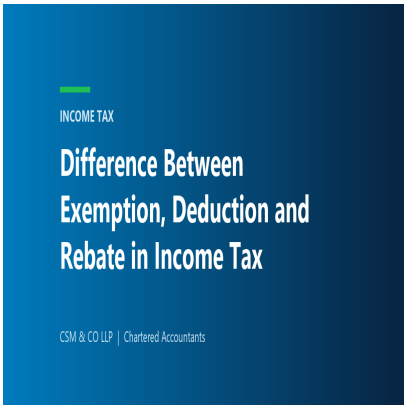

Difference Between Exemption, Deduction and Rebate in Income Tax

Description

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Quick summary

- An exemption keeps a particular income out of tax altogether, a deduction reduces your taxable income, and a rebate reduces the tax you have to pay.
- Examples: agricultural income is exempt, section 80C is a deduction, and the section 87A rebate cuts your computed tax.
- For Tax Year 2026-27 the new regime gives a rebate of up to ?60,000 if taxable income is up to ?12 lakh; the old regime gives up to ?12,500 if income is up to ?5 lakh.
- Most exemptions and deductions (HRA, 80C, 80D) work only in the old regime.

Exemption, deduction, rebate and relief are often used as if they mean the same thing. They do not. Each works at a different stage of the tax calculation, and knowing which is which helps you plan your tax and read your Form 16 correctly.

Exemption

An exemption makes a particular income tax-free. That income is left out of your total income, so it never enters the calculation.

Examples:

- Agricultural income.
- House rent allowance (HRA), within the prescribed limit, in the old regime.
- Leave travel allowance (LTA), on the conditions of the rules, in the old regime.
- Scholarships granted to meet the cost of education.
- Gratuity and leave encashment on retirement, up to the limits allowed.

In the Income-tax Act, 2025, which applies from 01/04/2026, most of these exemptions are listed in the Schedules to the Act, while the old section 10 no longer exists as a single section.

Deduction

A deduction is an amount you subtract from your income, because you invested in or spent on something the law encourages. It reduces your taxable income, so the tax saved depends on your slab rate.

Examples:

- Standard deduction on salary and pension.
- Section 80C: up to ?1.5 lakh for PPF, ELSS, life insurance and more.
- Section 80D: health insurance premium. In the old regime, up to ?25,000 for self, spouse and children (?50,000 if a senior citizen), and the same again for parents.
- Section 80E: interest on an education loan.
- Section 24(b): home loan interest, up to ?2 lakh for a self-occupied house.

Rebate

A rebate reduces the tax itself, after it has been computed on your taxable income. The main one is section 87A, available to resident individuals.

	New regime (default)	Old regime
Taxable income limit	?12,00,000	?5,00,000
Maximum rebate	?60,000	?12,500

These limits apply to Tax Year 2026-27 and to FY 2025-26. Marginal relief is available in the new regime for income slightly above ?12 lakh. The rebate does not apply to special rate income, such as tax on short term capital gains under section 111A, so read the conditions before relying on it. See our article on the section 87A rebate for a full explanation.

Exemption vs deduction vs rebate: comparison table

Feature	Exemption	Deduction	Rebate
Meaning	A specific income is tax-free	An amount subtracted from income	An amount subtracted from tax
Stage	Before total income is arrived at	Before taxable income is arrived at	After tax is computed
Effect	Income is not taxed at all	Reduces taxable income	Reduces tax payable
Examples	Agricultural income, HRA	Section 80C, 80D, 80E	Section 87A

Feature	Exemption	Deduction	Rebate
Most are available in	Mostly the old regime	Mostly the old regime	Both regimes

A note on tax deducted at source (TDS) and tax relief

Rebate, deduction and exemption are not the same as TDS. TDS is tax collected in advance by the payer, such as an employer or bank, on salary, interest, commission, rent or professional fees. It is later adjusted against your final tax, and any excess is refunded to you.

“Tax relief” is a general term for any provision that lowers your tax, including the three above and relief for double taxation. “Tax benefit” is used in the same loose way.

Which is better?

All three help, but they act differently. An exemption removes income completely. A deduction saves tax at your slab rate. A rebate saves a fixed amount of tax. Because most deductions and exemptions work only in the old regime, compare your tax under both regimes every year.

Frequently asked questions

What is the difference between a deduction and an exemption?

An exemption excludes a specific income from tax, for example agricultural income. A deduction is subtracted from your income, for example the section 80C deduction, to reach taxable income.

What is a tax rebate?

A rebate reduces the tax computed on your taxable income. Section 87A is the common example.

Is a rebate the same as a refund?

No. A rebate cuts your tax liability before you pay. A refund is money returned to you when your tax paid or deducted is more than your tax liability.

Which comes first in the calculation?

Exemptions are left out of income first, then deductions are subtracted, tax is calculated on the taxable income, and the rebate is applied to that tax.

Official sources

- Income Tax Department: e-Filing portal
- Income Tax Department: Income-tax Act, 2025
- Union Budget: official website

Related reading

- Understanding Tax on ?12 Lakh Income in India (Tax Year 2025-26)

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