

BENEFITS FOR RETIRED EMPLOYEES UNDER INCOME TAX LAW

- ▶ Higher Basic exemption limit
- ▶ Exemption from tax on amount received as Gratuity, Commuted Pension, Leave Encashment and from Provident Fund
- ▶ Higher deduction for Medical Insurance Premium
- ▶ Higher deduction limit for interest from Banks and Post Office
- and many more



Income Tax Department
Central Board of Direct Taxes

BENEFITS UNDER DIRECT TAXES FOR RETIRED EMPLOYEES

I have retired from service, after serving for 35 years, at an age of 60 years. I am in receipt of various retirement benefits like gratuity, commuted pension, leave encashment, GPF etc. I have a lot of questions regarding taxability of these benefits in my hands to which I seek answers.

What is the Basic Exemption Limit for Retired employees like me under I-T Act, 1961? Is the Pension received after retirement taxable?

For ordinary individual tax-payers the basic exemption limit, upto which he is not required to pay any tax is presently fixed at Rs. 2.50 lakhs for AY 2021–22. However, for Retired employees who are also Senior Citizens between 60 and 80 years of age, the basic exemption limit is fixed at a higher figure of Rs. 3 lakhs. For super senior citizens who are above 80 years of age, the exemption limit is set at Rs. 5 Lakh. The pension received by you is taxable under the Income head 'Salaries' beyond the exemption limit.

Will I get benefits of Standard Deduction?

From AY 2020–21, a standard deduction upto Rs. 50,000 against salary income earned during the year has been introduced under u/s 16 of I-T Act, 1961. A retired employee above 60 years of age who is in receipt of pension income from his former employer can claim a deduction upto Rs. 50,000 against such salary income.

Am I exempt from payment of advance tax?

Every person whose estimated tax liability for the year is Rs.10,000 or more, is liable to pay advance tax. However, a retired employee above 60 years of age need not to pay any advance tax, provided he does not have any income under the head "Profits and Gains of Business or Profession".

What are the tax rates applicable to me for AY 2021–22?

In respect of AY 21–22, you can opt for either old or new tax regime as under:

INCOME TAX RATE SLABS FOR SENIOR CITIZENS FROM 60 TO 80 YEARS OF AGE:

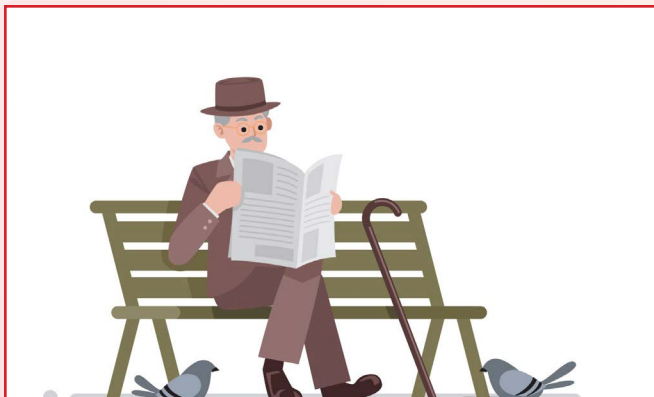
INCOME SLAB	RATE OF TAX
Upto Rs. 3,00,000	Nil
Rs. 3,00,001 to Rs. 5,00,000	5% (if taxable income is upto Rs. 5 lakhs, the tax liability is Nil on account of tax relief u/s 87A.)
Rs. 5,00,001 to Rs. 10,00,000	Rs. 10,000 + 20% of amount above Rs. 5,00,000
Above Rs. 10,00,000	Rs. 1,10,000 + 30% of amount above Rs. 10,00,000
Surcharge (subject to Marginal Relief)	If taxable income is more than 50 lakhs (then percentage vary from 10% to 37%)
Health & Education Cess	4% of (Income Tax + Surcharge).

INCOME TAX SLABS FOR SUPER SENIOR CITIZENS (80 YEARS AND ABOVE IN AGE)

INCOME SLAB	RATE OF TAX
Upto Rs. 5,00,000	Nil
Rs. 5,00,001 to Rs. 10,00,000	20% above Rs. 5,00,000
Above Rs. 10,00,000	Rs. 1,00,000 + 30% above Rs. 10,00,000
Surcharge (subject to marginal Relief)	If taxable income is more than Rs. 50 lakhs (then percentage vary from 10% to 37%)
Health & Education Cess	4% of (Income Tax + Surcharge)

NEW PERSONAL INCOME TAX REGIME

INCOME SLAB	RATE OF TAX
Upto Rs.2,50,000	Nil
Rs. 2,50,001 to Rs. 5,00,000	5%
Rs. 5,00,001 to Rs. 7,50,000	Rs.12,500 + 10% of amount above Rs. 5 lakhs
Rs. 7,50,001 to Rs. 10,00,000	Rs.37,500 + 15% of amount above Rs. 7.5 lakhs
Rs. 10,00,001 to Rs. 12,50,000	Rs.75,000 + 20% of amount above Rs. 10 lakhs
Rs. 12,50,001 to Rs. 15,00,000	Rs. 1,25,000 + 25% above Rs. 12,50,000
Above Rs. 15,00,000	Rs. 1,87,500 + 30% above Rs. 15,00,000
Surcharge (subject to Marginal Relief)	If taxable income is more than Rs. 50 lakhs (then percentage vary from 10% to 37%)
Health & Education Cess	4% of (Income Tax + Surcharge).



Is the Gratuity received by me on retirement exempt from tax?

Yes. The gratuity received on retirement is exempt under following conditions:

- (i) Any death-cum-retirement gratuity received under the revised Pension Rules of the Central Govt. or Central Civil Service Pension Rules, 1972.
- (ii) Any gratuity received under the Payment of Gratuity Act, 1972 to the extent does not exceed an amount calculated u/s 4(2) and 4(3) of that Act.
- (iii) Any other gratuity received by an employee on the retirement or on termination of his employment or received by his widow, children or dependents on his death to the extent provided therein.

(Section 10(10) of the I-T Act, 1961)

Is the amount received by me on Commutation of Pension exempt from tax?

Yes. The amount received on Commutation of Pension is exempt under following conditions:

- (i) Any payment in commutation of pension received under the Civil Pension (Commutation) Rules of Central Govt., or under any similar scheme.
- (ii) Any payment in commutation of pension received under any scheme of any other employer to the extent provided in the Income-tax Act, 1961.
- (iii) Any payment in commutation of pension received from a fund under Clause 23AAB i.e. Fund set up by LIC on or after 1st August, 1966.

(Section 10(10A) of the I-T Act, 1961)

Tax on Family Pension

Family Pension is taxed under the head "Income from Other Sources."

Family Pension paid as regular monthly income (uncommuted pension) by the employer to a family member of an employee in the event of his/ her death. Family Pension is taxable after allowing a deduction of 33.33% or Rs. 15000, whichever is less.

Is the amount received under Leave Encashment exempt from tax?

Yes. The amount received on Leave Encashment is exempt under following conditions:

- (i) Any payment received by an employee of the Central Govt. or a State Govt. as the cash equivalent of the leave salary in respect of the period of Earned Leave at his credit at the time of his retirement (whether) on superannuation or otherwise.
- (ii) Any such payment (as given in para (i) above) received by an employee other than employee Central or State Govt. in respect of so much of period of EL as does not exceed 10 months calculated on the basis of the average salary drawn by the employee during the period of 10 months immediately preceding his retirement.

(Section 10(10AA) of the I-T Act, 1961)

Is the amount received from a Provident Fund exempt from tax?

Yes. The amount received from a Provident Fund is exempt from tax (when the Provident Funds Act, 1925 applies or payment is from any other Provident Fund set up by the Central Government and notified by it on this behalf in Official Gazette). Also the accumulated balance due and becoming payable to an employee participating in a recognized provident fund to the extent provided in Rule 8 of Part A of 4th Schedule.

(Section 10(11) & 10(12) of the I-T Act, 1961).

Is the amount received from a Superannuation Fund exempt from tax?

Yes. The amount received from an approved Superannuation Fund is exempt from tax subject to certain conditions.

(Section 10(13) of the I-T Act, 1961)

What is the deduction limit for Medical Insurance Premium?

From AY 2020–21, the maximum limit for deduction u/s 80D in respect of payment made for health insurance premium in respect of a retired employee above 60 years of age has been allowed at Rs. 50,000.

Deduction upto Rs. 50,000 is also allowed for medical expenses incurred on the health of a Senior Citizen provided no amount is paid for health insurance of such person. For claiming this deduction, it is mandatory that the health insurance premium/ medical expenses are paid by any mode other than cash.

What is the deduction limit in respect of Medical Treatment?

In case you have paid any amount during the Financial Year 2018–19 (relevant to AY 2019–20) or after that period for medical treatment of specified disease or ailment and you are a senior citizen, you can claim as deduction an amount of Rs. 1,00,000 from your income. (Section 80DDB of the I-T Act, 1961)

Can you tell me the deduction limit for interest earned from Bank and Post Office in my case?

Individual tax-payers other than senior citizens are allowed maximum deduction of Rs. 10,000 u/s 80TTA in respect of interest income from saving bank accounts. However, from AY 2019–20 onwards, a retired employee above 60 years of age can claim deduction upto Rs. 50,000 u/s 80TTB in respect of interest income earned on not only savings bank accounts but also on interest income earned on any bank deposits or any deposit with post office or cooperative banks. Further, if such interest income earned by him during the year is less than Rs. 50,000, the payer bank/ post office will not deduct any tax from such interest income.

Can you enlighten me on income tax provision on Transfer of Capital asset under 'Reverse Mortgage Scheme'?

The transfer of a residential house property by way of a reverse mortgage as per the Reverse Mortgage Scheme made and notified by the Central Government for senior citizens, is not liable to be taxed as Capital Gain (nor under any other head of income).

What is the eligibility to file Income Tax Return manually?

A very senior citizen aged 80 years or more filing his return of income in Form SAHAJ (ITR-1) or SUGAM (ITR-4) and having total income of more than Rs 5 lakhs or having a refund claim can file his return of income in

paper mode. For such individuals, electronic filing of ITR 1 or ITR 4 (as the case may be) is not mandatory. However, he may opt for e-filing, if he chooses to do so.

What are the conditions under which certain specified senior citizens are not required to file ITR?

From AY 2022–23, in case of senior citizens of the age of 75 years or above having only pension income and interest income only from the account(s) maintained with a bank in which they receive such pension, such senior citizen shall not be required to file their ITRs. The specified bank shall be responsible for computing their total income and deducting tax thereon after giving effect to various deductions allowable under Chapter VI-A and rebate u/s 87A of the Act.

(Section 194P of Income-tax Act, 1961)



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This Brochure should not be construed as an exhaustive statement of the law. For details reference should always be made to the relevant provisions in the Acts and the Rules

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