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Deductions Available under the New Tax Regime (Section 202 of the Income Tax Act 2025): A Practical and Professional Analysis

Section 202 of the Income-tax Act, 2025, introduced a concessional tax regime for individuals and Hindu Undivided Families (HUFs), offering lower tax slab rates in exchange for the withdrawal of most exemptions and deductions. With effect from Financial Year 2025–26, the new tax regime has been notified as the default tax regime, though taxpayers may still opt for the old regime while filing their return of income. This article examines

the scope of deductions and exemptions that continue to remain available under the new tax regime, dispels common misconceptions, and provides practical clarity for taxpayers and professionals.

Introduction

Every year, a significant number of taxpayers in India grapple with a fundamental question: “Which tax deductions am I eligible to claim?” For several decades, tax planning in India largely revolved around the Old Tax Regime, under which taxpayers could reduce their taxable income through various deductions and exemptions. Popular instruments such as Provident Fund (PF), Life Insurance (LIC), Equity Linked Savings Schemes (ELSS), health insurance premiums, and interest on home loans formed the backbone of tax-saving strategies. While this regime offered substantial deduction-based relief, it was also characterised by higher tax rates, extensive documentation, and complex compliance requirements.

With the objective of simplifying the income tax framework and reducing dependency on tax-driven investments, the Government of India introduced the New Tax Regime under Section 202 of the Income-tax Act, 2025. The new regime provides concessional tax slab rates in exchange for the withdrawal of most exemptions and deductions available under the old regime. A common misconception

among taxpayers is that no deductions whatsoever are permitted under the new tax regime. This assumption is inaccurate.

In reality, although the scope of deductions has been significantly narrowed, a limited yet meaningful set of deductions and exemptions continues to be available under the new tax regime. When understood and applied correctly, these provisions can still help taxpayers legally and efficiently reduce their tax liability, even without traditional tax-saving investments.

This article examines each deduction permitted under the New Tax Regime and explains those in clear and simple terms, supported by practical illustrations, to enable taxpayers and professionals alike to clearly understand what can and cannot be claimed while opting for taxation under Section 202.

Applicability of Section 202 of the Income-Tax Act, 2025

Section 202 applies to the following categories of taxpayers:

- Individuals or
- Hindu Undivided Families (HUFs) or

- an association of persons (other than a co-operative society); or
- a body of individuals, whether incorporated or not; or
- an artificial juridical person referred to in section 2(77)(g)

The provisions apply uniformly to:

- Salaried employees
- Pensioners
- Self-employed individuals
- Professionals

The availability of deductions, however, varies depending on the nature of income, particularly salary income.

Income Tax Slab Rates under the New Tax Regime

The Income-tax Act, 2025 introduces a significant simplification in India's tax framework by replacing the traditional concepts of “Previous Year” and “Assessment Year” with a single, unified term known as the Tax Year. Effective from 1 April 2026, the tax year represents a straightforward 12-month period from April to March, aligning the period of earning income with its

taxation reference and eliminating the long-standing confusion between financial and assessment timelines.

TAX YEAR 2026-27 : The slab rates applicable under Section 202 are as follows:

Total Income	Rate of Tax
Up to ₹4,00,000	Nil
₹4,00,001 – ₹8,00,000	5%
₹8,00,001 – ₹12,00,000	10%
₹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%

These slab rates apply irrespective of age and category of the taxpayer.

Standard Deduction under the New Tax Regime

Section 19 continues to provide relief to salaried taxpayers under the new tax regime.

- **Standard Deduction:** ₹75,000
- **Eligible taxpayers:** Salaried individuals and pensioners

This deduction is allowed automatically and does not require any documentary evidence.

Rebate under Section 156 of the Income-Tax Act, 2025

Resident individual taxpayers opting for the new tax regime are eligible for a rebate of tax up to ₹60,000 under Section 156.

Impact of Rebate

- Taxable income up to ₹12,00,000 results in nil tax liability.
- Salaried individuals effectively enjoy tax-free income up to ₹12,75,000, considering the standard deduction.

This rebate significantly enhances the attractiveness of the new tax regime for middle-income taxpayers.

Deductions Allowed under Section 202 of the Income-Tax Act, 2025

Although most deductions under Chapter XV are withdrawn, the following deductions continue to be available.

Employer's Contribution to National Pension System – Section 124(1) of the Income-tax Act, 2025

Deduction is allowed for the contributions made by the

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employer to the employee's NPS account.

Employees: Up to 14% of salary (Basic + DA)

There is no monetary ceiling on this deduction.

The table compares the tax treatment of National Pension System (NPS) contributions under the New Tax Regime (Section 202) and the Old Tax Regime, highlighting the structural difference in deduction availability.

The distinction primarily revolves around who contributes (employer vs employee) and whether deductions fall under Chapter XV limits.

Particulars	New Tax Regime (Section 202)		Old Tax Regime	
	Government Employer	Other Employers	Government Employer	Other Employers
Employer's Contribution 124	Deductible up to 14% of Salary (Basic + DA)	Deductible up to 14% of Salary (Basic + DA)	Deductible up to 14% of Salary (Basic + DA)	Deductible up to 10% of Salary (Basic + DA)
Employee's Contribution 124	Not allowed	Not allowed	Deductible up to 10% of Salary (Basic + DA) within overall Section 123 limit	Deductible up to 10% of Salary (Basic + DA) within overall Section 123 limit
Additional NPS Deduction (124(3))	Not allowed	Not allowed	Deductible up to ₹50,000 extra over Section 123 limit	Deductible up to ₹50,000 extra over Section 123 limit
Deduction Under Section Section 123 (Total Limit ₹1.5 Lakh)	Not available	Not available	Available (includes employee NPS contribution)	Available (includes employee NPS contribution)



Agniveer Corpus Fund: Deduction of Contributions under Section 125

Section 125 was introduced in the Income-tax Act, 2025 to provide tax relief to individuals enrolled under the Agnipath Scheme, with the objective of encouraging disciplined savings for Agniveers during their tenure of service. The section specifically grants deductions in respect of contributions made to the Agniveer Corpus Fund.

Unlike most deductions under Chapter XV, the benefit under Section 125 is expressly allowed even when the assessee opts for the New Tax Regime under Section 202.

Eligible Assessee

The deduction under Section 125 is available to:

- Individuals enrolled as Agniveers under the Agnipath Scheme.

No other category of taxpayer is eligible for this deduction.

Nature of Contributions Covered

Section 125 allows deduction in respect of the following contributions made to the Agniveer Corpus Fund:

1. Employee's (Agniveer's) own contribution, and
2. Contribution made by the Central Government to the Agniveer Corpus Fund.

Both contributions are treated independently and are fully deductible.

Quantum of Deduction

- 100% of the amount contributed by the Agniveer to the Agniveer Corpus Fund is allowed as a deduction.
- 100% of the contribution made by the Central Government to the said fund is also allowed as a deduction.

There is no monetary ceiling prescribed under this section.

Availability under New and Old Tax Regimes

A key distinguishing feature of Section 125 is its availability under both tax regimes.

Particulars	Old Tax Regime	New Tax Regime (Section 202)
Deduction for Agniveer's contribution	Allowed	Allowed
Deduction for Government's contribution	Allowed	Allowed
Covered under Section 123 limit	No	No

Thus, the deduction under Section 123CH operates independently of Section 123 and is not affected by the choice of tax regime.

Professional Observations

1. Section 125 is a **regime-neutral deduction**, unlike most Chapter XV deductions.
2. The deduction is **over and above Section 123**, with no upper monetary cap.
3. It ensures **tax neutrality of mandatory savings** under the Agnipath Scheme.
4. From a policy perspective, the provision aligns taxation with the unique employment structure of Agniveers.

Conclusion

Section 125 provides comprehensive tax relief in respect of contributions made to the Agniveer Corpus Fund by allowing full deduction of both employee and government contributions, irrespective

of the tax regime chosen. This provision ensures that Agniveers are not disadvantaged from a tax perspective due to compulsory savings under the Agnipath Scheme and reinforces the Government's intent to support long-term financial security for such personnel.

Deduction in respect of Family Pension – Section 93(1)d of the Income-tax Act, 2025

Meaning of Family Pension

Family pension refers to the pension received by the spouse or legal heir of a deceased employee, whether from the Government or from a private employer. For income-tax purposes,

family pension is taxable under the head "Income from Other Sources" and not under the head "Salaries".

Deduction Allowed

The provisions relating to family pension under the Income-tax Act, 2025 continue to provide a standard deduction to reduce the tax burden on recipients of such income. Family pension, being a regular monthly payment made by the employer to the family of a deceased employee, is taxable under the head "Income from Other Sources," but with a concessional deduction. As per the new framework, where income-tax is computed under section 202(1), the deduction allowed is the lower of one-third of such income or ₹25,000; in all other cases, the deduction is restricted to the lower of one-third of such income or ₹15,000. This ensures a degree of relief to dependent family members while maintaining a simplified and consistent approach under the revised tax regime.

Basis	New Tax Regime (Section 202(1))	Old Tax Regime (Other Cases)
Nature of Income	Family Pension	Family Pension
Head of Income	Income from Other Sources	Income from Other Sources
Deduction Rule	Lower of 1/3 of pension or ₹25,000	Lower of 1/3 of pension or ₹15,000
Maximum Deduction Limit	₹25,000	₹15,000
Percentage Condition	1/3 of total pension	1/3 of total pension
Final Deduction Allowed	Whichever is lower (1/3 or ₹25,000)	Whichever is lower (1/3 or ₹15,000)

This deduction is automatic and does not require any specific investment or expenditure.

Illustrative Example

Particulars	Amount (₹)
Annual Family Pension received	90,000
One-third of pension	30,000
Deduction allowable under Section 93(1)d	15,000
Taxable Family Pension Income	75,000

✓ The deduction of ₹15,000 is allowed irrespective of whether the assessee opts for the old or new tax regime.

Interest on Home Loan – Let-Out Property Only (Section 22 of the Income-tax Act, 2025)

Self-Occupied Property

Under the New Tax Regime (Section 202), no deduction is allowed in respect of interest on borrowed capital for a self-occupied house property.

Accordingly:

- The deduction of interest up to ₹2,00,000 available under the old tax regime stands withdrawn.
- No loss under the head “Income from House Property” can be claimed for a self-occupied property under the new tax regime.

Let-Out Property

In the case of a let-out property, the treatment under the new tax regime is as follows:

- Deduction of interest on borrowed capital under Section 22 continues to be allowed.
- However, any loss arising under the head “Income from House Property” cannot be set off against income under other heads, such as salary or business income.
- Such loss may be carried forward and set off only against income from house property in subsequent assessment years, subject to statutory provisions.

Illustrative Example

Particulars	Amount (₹)
Gross Rental Income	2,40,000
Less: Interest on Home Loan	(3,00,000)
Loss under the head “Income from House Property”	(60,000)

Tax Treatment under New Tax Regime:

- The loss of ₹60,000 cannot be adjusted against salary or other income in the same assessment year.
- The loss may be carried forward and set off only against income from house property in future years.



Professional Note

The restriction on set-off of house property loss under the new tax regime significantly impacts taxpayers with housing loans. Taxpayers with substantial home loan interest, particularly in respect of self-occupied properties, should carefully evaluate the comparative tax impact before opting for Section 202.

Transport Allowance for Differently-Abled Employees: Rule 15(1), Income-tax Rules, 2026 (Effective from April 1, 2026)

Under the provisions of the Income-tax Rules, 2026, the government has proposed a substantial enhancement in the transport allowance deduction for employees with disabilities, including those who are blind, deaf, dumb, or orthopedically handicapped. The monthly deduction limit, which was earlier ₹3,200, is proposed to be increased to ₹8,000 for employees residing in non-metro areas and ₹15,000 for those in notified metro cities. This deduction will continue to

be available under both the new and old tax regimes and is specifically aimed at addressing the higher commuting costs and mobility challenges faced by differently-abled individuals.

Category	Earlier Limit	Revised Limit
Non-Metro Cities	₹3,200/month	₹8,000/month
Metro Cities	₹3,200/month	₹15,000/month

✓ The above exemption is allowed irrespective of the tax regime opted.

Salary-Related Exemptions Allowed

Retirement and Terminal Benefits

The following exemptions continue to apply under the new tax regime as per existing limits:

- Gratuity
- Leave Encashment
- Voluntary Retirement Compensation

These exemptions are unaffected by the choice of tax regime.

Allowances for Official Purposes

Certain allowances remain exempt when incurred wholly, necessarily, and exclusively for official duties, including:

- Transport allowance for specially-abled employees
- Conveyance allowance for official duties
- Travel allowance for tour or transfer
- Daily allowance for duty-related expenses away from the normal place of work

Perquisites for Official Use

Perquisites provided exclusively for official purposes continue to remain exempt, subject to prescribed conditions.

Deductions and Exemptions Not Available (Illustrative)

Under Section 202, the following commonly claimed benefits are not allowed:

- Section 123 investments (PF, LIC, ELSS, PPF, etc.)
- Medical insurance premium
- Education loan interest
- Donations
- House Rent Allowance (HRA)
- Leave Travel Allowance (LTA)
- Home loan interest on self-occupied property
- Employee's own NPS contribution

Professional Evaluation of the New Tax Regime

The new tax regime is particularly beneficial for:

- Taxpayers with minimal investments under Chapter XV
- Salaried individuals without housing loans
- Employees receiving employer contribution to NPS
- Individuals preferring higher liquidity and simplified compliance

The regime may not be advantageous for taxpayers who heavily rely on deductions and exemptions under the old regime.

Conclusion

The introduction of Section 202 represents a structural transformation in India's personal taxation framework, shifting the emphasis from exemption-oriented tax planning to a simplified, rate-based system. Although the new tax regime significantly restricts the availability of traditional deductions and exemptions, it does not eliminate tax relief in its entirety. Select provisions—such as the standard deduction, employer's contribution to the National Pension System, deductions relating to the Agniveer



Corpus Fund, interest on borrowed capital for let-out properties, and exemptions in respect of specified retirement benefits—continue to offer targeted relief under the new regime.

The analysis demonstrates that the effectiveness of the new tax regime is largely contingent upon the taxpayer's income composition, employment structure, and availability of employer-driven benefits. For certain categories of taxpayers, particularly salaried individuals with limited reliance on Chapter XV deductions, the new regime may result in improved tax efficiency alongside reduced compliance complexity. Conversely, taxpayers with substantial deduction-based claims may find the old regime more advantageous.

Accordingly, the choice between the old and new tax regimes necessitates a reasoned, computation-based evaluation on an annual basis, rather than a presumption driven by the default applicability of Section 202. A nuanced understanding of the residual deductions and exemptions under the new tax regime is essential for ensuring legally compliant and optimal tax outcomes within the evolving income-tax framework.

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