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Dated: June 9, 2014

Shri Arun Jaitley,
Hon'ble Minister of Finance,
Ministry of Finance,
North Block,
New Delhi

Resp. Sir,

Sub: Raising of exemption limit for Income Tax and exemption of all allowances from Income Tax

Exemption limit from Income Tax is very low and neither realistic nor justified. It is not linked with Inflation nor is it appropriately revised every year.

Fixing of exemption limit for Income Tax is done arbitrarily. No systematic norms are followed while fixing the same. There is no transparency about the norms or policy adopted for fixing the Exemption limit for Income Tax.

Low ceiling of exemption is one of the root cause of buildup of huge amounts of Black Money.

It is also a major impediment in the growth and development of the National economy as the spending by the common man gets restricted due to the low ceiling of Income Tax. This, according to experts, adversely affects the National Development as a whole.

Taxing of Dearness Allowance, House Rent Allowance and Transport Allowance etc., erodes the real Income of the Salaried Class, as these Allowances are compensatory in nature and as such should be exempted from Income Tax, as recommended by the Fifth Central Pay Commission(vide Chapter 167 of their Report).

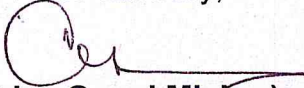
Taxing of Pension of Senior Citizens, especially Additional Pension of the very old Senior Citizens, is totally unjustified, and as such should be exempted from Income Tax, as recommended by the Fifth Central Pay Commission.

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It is, therefore, requested that:-

- (i) Exemption limit for Income Tax be raised to ₹ 5 lakh for Individuals, ₹ 7 lakh for Senior Citizens above 60 years and ₹ 10 lakh for the very old – above 80 years of age.
- (ii) All the allowances, i.e. Dearness Allowance/Dearness Relief, HRA and Transport Allowance, may please be exempted from the Income Tax to avoid erosion of real wages as recommended by the Fifth Pay Commission vide Chapter 167 of their Report and Para 95 of Summary of Recommendations (Please see excerpts of Fifth CPC Report attached herewith as Annexure).
- (iii) Fixed Medical Allowance to Pensioners may please be exempted from Income Tax as it is reimbursement of the expenses for day-to-day medical treatment.

Yours faithfully,



(Shiva Gopal Mishra)
Secretary (Staff Side)
NC/JCM

Encl: Excerpts of the recommendations of Fifth CPC

✓ Copy to: All Constituent Organizations of the National Council, JCM (Staff Side) – for information.

ANNEXURE

EXCERPTS FROM THE REPORT OF FIFTH PAY COMMISSION REG. EXEMPTION OF ALL ALLOWANCES FROM INCOME TAX

The Fifth Pay Commission vide Chapter 167 & Para 95 of Summary of Recommendation had recommended as under:-

Para 95 The Commission has felt that the salaries and pensions recommended by it are not really adequate if they are to be fully taxed. Accordingly, it has recommended that all Allowances and Pensions should be paid Net of Taxes”.

The Fifth CPC in **Para 167.7** had observed as under:-

“If such Allowances are taxed, then either the Basic Salary gets eroded in its real value from Year to Year or the partial Reimbursement of Expenditure incurred on certain items becomes less and less with the passage of time. In both the cases, the objective of giving Allowances is partially nullified”.

The Fifth CPC further observed in **Para 167.8** that -

“We have observed that Ministry of External Affairs pays ‘Net of Tax’ Salaries to its employees on Foreign Posting. Provision for paying Net of Tax Salary already exists Under Sec.195A of the Income Tax Act. Under the Section, employees do not have to pay Income Tax on the salaries received by them and it is the liability of the employer to pay the same to the Income Tax Department.”

“The solution to the problem of the Central Government Employees in general lies in the application of this legal provision” (Fifth CPC - Para 167.9).