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Certificate Course of Filing of Returns

Today's Content - Income Exempt from Tax, Deductions & Exemptions under Old & New Tax Regimes

I. **Income Exempt from Tax**

Concept

Certain incomes are expressly excluded from the scope of “total income” under the **Income-tax Act, 1961**. These are governed mainly by **Sections 10, 11, 13A**, and related provisions. Exempt income means:

- **Fully excluded from taxable income**, and
- Not subject to tax if prescribed conditions are met.

★ Key Exemptions under Section 10

Sec	Nature of Income	Key Conditions
10(1)	Agricultural Income	Income derived from agricultural land in India; integrated for rate purposes if other income > basic exemption limit.
10(2)	HUF Income	Share of income received by a member from HUF is fully exempt.
10(2A)	Partner's Share in Firm/LLP Profit	Share of profit is exempt as firm pays tax separately. Interest/salary are taxable.
10(4)	Interest on NRE Account	Exempt for NRIs, subject to RBI conditions.
10(5)	Leave Travel Concession (LTC)	Twice in a block of four years; conditions under Rule 2B must be satisfied.
10(6)	Remuneration to Foreign Diplomats	Fully exempt if conditions met.
10(7)	Allowances to Govt. Employees Abroad	E.g., Indian diplomats posted overseas.

Sec	Nature of Income	Key Conditions
10(10)	Gratuity	Fully exempt for Govt. employees; up to limits for others under Payment of Gratuity Act or specified ceiling.
10(10A)	Commuted Pension	Fully exempt for Govt. employees; partly exempt for non-Govt. employees.
10(10C)	Voluntary Retirement Compensation	Exempt up to ₹5 lakh if conditions of Rule 2BA met.
10(10D)	Life Insurance Maturity	Fully exempt if premium $\leq 10\%$ (or 20%) of sum assured. High-value ULIPs (issued post 1.4.2023) partly taxable.
10(11)	Statutory Provident Fund, PPF	Entire amount on withdrawal exempt.
10(12)	Recognised Provident Fund	Exempt within limits. Excess employer contribution taxable.
10(13A)	House Rent Allowance (HRA)	Exempt up to specified limits under Rule 2A.
10(14)	Special Allowances	Allowances to meet specific expenses wholly, necessarily, exclusively for duty.
10(15)	Interest on Certain Securities	Notified savings certificates, bonds, etc.
10(16)	Scholarships	Scholarships to meet cost of education are fully exempt.
10(17)	MPs/MLAs Allowances	Certain specified allowances.
10(18)	Gallantry Awards	Pension or family pension received by awardees.
10(23C)	Educational/Medical/Charitable Institutions	Income of notified institutions subject to conditions.
10(26)	Specified Scheduled Tribes	Income derived by members of Scheduled Tribes in specified areas.

Other Exemptions

- **Section 11:** Income of charitable/religious trusts.
- **Section 13A:** Income of political parties (subject to conditions).

✓ Deductions under Old Tax Regime (Chapter VI-A)

Under **Chapter VI-A (Sections 80C to 80U)**, taxpayers can claim deductions **from Gross Total Income** if they invest in or spend on eligible activities.

Purpose: Encourage savings, health protection, education, affordable housing, donations, employment generation.

✦ Key Deductions

A. Savings/Investments (Most Common)

Section	Nature	Limit
80C	LIC premium, PPF, NSC, ELSS, principal repayment on home loan, tuition fees, Sukanya Samriddhi, SCSS, 5-yr FD	₹1,50,000
80CCC	Pension policies	Included in 80C ceiling
80CCD(1)	Employee's/self-employed contribution to NPS	10% of salary (employees); 20% of GTI (self-employed)
80CCD(1B)	Additional NPS	₹50,000 extra
80CCD(2)	Employer's contribution to NPS	Up to 10% of salary — deductible without limit

B. Health Insurance & Medical

Section	Nature	Limit
80D	Medical insurance premium (self/family/parents)	₹25,000 each (₹50,000 if senior citizen) + ₹5,000 preventive check-up within overall limit
80DD	Maintenance of dependent with disability	₹75,000; severe disability: ₹1,25,000
80DDB	Medical treatment of specified diseases	₹40,000 (general); ₹1,00,000 (senior citizen)

C. Education/Housing

Section	Nature	Limit
80E	Interest on education loan	Full interest up to 8 years
80EE	First-time home loan (conditions apply)	₹50,000

Section	Nature	Limit
80EEA	Additional interest on home loan for affordable housing	₹1,50,000

D. Donations

Section	Nature	Limit
80G	Donations to approved charities/trusts	50% or 100%, subject to qualifying limit
80GGA	Donations for scientific research/rural development	100%

E. Other Popular Deductions

Section	Nature	Limit
80GG	Rent paid when HRA not received	Least of: ₹5,000/month; 25% of total income; or excess rent over 10% of GTI
80TTA	Interest on savings accounts	₹40,000
80TTB	Interest on deposits for senior citizens	₹100,000
80JJAA	New employment generation	30% of additional employee cost for 3 years
80U	Resident individual with disability	₹75,000; severe disability: ₹1,25,000

✓ 3 New Tax Regime (Section 115BAC)

★ Concept

- Introduced to **simplify compliance**, offer lower slab rates.
- **Major trade-off**: Most deductions & exemptions disallowed.
- Default regime from FY 2023–24 onwards — taxpayers must **opt out** to continue under old regime.

★ New Tax Regime Slabs (AY 2025–26)

Total Income	Tax Rate
Up to ₹3,00,000	Nil
₹3,00,001–₹6,00,000	5%
₹6,00,001–₹9,00,000	10%
₹9,00,001–₹12,00,000	15%
₹12,00,001–₹15,00,000	20%
Above ₹15,00,000	30%

Rebate u/s 87A: Available up to ₹7 lakh total income (max ₹25,000).

★ What's Allowed?

- ✓ ☐ **Standard Deduction** of ₹75,000 for salaried/pensioners (introduced from FY 2023–24).
- ✓ ☐ Employer's contribution to NPS [Sec 80CCD (2)].

★ What's Not Allowed?

- ✗ Deductions u/s 80C, 80D, 80E, 80G, etc.
- ✗ HRA, LTA, special allowances under Sec 10(14).
- ✗ Professional tax.

★ Choosing Between Regimes

- Salaried taxpayers: Can choose each year.
 - Business/profession taxpayers: Once opt out, can't revert except under conditions.
 - Must compare both regimes for **optimal tax saving**.
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✓ 4 ☐ Summary — Key Comparison

Aspect	Old Regime	New Regime
Deductions	Wide range	Mostly not allowed
Slab Rates	Higher	Lower
Compliance	Documentation needed	Simpler
Best for	Taxpayers with deductions	Taxpayers with minimal deductions

✦ Key Tips

- ✓ ☐ Maintain records to claim exemptions/deductions under the Old Regime.
- ✓ ☐ Compare tax liability under both regimes annually.
- ✓ ☐ Understand eligibility conditions for each section to avoid disallowance.

II. Comparative Analysis of Old & New Tax Regimes for Corporates (Domestic Companies)

✓ 1 ☐ Introduction

Corporate tax is a critical component of India's direct tax system. Over the years, India's corporate tax policy has evolved to strike a balance between:

- Ensuring sufficient tax revenue for the Government,
- Promoting ease of doing business, and
- Creating a globally competitive tax framework to attract investments.

In September 2019, the Government enacted significant reforms through the **Taxation Laws (Amendment) Act, 2019**, introducing **Section 115BAA** and **Section 115BAB** — aimed at providing **lower tax rates** with **simplified compliance**, subject to the forfeiture of specified deductions and incentives.

These regimes coexist with the **traditional (old) tax regime**, providing companies with **flexibility** to choose the structure that optimally aligns with their business model.

✓ 2 Domestic Companies — Applicable Provisions

★ (A) Normal Tax Provisions (Old Regime)

Under the default tax provisions, a domestic company is taxed at the following slab rates:

Particulars	Tax Rate
Where total turnover or gross receipts in the previous year 2022–23 do not exceed ₹400 crore	25%
In any other case	30%

→ Surcharge:

- 7% of income tax, where total income > ₹1 crore but ≤ ₹10 crore
- 12% of income tax, where total income > ₹10 crore

→ Health & Education Cess (HEC): 4% of (income tax + surcharge)

→ Effective Tax Rates:

- For turnover ≤ ₹400 crore: ~26%–27% (with surcharge and cess).
- For larger companies: ~31%–34.94%.

★ (B) Section 115BAA — Concessional Tax Regime

Introduced w.e.f. AY 2020–21.

Particulars	Tax Rate
Domestic company opting under 115BAA	22% flat

→ Surcharge: 10% (irrespective of income).

→ Health & Education Cess: 4% of tax + surcharge.

→ Effective Tax Rate: Approx. 25.17%

★ (C) Section 115BAB — Concessional Regime for New Manufacturing Companies

Introduced w.e.f. AY 2020–21.

Particulars	Tax Rate
Domestic manufacturing company incorporated on or after 1 October 2019, commencing	15%

Particulars

**Tax
Rate**
flat

manufacturing before 31 March 2024 (may be extended)

- ☐ **Surcharge:** 10%
- ☐ **Health & Education Cess:** 4%
- ☐ **Effective Tax Rate:** Approx. 17.16%

✓ ☐ 3 Minimum Alternate Tax (MAT)

Aspect	Old Regime	Sec 115BAA	Sec 115BAB
MAT u/s 115JB	Applicable @ 15% of book profit (plus surcharge & cess)	Not applicable	Not applicable
MAT Credit	Available	Not available	Not available

MAT was originally introduced to ensure that companies with 'zero tax' under regular provisions still contribute a minimum tax if they declare significant book profits. Under the new regimes, since companies forgo major exemptions and deductions, MAT is **not applicable**, simplifying compliance.

✓ ☐ 4 Forfeiture of Deductions/Incentives

To avail of Sec 115BAA or 115BAB, companies **must forgo** specified deductions, exemptions, and additional benefits, such as:

- Additional depreciation [Sec 32(1)(ia)]
- Investment allowance [Sec 32AD]
- Deduction for units in SEZ [Sec 10AA]
- Weighted deduction for scientific research [Sec 35(2AB)]
- Deduction for specified businesses [Sec 35AD]
- Profits-linked deductions under Chapter VI-A (80IA to 80IE)
- Deduction under Sec 33AB / 33ABA
- Deduction under Sec 35CCC / 35CCD

✓ ☐ Other adjustments:

- Losses attributable to these deductions are not permitted to be set off.
- MAT credit balance cannot be utilised once a company opts for the new regime.

✓ ☐ 5 Eligibility & Conditions

Provision Key Conditions

Provision Key Conditions

Sec 115BAA Available to all domestic companies; no restriction on year of incorporation or nature of business; once opted, cannot be withdrawn.

Sec 115BAB Available only to **new domestic manufacturing companies** incorporated on or after **1 October 2019**, commencing manufacturing by **31 March 2024** (or further extended). The company must not: (a) use second-hand machinery beyond 20% of total plant & machinery; (b) produce specified excluded items like tobacco; (c) be formed by splitting/reconstruction of existing business (except permitted cases).

✓ 6 Administrative Provisions

- **One-time option:**
 - If 115BAA/115BAB is opted, it is **binding for all subsequent years**.
- **Return filing:**
 - Must opt in **before the due date for filing the return u/s 139(1)**.
- **No MAT:**
 - No MAT liability arises under 115BAA/115BAB.
- **No MAT credit:**
 - Any unutilised MAT credit lapses.

✓ 7 Foreign Companies

The concessional regimes **do not apply to foreign companies**.

They continue to be taxed at:

- **40%** base rate, plus applicable surcharge & cess.

✓ 8 Legislative Intent

Why were these sections introduced?

- To provide globally competitive tax rates.
- To stimulate fresh manufacturing capacity and job creation.
- To attract FDI and global supply chain shifts.
- To simplify the corporate tax structure by phasing out complex exemptions.
- To improve India's ranking on the Ease of Doing Business index.

The concessional tax regimes reflect a “**low rate, no exemption**” approach — moving towards a broader base and lower rate tax policy.

✓ 9 Comparison — Key Differences

Feature	Old Regime	Sec 115BAA	Sec 115BAB
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Feature	Old Regime	Sec 115BAA	Sec 115BAB
Tax Rate	25%/30%	22%	15%
Surcharge	7%/12%	10%	10%
MAT	Applicable	Not Applicable	Not Applicable
MAT Credit	Available	Not Allowed	Not Allowed
Incentives Allowed	Allowed	Not Allowed	Not Allowed
Turnover Limit	Applicable (\leq ₹400 crore for lower rate)	Not Applicable	Not Applicable
Specific Eligibility	General	General	New manufacturing co. only
Effective Tax Rate	~26–35%	~25.17%	~17.16%
Objective	Regular tax compliance	Incentive to forgo deductions for lower rate	Incentive for new manufacturing investment

✓ 10 Practical Decision Points

✓ Who should choose the new regime?

- Companies without substantial incentives/exemptions.
- Companies with no significant carry forward MAT credit.

✓ Who should stay under old regime?

- Companies heavily reliant on deductions like SEZ (10AA), additional depreciation, or weighted R&D.
- Companies with significant unutilised MAT credit.

✓ Planning Tip:

A thorough comparative computation is **essential** before finalising the choice.

✓ 11 Conclusion

The introduction of **Section 115BAA** and **Section 115BAB** marks a paradigm shift towards **lower tax rates with minimal exemptions** — aligning India's corporate tax framework with global trends.

Companies must carefully evaluate:

- Impact of foregone deductions.
- MAT credit position.
- Long-term investment cycles.

- Strategic tax planning needs.

A judicious selection can optimise tax liability and support sustainable growth.



