Incomes that are Exempted under the proposed new tax regime

By Preeti Motiani, ET Online | Updated: Feb 12, 2020, 01.48 PM IST

70 Deductions will be removed in the new regime. However, there are certain incomes that are exempt.

An individual taxpayer opting for the new tax regime would have to forgo 70 tax exemptions and deductions. These include deductions under: section 80C for a maximum of Rs.1.5 lakh claimed by investing in specified financial products, section 80D for health insurance premium paid, 80TTA for deduction on savings account interest earned from a bank or post office etc.

However, there are certain tax-exemptions that have been left unchanged in the Finance Bill, 2020.

Given below is the list of incomes that are exempted from income tax under the new tax regime as proposed in Budget 2020 :

- **Interest received on post office savings account balances**

  Interest received on post office savings account balance is exempted under section 10(15) (i) of the Income-Tax Act up to a certain limit. Interest received from post office savings account was exempted from tax via a notification dated June 3, 2011 for up to Rs.3, 500 in case of individual accounts and Rs.7, 000 in case of joint accounts per financial year.

  Chartered Accountant, Naveen Wadhwa says, "In the optional new tax structure, individual will not be able to avail deduction under section 80TTA, i.e., Deduction on interest received from savings account held with bank and post office. However, Taxpayers having Post Office Savings Account can still avail exemption on post office savings account interest up to the specified extent."

  The exemption on post office savings account can be availed before arriving at the final figure of gross taxable income. Wadhwa says, "To avail this exemption, a taxpayer would be required to deduct the interest received from post office savings account (as per the savings account held by them) from Income under the head other sources before arriving at His/her Gross Taxable Income."

- **Gratuity received from your Employer**
  If you receive gratuity from your employer, then the amount received by you will be exempt from tax as per specified limits. An employee is eligible to receive gratuity if He/She has worked for more than five years in an organization.

According to income Tax laws, Gratuity is Tax-exempt up to Rs.20 lakh in a lifetime for non-government employees. For government employees, all Gratuity received is tax-exempt, irrespective of the amount received by them.

"In FY 2020-21, if an individual receives gratuity, then maximum tax-exempt Gratuity will be Rs.20 lakh in His/her lifetime for non-government employees. Gratuity received due to death of an employee will remain Tax-exempt in the new tax structure as well without any maximum limit," says Wadhwa.

- **Amount received on maturity of life insurance**

The tax benefit on paying life insurance premiums to lower the tax liability under section 80C is not available in the new income tax slab structure. "However, maturity proceeds received from a life insurance company continues to be exempted from tax under section 10(10D) in the new tax regime," says Wadhwa.

- **Employer's contribution to your EPF/NPS account**

As per the Budget proposals, from FY 2020-21, contributions made by the employer to the employee's EPF, NPS and/or superannuation account will be exempted from tax provided the annual contribution to all the accounts (with reference to employee) does not exceed Rs.7.5 lakh in a financial year.

According to current Income Tax laws, an Employer can Contribute an amount equal to 12 percent of the employee's basic monthly salary to his/her EPF account. Similarly, an employer can contribute an amount equal to 10 per cent of the employee's basic salary to the Tier-I Account of NPS. In a superannuation account, an employer can contribute maximum of Rs.1.5 lakh exempted from tax in a financial year.

Wadhwa says, "The budget has proposed to restrict the tax-exempt superannuation, NPS and EPF account contribution by the employer to maximum of Rs.7.5 lakh in a financial year. Further, the budget proposal states that any interest or gains earned from the excess contribution will also be taxable in the hands of an employee."

The restriction on the amount of contribution to EPF and NPS account which will be tax-exempt is likely to impact those employees whose basic salary is more than Rs.60 lakh in year. To explain this with an example, for someone earning Rs.80 lakh per annum as basic salary will cross the threshold level of Rs.7.5 lakh towards NPS contribution.

- **Interest received up to 9.5% per annum from EPF**

The interest received from EPF account continues to be exempted from tax in the new tax regime as well, provided it does not exceed 9.5 %.

- **Interest and maturity amount received from PPF**

Under the new tax regime, an individual cannot avail tax benefit under section 80C on the contribution made to His/her PPF account. However, any interest accrued or maturity amount received from the PPF account continues to be tax-exempt in the new tax structure as well.

Wadhwa says, "A taxpayer opting for new tax regime is not required to pay any tax on the interest accrued in the PPF account. Further, any maturity amount received from the PPF account will be exempted from tax in the new tax regime."

- **Interest and payment received from Sukanya Samriddhi Yojana**

Individuals investing in **Sukanya Samriddhi Yojana** for their girl child will continue to receive tax-exempted interest in the account under the new tax regime. Further, the payment proceeds received from the scheme's account will remain exempted from tax. However, investment under this scheme will not be available for tax-break under section 80C under the new tax regime.

Wadhwa says, "The tax treatment of interest received and maturity amount from **Sukanya Samriddhi** Account is similar to PPF account."

- **Payment received from NPS account**

The lump sum amount received at the time of maturity of one's NPS account will remain tax-free in the new tax regime as well.

According to Tax rules, maximum of 60 percent of the accumulated corpus can be withdrawn tax-free from the Tier- I NPS account on maturity. The remaining 40 percent of the accumulated corpus has to be mandatorily used for buying annuity plans on maturity of NPS account.

Further, any partial withdrawal made from the Tier-I NPS account continues to remain tax-exempt in the new tax regime. According to current income tax laws, an individual can withdraw maximum of 25 percent of his own contribution from the NPS account which is exempted from tax.

Wadhwa says, "The proposed tax regime does not offer any tax benefit to employee's own contribution to the NPS account, however, deduction **under section 80CCD (2)** can be claimed for contribution made by the employer to employee's account. Further, payment received from NPS account at the time of closure or partial withdrawal (up to a specified limit) will remain tax-exempt in the new regime."

In the existing/old tax regime, an employee can get tax-break of Rs.1.5 lakh under **section 80CCD (1)** and an additional Rs.50, 000 **under section 80CCD (1B)** on his/her self-contribution to the NPS account. The contribution to Tier-I NPS account maximum of Rs.1.5 lakh comes under the overall limit of section 80C.

- **Gift from employer**

Though various tax exemptions and deductions received from the employer have been removed under the new tax regime, no changes have been made in the taxation of gift received from an employer.

Wadhwa says, "Gift received from employer for up to Rs.5, 000 remains exempted from tax under both - new and existing regime."

- **Food coupons**

The explanatory memorandum to the budget document states: "It is also proposed to amend rule 3 of the Rules subsequently, so as to remove exemption in respect of free food and beverage through vouchers provided to the employee, being the person exercising option under the proposed section, by the employer."

Abhishek Soni, CEO & founder, Tax2win.in says, "Though Finance bill has not mentioned any amendment in this regard, however, it is expected that rules regarding taxation of food coupon received from an employer will be revised and such benefit will not be available in the new tax regime. This would mean that if an employee is having such food coupons in his/her salary structure and claiming tax benefit on this will not be eligible to opt for new tax regime."

However, as currently there are no amendments regarding food coupons in the Finance Bill, therefore Wadhwa says, "Employees receiving food coupons from their employers will remain tax-exempt to an extent of Rs.50 per meal for 2 meals a day under the proposed tax regime."

It appears that some clarification is needed on this matter from the government.

- **Commutation of pension**

Commutation of pension refers to receiving part of pension as lump sum payment in lieu of future periodic payments.

Wadhwa says, "For non-government employees, one-third of the commuted pension received is exempted from tax under the current income tax laws, if gratuity is received. However, if an employee has not received gratuity, then half of the commuted pension received will be exempted from tax. Even if the taxpayer opts for the new regime, the taxation of commuted pension remains the same."

- **Leave encashment on retirement**

At the time of retirement, many companies offer payment in lieu of leaves that are not taken. Wadhwa says, "Leave encashment received by non-government employees is exempt from tax up to Rs.3 lakh. If the employee has opted for the new tax regime, then leave encashment received at the time of retirement will continue to remain tax-exempt in the new tax regime."

- **VRS Amount**

Monetary benefit received at the time of taking voluntary retirement is exempted from tax under the new regime. Wadhwa says, "Monetary benefit received by an employee due to opting for voluntary retirement scheme from his employer will remain exempt from tax for maximum up to Rs.5 lakh in both - new and existing tax regime."