to effect or keep in force an insurance on the health of any person specified therein, and who is a senior citizen, the provisions of this section shall have effect as if for the words fifteen thousand rupees, the words twenty thousand rupees had been substituted.

Explanation.For the purposes of this sub-section, senior citizen means an individual resident in India who is of the age of sixty-five years or more at any time during the relevant previous year.

(5) The insurance referred to in this section shall be in accordance with a scheme made in this behalf by

(a) the General Insurance Corporation of India formed under section 9 of the General Insurance Business (Nationalisation) Act, 1972 (57 of 1972) and approved by the Central Government in this behalf; or

(b) any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).]

Deduction under section 80E for Interest on education Loan taken for self and relatives

Have you taken an education loan to support higher studies of yourself or of your spouse, Children or for the student of whom you are legal guardian and you are not aware of the tax benefits that you are entitled to. Then here is a guide that will assist you to know tax benefits on education loans. These benefits help you to reduce the overall cost of your education loan.

The deduction under section 80E is available to an individual if following conditions are satisfied:

1. Deduction available only to Individual not to HUF or other type of Assessee.

2. Deduction amount: – The amount of interest paid is eligible for deduction and moreover there is no cap on the amount to be deducted. You can deduct the entire interest amount from your taxable income. ***However there is no benefit available on the repayment of principal amount of the loan.***

***3.* Deduction available if Interest is been paid during the previous year and was paid out of income chargeable to tax** which means if repayment is made from income not chargeable to tax than deduction will not available.

Note: – Earlier to previous year 2006-07 the above deduction was available only for Interest on loan taken and repaid by the assessee for his own studies.

4. Interest should have been paid on loan taken by him from any financial institution **or any** approved charitable institution **for the purpose of pursuing his** higher education**.** Interest on Loan taken from relatives or friends will not be eligible for deduction under section 80E.

a. approved charitable institution means an institution specified in, or, as the case may be, an institution established for charitable purposes and [approved by the prescribed authority] under clause (*23C*) of section 10 or an institution referred to in clause (*a*) of sub-section (2) of section 80G;

b. financial institution means a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act); or any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf;

5. Loan should have been taken for the purpose of pursuing higher studies **of Individual , Spouse, Children of Individual or of the student of whom individual is legal Guardian.**

Higher studies means full-time studies for **any graduate or post-graduate course** in engineering, medicine, management or for post-graduate course in applied sciences or pure sciences including mathematics and statistics;

***Income tax* department has added (W.e.f. A.Y. 2010-11**) *additional fields of studies (including vocational studies) pursued after passing the Senior Secondary Examination or its equivalent from any school, Board or University recognised by the Central or State Government will also be covered under deduction in respect of interest paid on loan taken for higher education.*

6. Interest should have been paid for the loan taken for the purpose of pursuing his higher education or of the spouse and children. **From A.Y. 2010-11 Relative also includes *student for whom the individual is the legal guardian.***

7. Deduction period: - Deduction shall be allowed in computing the total income in respect of the **initial assessment year*** and seven assessment years immediately succeeding the initial assessment year or until the interest is paid by the assessee in full, whichever is earlier.

The tax benefits on education loan are only valid once you start the repayment and moreover they are only available up to eight years. For instance if your loan tenure exceeds eight years, you cannot claim for deductions beyond eight years.

Hence it is better that the education loan is repaid within eight years. Unless if the loan amount is very high and it is difficult to afford a high amount of equated monthly installment (EMI), one should not opt for education loan with longer tenure.

****Initial assessment year means the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan.***

8. **Loan should be in the name of Individual: -** Deductions on education loan can only be claimed if the loan has been taken in your own name. If your parents, spouse or sibling has taken the loan for your studies, then you are not entitled to get tax benefit.

9. The loan includes not only tuition or college fees but also other incidental expenses for pursuing such studies like hostel charges, transport charges etc.

10. Repayments of education loan NOT covered under Section 80C.

11. *There is no condition that the course should be in India.*

House Rent Allowance (HRA) taxability and working/calculation of taxable HRA

Employees generally receive a house rent allowance (HRA) from their employers. This is a part of the salary package, in accordance with the terms and conditions of employment. HRA is given to meet the cost of a rented house taken by the employee for his stay.The Income Tax Act allows for deduction in respect of the HRA paid to employees. The exemption on HRA is covered under Section 10(13A) of the Income Tax Act and Rule 2A of the Income Tax Rules. It is to be noted that the entire HRA is not deductible. HRA is an allowance and is subject to income tax.

An employee can claim exemption on his HRA under the Income Tax Act if he stays in a rented house and is in receipt of HRA from his employer. In order to claim the deduction, an employee must actually pay rent for the house which he occupies.

The rented premises must not be owned by him. In case one stays in an own house, nothing is deductible and the entire amount of HRA received is subject to tax. As long as the rented house is not owned by the assessee, the exemption of HRA will be available up to the the minimum of the following three options:

1. Actual house rent allowance received from your employer
2. Actual house rent paid by you minus 10% of your basic salary
3. 50% of your basic salary if you live in a metro or 40% of your basic salary if you live in a non-metro

This minimum of above is allowed as income tax exemption on house rent allowance.

Salary here means basic salary which includes dearness allowance if the terms of employment provide for it, and commission based on a fixed percentage of turnover achieved by the employee. The deduction will be available only for the period during which the rented house is occupied by the employee and not for any period after that.

Meaning of Salary for calculation the exemption of HRA

- **Salary** means (Basic + D.A + Commission based on fixed percentage on turnover).
- **Salary is to be taken** in respect of the period during which the period accommodation is occupied by the employee in the previous year.

Public Provident Fund (PPF) scheme : Investment Limit, Income tax benefit, Features

The Public Provident Fund is the darling of all tax saving investments.No wonder! You invest in it and you get a deduction on your income. Besides, the interest you earn on it is tax-free. Since it is a scheme run by the Government of India, it is also totally safe. You can be sure no one is going to run away with your money. Here, we summarise the scheme, tell you how to open a PPF account and what to expect.

1 . To open a PPF account, drop by a State Bank of India branch. SBI's subsidiary banks can also open accounts. Alist of these subsidiary banks is available on the bank's Web site.You can even visit the nationalised bank in your neighbourhood. Selected branches of nationalised banks can also open accounts.The head post office or selection grade sub-post offices also open PPF accounts.

2. You will have to fill up a form. You can take a look or download the form from SBI's web site. Along with the form, attach a photograph and submit your Permanent Account Number. If you do not have a PAN, then furnish an attested copy of either your ration card, voter's identity card or passport. When you open an account, you will be given a passbook (just like a bank pass book) in which all subscriptions, interest accrued, withdrawals and loans are recorded.

3. You can have only one PPF account in your name. If, at any point, it is detected that you have two accounts, the second account you have opened will be closed, and you will be refunded only the principal amount, not the interest.

4. You cannot open a joint account with another individual. The account can only be opened in one person's name. You are free to nominate one or more individuals. On the death of the account holder, nominees cannot keep the account going by making contributions. If there are no nominees, the legal heirs get the money. You can open one account for yourself and others for your child/ children. But, on your death, your children cannot make any additional contributions.

5. The minimum amount to be deposited in this account is Rs 500 per year. The maximum amount you can deposit every year is Rs 70,000. The interest you will earn is 8% per annum.

Let's say you open an account for your minor child. You can deposit Rs 70,000 in your account and Rs 70,000 in your child's account. In this case you can in my opinion take the maximum benefit of Rs. 1,00,000/- U/s. 80C. As Limit of Maximum Investment in a year of 70000/- is fixed by Public provident Fund Act not by Income Tax law.

You can make up to 12 deposits in one year. You don't have to put in this money at one go.

6. The PPF account is valid for 15 years. The entire balance can be withdrawn on maturity, that is, after 15 years of the close of the financial year in which you opened the account. So, if you opened it in FY 2006-07 (this financial year), you will be able to withdraw it 15 years later, starting March 31, 2007 (end of this financial year). That means your PPF matures on April 1, 2022. It can be extended for a period of five years after that. During these five years, you earn the rate of interest and can also make fresh deposits. Once your account expires, you can open a new one. The only limitation is that you cannot withdraw it until seven years are completed, after which 50% of your deposits can be withdrawn, if needed.

7. Deposit date in Cheque payments :-Till recently, in case of a PPF when a subscriber used to make deposits by local cheque or demand draft, the date of tender of cheque or draft at the accounting office was treated as the date of deposit of PPF, provided the said cheque was duly honoured on presentation for encashment.

In contrast, in case of other small savings schemes like Post Office Savings Scheme (POSS), Senior Citizen Savings Scheme 2004 (SCSS) any money deposited in these accounts by means of a cheque, the date of encashment of the cheque is treated as the date of deposit.

Thus, in order to remove inconsistency between PPF and other small savings schemes and to bring in uniformity in the reckoning of the date of deposit of all the schemes, the government has issued necessary instructions through the circular to banks / other intermediaries which hold PPF accounts for the individuals to treat the date of realisation of the cheque or demand draft by the subscriber as the date of deposit.

This issue becomes particularly relevant in respect of deposits made towards the end of the financial year by cheque / demand draft because if the same is not realised by March 31, then the same will be treated as deposits for the following financial year. This would also have ramifications in respect of the tax deduction being claimed by the individuals in a particular tax year.

8. Opening an account for a minor :-There have been certain practical hurdles in respect of opening of accounts for minor vis-à-vis some intermediary agencies. This clarification reiterates that as per the rules under PPF scheme, an individual may on his own behalf or on behalf of a minor of whom he is a guardian, open a PPF account. Further, either father or mother can open PPF account on behalf of his / her minor child, but both cannot open the account for same child.

9. What are the differences and similarities between the National Savings Certificate (NSC) and PPF?

National Savings Certificate (NSC)	Public Provident Fund (PPF)
Interest Paid: 8%, compounded half-yearly	Interest Paid: 8%, compounded annually
No monthly/yearly payments	No monthly/yearly payments
Minimum investment: Rs 100 Maximum investment: No Limit	Minimum investment: Rs 500 (required annually) Maximum investment: Rs 70,000
Duration of investment: 6 years	Duration of investment: 15 years
Can be used as a security for mortgage and other purposes	Cannot be used for such purposes
Tax benefit under Section 80 'C' available. Maximum limit: Rs 100,000	Tax benefit under Section 80 'C' available. Maximum limit: Rs 70,000 (limit of the investment in PPF)
Good medium-term investment option	Good long-term investment option
Interest if fully Taxable	**Interest is fully Exempt**

Do consider opening a PPF account if you do not have one. You can put in as little as Rs 500 a year to keep it going.

Tax treatment of Gratuity under the Income Tax Act, 1961

Gratuity:- Gratuity' is a retirement benefit. Gratuity Act, 1972 act envisages in providing retirement benefit to the workman who have rendered long and unblemished service to the employer. Gratuity is a reward for long and meritorious service. Earlier, it was not compulsory for an employer to reward his employee at the time of his retirement or resignation. But in 1972 the government passed the Payment of Gratuity Act that made it mandatory for all employers with more than 10 employees to pay gratuity.

Applicability of the Act: The act provides for the payment of gratuity to workers employed in every factory, mine, oil field, plantation, port, railways, shop & Establishments or educational institution employing 10 or more persons on any day of the proceeding 12 months.

A shop or establishment to which the Act has become applicable shall continue to be governed by the Act even if the numbers of persons employed falls below 10 at any subsequent stage.

Here employees are defined as those hired on the company's payroll. Trainees and interns are not eligible for this compensation.

Eligibility criteria

Gratuity shall be payable to an "employee" on the termination of his employment after he has rendered continuous service for not less than five years.

- On his superannuation.
- On his retirement or resignation.
- On his death or disablement due to accident or disease.

Note: However, the condition of five years of continuous service is not necessary if service is terminated due to death or disablement.

To whom is Gratuity Payable?

Gratuity is normally payable to the employee himself, however in the case of death of the employee it shall be paid to his nominee & nomination has been made to his heirs. Incase the nominee is a minor; share of the minor shall be deposited with the controlling authority who shall invest the same for benefit of the minor, until he/she attains majority.

Maximum amount payable under the Gratuity Act:-Maximum gratuity payable is Rs 3.50 lakhs for non government employees and 10 Lakh for Government employees. [Section 4(3)] [Of course, employer can pay more. Employee has also right to get more if obtainable under an award or contract with employer, as made clear in section 4(5)].

Nomination facility: - Yes, by filling Form "F" at the time of new joinee formality, each employee is required to nominate one or more member of his family, as defined in the Act, who will receive the gratuity in the event of the death of the employee.

Forfeiture of Gratuity:- The gratuity of an employee whose service have been terminated for any Act of willful omission or negligence causing any damage or loss to or destruction of property belonging to the employer, gratuity shall be forfeited to the extent of the damage or loss caused. The right of forfeiture is limited to the extent of damage.

The gratuity payable to an employee shall be wholly forfeited:

1. If the services of such employee have been terminated for his riotous or disorderly conduct or any other act of violence on his part, or
2. If the service of such employee have been terminated for any act which constitutes an offense involving moral turpitude, provided that such offense is committed by him in the course of his employment.

Applicability to contract Employee:- Yes, the only criterion is to serve at least 5 years of service at a stretch.

Calculating gratuity:

a) In respect of Employees **covered Under the Payment of Gratuity Act, 1972:**

As per the Act, the gratuity amount is 15 days' wage multiplied by the number of years put in by you. Here wage refers to basic salary plus dearness allowance. Take the monthly salary drawn by you last (basic + dearness allowance) at the time of resignation or retirement. Divide this by 26. This gives you your daily salary. Multiply this amount by 15 days, and further by the number of years of service you have put in.

If you have put in 10 years and seven months in an organisation, your service period will be taken to be 11 years. But if your service tenure is 10 years and five months, then for the purpose of this calculation your tenure will be taken to be 10 years only.

Take an example. Suppose that your average monthly salary is Rs 26,000. Your daily salary will be Rs 1,000. Multiply this by 15 and then by 10. The gratuity you are entitled to after 10 years of service will be Rs 1.5 lakh.

Formula :- Gratuity shall be calculated as per the below formula:

Gratuity = Last drawn salary x 15/26 x No. of years of service

Your last drawn salary will comprise your basic + DA. For computation of gratuity, your service period will be rounded off to the nearest full year.

b) In respect of Employees not covered Under the Payment of Gratuity Act, 1972:

For non-government employees, who are not covered under this Act, the manner of calculating gratuity is different. **First, the average salary is calculated: for this the average of last ten months' salary is taken** (this will include the basic plus dearness allowance plus commission as a percentage of turnover achieved by the employee). Divide this average salary by 30 (ignore fractions). Now, multiply this amount by 15 and further with the number of years of service put in. Dividing the daily salary by 30 instead of 26 does put those not covered by the Gratuity Act at a disadvantage.

Formula :- Gratuity shall be calculated as per the below formula

Gratuity = Last drawn salary x ½ x No. of years of service

Your last drawn salary will comprise your basic + DA+ commission on sales on turnover basis. For computation of gratuity, your service period will not be rounded off to the nearest full year. While calculating completed years, any fraction of the year will be ignored. For instance, if the employee has a total service of 20 years, 10 months and 25 days, only 20 years will be factored into the calculation.

Tax treatment of gratuity :- For the purpose of exemption of gratuity under sec.10 (10) the employees are divided under three categories:

1. Any death cum retirement gratuity received by **Central and State Govt. employees, Defense employees and employees in Local authority shall be exempt.**
2. Any gratuity received by **persons covered under the Payment of Gratuity Act, 1972** shall be exempt subject to following limits:-
    - For every completed year of service or part thereof, gratuity shall be paid at the rate of fifteen days wages based on the rate of wages last drawn by the concerned employee.
    - The amount of gratuity as calculated above shall not exceed **Rs. 3,50,000/- (w.e.f. 24.9.97). Though currently there is a bill in parliament awaiting passing to increase this to Rs.10,00,000.**

3. In case of any other employee, gratuity received shall be exempt, subject to the following exemptions
    - **Exemption shall be limited to half month salary (based on last 10 months average) for each completed year of service or Rs. 3.5 Lakhs whichever is less.**
    - Where the gratuity was received in any one or more earlier previous years also and any exemption was allowed for the same, then the **exemption to be allowed during the year gets reduced to the extent of exemption already allowed**, the overall limit being Rs. 3.5. Lakhs.

The exemption in respect of gratuity is permissible even in cases of termination of employment due to resignation. *The ceiling of Rs.3.5 lakh applies to the aggregate of gratuity received from one or more employers in the same or different years.*

Taxable under what head:- Gratuity received by an employee on his retirement **is taxable under the head "Salary" and gratuity received by the legal heir is taxable under the head" Income from Other Sources".**

Frequently Asked Question:-

QUESTION: I am a pensioner from Orissa State Government. I retired in 1996 receiving an amount of Rs. 72,000 as gratuity. But I received a further amount of Rs. 1.20 lakhs in December 2002 consequent on revision of pay. At the time of my retirement the exemption limit was Rs. 1 lakh. Am I eligible for the higher exemption limit under Sec. 10(10) available at the time of receipt. The higher limit of Rs. 3.50 lakhs is raised from September 24, 1997.

ANSWER: Every time the limit has been raised, such limit has only referred to the retirement on or after the date on which it was raised. Hence the limit on the date of retirement time would alone have to be considered. The present limit is Rs. 3.5 lakhs for exemption under Sec. 10(10)(iii) vide Notification No. 10772 dated January 20, 1999 for retirees after September 24, 1997, so that the exemption with reference to the enhanced limit will not apply to the reader's case. It is stated that the reader is a government pensioner. There is no ceiling for Central or State pensioners. If the reader is a retiree from the civil service of a State or held a civil post under a State or had even been an employee of a local authority, the gratuity amount, that is received, is totally exempt vide Sec. 10(10)(i) of the Income-tax Act irrespective of the date of retirement or the notification.

Budget 2010-11: Additional deduction for individuals in respect of long-term infrastructure bonds under section 80CCF of Income-tax Act

In tune with the policy thrust of promoting investment in the infrastructure sector, it is proposed to insert a new section 80CCF in the Income-tax Act to provide that subscription during the financial year 2010-11 made to long-term infrastructure bonds (as may be notified by the Central Government), to the extent of Rs. 20,000, shall be allowed as deduction in computing the income of an individual or a Hindu undivided family. This deduction will be over and above the existing overall limit of tax deduction on savings of upto Rs.1 lakh under section 80C, 80CCC and 80CCD of the Act.

This amendment is proposed to take effect from 1st April, 2011 and will, accordingly, apply in relation to the assessment year 2011-12.

New Income tax slab proposed in budget 2010-11 and its impact on Male individual, Female Individual, and Senior Citizen:

The Finance Minister, in the Budget today, changed the tax slabs for men, women and senior citizens. The highest tax slab has now been raised from Rs 5 lakh to Rs 8 lakh.

The FM has also increased the limit of deduction available under section 80C. He has allowed an additional investment of Rs 20,000 for infrastructure bonds taking the total of the limit under section 80C from the current Rs 1 lakh to Rs 1.2 lakh.

Income Tax Slabs For A.Y. 2011-12

or Financial Year 2010-11

Male individual below the age of 65 years& HUF tax payers :

New tax slabs:

Slabs (Rs)	Rate
0 – 1,60,000	0
1,60,001 – 5,00,000	10
5,00,001 – 8,00,000	20
8,00,001 and above	30

Old tax slabs:

Slabs (Rs)	Rate
0 – 1,60,000	0
1,60,001 – 3,00,000	10
3,00,001 – 5,00,000	20
5,00,001 and above	30

Female individual taxpayer

New tax slabs:

Slabs (Rs)	Rate
0 – 1,90,000	0
1,90,001 – 5,00,000	10
5,00,001 – 8,00,000	20
8,00,001 and above	30

Old tax slabs:

Slabs (Rs)	Rate
0 – 1,90,000	0
1,90,001 – 3,00,000	10
3,00,001 – 5,00,000	20
5,00,001 and above	30

Senior Citizens:

New tax slabs:

Slabs (Rs)	Rate
0 – 2,40,000	0
2,40,001 – 5,00,000	10
5,00,001 – 8,0,000	20
8,00,001 and above	30

Old tax slabs:

Slabs (Rs)	Rate
0 – 2,40,000	0
2,40,001 – 3,00,000	10
3,00,001 – 5,00,000	20
5,00,001 and above	30