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**ALL INDIA INSURANCE PENSIONERS' ASSOCIATION**

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**President : Com Ashok Tiwari** **Date : 24th July 2020**

**General Secretary : Com T K Chakraborty**

**Cir No : 12/2020**

**To**

**All Divisional/Regional/State units of AIIPA**

**Dear Comrades,**

**<u>Re: Income Tax on Pension</u>**

You are aware that a new Section (115) (BAC) has been introduced under Income Tax Act for the current Financial Year and an option has been given to the tax payers to choose either the old or new regime for determination of tax liability.

Lower rates of Taxes have been prescribed for taxable income above Rs. 5 Lakhs with the proviso that certain deductions have to be foregone, for calculation of taxable income, under the new regime.

Each individual pensioner has to decide on option to be exercised if and when called upon by the employer, after taking into account his/her pension eligibility, interest income from Savings and Fixed Deposits with Banks and Post Offices and other income if any.

As announced in the Interim Budget for 2019-20, Rebate of Income Tax upto Rs.12,500/- is available for taxable income upto Rs. 5 Lakhs and for income above Rs. 5 Lakhs, exemption upto Rs. 2.5 Lakhs or Rs. 3 Lakhs operates.

**Certain salient features are given herein below to help the pensioners:**

Standard Deduction of Rs. 50,000/- in respect of regular pension and Rs. 15,000/- in respect of Family Pension can be availed under earlier scheme and not under new section. It implies though rates will be lower under Section (115)(BAC) , taxable income will be higher.

Deduction towards premium paid for Mediclaim Policy can be claimed as deduction under the earlier scheme and is not allowed as a deduction under the new scheme thereby increasing the taxable income to that extent.

Pensioners may be having Savings and Fixed Deposit Accounts with Banks or Post Offices and as of now, amounts upto Rs. 10,000 in respect of Savings Accounts or upto Rs. 50,000/- in relation to Fixed Deposit Accounts will go to reduce the taxable income and this benefit is not available if a pensioner decides to go in for new regime. It may also be noted that if interest income from FDs is reckoned for deduction, interest income under Savings Account cannot be claimed as a deduction.

Any investment in tax savings schemes of mutual funds or banks will not be allowed as a deduction and taxable income will not get reduced,if lower rates are preferred.

Certain Donations that were allowed at 50% or 100% as deductions from income earlier, will now form part and parcel of taxable income under concessional rates of tax.

Certain non-allowable deductions pertain to employees in service and are not dealt with here. However in regard to employees who may retire in this financial year and pensioners who may become entitled to difference in Gratuity, Provident Fund and Commutation of Pension may note, these will be continued to be exempt.

Deductions in respect of Income from House property, if there is a loss and deduction of interest in regard to self occupied property cannot be claimed, if one desires lower rates. Most pensioners, we feel, may not come under this category.

May be, some pensioners have investments in shares and mutual funds and for them, dividend therefrom is taxable at the hands of the pensioners and capital gains is also taxable. We advise they may take the counsel of tax consultants, if need be.

In simple terms, lower rates of tax will be applicable on higher taxable income and existing higher rates on lower taxable income. By working out the taxable income under both the old and new schemes, one can decide on option. One thing to be taken as a caution, "option once exercised, cannot be revoked".

All Pensioners' Associations are requested to appraise all the pensioners of the nuances and advise them to take decision at personal level.

AIIPA would like to stress that it will be the responsibility of the individual pensioner/Family Pensioner to take a decision on merits considering their individual circumstances.

With Greetings,

Comradely yours

General Secretary