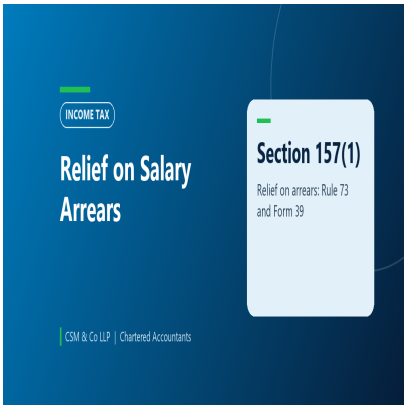

Relief on Salary Arrears: Section 157(1) (Earlier Section 89(1)), Rule 73 and Form 39

Description

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Quick summary

- If you receive salary arrears, advance salary or family pension arrears and pay a higher rate of tax because of it, you can claim relief under section 157(1) of the Income-tax Act, 2025, earlier section 89(1).
- Relief is the extra tax caused by the arrears in the year of receipt, less the tax the same arrears would have caused in the years they relate to, if the first is bigger.
- From 01/04/2026 the claim is made in Form 39 (earlier Form 10E), under Rule 73 of the Income-tax Rules, 2026, by the return due date, or to the employer.
- The same rule gives relief on gratuity of 5 years or more of service, retrenchment compensation and commuted pension.

Arrears are salary for earlier years that you receive in a later year. Because tax rates rise with income, receiving three years of arrears in one year can push you into a higher slab. The law corrects for this by giving relief. From Tax Year 2026-27 it is section 157(1) of the Income-tax Act, 2025, the calculation is in Rule 73 of the Income-tax Rules, 2026, and the claim form is Form 39. Up to FY 2025-26 it is section 89(1), Rule 21A and Form 10E.

When does the relief apply?

When your total income for the year of receipt is taxed at a higher rate than it would otherwise have been, because of receipts such as:

- salary received in arrears or in advance, or family pension in arrears (the “additional salary”),
- gratuity for past service of five years or more,
- retrenchment compensation (where Rule 73 provides), and
- commutation of pension.

For other receipts, the Board may allow relief it considers fit.

How is relief on arrears calculated? (Rule 73)

Relief is A minus B, if A is more than B.

1. Work out which tax years the additional salary relates to, and how much relates to each.
2. **A, the extra tax in the year of receipt:** tax on total income of the year of receipt, less tax on that income reduced by the arrears.
3. **B, the tax the arrears would have attracted in the years they relate to:** for each such year, tax on the total income of that year increased by the arrears for that year, less tax on the total income of that year as it stood. Add up the figures for all the years.
4. If A is more than B, the difference is your relief. If B is the same or more, there is no relief.

Example

Meena’s total income for FY 2026-27 is ?10,00,000, which includes ?2,00,000 of arrears relating to FY 2025-26. Her income for FY 2025-26 was ?6,00,000.

Step	Tax in ? (old regime slabs, before cess)
Tax on ?10,00,000 in FY 2026-27	1,12,500
Tax on ?8,00,000 (without the arrears)	72,500
A: extra tax in FY 2026-27	40,000
Tax on ?8,00,000 in FY 2025-26 (income plus arrears)	72,500
Tax on ?6,00,000 in FY 2025-26	32,500
B: tax the arrears would have attracted in FY 2025-26	40,000
Relief (A minus B)	Nil

Here the slab rate is the same in both years, so the arrears cost the same tax either way and no relief arises. Relief appears when the earlier year’s income was low enough that the arrears would have been taxed at a lower rate there. Rebate under section 156 and cess are also taken into account in a real computation, which these figures leave out.

Relief on gratuity

For gratuity received for past service, the relief is the gratuity multiplied by the excess of the average tax rate in the year of receipt over a blended average of the two or three earlier years:

- **Service of 5 years or more but under 15 years:** compare the average rate on total income including the gratuity in the year of receipt with the average of the rates for the two preceding years, each computed on that year’s income plus half of the gratuity.

- **Service of 15 years or more:** compare with the average of the rates for the three preceding years, each computed on that year's income plus one third of the gratuity.
- Relief is allowed only if the average rate in the year of receipt is higher.

Commutation of pension and retrenchment compensation follow the same pattern with their own fractions in the rule.

Form 39 and how to claim

- To claim relief under section 157(1), furnish the particulars in **Form 39** on or before the due date for filing the return of income (section 263(1)(c)).
- A Government servant or an employee of a company, co-operative society, local authority, university, institution, association or body can instead give the particulars to the person who pays the salary, so that the employer allows the relief in deducting tax.
- Form 39 replaces Form 10E. The form asks for the tax years to which the additional salary relates, the amount for each year, the total income and tax payable for each year with and without the arrears, and the relief worked out.
- Up to FY 2025-26, Form 10E is filed online on the e-filing portal under e-File, Income tax forms, File Income Tax Forms, in the tab for persons not having business or professional income. A return claiming relief without the form may get a notice saying the relief has not been allowed.

Things to remember

- Keep the arrears statement from your employer and the computation for each year to which the arrears relate.
- Relief reduces tax; it does not reduce income. The relief is shown in the return.
- Arrears are taxed in the year of receipt, not the year they relate to. The relief is how the law evens it out.

Frequently asked questions

What is relief under section 89(1)?

Relief for the extra tax you pay because arrears or advance salary, or arrears of family pension, bump you into a higher rate in the year you receive them.

What is the section number from Tax Year 2026-27?

Section 157(1) of the Income-tax Act, 2025, with the calculation in Rule 73 of the Income-tax Rules, 2026.

Which form do I file?

Form 39 from 01/04/2026. Up to FY 2025-26 it is Form 10E.

When must the form be filed?

On or before the due date for the return under section 263(1)(c). A salaried employee can also give the particulars to the person who pays the salary.

Can I get relief on gratuity or commuted pension?

Yes. Rule 73 also gives relief on gratuity for past service of 5 years or more, retrenchment compensation and commutation of pension, where the extra receipt pushes your rate up.

Official sources

- Income Tax Department: Income-tax Rules, 2026 (Rule 73 and Form 39)
- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (section 157)

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