

HERE'S ALL ABOUT STANDARD DEDUCTION IN IT ACT FOR THE SALARIED

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Deductions in the [Income Tax Act](#) give tax-payers a reason to smile as it helps in reducing the tax liability. One such pleasing provision for salaried individuals in the [IT Act](#) is 'standard deduction'.

As the name suggests, standard deduction allows deducting a certain amount from the gross salary such that the total taxable income comes down. Most important point to note is that the standard deduction benefit is not available for those who choose the new tax regime, which comes with lower tax rates for foregoing deductions.

The standard deduction provision was introduced in the Budget 2018 (by withdrawing tax benefits on medical and transport allowance then available) that those having a salary income is eligible for a deduction of 40,000 or the gross salary, whichever is lower. The limit was increased to 50,000 in the subsequent budget. For example, a tax payer named 'X' has a gross annual salary of 5 lakh per annum. The standard deduction available in this case is 50,000 (lower of 50,000 standard deduction limit and salary of 5 lakh).

Say, X worked only for a month in a financial year and earned close to 42,000 as income from salary. For that year, the eligible standard deduction will be 42,000 by applying the provision.

What if an employee changes jobs during a financial year? Standard deduction does not depend on the number of jobs changed by the employee.

"Gross salary here includes all components of salary and covers all taxable portion of allowances and perks paid by the employer," said Sunil Gidwani, partner with Nangia Andersen LLP.

Extending the benefit of standard deduction to pensioners, the IT Act allows those receiving pension too, to claim this deduction. Note that the pension here does not include family pension, which is given to dependent family members, after death of the employee; family pension is chargeable to tax under the head 'income from other sources.'

Deduction, not rebate

Deduction is different from a rebate, which is kind of a partial refund from tax payable. Gidwani said, "Income tax deductions are allowed to be claimed from the income whereas rebate is allowed to be claimed from the tax payable."

Section 87A of the Income Tax Act gives rebate for those having income not more than 5 lakh (after allowing for deductions) to bring down their tax liability.

The rebate is 100% of the tax liability or 12,500, whichever is less.

Budget expectations

Now with budget around the corner, salaried employees expect a hike in the standard deduction

limit. Alok Agrawal, Partner, Deloitte India said, "a further increase to 50,000 limit has been on the wishlist of salaried taxpayers (apart from increase desired for certain other exemptions and deductions)."

By how much can we expect it to increase is a question. Agrawal believes that rather than an ad hoc increase to this limit a systematic methodology linking it to inflation will be a better approach.

He added, "A predictable and rational approach would be to link this standard deduction limit to the cost inflation index (as in case of the calculation approach for long-term capital gains). This would enable salaried taxpayers who bear the largest tax burden to get the standard deduction which is also aligned to the inflation rate."

Archit Gupta, founder and chief executive, Clear said, "Salaried employees do not get any deduction for expenses they incur for personal growth or expenses directly linked to improving their skill and work. Given this it makes a lot more sense to keep the standard deduction and increment it on an ongoing basis, to put more money in the hands of taxpayers."

Never miss a story! Stay connected and informed with Mint. [Download](#) our App Now!!

Log in to our website to save your bookmarks. It'll just take a moment.

Oops! Looks like you have exceeded the limit to bookmark the image. Remove some to bookmark this image.

Your session has expired, please login again.

You are now subscribed to our newsletters. In case you can't find any email from our side, please check the spam folder.

This is a subscriber only feature [Subscribe Now](#) to get daily updates on WhatsApp

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com