

Optional tax regime: CBDT notifies allowances eligible for deduction for individuals and HUFs

The Finance Act, 2020, introduced a new optional tax rate regime wherein a taxpayer, being an individual or a Hindu Undivided Family (HUF), could pay taxes at a concessional rate if they forgo specified exemptions or deductions, set-off of losses and additional depreciation. The new tax regime is available from assessment year 2021-22.

In this regard, amendments were proposed in the Income-tax Rules, 1962 (Rules), to restrict exemption for certain allowances/benefits for individuals opting for the new tax regime.

The Central Board of Direct Taxes (CBDT) has, vide notification dated 26 June 2020, notified certain amendments in the Rules related to taxation of certain allowances and perquisite received by individual taxpayers who have opted for the optional tax regime.

Amendment to Rule 2BB

Individuals opting for the new tax regime shall be eligible for exemption only for the following allowances:

- **Allowances exempt to the extent actually incurred for specified purpose**
 - **Tour and transfer:** The allowance granted to meet cost of travel on tour or on transfer.
 - **Daily allowance:** The allowance, granted on tour or for the period of journey in connection with transfer, to meet ordinary daily charges of the employee due to his absence from normal place of duty.
 - **Conveyance allowance:** The allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit.
- **Allowances exempt up to the limits specified**
 - **Transport allowance to differently-abled employee:** Allowance to a differently-abled person (who has opted for the new tax regime) to meet expenditure for commuting between place of residence and duty shall be exempt up to INR 3,200 per month.

Amendment to Rule 3

Rule 3 prescribes the manner of determining value of perquisites provided by the employer directly or indirectly to the employee.

The provisions under various clauses of Rule 3 shall remain the same even for individuals opting for the new tax regime except the following:

- **Food vouchers:** Under the Rules, an employer providing free food and beverages through vouchers to the employees is exempt in the hands of employee subject to certain conditions. It has been notified that such exemption shall not be available to individual opting for the new optional tax regime.



Our comments

Employers would need to review the compensation structure and policies in accordance with the amendment. This will determine the allowances not eligible for exemption in case an employee opts for the new tax regime.

It is important to note that exemption for allowances related to expenditure incurred on a helper, for academic, research and training pursuits in educational and research institutions, to meet expenditure incurred on purchase or maintenance of uniform, have now been excluded for employees opting for the new tax regime.

Further, various allowances granted to meet personal expenses at the place where the duties are ordinarily performed or at the place where an employee ordinarily resides, or to compensate for the increased cost of living will be taxable for employees opting for the new tax regime. This includes, children education allowance, hostel allowance and various location-based allowances, which may form part of the compensation structure.

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