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Calculation of taxable salary income (Default Tax Regime of Section 115BAC vis-à-vis Old Tax Regime)

The income under the head salary shall be taxable on a due basis or receipt basis, whichever is earlier. Salary due from an employer to an employee, even if it is not paid during the year, shall be chargeable to tax.

The salary income shall be computed in the following manner:

<i>Particulars</i>	<i>Amount</i>
Salary	xxx
<i>Add: Additions</i>	
a) Allowances	xxx
b) Perquisites	xxx
c) Profit in Lieu of Salary	xxx
d) Retirement benefits	xxx
e) Pension	xxx
<i>Less: Deductions</i>	
a) Entertainment Allowance	(xxx)
b) Employment Tax	(xxx)
c) Standard Deduction	(xxx)
Income chargeable under the head Salary	xxx

Tax Rates for a salaried employee

Normal Tax Rates (Old tax regime)

The normal tax rates are prescribed every year under the First Schedule of the Finance Act. The tax rates in the case of an individual have been enumerated in the below table:

<i>Net income range</i>	<i>Resident Super Senior Citizen</i>	<i>Resident Senior Citizen</i>	<i>Any other Individual</i>
Up to Rs. 2,50,000	Nil	Nil	Nil
Rs. 2,50,001- Rs. 3,00,000	Nil	Nil	5%
Rs. 3,00,001- Rs. 5,00,000	Nil	5%	5%
Rs. 5,00,001- Rs. 10,00,000	20%	20%	20%
Above Rs. 10,00,000	30%	30%	30%

‘Super senior citizen’ means an individual whose age is 80 years or more at any time during the relevant previous year.



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‘Senior citizen’ means an individual whose age is 60 years or more at any time during the relevant previous year but less than 80 years on the last day of the previous year.

Normal Tax Rates (Default tax regime)

Section 115BAC provides default tax regime for individuals, which has reduced tax slabs. However, to avail of the benefit of this tax regime, the assessee has to forgo specified exemptions and deductions.

If an eligible assessee opts for this regime, the income of assessment year 2025-26 shall be taxable at the following rate:

Total Income (Rs)	Rate
Upto 3,00,000	Nil
From 3,00,001 to 7,00,000	5%
From 7,00,001 to 10,00,000	10%
From 10,00,001 to 12,00,000	15%
From 12,00,001 to 15,00,000	20%
Above 15,00,000	30%

Rebate under Section 87A

For the old tax regime - In the case of a resident individual, a rebate of up to Rs. 12,500 is allowed under Section 87A from the amount of tax if the total income of such individual does not exceed Rs. 500,000.

For the new tax regime - A maximum rebate of Rs. 25,000 is allowed under section 87A from the amount of income tax on total income, which is chargeable to tax under section 115BAC(1A). However, this rebate is allowed if the total income of assessee chargeable to tax under section 115BAC(1A) is up to Rs. 7,00,000.

Further, if the total income chargeable to tax under section 115BAC(1A) exceeds Rs. 7,00,000 and the tax payable on such income exceeds the difference between the total income and Rs. 7,00,000, he can claim a rebate with marginal relief to the extent of the difference between the tax payable on such total income and the amount by which it exceeds Rs. 7,00,000

Rate of Surcharge

In respect of an individual, the rate of surcharge for the assessment year 2025-26 shall be as under:

Nature of Income	Range of Total Income				
	Up to Rs. 50 lakhs	More than Rs. 50 lakhs but up to Rs. 1 crore	More than Rs. 1 crore but up to Rs. 2 crores	More than Rs. 2 crores but up to Rs. 5 crores	More than Rs. 5 crores
Short-term capital gain covered under Section 111A or Section 115AD	Nil	10%	15%	15%	15%
Long-term capital gain covered under Section 112A or Section 115AD or Section 112	Nil	10%	15%	15%	15%
Dividend income (not being dividend income chargeable)	Nil	10%	15%	15%	15%



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to tax at a special rate under sections 115A, 115AB, 115AC, 115ACA)					
Unexplained income chargeable to tax under Section 115BBE	25%	25%	25%	25%	25%
Any other income (if opted for the old tax regime)	<i>Nil</i>	10%	15%	25%	37%
Any other income (if opted for the new tax regime of Section 115BAC)	<i>Nil</i>	10%	15%	25%	25%

Health and Education Cess

Every person is liable to pay health and education cess at the rate of 4% on the amount of income tax *plus* surcharge.

Comparison of exemption/deductions available under the old tax regime and new tax regime of Section 115BAC

<i>Particulars</i>	<i>Old tax regime</i>	<i>New tax regime</i>
Standard Deduction [Section 16(ia)]	Available	Available
Leave Travel concession [Section 10(5)]	Available	Not Available
House Rent Allowance [Section 10(13A)]	Available	Not Available
Official and personal allowances (other than those as may be prescribed) [Section 10(14)]	Available	Not Available
Allowances to MPs/MLAs [Section 10(17)]	Available	Not Available
Entertainment Allowance [Section 16(ii)]	Available	Not Available
Professional Tax [Section 16(iii)]	Available	Not Available
Interest on housing loan for self-occupied house property [Section 24(b)]	Available	Not Available
Deduction under Sections 80C to 80U other than specified under Section 80CCD(2), and Section 80CCH(2) [Chapter VI-A]	Available	Not Available
Set-off of any loss under the head "Income from house property" with any other head of income	Available	Not Available
Exemptions or deductions for allowances or perquisites provided under any other law for the time being in force	Available	Not Available

Which regime is beneficial?

The decision to opt for the old tax regime will depend on the amount of exemptions and deductions available to the assessee. For example, if an individual has no deductions available to him under the old tax regime, it would not be beneficial for him to opt for the old tax regime. On the other hand, if an individual is availing of deductions under Section 80C, Section 80D, and the interest on a housing loan under Section 24, it would always be beneficial for him to opt for the old tax regime.

It's important to carefully consider the exemptions and deductions available to the assessee when deciding whether or not to opt for the old tax regime. The breakeven points for



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different situations, as outlined in the below table, can help a person determine which option is more beneficial.

<i>Which deduction can an assessee claim in the old tax regime?</i>	<i>Breakeven point of income</i>	<i>When is it beneficial to opt for the old tax regime?</i>
No deduction is allowable	-	Never
Deduction under Section 80C	-	Never
Deduction under Section 80C and Section 80D	8,25,000	If income is below the breakeven point
Deduction allowable under: - Section 80C - Section 80D - Section 24 (Interest on housing loan)	-	Always

Tax benefit if opted for the old tax regime

<i>Salary Income after Standard Deduction</i>	<i>Where no deduction is claimed</i>	<i>Where deduction under Section 80C is claimed</i>	<i>Where deduction under Sections 80C and 80D are claimed</i>	<i>Where deduction under Sections 80C, 80D and 24(b) are claimed</i>
6,00,000	-33,800	-	-	-
7,00,000	-54,600	-23,400	-	-
8,00,000	-39,000	-7,800	2,600	36,400
8,25,000	-41,600	-10,400	-	39,000
8,50,000	-44,200	-13,000	-2,600	41,600
9,00,000	-49,400	-18,200	-7,800	46,800
10,00,000	-54,600	-23,400	-13,000	28,600
11,00,000	-70,200	-28,600	-18,200	23,400
12,00,000	-85,800	-33,900	-23,400	18,200
13,00,000	-96,200	-49,400	-33,800	18,200
14,00,000	-1,06,600	-59,800	-44,200	18,200
15,00,000	-1,17,000	-70,200	-54,600	7,800

How to opt for the new tax regime?

From the Assessment Year 2024-25, the default tax regime will be the new tax regime of Section 115BAC. If an assessee does not want to pay tax according to the new tax regime, he will have to explicitly opt out of it and choose to be taxed under the old tax regime.



MCQs on Calculation of taxable salary income

Q1. The income under the head salary shall be taxable on _____.

- (a) due basis
- (b) receipt basis
- (c) due basis or receipt basis, whichever is earlier
- (d) due basis or receipt basis, whichever is later

Correct answer: (c)

Explanation: The income under the head salary shall be taxable on a due basis or receipt basis, whichever is earlier.

Q2. While computing income under the head salary, which of the following deductions are allowed under Section 16?

- (a) Entertainment Allowance
- (b) Employment Tax
- (c) Standard Deduction
- (d) All of the above

Correct answer: (d)

Explanation: While computing income under the head salary, the deduction for Entertainment Allowance, Employment Tax, and Standard Deduction is allowed under Section 16.

Q3. 'Super Senior citizen' means an individual whose age is _____ at any time during the relevant previous year.

- (a) 60 years or more but less than 80 years
- (b) 75 years or more
- (c) 80 years or more
- (d) None of the above

Correct answer: (c)

Explanation: 'Super senior citizen' means an individual whose age is 80 years or more at any time during the relevant previous year.

Q4. Rebate under Section 87A is available in case of a _____.

- (a) Resident Individual
- (b) Non-resident Individual
- (c) Resident HUF
- (d) Both (a) and (c)

Correct answer: (a)

Explanation: Rebate under Section 87A is available only in case of a resident individual.

Q5. Rebate under Section 87A (for the old tax regime) is allowed up to _____ from the amount of tax if the total income of such individual does not exceed _____.

- (a) Rs. 12,500, Rs. 5,00,000
- (b) Rs. 25,000, Rs. 7,00,000
- (c) Rs. 12,500, Rs. 7,00,000
- (d) None of the above

Correct answer: (a)



Explanation: In the case of a resident individual, a rebate of up to Rs. 12,500 is allowed under Section 87A from the amount of tax if the total income of such individual does not exceed Rs. 500,000.

Q6. Health and Education Cess at the rate of 4% is applicable on the amount of _____.

- (a) Income tax
- (b) Surcharge
- (c) Income tax *plus* surcharge
- (d) Rebate

Correct answer: (c)

Explanation: Every person is liable to pay health and education cess at the rate of 4% on the amount of income tax plus surcharge.

Q7. Which of the following allowances or deductions are allowed from the income in case an assessee pays tax under the default tax regime under section 115BAC?

- (a) House Rent Allowance
- (b) Standard Deduction
- (c) Entertainment Allowance
- (d) Professional Tax

Correct answer: (b)

Explanation: Under the new tax regime, Standard deduction under Section 16(i) is allowed, and House Rent Allowance [Section 10(13A)], Entertainment Allowance [Section 16(ii)], and Professional Tax [Section 16(iii)] are not allowed.

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