

TAX FLASH NEWS

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Clarification regarding exemptions/ deductions under the new tax regime

The Finance Act 2020 has inserted a new section 115BAC, wherein an individual gets an option to choose between the existing tax rates and the new tax regime (concessional tax rates without considering prescribed exemptions/ deductions).

However, given the introduction of this new Section 115BAC, there had been a lack of clarity on the exemptions/ deductions which the taxpayer has to forgo under the new tax regime.

In order to address such queries, the Central Board of Direct Taxes (CBDT) vide notification¹ has amended The Income-tax Rules, 1962 to prescribe certain exemptions which can be availed/ not availed by the taxpayers under the new tax regime, as applicable.

Key points of the clarifications issued by CBDT

As per the Finance Act, 2020, new optional tax regime is provided for individuals and HUF with modified tax slabs and rates prescribed in that section². On satisfaction of prescribed conditions, an individual or HUF may opt to compute tax in respect of total income, without considering prescribed exemptions/ deductions, while filing his/ her India tax return³ as per the new slab rates, instead of the existing tax regime. Section 115BAC(2) itself prescribes list of deductions/ exemptions which cannot be claimed under the new tax regime.

The Notification¹ issued by CBDT has amended the Rules wherein the following set of exemptions/ deductions can be claimed even under the new tax regime:

- Exemption⁴ for allowance to meet cost of travel on tour or transfer;
- Exemption⁵ for allowance on daily expenses on transfer, tour allowance for travel, for official purposes to meet the travel and daily expenses
- Exemption⁶ on conveyance allowance for meeting conveyance expenditure incurred in course of performing official duties provided that free conveyance is not provided by the employer.
- Further, blind, deaf and dumb or orthopedically handicap employees can also claim ad-hoc exemption⁷ of transport allowance of ₹3,200 per month.

Separately, exemption⁸ for free food and non-alcoholic beverages provided by the employer even during working hours at office or business premises has been withdrawn for employees who have opted for the new tax regime.

Our comments

The clarifications issued by CBDT clears some of the ambiguity on the set of exemptions/ deductions that can be claimed by the taxpayer in case such an individual opts for the new tax regime.

¹ Notification No. 38/2020 dated 26.06.2020

² Section 115BAC – Please refer the budget bulletin (<https://home.kpmg/content/dam/kpmg/in/pdf/2020/02/india-union-budget-2020.pdf>) (pg no: 19) for details of the said section.

³ Section 139(1) of the Income-tax Act, 1961

⁴ sub-clause(a) of sub-rule (1) in rule 2BB of the Rules

⁵ sub-clause(b) of sub-rule (1) in rule 2BB of the Rules

⁶ sub-clause(c) of sub-rule (1) in rule 2BB of the Rules

⁷ Rule 2BB of the Rules

⁸ Rule 3 of the Rules

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