

Income Tax Rebate Under Section 87A

Description

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Quick summary

- Section 87A gives resident individuals a rebate of up to ?60,000 in the new regime for total income up to ?12 lakh, so no tax is payable.
- In the old regime the rebate is up to ?12,500 for total income up to ?5 lakh.
- Marginal relief in the new regime protects taxpayers whose income is only slightly above ?12 lakh; the old regime has none.
- The rebate is not available against tax on special-rate capital gains in the new regime, and it is calculated before the 4% cess.

How the section 87A rebate works

1. Compute total income after the deductions allowed in your regime

?

2. Check the limit: ?12 lakh in the new regime, ?5 lakh in the old regime

?

3. Compute tax on the slab rates before cess

?

4. Rebate is the lower of the tax and ?60,000 (new) or ?12,500 (old)

?

5. If income is just above ?12 lakh in the new regime, apply marginal relief

?

6. Add 4% health and education cess on the tax that remains

A rebate under section 87A is a reduction in tax for resident individuals whose total income is within a set limit. Under the new tax regime the rebate is up to ?60,000 for a total income up to ?12 lakh, so no tax is payable. Under the old tax regime the rebate is up to ?12,500 for a total income up to ?5 lakh. These limits applied to FY 2025-26 (AY 2026-27). Budget 2026 did not change the slab rates, so the same limits are being applied for Tax Year 2026-27.

What is Rebate Under Section 87A?

- The rebate is a relief for low and middle income earners. It is available only to resident individuals.
- It reduces the income tax payable, calculated on the slab rates before adding the 4% health and education cess.
- If the rebate equals the tax payable, the taxpayer pays no income tax at all.
- It is not available to HUFs, companies, firms or non-residents.

Eligibility Criteria for Rebate

1. Only resident individuals are eligible.
2. The total income, after the deductions allowed in the regime chosen, must not exceed:
   - ?12 lakh under the new tax regime, or
   - ?5 lakh under the old tax regime.
3. The rebate is the lower of the limit (?60,000 or ?12,500) and the tax payable before cess.
4. Under the new regime the rebate cannot be used against tax on capital gains taxed at special rates (sections 111A, 112 and 112A).

Section 87A Rebate Limit: New vs Old Tax Regime

Particulars	New regime	Old regime
Total income limit	?12,00,000	?5,00,000
Maximum rebate	?60,000	?12,500
Standard deduction for salaried and pensioners	?75,000	?50,000
Marginal relief available	Yes	No

Because the standard deduction in the new regime is ?75,000, a salaried taxpayer with a salary of up to ?12,75,000 and no other income has a taxable income of ?12 lakh or less and pays no tax.

Why ?12 lakh gives nil tax in the new regime

Slab	Rate	Tax

Up to ?4,00,000	Nil	0
?4,00,001 to ?8,00,000	5%	20,000
?8,00,001 to ?12,00,000	10%	40,000
Total tax on ?12,00,000		60,000
Less: rebate		60,000
Tax payable		0

How to Claim the Rebate

1. Calculate your gross total income for the year.
2. Reduce the deductions allowed in the regime you have chosen.
3. Arrive at your total income and compare it with the limit (?12 lakh or ?5 lakh).
4. File your return with the correct income and deductions.
5. The income tax portal calculates the rebate automatically if your income is within the limit.

Examples

1. New tax regime

Particulars	Amount (?)
Total income	12,00,000
Tax as per slab rates	60,000
Less: rebate under section 87A	60,000
Tax payable	0

Deductions such as section 80C are not available in the new regime.

2. Old tax regime

Particulars	Amount (?)
Gross total income	6,50,000
Less: deduction under section 80C	1,50,000
Total income	5,00,000

Particulars	Amount (?)
Tax as per slab rates	12,500
Less: rebate under section 87A	12,500
Tax payable	0

Incomes Not Eligible for the Rebate

The rebate cannot be claimed against tax on:

- Long-term capital gains under section 112A and other capital gains taxed at special rates (new regime).
- Short-term capital gains on listed equity under section 111A (new regime).
- Income taxed at special rates, such as winnings from lotteries and games.

Marginal Relief in the New Tax Regime

If the total income is slightly above ?12 lakh, the tax can be higher than the extra income earned above ?12 lakh. Marginal relief makes sure the tax payable is not more than that extra income.

How to calculate it:

1. Find the excess over ?12 lakh (total income minus ?12,00,000). Call it A.
2. Compute the tax on the total income before cess. Call it B.
3. If B is more than A, the rebate is B minus A, and the tax payable equals A.

Example

Mr. Ravi, a resident, has a total income of ?12,15,000 in the new tax regime.

Step	Amount (?)
Excess over ?12,00,000 (A)	15,000
Tax on ?12,15,000 before cess (B): 60,000 on the first ?12 lakh plus 15% of 15,000	62,250
Rebate (B minus A)	47,250
Tax payable before cess (equal to the excess income of ?15,000)	15,000
Add: health and education cess at 4%	600
Total tax liability	15,600

The old regime has no marginal relief, so a taxable income just above ?5 lakh loses the whole ?12,500 rebate

at once.

Section 87A and the Income-tax Act, 2025 (now section 156)

The Income-tax Act, 2025 applies from 1 April 2026, and the rebate of section 87A is now in **section 156**. Sub-section (1) gives the rebate of up to ?12,500 where total income does not exceed ?5 lakh. Sub-section (2) gives the rebate of up to ?60,000 where total income does not exceed ?12 lakh and the tax is computed on the new regime slab rates of section 202. For income earned up to 31 March 2026 (FY 2025-26, AY 2026-27) the Income-tax Act, 1961 and its section 87A still apply. The rules described here are the same under both Acts.

Frequently asked questions

Who can claim the rebate under section 87A?

Only resident individuals whose total income is within ?12 lakh in the new tax regime or ?5 lakh in the old tax regime. HUFs, companies, firms and non-residents cannot claim it.

How much is the section 87A rebate?

Up to ?60,000 in the new tax regime and up to ?12,500 in the old tax regime, limited to the tax payable before cess.

Is there tax if my income is ?12 lakh in the new regime?

No. Tax on ?12 lakh is ?60,000 and the rebate of ?60,000 brings it to nil. A salaried taxpayer with a salary up to ?12,75,000 also pays no tax after the ?75,000 standard deduction.

What is marginal relief on the rebate?

If income is slightly above ?12 lakh in the new regime, marginal relief limits the tax to the amount of income above ?12 lakh. The old regime has no marginal relief.

Official sources

- Income Tax Department: Section 156 of the Income-tax Act, 2025
- Income Tax Department: e-Filing portal
- Income Tax Department: Income-tax Act, 2025 as amended by the Finance Act, 2026
- Union Budget: official website

Related reading

- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27
- Understanding Tax on ?12 Lakh Income in India (Tax Year 2025-26)
- Decoding the Direct Tax Landscape: Budget 2025 Insights

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