

DEDUCTIONS FROM GROSS TOTAL INCOME

AMENDMENTS BY THE FINANCE (No.2) ACT, 2014
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(a) Increase in the limit of deduction under section 80C

Related amendment in section: 80CCE

Effective from: A.Y.2015-16

- Under section 80C, in computing the total income of an assessee, being an individual or a Hindu undivided family, a deduction is allowed of an amount not exceeding ₹ 1 lakh with respect to sums paid or deposited in the previous year, in certain specified instruments.
- In order to channelize household savings, the limit of deduction allowed under section 80C has been raised from ₹ 1 lakh to ₹ 1.50 lakh.
- Section 80CCE has been consequently amended to increase the aggregate amount of deductions under section 80C, 80CCC and 80CCCD(1) from ₹ 1 lakh to ₹ 1.50 lakh.
- However, the individual ceiling limit under section 80CCC, providing for deduction in respect of contribution to certain pension funds, continues to be ₹ 1 lakh.
- Further, clause (1A) has been inserted in section 80CCD to restrict deduction under section 80CCD(1) in respect of contribution to Notified Pension Scheme of Central Government to ₹ 1 lakh.
- The following table summarizes the ceiling limit under these sections w.e.f. A.Y.2015-16 –

Section	Particulars	Ceiling limit (₹)
80C	Investment in specified instruments	1,50,000
80CCC	Contribution to certain pension funds	1,00,000
80CCD(1)	Contribution to new pension scheme of Government	1,00,000
80CCE	Aggregate deduction under sections 80C, 80CCC & 80CCD(1)	1,50,000

Example

Mr. A, employed with ABC Ltd., has deposited ₹ 1,20,000 in public provident fund. He has paid life insurance premium of ₹ 15,000 on the policy taken on 1.5.2012 to insure his life

(Sum assured – ₹ 1,20,000). He has deposited ₹ 30,000 in a five year term deposit with bank. He has also contributed ₹ 1,20,000, being 10% of his salary, to the notified pension scheme of the Central Government. A matching contribution was made by ABC Ltd. Compute the deduction available to him under Chapter VI-A for A.Y.2015-16.

Answer

Deduction available to Mr. A under Chapter VI-A for A.Y.2015-16

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,20,000	
	Life insurance premium paid ₹ 15,000 (deduction restricted to ₹ 12,000, being 10% of ₹ 1,20,000, being sum assured, since the policy was taken after 31.3.2012)	12,000	
	Five year term deposit with bank	30,000	
	Restricted to	1,52,000	1,50,000
80CCD(1)	Contribution to notified pension scheme of the Central Government, ₹ 1,20,000, restricted to		1,00,000
80CCE	Aggregate donations under section 80C and 80CCD(1), ₹ 2,50,000, but restricted to		2,50,000
80CCD(2)	Employer contribution to notified pension scheme		1,50,000
Aggregate Deduction			2,70,000

Note – Employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary.

(b) Benefit under section 80CCD extended to private sector employees without condition regarding date of joining being on or after 1st January, 2004

Effective from: A.Y.2015-16

- As per section 80CCD(1), if an individual, employed by the Central Government or any other employer on or after 1st January, 2004, has paid or deposited any amount in a previous year in his account under a notified pension scheme, a deduction of such amount not exceeding 10% of his salary is allowed.
- Individuals employed by the Central Government before 1st January, 2004, were entitled to pension as per the Pension Rules. Therefore, the new pension scheme is relevant only for employees joining Government service on or after 1st January, 2004. However, this date of joining is not relevant for private sector employees joining new pension scheme.

(iii) Accordingly, the provisions of section 80CCD have been amended to provide that the condition relating to the date of joining the service being on or after 1.1.2004 is not applicable to private sector employees for the purposes of deduction under this section.

(c) Extension of sunset clause for tax holiday under section 80-IA for power-sector undertakings [Section 80-IA(4)(iv)]

Effective from: A.Y.2015-16

(i) As per the provisions of section 80-IA(4)(iv), a deduction of 100% of profits and gains is allowed to an undertaking which:

- (a) is set up in any part of India for the generation or generation and distribution of power if it begins to generate power at any time during the period beginning on 1st April, 1993 and ending on 31st March, 2014;
- (b) starts transmission or distribution by laying a network of new transmission or distribution lines at any time during the period beginning on 1st April, 1999 and ending on 31st March, 2014;
- (c) undertakes substantial renovation and modernization of existing network of transmission or distribution lines at any time during the period beginning on 1st April, 2004 and ending on 31st March, 2014.

(ii) This time limit has been extended by three years i.e., from 31st March, 2014 to 31st March, 2017, to enable undertakings which start generation, or transmission or distribution of power during the period between 1st April, 2014 and 31st March, 2017 or which undertakes substantial renovation and modernization of the existing network of transmission or distribution lines between 1st April, 2014 and 31st March, 2017 to avail benefit of deduction under this section.

SIGNIFICANT NOTIFICATIONS/CIRCULARS

1. Notification of "Rajiv Gandhi Equity Savings Scheme, 2013" for the purpose of deduction under section 80CCG [Notification No. 94/2013, dated 18.12.2013]

The Finance Act, 2012 had inserted section 80CCG in the Income-tax Act, 1961 to provide for a one-time deduction for A.Y.2013-14 to a resident individual who acquires listed equity shares in a previous year in accordance with a scheme notified by the Central Government, to encourage flow of savings in financial instruments and improve the depth of domestic capital market. However, only a resident individual, being a new retail investor, whose gross total income did not exceed ₹ 10 lakh was eligible for the benefit of deduction. The deduction was 50% of amount invested in such equity shares or ₹ 25,000, whichever is lower. The maximum deduction of ₹ 25,000 was available on investment of ₹ 50,000 in such listed equity shares.

The Finance Act, 2013 has amended the provisions of section 80CCG w.e.f. A.Y.2014-15 so that the benefit of deduction under this section is available to a new retail investor, being a resident individual with gross total income of up to ₹ 12 lakh, for investment in listed equity shares or listed units of equity oriented fund, in accordance with a

notified scheme. Further, the deduction shall be allowed for three consecutive assessment years, beginning with the assessment year relevant to the previous year in which the listed equity shares or listed units of equity oriented fund were first acquired. The quantum of deduction would continue to remain the same.

Accordingly, the Central Government has, in exercise of the powers conferred by section 80CCG(1), notified the Rajiv Gandhi Equity Savings Scheme, 2013. The said scheme provides for eligibility criteria, procedure for investment, period of holding and other conditions.

S. No.	Particulars	Content
1.	Eligibility	The deduction under this scheme shall be available to a new retail investor who complies with the conditions of the Scheme and whose gross total income for the financial year in which the investment is made under the Scheme is less than or equal to ₹12 lakh. New retail investor means a resident individual, :- (i) who has not opened a demat account and has not made any transactions in the derivative segment before - - the date of opening of a demat account; or - the first day of the initial year, However, an individual who is not the first account holder of an existing joint demat account shall be deemed to have not opened a demat account for the purposes of this Scheme; (ii) who has opened a demat account but has not made any transactions in the equity segment or the derivative segment before - - the date he designates his existing demat account for the purpose of availing the benefit under the Scheme; or - the first day of the initial year. Initial year means - (a) the financial year in which the investor designates his demat account as Rajiv Gandhi Equity Savings Scheme account and makes investment in the eligible securities for availing deduction under the Scheme; or (b) the financial year in which the investor makes investment in eligible securities for availing deduction under the Scheme for the first time, if the investor does not make any investment in eligible securities in the financial year in which the account is so designated.

2.	Procedure for investment under the Scheme A new retail investor shall make investments under the Scheme in the following manner, namely:- - the new retail investor may invest in one or more financial years in a block of three consecutive financial years beginning with the initial year; - the new retail investor may make investment in eligible securities in one or more than one transaction during any financial year during the three consecutive financial years beginning with the initial year in which the deduction has to be claimed; - the new retail investor may make any amount of investment in the demat account but the amount eligible for deduction under the Scheme shall not exceed fifty thousand rupees in a financial year; - the new retail investor shall be eligible for the tax benefit under the Scheme only for three consecutive financial years beginning with the initial year, in respect of the investment made in each financial year; - if the new retail investor does not invest in any financial year following the initial year, he may invest in the subsequent financial year, within the three consecutive financial years beginning with the initial year, in accordance with the Scheme; - the new retail investor who has claimed a deduction under sub-section (1) of section 80CCG of the Act in any assessment year shall not be allowed any deduction under the Scheme for the same investment for any other assessment year; - the new retail investor shall be permitted a grace period of seven trading days from the end of the financial year so that the eligible securities purchased on the last trading day of the financial year also get credited in the demat account and such securities shall be deemed to have been acquired in the financial year itself; - the new retail investor can make investments in securities other than the eligible securities covered under the Scheme and such investments shall not be subject to the conditions of the Scheme nor shall they be counted for availing the benefit under the Scheme; - the deduction claimed shall be withdrawn if the lock-in period requirements of the investment are not complied with or any other condition of the Scheme is contravened by the new retail investor.
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3.	Period of holding	The period of holding of eligible securities invested in each financial year shall be under a lock-in period of three years to be counted in the following manner:		
		Type of lock-in	Meaning	Condition
		Fixed lock-in period	The period commencing from the date of purchase of eligible securities in the relevant financial year and ending on 31st March of the year immediately following the relevant financial year.	The new retail investor shall hold eligible securities for fixed lock-in period. He shall not be permitted to sell, pledge or hypothecate any eligible security during the fixed lock-in period.
		Flexible lock-in period	The period of two years beginning immediately after the end of the fixed lock-in period shall be called the flexible lock-in period.	The new retail investor shall be permitted to trade the eligible securities after the completion of the fixed lock-in period subject to the conditions prescribed under the scheme. The demat account should be compliant for a cumulative period of a minimum of 270 days during each of the two years of the flexible lock-in period. The demat account shall be considered as compliant for the number of days for which the value of the investment portfolio of eligible securities (other than those which are in fixed lock-in) is equal to or higher than the corresponding investment claimed as eligible for the purpose of deduction under section 80CCG.

4.	Other Conditions	(i) While making initial investments up to ₹ 50,000, the total cost of acquisition of eligible securities shall not include brokerage charges, securities transaction tax, stamp duty, service tax and any other tax, which may appear in the contract note. (ii) Where the investment of the new retail investor undergoes a change as a result of involuntary corporate actions including demerger of companies, amalgamation and such other actions, as may be notified by SEBI, resulting in debit or credit of securities covered under the Scheme, the deduction claimed by such investor shall not be affected. (iii) In the case of voluntary corporate actions, including buy-back resulting only in debit of securities where new retail investor has the option to exercise his choice, the same shall be considered as a sale transaction for the purpose of the Scheme.
5.	Consequences of failure to comply with the prescribed conditions	If the new retail investor fails to fulfill any of the provisions of the Scheme, the deduction originally allowed to him under section 80CCG(1) for any previous year, shall be deemed to be the income of the assessee of the previous year in which he fails to comply with the provisions of the Scheme and shall be liable to tax for the assessment year relevant to such previous year.
6.	Savings	A new retail investor who has invested in accordance with the Rajiv Gandhi Equity Savings Scheme, 2012 shall continue to be governed by the provisions of that Scheme to the extent it is not in contravention of the provisions of this Scheme and such investor shall also be eligible for the benefit of investment made in accordance with this Scheme for the financial years 2013-14 and 2014-15.

2. Contributory Health Service Scheme of the Department of Space notified under section 80D [Notification No.6/2014 dated 15.01.2014]

Section 80D(2)(a) provides for deduction in respect of medical insurance premium paid or for contribution made by an individual to the Central Government Health Scheme or such other scheme as may be notified by the Central Government. Accordingly, the Central Government has notified the Contributory Health Service Scheme of the Department of Space, contribution to which would be eligible for deduction under section 80D.

Therefore, any contribution made by an individual towards the Contributory Health Service Scheme of the Department of Space would be eligible for deduction under section 80D, subject to the overall limit of ₹ 15,000 or ₹ 20,000, as the case may be.