



Income Tax Department
Central Board of Direct Taxes



THE TAXPAYERS GUIDE TO CLAIM EXEMPTIONS/DEDUCTIONS

Objective :

- Encourage employees to file correct and complete Income Tax Returns.
- Raise awareness about the consequences of making wrongful claims.
- Educate employers on verifying exemptions/ deductions to ensure proper TDS.

Expectations from a taxpayer :

- * That they have claimed correct deduction/ exemption in ITR.
- * They have verified that all conditions in the section are satisfied and that only admissible amount is claimed.
- * Generally the deductions available in the old tax regime vs. new tax regime are not properly appreciated, which are being discussed as under :
 - The new tax regime (NTR) has been made as default regime for all assessees from FY 2023-24 onwards. Once an assessee opts for new tax regime, he cannot choose **old tax regime** except salaried employees.
 - In **NEW TAX REGIME**, the deductions /exemptions allowable to the taxpayer are :
 - * Standard Deduction of INR 75,000/- for salaried individuals and INR 25,000/- (earlier it was Rs. 15,000/- pm) for pensioners (from FY 2025-26 relevant to Assessment year 2026-27 onwards).
 - * Rebate under Section 87A -has been increased to Rs. 60,000, up from the previous threshold of Rs. 25,000 under the new tax regime. (from FY 2025-26 relevant to A.Y. 2026-27 onwards).
 - * Deductions u/s Section 80CCD(2) - Employer's contribution to Employees' NPS Account - 14% of salary can be claimed under the new regime as compared to 10% under the old regime.

- * Deductions u/s Section 80CCH(2)] - Contributions made to the Agniveer Corpus Fund.
- * Conveyance allowance granted to an employee u/s 10(14)(ii)-limit for visually impaired or orthopedically handicapped individuals is Rs 3,200/month.
- * Deductions u/s 80JJAA (deduction to businesses when they incur additional cost upon employing new workers) are also allowable under new tax regime.
 - However, individuals and HUFs can also opt for old tax regime. In case **OLD TAX REGIME** is opted, the following deductions/exemptions are allowed to the taxpayer :
- * House rent allowance [Section 10(13A) read with Rule 2A] in respect of House Rent Paid.
- * 80GG: House Rent only when no HRA is received and living in rented house Limit - Rs. 60,000/- per annum.
- * Home loan interest on borrowed capital under section 24(b) subject to a maximum of Rs. 2,00,000/. Further deduction of Rs. 50,000/- or Rs. 1,50,000/- is available to first home buyer u/s 80EE (between 1.4.2016 to 31.3.2017) and u/s 80EEA (between 1.4.2019 to 31.3.2022).
- * Deduction under sections 80C (investment in PPF, ELSS, NSC, EPF, tuition fees for children, principal repayment on home loans etc)
- * Deduction in respect of health insurance Premium u/s 80D
- * Deduction in respect of maintenance including Medical Treatment of a handicapped dependent who is a person with disability [Section 80DD]

- * 80DDB: Specified Diseases Neurological: Dementia, Parkinson's Disease, Chronic Renal Failure, Malignant Cancers, Hematological: Thalassemia, Hemophilia , AIDS Limit - Rs 1,00,000/- for Senior Citizen, Rs 40,000/- others
- * Deduction for interest paid on loan taken for higher education : [Section 80E]
- * Deduction in respect of donations to certain funds, charitable institutions, etc. [Section 80G]
- * Deduction in respect of certain donations for scientific research or rural development [Section 80GGA]
- * Deduction in respect of contributions given by any person to political parties [Section 80GGC]
- * Deduction in respect of interest on deposits in savings account with banks, co-operative bank and post office (other than assessee referred to in section 80TTB) [Section 80TTA]
- * Deduction in respect of interest on deposits with banks, co-operative bank and post office to Senior Citizen [Section 80TTB]
- * Deduction in case of a person with disability [Section 80U]
- * 80EEB: Interest paid on loan for purchase of electric vehicle (Limit Rs. 1,50,000/-).
- * **Standard deduction of INR 50,000** for salaried individuals and pensioners.
- * **Rebate under Section 87A (up to INR 12,500):** Available for individuals with income up to INR 5 lakh, making income effectively tax-free up to this level.

Relief when Salary, etc. is paid in arrears or in advance : [Section 89]

For claiming relief under section 89 - Submit Form 10E to the employer at the time of making TDS. Employer should consider those prescribed particulars and then employee gets Form No. 16 after effecting those arrears under section 89.

However, the taxpayer is required to furnish Form 12BB to his employer timely and also furnish evidences to substantiate the deductions/ exemptions before him in case he is willing to avail deductions/ exemptions.

Role of the Deductor (Employer)

- Identify the tax regime chosen by the employee.
- Collect Form 12BB with supporting evidence for deductions/exemptions(if old regime is opted).
- Verify claims thoroughly.
- Calculate and deduct TDS correctly.
- Issue Form 16 with salary, exemptions, deductions, and TDS details.
- File his Quarterly TDS returns timely.

Wrongful claim of refunds by taxpayers - growing concern

- Increasing cases of wrongful deductions in ITRs.
- Employees claiming higher refunds based on ineligible exemptions.
- High-risk cases identified using AI and data analytics.
- Many such cases are linked to common employers with same modus operandi.

Consequences of Wrong Claims

- Notices for verification are issued by the department by using information technology and artificial intelligence to verify claims.
- The case may be taken up for detailed scrutiny.
- In case failure to justify the deduction/exemptions, the demand is raised against the assessee.
- Penalty u/s 270A may be levied upto 200% of misreported income.
- Prosecution under sections 276C & 277:
 - If tax evaded > ₹ 25 lakhs: 6 months to 7 years imprisonment + fine.
 - Otherwise: 3 months to 2 years imprisonment + fine.

Cost of claiming wrong deduction :

Suppose a wrong deduction of Rs. 1,00,000/- is claimed in 20% tax bracket, you save Rs. 20,000/- only. However, if wrong claim is detected, you are required to pay Rs. 24,000/- (tax + interest), Rs. 40,000/- (being 200%) as penalty. Further, if compounding fee of 125% of tax evaded and expenses on hiring CA/Advocate is added, an illegal act of saving Rs. 20,000/- results in cost of around Rs. 1 lakh i.e. 5 times cost.

Avoiding Penalties: Revise Return or File Updated Return

Employees who have made incorrect claims can rectify them by:

- i) By revising his original return suo moto, if the time permits
- ii) By filing an Updated Return (u/s 139(8A))

Updated return :

- Time limit: Within 4 years from the end of relevant AY (w.e.f. 1.4.25 onwards). Earlier it was 2 years.

Additional tax on updated return:

25% of tax & interest (if filed within 12 months)

50% of tax & interest (if filed between 12-24 months)

60% of tax & interest (if filed between 24-36 months)

70% of tax & interest (if filed between 36-48 months)

Key Take Aways

For Employees

- Claim deductions responsibly in ITR
- Maintain proper documentary evidences.
- In case, any wrong deduction has been claimed, file a revised return or updated return as the case may be.
- Obtain valid Form 16 from your deductor. Form 16 is valid only if generated from Traces website.
- Cross-check your TDS details in Form 26AS/AIR before filing your ITR for correctness & completeness.
- Misreporting can lead to penalties and prosecution

For Employers :




- Ensure all employee claims are backed by proper evidence.
- Obtain Form 12BB timely.
- Verify tax regime selection.
- File all quarterly TDS returns timely.
- Generate Form 16 from TRACES website only so that your employees/deductees file their ITR accurately and smoothly.
- Correct and complete reporting has direct bearing on your employees/deductors' tax credits.



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Disclaimer: This brochure should not be construed as an exhaustive statement of the law. For details reference should always be made to the relevant provisions in the Acts and the Rules

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