



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

Description

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Income tax can be confusing, especially when new rules come into play. Budget 2025 brought one of the biggest changes in personal income tax in recent years. If you earn ₹12 lakh a year, here's what you need to know about your tax liability under the **Income Tax Act 2025**.

What's Changed in 2025

The government revised the income tax structure effective for **financial year 2025-26 (assessment year 2026-27)**. A key feature is the **higher rebate and adjusted slab rates** to boost disposable income for individuals.

How Tax Works on ₹12 Lakh

Under the *new tax regime*:

- Income upto ₹12 lakh is eligible for a **full tax rebate under Section 87A**, which essentially reduces your tax liability to zero.
- This means a person earning ₹12 lakh in a year does **not pay any income tax** if they choose the new tax regime.

Here's the idea:

- The slabs start at zero tax for the first part of income.
- Even though regular slabs would tax portions of income above ₹4 lakh, the rebate cancels the tax completely up to ₹12 lakh.

This change is a major relief for middle-income earners and increases take-home salary.

What Salary Earners Should Know

If you're a salaried employee:

- You receive a **standard deduction** (around ₹75,000) before calculating taxable income.
- After standard deduction, your taxable income might effectively fall below ₹12 lakh even if your gross salary is slightly above that.
- In practice, many salaried individuals earning up to ~₹12.75 lakh also pay zero tax because of this deduction plus the rebate.

Choosing Between Old and New Regime

You can choose between the **old tax regime (with exemptions and deductions like 80C, HRA, 80D)** and the **new simplified regime**. For someone at ₹12 lakh:

- Under the **old regime**, you will have tax liability after standard slabs and only enjoy exemptions you claim.
- Under the **new regime**, the tax rebate wipes out tax up to ₹12 lakh, making it generally more beneficial for many people without heavy deductions.

Example in Simple Terms

Imagine your gross salary is ₹12 lakh:

1. You get standard deduction (₹75,000 for a salaried person).
2. Your taxable income becomes ₹11,25,000.
3. Section 87A rebate cancels your tax liability on that amount under the new regime.
4. Final tax payable is **zero**.

This drastically increases your monthly take-home pay compared to previous years.

Comparison Chart: Old vs New Tax Regime on ₹12 Lakh Income

Particulars	Old Tax Regime	New Tax Regime (2025)
Gross Annual Income	₹12,00,000	₹12,00,000
Standard Deduction	₹50,000	₹75,000
Income After Standard Deduction	₹11,50,000	₹11,25,000
Other Deductions (80C, 80D, HRA etc.) Assumed ₹1,50,000		Not Applicable
Taxable Income	₹10,00,000	₹11,25,000
Tax Before Rebate	₹1,12,500 approx	₹56,250 approx
Section 87A Rebate	Not Available	Available up to ₹12 lakh
Final Tax Payable	₹1,12,500 + cess	₹0
Best Suited For	People with high deductions Most salaried individuals	

Tax Calculator Example: New Tax Regime (₹12 Lakh)

Step 1: Gross Income

₹12,00,000

Step 2: Standard Deduction (Salaried)

₹75,000

Step 3: Taxable Income

₹12,00,000 - ₹75,000 = **₹11,25,000**

Step 4: Tax as per slabs

Tax calculated as per new slab rates

Step 5: Section 87A Rebate

Since taxable income is below ₹12,00,000, entire tax is rebated

Final Tax Payable₹0

Tax Calculator Example: Old Tax Regime (₹12 Lakh)**Assumptions**

- Standard deduction: ₹50,000
- 80C deduction: ₹1,50,000

Taxable Income
$$₹12,00,000 - ₹50,000 - ₹1,50,000 = \mathbf{₹10,00,000}$$
Tax Calculation

- Up to ₹2.5 lakh: Nil
- ₹2.5 lakh to ₹5 lakh: 5% = ₹12,500
- ₹5 lakh to ₹10 lakh: 20% = ₹1,00,000

Total Tax

₹1,12,500

Plus 4% cess = ₹4,500

Final Tax Payable₹1,17,000 approx

Key Takeaways

- Under the **new tax regime**, income up to **₹12 lakh is completely tax free** due to Section 87A rebate.
- Salaried employees can effectively earn up to **₹12.75 lakh** with zero tax because of the higher standard deduction.
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The **old regime only benefits those with large deductions** like home loan interest or major investments.

- For most individuals earning ₹12 lakh, the **new tax regime is clearly more beneficial**.
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Final Thoughts

The 2025 tax changes are designed to benefit middle-class taxpayers by reducing or eliminating tax on incomes up to ₹12 lakh. For many people with this income level, **the best option is the new tax regime with the rebate**, especially if you don't have large deductions to claim.

Always consider using a **tax calculator or consulting a tax professional** to determine what's best for your individual financial situation.

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