

TDS on Salary — Comprehensive Reference Guide

Allowances, Exemptions & Tax Computation FY 2025-26 / AY 2026-27

Income Tax Act, 1961

Note: This guide covers FY 2025-26 (AY 2026-27). The New Tax Regime is the default regime. Most allowance exemptions under Sec 10(14) are not available in the New Regime. Always refer to the latest Finance Act and CBDT circulars for updates.

Section 1: Allowances, Reimbursements & Perquisites Reference Table (FY 2025-26)

The table below covers all major allowances with their applicable section, maximum limit, availability under Old and New Tax Regimes, and documentation requirements.

Allowance / Reimbursement	Section	Maximum Limit / Basis	Old Regime	New Regime	Conditions & Documentation
House Rent Allowance (HRA)	Sec 10(13A)	Least of: (a) Actual HRA received (b) 50% of Basic+DA (Metro) / 40% (Non-Metro) (c) Rent paid minus 10% of Basic+DA	✓ Exempt	✗ Not available	Rent receipts; landlord PAN if annual rent > ₹1 lakh; rental agreement. Employee must actually reside in rented premises.
Leave Travel Allowance (LTA)	Sec 10(5)	Actual travel cost (economy air / AC-2 rail) for 2 journeys in a block of 4 calendar years	✓ Exempt	✗ Not available	Travel tickets / boarding passes required. Domestic travel only; shortest route applies. One journey can be carried forward to next block.
Standard Deduction	Sec 16(ia)	₹50,000 — Old Regime ₹75,000 — New Regime	✓ ₹50,000	✓ ₹75,000	No documentation required. Auto-applied to all salaried employees and pensioners.
Uniform / Dress Allowance	Sec 10(14)(i) r/w Rule 2BB	Actual amount spent, within reasonable employer-notified limits	✓ Exempt (actual expenditure)	✗ Taxable	Bills / receipts for purchase. Uniform must be required for official duty and not suitable for everyday personal use.
Travel Allowance (Official Duty — field visits, client travel, out-station duty)	Sec 10(14)(i) r/w Rule 2BB	Actual amount spent on official travel. No fixed ceiling, provided bills are submitted and travel is for official duty.	✓ Exempt (actual expenditure)	✓ Exempt (actual expenditure)	Travel bills, conveyance vouchers, tour programme / approval, purpose of travel. Reimbursement basis only — any amount exceeding actual expenditure is taxable.
Conveyance Allowance (Daily)	Sec 10(14)(ii)	Normal employees: Fully taxable.	✗ Taxable (normal)	✗ Taxable (normal)	Normal employees: No documentation

Allowance / Reimbursement	Section	Maximum Limit / Basis	Old Regime	New Regime	Conditions & Documentation
Commuting — Home to Office).	r/w Rule 2BB	Differently-Abled: ₹3,200 per month exempt.	employees) ✓ ₹3,200/month (differently-abled)	employees) ✓ ₹3,200/month (differently-abled)	needed for exemption (none available). Differently-Abled: Valid disability certificate from competent medical authority required. Disability must be 40%+ impairment (blindness, locomotor, hearing, mental retardation, cerebral palsy, autism, etc.) as defined under Sec 80U.
Children Education Allowance	Sec 10(14)(ii) r/w Rule 2BB	₹100 per month per child, for maximum 2 children (₹2,400 p.a.)	✓ Exempt	✗ Taxable	Proof of school enrolment required. Applicable for up to 2 children only.
Children Hostel Expenditure Allowance	Sec 10(14)(ii) r/w Rule 2BB	₹300 per month per child, for maximum 2 children (₹7,200 p.a.)	✓ Exempt	✗ Taxable	Proof of hostel admission required. Applicable for up to 2 children only.
Helper / Assistant Allowance	Sec 10(14)(i) r/w Rule 2BB	Actual amount spent on a helper engaged for performance of official duties only	✓ Exempt (actual expenditure)	✗ Taxable	Bills / proof that the helper is engaged solely for official duty. Not applicable for domestic or personal use.
Research / Academic Allowance	Sec 10(14)(i) r/w Rule 2BB	Actual amount spent on academic research or professional training directly related to official role	✓ Exempt (actual expenditure)	✗ Taxable	Bills and receipts for books, subscriptions, equipment, or research materials.
Daily Allowance (Out-station Official Travel)	Sec 10(14)(i) r/w Rule 2BB	Actual amount or employer-notified limit, to meet ordinary expenses while on out-station official duty	✓ Exempt	✓ Exempt	Tour programme / approval, travel dates, lodging and meal bills while on official out-station duty.
Meal Vouchers / Food Coupons	Rule 3(7)(iii)	₹50 per meal, up to 2 meals per working day (approx. ₹26,400 p.a.)	✓ Exempt (up to limit)	✗ Taxable	Vouchers must be non-transferable and redeemable only at eating establishments. Cash equivalents are fully taxable.
NPS — Employer Contribution	Sec 80CCD(2)	10% of Basic + DA (14% for Central Government employees). Deducted from Gross Salary before tax.	✓ Deductible	✓ Deductible	PRAN required. This is the employer's share only. Employee's own NPS contribution under 80CCD(1B) is not available in New Regime.
Gratuity (on retirement / death / disability)	Sec 10(10)	Least of: (a) ₹20 lakhs (b) Last salary × 15/26 × completed years of service (c)	✓ Exempt (up to limit)	✓ Exempt (up to limit)	Applicable after 5 years of continuous service (waived on death / disability).

Allowance / Reimbursement	Section	Maximum Limit / Basis	Old Regime	New Regime	Conditions & Documentation
		Actual gratuity received			Form F nomination required.
Leave Encashment (on retirement)	Sec 10(10AA)	₹25 lakhs for non-government employees; unlimited for government employees	✓ Exempt (up to ₹25L)	✓ Exempt (up to ₹25L)	Applicable on retirement or resignation. Based on average salary of last 10 months. Leave records required.
VRS Compensation	Sec 10(10C)	₹5 lakhs	✓ Exempt (up to ₹5L)	✓ Exempt (up to ₹5L)	Employee must be 40 years+ or have 10 years+ of service. VRS scheme must be formally approved. One-time benefit only.
EPF — Employer Contribution	Sec 10(11) / Sec 17(2)(vii)	Employer PF contribution up to 12% of Basic+DA is exempt. Total employer contributions (PF + NPS + Superannuation) above ₹7.5 lakh p.a. become a taxable perquisite.	✓ Exempt (up to limit)	✓ Exempt (up to limit)	EPF registration and UAN required. Excess over ₹7.5 lakh aggregate employer contributions is taxable as a perquisite.
Car Perquisite (Employer-provided vehicle)	Rule 3(2)	₹1,800/month (engine ≤ 1600cc) or ₹2,400/month (>1600cc) for partly personal use. Nil for exclusively official use.	Taxable as perquisite	Taxable as perquisite	Logbook required to distinguish official vs personal use. Nil perquisite if car is used exclusively for official duty with proper records.
Interest-free / Concessional Loan from Employer	Rule 3(7)(i)	Nil perquisite if outstanding loan ≤ ₹20,000 or for medical treatment of specified diseases	Taxable (above threshold)	Taxable (above threshold)	Perquisite value = SBI lending rate minus actual interest rate charged. Loan amount and purpose must be documented.

Section 2: Key Conditions & Documentation Requirements

2.1 General Documentation Norms

- Employees must submit Form 12BB at the start of the financial year, declaring their regime choice, HRA details, LTA, and intended investments.
- Actual proofs (rent receipts, travel tickets, investment certificates) must be collected before processing the final salary of the year.
- Employer must retain all proof documents for at least 6 years as per Income Tax Rules.
- If an employee does not submit Form 12BB, TDS must be computed under the New Tax Regime (the default regime).

2.2 HRA — Key Rules

- Metro cities (Delhi, Mumbai, Chennai, Kolkata): 50% of Basic+DA; all other cities: 40% of Basic+DA.
- Landlord's PAN is mandatory if annual rent paid exceeds ₹1,00,000.
- Both conditions must be satisfied: HRA must be received from employer AND rent must actually be paid.
- Rent paid to a spouse is generally not accepted for exemption purposes.

2.3 LTA — Key Rules

- Only domestic travel (within India) qualifies. International travel is excluded.
- Covers travel cost only (economy airfare or AC-2 rail fare) — hotel, food, and other expenses are not covered.
- 2 journeys are allowed in a block of 4 calendar years (current block: 2022–2025).
- One unclaimed journey from the previous block can be carried forward to the first year of the next block.

Section 3: TDS on Salary — Worked Example (FY 2025-26)

3.1 Employee Profile

Parameter	Details
Employee Name	Mr. Rajan Sharma (Illustration Only)
Date of Birth	15 July 1985
Age as on 31st March 2025	39 years — General category (Below 60 years)
City of Residence	Pune (Non-Metro City)
Basic Salary per month	₹60,000
HRA per month	₹25,000
Special Allowance per month	₹15,000
Conveyance Allowance (Commuting) p.m.	₹4,000
Employer NPS Contribution per month	₹6,000 (10% of Basic Salary)
Actual Rent Paid per month	₹20,000
Section 80C investments	₹1,50,000 (ELSS, PPF, Life Insurance)
Health Insurance Premium (80D)	₹20,000
NPS — Own Contribution (80CCD(1B))	₹50,000
Professional Tax per annum	₹2,400

3.2 Annual Gross Salary

Component	Amount (₹)
Basic Salary (₹60,000 × 12)	7,20,000
HRA (₹25,000 × 12)	3,00,000
Special Allowance (₹15,000 × 12)	1,80,000
Conveyance Allowance — Commuting (₹4,000 × 12)	48,000
Employer NPS Contribution (₹6,000 × 12)	72,000
GROSS SALARY	13,20,000

3.3 HRA Exemption Calculation (Old Regime only)

HRA Exemption — Least of Three [Sec 10(13A)]	Amount (₹)
(a) Actual HRA received (₹25,000 × 12)	3,00,000

(b) 40% of Basic Salary [Non-Metro] → 40% × ₹7,20,000	2,88,000
(c) Rent paid – 10% of Basic → ₹2,40,000 – ₹72,000	1,68,000
HRA Exemption = LOWEST of (a), (b), (c)	1,68,000

3.4 TDS Computation OLD TAX REGIME

Applicable slab: Below 60 years. Basic exemption: ₹2,50,000.

Particulars	Amount (₹)
Gross Salary	13,20,000
Less: HRA Exemption [Sec 10(13A)]	(1,68,000)
Less: Standard Deduction [Sec 16(ia)]	(50,000)
Less: Professional Tax [Sec 16(iii)]	(2,400)
Less: Employer NPS Contribution [Sec 80CCD(2)]	(72,000)
Income from Salary (before Chapter VI-A deductions)	10,27,600
Less: 80C — ELSS / PPF / Life Insurance (max ₹1,50,000)	(1,50,000)
Less: 80D — Health Insurance Premium	(20,000)
Less: 80CCD(1B) — NPS own contribution	(50,000)
NET TAXABLE INCOME	8,07,600
Tax Computation (Old Regime — Below 60 years)	
Up to ₹2,50,000 @ Nil	—
₹2,50,001 – ₹5,00,000 @ 5% → on ₹2,50,000	12,500
₹5,00,001 – ₹8,07,600 @ 20% → on ₹3,07,600	61,520
Income Tax (before Cess)	74,020
Add: Health & Education Cess @ 4%	2,961
TOTAL ANNUAL TDS — Old Regime	76,981
Monthly TDS Deduction (₹76,981 ÷ 12)	≈ ₹6,415

3.5 TDS Computation — NEW TAX REGIME

Same slabs for all ages. HRA, LTA, and Chapter VI-A deductions (80C, 80D, 80CCD(1B)) are not available. Standard Deduction is ₹75,000.

Particulars	Amount (₹)
Gross Salary	13,20,000
Less: Standard Deduction [Sec 16(ia)] — ₹75,000	(75,000)
Less: Professional Tax [Sec 16(iii)]	(2,400)
Less: Employer NPS Contribution [Sec 80CCD(2)]	(72,000)
HRA Exemption — not available in New Regime	NIL

80C / 80D / 80CCD(1B) — not available in New Regime	NIL
NET TAXABLE INCOME	11,70,600
Tax Computation (New Regime — FY 2025-26 Slabs)	
Up to ₹4,00,000 @ Nil	—
₹4,00,001 – ₹8,00,000 @ 5% → on ₹4,00,000	20,000
₹8,00,001 – ₹11,70,600 @ 10% → on ₹3,70,600	37,060
Income Tax (before Cess)	57,060
Add: Health & Education Cess @ 4%	2,282
TOTAL ANNUAL TDS — New Regime	59,342
Monthly TDS Deduction (₹59,342 ÷ 12)	≈ ₹4,945

Section 4: Tax Slab Rates FY 2025-26 (AY 2026-27)

Note: Age-based slab differences apply under the Old Regime only. Under the New Regime, the same slabs apply to all employees regardless of age. Age is determined as on the last day of the preceding financial year. Senior Citizen = 60 to 79 years; Super Senior Citizen = 80 years and above.

4.1 Old Tax Regime — Slab Rates (FY 2025-26)

Income Slab (₹)	Below 60 Years	Senior Citizen (60–79 Yrs)	Super Senior Citizen (80+ Yrs)
Up to ₹2,50,000	Nil	—	—
Up to ₹3,00,000	—	Nil	—
Up to ₹5,00,000	—	—	Nil
₹2,50,001 – ₹5,00,000	5%	5% (above ₹3L)	—
₹5,00,001 – ₹10,00,000	20%	20%	20%
Above ₹10,00,000	30%	30%	30%

Rebate u/s 87A: ₹12,500 available if total taxable income does not exceed ₹5,00,000 (all age groups, Old Regime). 4% Health & Education Cess on income tax.

4.2 New Tax Regime — Slab Rates (FY 2025-26) — Applicable to All Ages

Income Slab (₹)	Tax Rate	Remarks
Up to ₹4,00,000	Nil	Basic exemption
₹4,00,001 – ₹8,00,000	5%	
₹8,00,001 – ₹12,00,000	10%	Rebate u/s 87A — effectively nil tax if income ≤ ₹12,00,000
₹12,00,001 – ₹16,00,000	15%	



₹16,00,001 – ₹20,00,000	20%	
₹20,00,001 – ₹24,00,000	25%	
Above ₹24,00,000	30%	

Rebate u/s 87A: Up to ₹60,000 available in the New Regime if total taxable income does not exceed ₹12,00,000 (effectively nil tax). 4% Health & Education Cess on income tax. No surcharge on income up to ₹50 lakhs.

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