Income Tax Act

~~1961~~ 2025

Salary

UNLEARN & RE-LEARN



with

CA C. MUTHU PALANIAPPAN

Salary

1 TRANSFORMATION

Provisions on salary are transitioned to Act 2025 and Rules 2026

2 ALLOWANCES

Allowances in Rules 2026 are re-classified and upgraded

3 PERQUISITES

Redundant perquisites in Act 2025 are removed and valuation in Rules 2026 are upgraded

5 ESOP & FORMS

Taxation on ESOP
Forms are upgraded and linked under Rule 2026

The Transformation

Q1.5 How has the volume and complexity of the legislation changed in the new Act?

Ans. The Income-tax Act, 2025 contains **536 sections and 16 schedules** compared to the **819 sections and 14 schedules** of the 1961 Act. In the new Act, the overall complexity has been reduced because:
(i) **Explanations and provisos** have been incorporated into the **main text** of the sections;
(ii) **Tables and formulas** replace verbose **narrative provisions**;
(iii) Redundant and obsolete provisions have been removed; and
(iv) Cross-references are clearer and more direct.

Similarly, the Income-tax Rules have been reduced from **511 rules with 399 forms** to **333 rules with 190 forms**.

The Transformation

Q1.15 How does the Income Tax Act, 2025 ensure continuity and smooth transition from the Income-tax Act, 1961?

Ans: Tax law does not operate strictly within annual boundaries. While some compliances such as TDS, TCS, Advance tax payments, etc., occur within the financial year, others—such as return filing, assessments, reassessments, appeals, penalties, and refunds—often extend well beyond the year, sometimes for many years in select cases. Therefore, when a new tax law comes into force, the old and new laws must coexist for a transitional period. The Income Tax Act, 2025 acknowledges this practical reality and handles the transition through Section 536, the **repeal and savings** clause.

Section 536 of the Income Tax Act, 2025:

- **Contains 22 sub clauses addressing various transitional situations.**
- **Ensures the old tax framework continues to apply to earlier years.**
- **Aligns terminology between the two Acts.**
- **Allows the law to be modernised without unsettling established positions.**

Structural Transformation

Act ~~1961~~ 2025

Provision	Act 1961	Act 2025
Salaries - Charging Section	15	15
Income from Salary	17(1)	16
Perquisites	17(2)	17
Profits in lieu of Salary	17(3)	18
Deduction from Salaries	16	19
5 Exemptions on Salary	10(_)	19

Rules ~~1962~~ 2026

Subject	Rules 1962	Rules 2026
House Rent Allowance	2A	279
Special Allowance	2BB	280
Valuation of perquisites	3	15
Approved Hospital	3A	18
Annual Accretion	3B	16
Specified Employee	3C	17
GTI for Medical Expense	3D	19



Charging Section

Act 1961:

15(1)The following income shall be chargeable to income-tax under the head "Salaries"-

(a) any salary due from an employer **or a former employer** to an assessee in **the previous year**, whether paid or not;

(b) any salary paid or allowed to him in **the previous year** by or on behalf of an employer **or a former employer** though not due or before it became due to him;

(c) any arrears of salary paid or allowed to him in **the previous year** by or on behalf of an employer **or a former employer**, if not charged to income-tax for any earlier previous year.

Act 2025:

15(1)The following income shall be chargeable to income-tax under the head "Salaries"-

(a) any salary due from an employer ~~**or a former employer**~~ to an assessee in the ~~**previous year**~~ **tax year**, whether paid or not;

15(2) For the purposes of sub-section (1), **employer includes former employer**.



Charging Section

Act 1961:

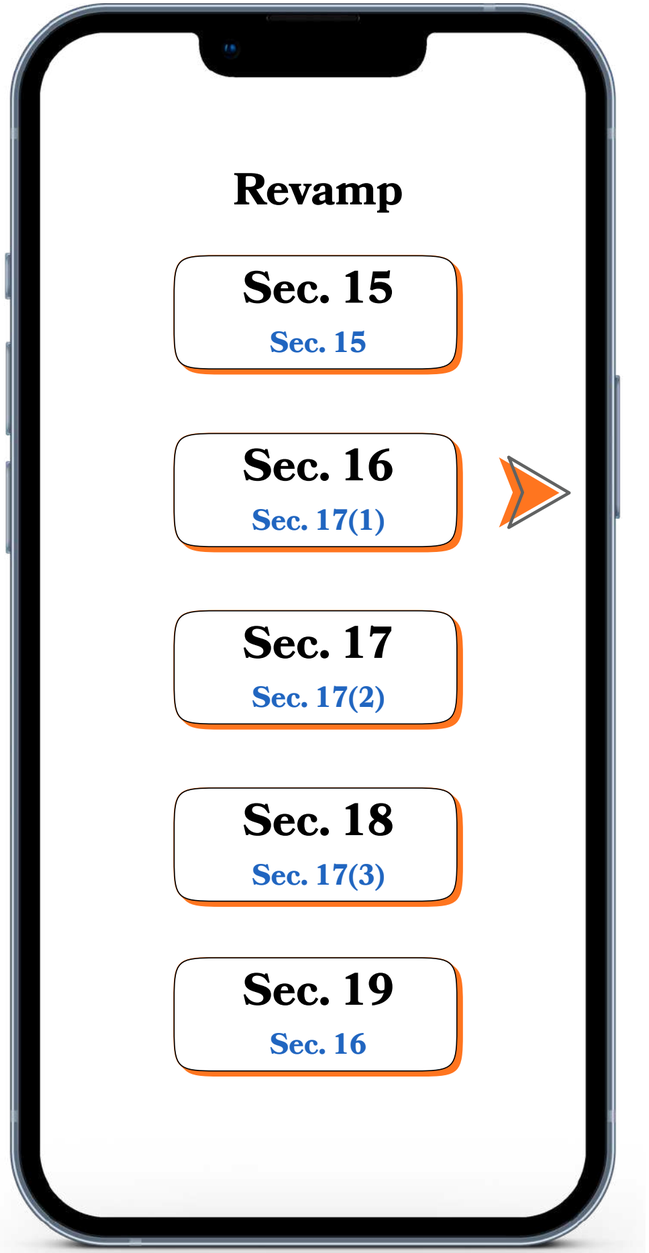
Explanation 1 - **For the removal of doubts, it is hereby declared that where** any salary paid in advance is included in the total income of any person for any **previous year** it shall not be included again in the total income of **the** person when the salary becomes due.

Explanation 2.-Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as "salary" for the purposes of this section.

Act 2025:

15(3) ~~**For the removal of doubts, it is hereby declared that where**~~ **if** any salary paid in advance is included in the total income of any person for any **tax year** it shall not be included again in the total income of ~~**the**~~ **such** person when the salary becomes due.

(4) Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as salary for the purposes of this section.



Income from Salary

Act 1961: For the purposes of **sections 15 and 16 and of this section,**-

(1) "salary" includes

Act 2025: 16. For the purposes of this **Part**, "salary" includes—

(a) wages;

(b) any annuity or pension;

(c) any gratuity;

(d) any fees or commission;

(e) perquisites;

(f) profits in lieu of, or in addition to, any salary or wages;

Split in Act 2025

(g) any advance of salary;

(h) leave salary;

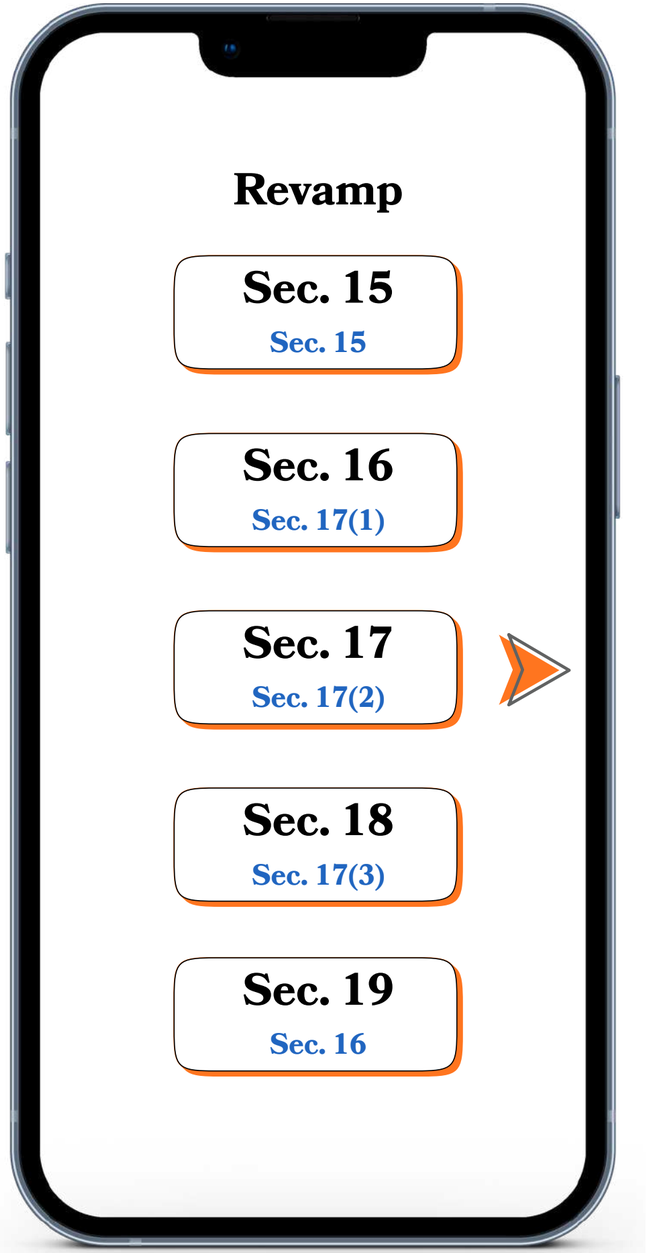
(i) Contribution to RPF;

(j) Transfer of URPF to RPF;

(k) Employer contribution to NPS u/s 124; and

(l) Central Government contribution to the Agniveer Corpus Fund u/s 125.

No notable changes



Perquisites

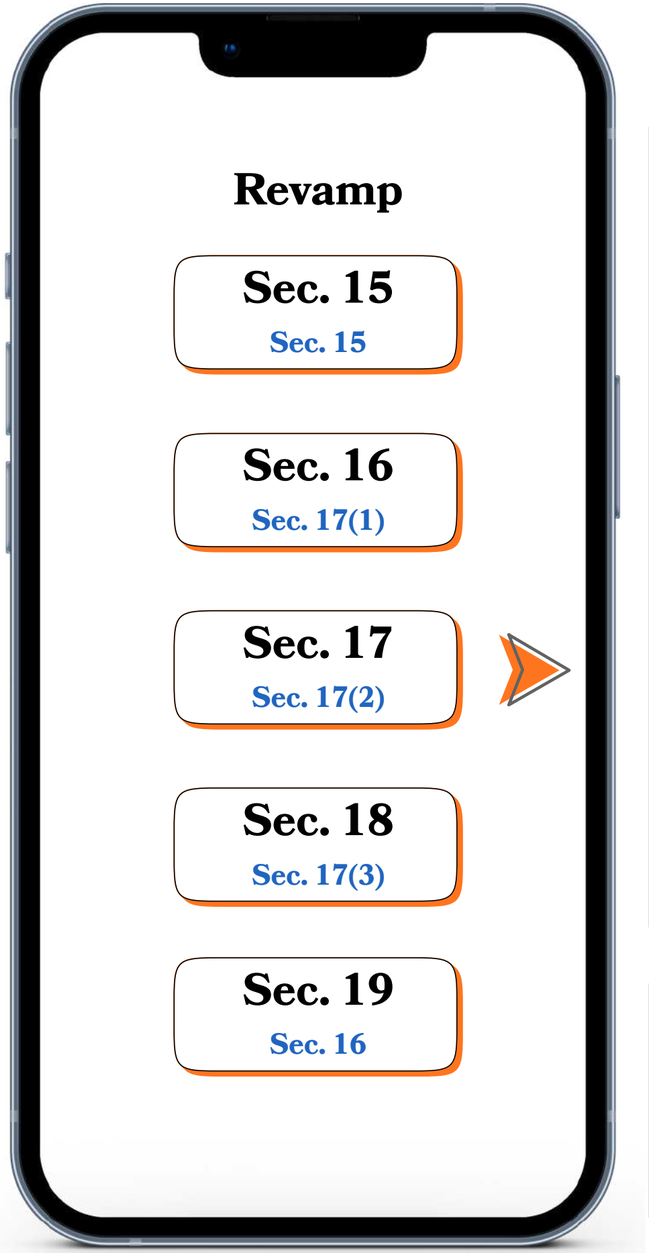
Act 1961:
17(2)(ii) the value of any accommodation provided to the assessee by his employer at a concessional rate.
Explanation.-For the purposes of this sub-clause, it is clarified that accommodation shall be deemed to have been provided at a concessional rate, if the value of accommodation computed in such manner as may be prescribed, exceeds the rent recoverable from, or payable by, the assessee;

Act 2025:
17(1)(b) the value of any accommodation, computed in such manner as may be prescribed, provided to the assessee by his employer at a concessional rate which is in excess of rent recoverable from or payable by the assessee;

Clause (ii) and its explanation is combined in Act 2025

Act 1961: 17(2)(viii) the value of any other **fringe** benefit or amenity as may be prescribed

Act 2025: 17(1)(e) the value of any other ~~**fringe**~~ benefit or amenity as may be prescribed



Not treated as Perquisites

Perquisite	Act 1961 Proviso	Act 2025 17(2)
Medical Treatment - Employer Hospital	(i)	(a)
Medical Treatment - Government Hospital/ Prescribed Disease	(ii)(a)/(b)	(b)
Medical Treatment - COVID-19	(ii)(c)	X
Medical Insurance - Employee - Approved Scheme	(iii)	(c)
Medical Insurance - Employee Family - 80D | 126	(iv)	(d)
Medical Treatment - Outside India - Employer Spent	(vi)	(f)
Medical Treatment - Outside India - Employee Spent	(vii)	(f)

Perquisite	Act 1961	Act 2025
Vehicle Journey - Residence to Office or other place of work & Vice Versa	17(iii) Exp.	17(2)(e)



Perquisites

Act 1961:

17(2) - Proviso - (vi) any expenditure incurred by the employer on-

(1) medical treatment of the employee, or any member of the family of such employee, outside India;

(2) travel and stay abroad of the employee or any member of the family of such employee for medical treatment;

(3) travel and stay abroad of one attendant who accompanies the patient in connection with such treatment,

Act 2025:

17(2)(f) any expenditure incurred by the employer, **or any sum paid by the employer in respect of any expenditure actually incurred by the employee**, on-

(vii) any sum paid by the employer in respect of any expenditure actually incurred by the employee for any of the purposes specified in clause (vi) subject to the conditions specified in or under that clause:

~~**Provided further that for the assessment year beginning on the 1st day of April, 2002, nothing contained in this clause shall apply to any employee whose income under the head "Salaries" (whether due from, or paid or allowed by, one or more employers) exclusive of the value of all perquisites not provided for by way of monetary payment, does not exceed one lakh rupees.**~~



Perquisites

Act 1961:

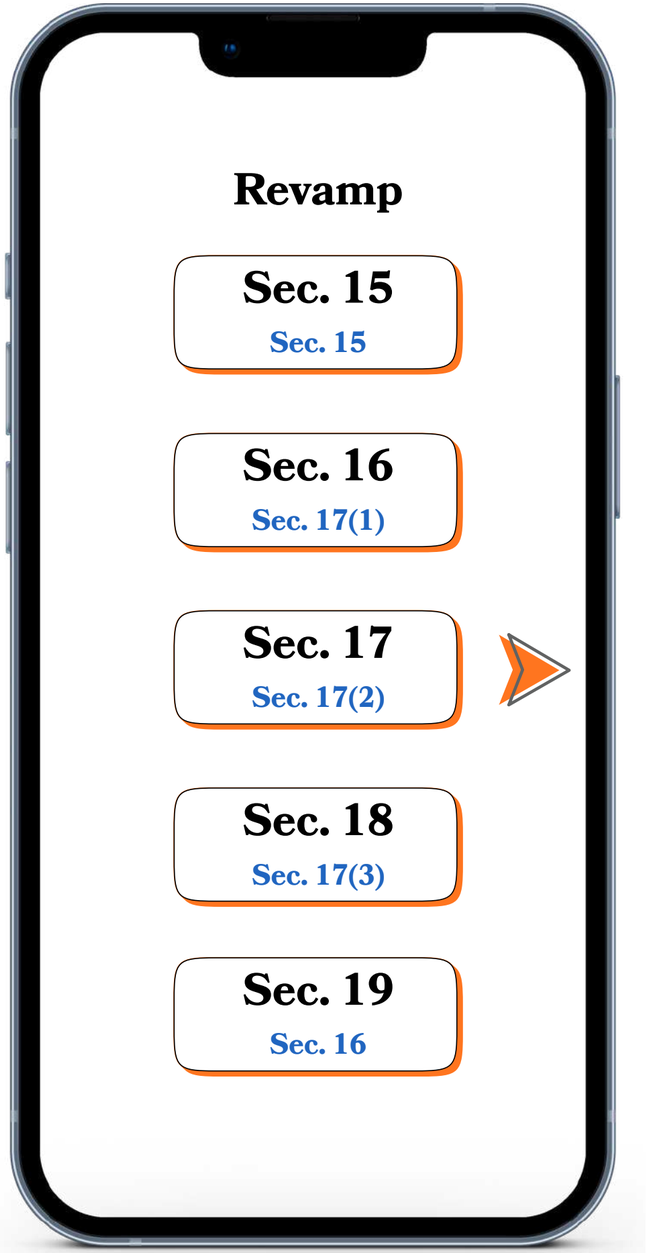
17(2) - Proviso - (vi)... subject to the condition that-
(A) the expenditure on medical treatment and stay abroad shall be excluded from perquisite only to the extent permitted by the Reserve Bank of India; and
(B) the expenditure on travel shall be excluded from perquisite only in the case of an employee whose gross total income, as computed before including therein the said expenditure, does not exceed such amount as may be prescribed;

Act 2025:

17(3) For the purposes of sub-section (2)(f),—
(a) the expenditure on medical treatment and stay abroad shall be excluded from the perquisite only to the extent permitted by the Reserve Bank of India; and
(b) the expenditure on travel shall be excluded from perquisite only in the case of an employee whose gross total income, as computed before including therein the said expenditure, does not exceed such amount as may be prescribed.

RBI Limit
Max USD 250,000

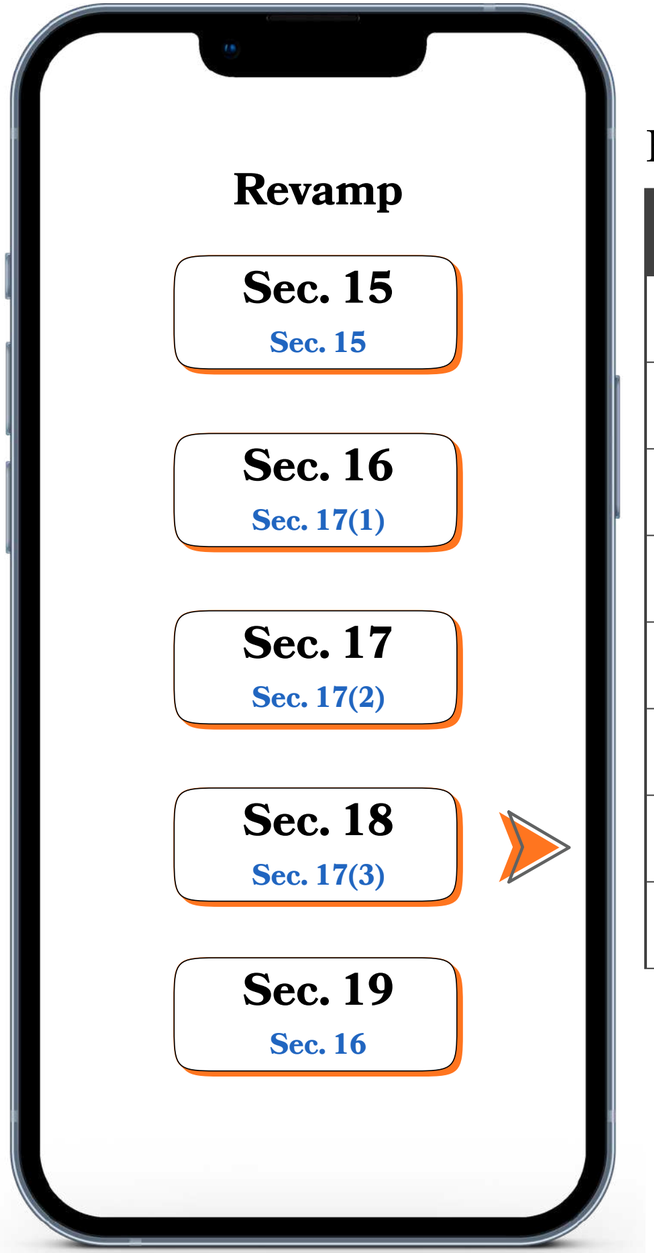
GTI
Upto 800,000



Perquisites - Relevant Definition

Definition	Act 1961	Act 2025
Fair Market Value	17(2)(vi) Expl. (d)	17(4)(a)
Family	17(2) Expl. (ii)	17(4)(b)
Gross Total Income	17(2) Expl. (iii)	17(4)(c)
Hospital	17(2) Expl. (i)	17(4)(d)
Option	17(2)(vi) Expl. (e)	17(4)(e)
Specified Security	17(2)(vi) Expl. (a)	17(4)(f)
Sweat Equity Shares	17(2)(vi) Expl. (b)	17(4)(g)
Value of specified security or sweat equity	17(2)(vi) Expl. (c)	17(4)(h)

All definition relevant to perquisites is grouped in sec. 17(4)



Profits in Lieu of Salary

Exclusion list u/s 18(2) *[Old Ref. 17(3)(ii)]*:

Exclusion	Act 1961	Act 2025
Gratuity	Yes	**No**
Pension	Yes	**No**
Retrenchment	Yes	**No**
PF Contribution	Yes	Yes
PF Withdrawal	Yes	Yes
Specified Security	Yes	Yes
Super Annuation	Yes	Yes
House Rent Allowance	Yes	Yes

Gratuity, Pension and Retrenchment are no more an exemption. Hence removed from this list



Deduction

Definition	Act 1961	Act 2025
Standard Deduction	16(ia)	19 Table Sl. No. 2
Entertainment Allowance	16(ii)	**No Deduction**
Professional Tax	16(iii)	19 Table Sl. No. 1
Gratuity	10(10)	19 Table Sl. No. 3 to 6
Pension	10(10A)	19 Table Sl. No. 7 to 9
Retrenchment Compensation	10(10B)	19 Table Sl. No. 10 & 11
Voluntary Retirement Scheme	10(10C)	19 Table Sl. No. 12
Leave Salary	10(10AA)	19 Table Sl. No. 13 & 14

All conditions on Sl. No. 3 to 14 is now provided in section 19(2)



Deduction - Table

Sl. No.	Nature of Sum	Amount of Deduction
1	Sum paid by the assessee as a tax on employment as per article 276(2) of the Constitution, leviable by or under any law.	Entire Amount **How is it restricted to 2,500?**
2	Standard deduction	(a) ₹ 75000 or the salary, whichever is less, where income-tax is computed under section 202(1); (b) ₹ 50000 or the salary, whichever is less, in any other case.
~~Entertainment Allowance u/s 16(ii)~~		



Deduction - Table

Sl. No.	Nature of Sum	Act 1961
3 to 6	Gratuity	10(10)
7 to 9	Pension	10(10A)
10 & 11	Retrenchment Compensation	10(10B)
12	Voluntary Retirement Scheme	10(10C)
13 & 14	Leave Salary	10(10AA)

Allowances - All Tax Payers

Allowance	Rules 1962 - 2BB	Rules 2026 - 280	Max Annual Benefit
Children Education (/Month/Child - up to 2)	100	3,000	72,000
Children Hostel (/Month/Child - up to 2)	300	9,000	216,000
Transport Allowance - Blind, Deaf, Dumb, Orthopedically Handicapped (Lower) - Per Month			
• Metro Cities	15,000 + DA	3,200	180,000 + DA
• Other Cities	8,000 + DA	3,200	96,000 + DA
Employees in Transport System (70% of such allowance up to __/Month)	10,000	25,000	300,000
Compensatory Allowance - per Month			
• Field Area	2,600	13,500	162,000
• Modified Field Area	1,000	8,000	96,000

Allowances - Armed Forces

Allowance	Rules 1962 - 2BB	Rules 2026 - 280	Max Annual Benefit
Counter Insurgency Allowance (per Month)	3,900	22,000	264,000
Special Allowance - High Altitude (per Month)			
• 9,000 to 15,000 Feet	1,060	4,500	54,000
• Above 15,000 Feet	1,600	7,000	84,000
• J&K + Ladakh + Sikkim + Uttarakhand	800	30,000	360,000
Special Compensatory Highly Active Field Area Allowance (per Month)	4,200	22,000	264,000
Island Allowance - Duty or Special Duty (Armed Forces) - Andaman + Lakshadweep - per Month			
• Capital Town	3,250	10% of Basic	Variable
• Difficult Areas	3,250	16% of Basic	Variable
• More Difficult Areas	3,250	20% of Basic	Variable
Siachen Allowance (Month)	7,000	42,500	510,000

Allowances - Others

Employees - Mine

Allowance	Rules 1962 - 2BB	Rules 2026 - 280
Underground Allowance	800	15% of Basic

Employees - Tough Location

Allowance	Rules 1962 - 2BB	Rules 2026 - 280	Max Annual Benefit
Special Compensatory Allowance (per Month)			
• Tough Location I	200 to 1,300	7,000	84,000
• Tough Location II		4,500	54,000
• Tough Location III		1,500	18,000
Scheduled Tribal Area and Bad Climate	200	1,500	18,000

Allowances - House Rent

Sec. 10
Clause 13A
Rule 2A

Sec. 11
Sch. III - Table Sl. No. 11
Rule 279

Least of the following is exempt:

1. Actual Amount of allowance
2. Rent Paid (-) 10% of Salary
3. Percentage of Salary

City	Rules 1962 - 2A	Rules 2026 - 279
Mumbai	50%	50%
Kolkata	50%	50%
Delhi	50%	50%
Chennai	50%	50%
Hyderabad	40%	50%
Pune	40%	50%
Ahmedabad	40%	50%
Bengaluru	40%	50%
Others	40%	40%

Valuation of Perquisites - Motor Car

Motor Car owned by Employer

Usage	Expense by	Capacity	Perquisite	(+) Chauffeur
Personal & Official	Employer	≤ 1.6 L	~~1,800/ Month~~ 5,000/ Month	~~900/ Month~~ 3,000/ Month
		> 1.6 L	~~2,400/ Month~~ 7,000/ Month	
	Employee	≤ 1.6 L	~~600/ Month~~ 2,000/ Month	
		> 1.6 L	~~900/ Month~~ 3,000/ Month	
Official	Any	Any	NIL	
Personal	Employer	Any	Running & Maintenance Expenditure + Chauffeur + 10% on cost - Recovered	

Rule 3 Table II

Rule 15 Table II

Valuation of Perquisites - Motor Car

Motor Car owned by Employee

Usage	Expense by	Capacity	Perquisite
Official	Any	Any	NIL
Personal	Any	Any	NIL
Both	Employer	≤ 1.6 L	Actual Exp (-) ~~1,800/ Month~~ 5,000/ Month
		> 1.6 L	Actual Exp (-) ~~2,400/ Month~~ 7,000/ Month
	Employee	Any	Nil

Rule 3 Table II

Rule 15 Table II

Any other automotive owned by Employee

Usage	Expense by	Capacity	Perquisite
Official	Any	Any	Nil
Personal	Any	Any	Nil
Both	Employer	Any	Actual Exp (-) ~~900/Month~~ 3,000/ Month
	Employee	Any	Nil

Valuation of Perquisites - Others

Perquisites	Rules 1962	Rules 2026
Education Facility (Similar institution cost (-) Recovered), where such benefit per child exceeds		
• owned & maintained by Employer	1,000/ Month	3,000/ Month
• by reason for his employment	1,000/ Month	3,000/ Month
Other Education Facility	Expenditure by Employer (-) Recovered	
Interest Free/ Concessional Loan - Not a perquisite if the loan amount ≤	20,000	200,000
Value of free food & non-alcoholic beverages - Not a perquisite if value per meal ≤	50 OTR	200 Both
Gift from Employer - Not a perquisite if value <	5,000	15,000

Rule 3
Sub-rule 3 to 7

Rule 15
Table III & IV

Valuation of Perquisites - Others

Perquisites	Rules 1962	Rules 2026
Education Facility (Similar institution cost (-) Recovered), where such benefit per child exceeds		
• owned & maintained by Employer	1,000/ Month	3,000/ Month
• by reason for his employment	1,000/ Month	3,000/ Month
Other Education Facility	Expenditure by Employer (-) Recovered	
Interest Free/ Concessional Loan - Not a perquisite if the loan amount ≤	20,000	200,000
Value of free food & non-alcoholic beverages - Not a perquisite if value per meal ≤	50 OTR	200 Both
Gift from Employer - Not a perquisite if value <	5,000	15,000

Rule 3
Sub-rule 3 to 7

Rule 15
Table III & IV

ESOP - Rationalisation

ESOP is a perquisite u/s **17(1)(d)** ***[Old 17(2)(vi)]***
Tax Deduction on ESOP was referred in:

Sec. - Act 1961	Description	Sec. - Act 2025
191(2)	Direct Payment	391(2)
192(1C)	Salary	392(3)
156(2)	Notice of demand	289(3)

ESOP - Rationalisation

Act 1961

192 (1C) For the purposes of deducting or paying tax under sub-section (1) or sub-section (1A), as the case may be, a person, being an eligible start-up referred to in **section 80-IAC**, responsible for paying any income to the assessee being perquisite of the nature specified in sub-**clause (vi) of clause (2) of section 17** in any previous year **relevant to the assessment year, beginning on or after the 1st day of April, 2021**, shall deduct or pay, as the case may be, tax on such income within fourteen days—

(i) after the expiry of **forty-eight months from the end of the relevant assessment year**; or

(ii) from the date of the sale of such specified security or sweat equity share by the assessee; or

(iii) from the date of the assessee ceasing to be the employee of the person,

whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.

Act 2025

391(2) + 392(3) Refers to section 289(3). ***[Erstwhile Sec. 156]***

289 (3) Where the income of the assessee of any tax year includes income of the nature specified in **section 17(1)(d)** and such specified security or sweat equity shares referred to in the said section are allotted or transferred directly or indirectly by the current employer, being an eligible start-up referred to in **section 140**, the tax or interest on such income included in the notice of demand referred to in sub-section (1) shall be payable by the assessee within fourteen days-

(a) after the expiry of **sixty months from the end of the relevant tax year**; or

(b) from the date of the sale of such specified security or sweat equity share by the assessee; or

(c) from the date of the assessee ceasing to be the employee of the employer who allotted or transferred him such specified security or sweat equity share,

whichever is the earliest.

Forms

Other Reference	Old	New	Notable Changes
Previous Employer Data	12B	122	Details of any other income chargeable to tax under any other head of income
Other Income	12BAA		
Perquisites | PILS	12BA	123	None
Claim by Employee for TDS	12BB	124	Relationship with landlord
Salary TDS Certificate	16	130	• Value of perquisites and PILS linked to Form 123 • Allowances and Deduction shuffling
Salary TDS Return	24Q	138	None

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Questions

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Thank You

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