

12 Provision of Income Tax for Retired Employees

- (1) **Exemption in income tax:** The basic exemption limit is Rs.3,00,000 for the senior citizens (who have attained the age of 60 years, any time in the FY starting from April 1, 2015 to Mar. 31, 2016). In case of an individual, being a resident of India, *aged 80 years* or more at any time during the financial year (2015-16), the basic exemption limit is Rs. 5,00,000.
- (2) **Pension:** Monthly pension is taxable.
- (3) **Death cum retirement gratuity** - As per section 10 (10) any Amount received by employees in Govt. and local corporations, death-cum-retirement gratuity will be tax-free without any limit. For other employees, maximum tax-free amount will be Rs.10 Lakh or 15 days wages for every completed year of service calculated on last drawn wages, whichever is higher.
- (4) **Commutation of pension:**
 - (i) Section 10 (10A (I)): Amount received in the form of commutation of pension by employees in Govt. & Local Corporations will be totally tax-free.
 - (ii) Section 10 (10A(ii)): Tax-free amount for other employees are as following:
 - (a) If gratuity received : 1/3 of commutation of pension
 - (b) If gratuity not received : 1/2 of commutation of pension
 - (iii) Section 10 (10A (iii)): Commutation amount received from *Jeevan Suraksha Policy of LIC* will be totally tax-free but pension amount from this scheme will be taxable.
- (5) **Encashment of leave or leave salary as per Section 10(10AA):**
 - (A) Amount obtained from encashment of leave during service is taxable.
 - (B) Amount obtained from encashment of leave at the time of retirement, resignation or death will be totally tax-free. For other employees tax-free amount will be the least of the following as per section 10(10AA) (ii)
 - Actual receipt of encashment of leave
 - Balance leave @ 30 days per year at the time of retirement valuation
 - Average salary of 10 months [average Monthly salary (Basic + DA) of 10 months exactly prior to retirement]
 - Rs. 3,00,000
- (6) **Compensation on retrenchment as per Section 10 (10B):**

As per rule at the time of retrenchment the least value of the following will be allowed for deduction

 - Actually received compensation amount
 - Amount calculated as per section 25 F (b) of *Industrial Dispute Act 1947*, @ 15 days average pay for every completed year of service or any part thereof; in excess of six months.
 - Rs. 5,00,000

However any amount received from schemes approved by Central Govt. will be fully tax-free.
- (7) **Payment on voluntary retirement: as per Section 10(10C):**

Amount received on voluntary retirement by employees of Public company or other companies, co-operative committee, university, notified institution of State or Indian Govt., up to maximum limit of Rs.5,00,000.
- (8) **Receipt from provident fund as per Section 10(11):**
 - (1) The amount received from the approved provident fund (with interest) is totally tax-free. Accrued interest on retired person's deposit in special schemes of post offices will be tax-free as per section 10 (15).

