

Understanding Income Tax Deduction from Salaries for FY 2024-25: Key Updates for Employers and Employees

Description

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The Central Board of Direct Taxes (CBDT) has issued Circular No. 3/2025, dated February 20, 2025, outlining the guidelines for income tax deduction from salaries under Section 192 of the Income-tax Act, 1961, for the Financial Year 2024-25. This circular provides clarity on the latest amendments introduced through the Finance (No.2) Act, 2024, Finance (No.1) Act, 2024, and the Finance Act, 2023. Here's a detailed breakdown of the key updates affecting salaried individuals and their employers.

Definition of Salary and Perquisites

- 1. **Expanded Salary Definition**: Salary now includes contributions made by the Central Government to the **Agniveer Corpus Fund** under the **Agnipath Scheme** (Section 80CCH).
- 2. **Perquisites Inclusion**: The definition of perquisites now encompasses **rent-free accommodations** and accommodations provided at a **concessional rate** by employers.

Revised Tax Rates Under the Old and New Regimes

Surcharge Rates (Old Tax Regime)

- 10% on income between ?50 lakh ?1 crore
- 15% on income between ?1 crore ?2 crore
- 25% on income between ?2 crore ?5 crore (excluding dividend income and capital gains under Sections 111A, 112, 112A)
- 37% on income above ?5 crore (excluding dividend income and capital gains under Sections 111A, 112, 112A)
- 15% on income above ?2 crore (including dividend income and capital gains under Sections 111A, 112, 112A)

Tax Slabs Under the New Tax Regime (Section 115BAC)

• ?0 - ?3,00,000 - Nil



- ?3,00,001 **-** ?7,00,000 **-** 5%
- ?7,00,001 ?10,00,000 10%
- ?10,00,001 ?12,00,000 15%
- ?12,00,001 ?15,00,000 20%
- Above ?15,00,000 30%

Additional Key Amendments

- 1. Form No. 16 & 24Q Updates:
 - The **Health and Education Cess** has replaced the **Education Cess**.
 - New provisions added to Form No. 24Q, including a dedicated field for other tax deducted or collected at source.
- 2. Leave Encashment Exemption Increased:
 - The exemption limit for **leave encashment** for non-government employees has been **raised to ?25 lakh**.
- 3. Agniveer Corpus Fund Tax Exemption:
 - o Payments from the Agniveer Corpus Fund under the Agnipath Scheme are fully tax-exempt.
- 4. Rebate Under Section 87A:
 - For those opting for the **new tax regime**, total income **up to ?7 lakh** qualifies for a **rebate**, ensuring **zero tax liability**.
- 5. Penalty & Prosecution for TDS Defaults:
 - Penalty under Section 271C: Failure to deduct/pay TDS can result in a penalty equal to the tax not deducted.
 - Prosecution under Section 276B: Non-payment of deducted TDS can attract imprisonment of 3 months to 7 years.

Employer Responsibilities

Employers must ensure:

- Accurate TDS deductions based on employees' selected tax regimes.
- Compliance with the revised Form 16 & 24Q formats.
- Prompt deposit of deducted taxes to avoid penalties.
- Timely issuance of Form 16 to employees.

Conclusion

With these new amendments, employees should evaluate **which tax regime suits them best**. Employers, on the other hand, must align their payroll and tax deduction processes with these updates to **ensure compliance and avoid penalties**. For further details, refer to the **official circular here**.

For expert tax planning and compliance guidance, consult a **Chartered Accountant** today!

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