

Section 80JJAA: Deduction for Employing New Employees, Conditions and Example

Description

Last updated: 02 October 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- Section 80JJAA gives a deduction of 30% of additional employee cost for three consecutive years to businesses subject to tax audit.
- An additional employee earns up to ?25,000 a month, works at least 240 days (150 for apparel, footwear and leather) and is in a recognised provident fund.
- It is not limited to manufacturers, and it is allowed in both tax regimes.
- From Tax Year 2026-27 it is section 146 of the Income-tax Act, 2025 and the accountant's report is Form 34 (earlier Form 10DA).

Section 80JJAA rewards businesses that add jobs in the formal sector. A business subject to tax audit can deduct 30% of the cost of its additional employees, every year for three years. From Tax Year 2026-27 the provision is section 146 of the Income-tax Act, 2025. For FY 2025-26 (assessment year 2026-27) it is still section 80JJAA of the 1961 Act.

Who can claim?

An assessee whose accounts are required to be audited under section 44AB (section 63 of the 2025 Act) and whose gross total income includes business profits. The section does not limit the benefit to manufacturers or to any sector; many online guides wrongly say service businesses are excluded. The law has no such condition.

How much, and for how long?

The deduction is 30% of the additional employee cost incurred in the year. It is allowed for three consecutive years, beginning with the year in which the employment is provided. So a new employee hired in one year gives deductions in that year and the next two.

Who is an additional employee?

An employee employed in the year whose employment increases the total number of employees over the number on the last day of the preceding year, but not one:

- whose total emoluments are more than ?25,000 a month,
- for whom the Government pays the entire contribution under the Employees' Pension Scheme,
- employed for less than 240 days in the year (150 days for a business making apparel, footwear or leather products), or
- who does not participate in a recognised provident fund.

An employee who falls short of the days in the year of joining but completes the required days in the next year is treated as an additional employee of that next year.

What is additional employee cost?

It is the total emoluments paid or payable to the additional employees in the year. In the first year of a new business, the emoluments of all employees employed in that year count. For an existing business the cost is nil if:

- the number of employees has not increased over the number on the last day of the preceding year, or
- emoluments are paid otherwise than by account payee cheque, account payee draft, electronic clearing through a bank account or another prescribed electronic mode.

"Emoluments" means any sum paid or payable to an employee for employment, by whatever name called. It excludes the employer's contribution to a pension, provident or other fund required by law, and lump sums on termination, retirement or voluntary retirement such as gratuity, severance pay, leave encashment and commutation of pension.

When is the deduction not allowed?

- The business was formed by splitting up or reconstructing an existing business. The exception is a business formed by re-establishment, reconstruction or revival in the circumstances the Act allows.
- The business was acquired by transfer from another person or through a business reorganisation.
- The assessee does not furnish the accountant's report before the specified date (the audit report date under section 44AB or section 63).

Accountant's report: Form 10DA and Form 34

- Up to FY 2025-26 the report is Form 10DA.
- Under Rule 68 of the Income-tax Rules, 2026 the report required by section 146(3)(c) is Form 34. It is certified by a chartered accountant.

Example

A company with a tax audit had 40 employees on 31 March 2026. During FY 2026-27 it hires 10 people at ?20,000 a month, each in a recognised provident fund and each working the full year. No one else is added and no one leaves.

Item	Amount in ?
Additional employee cost (10 x 20,000 x 12)	24,00,000
Deduction at 30%	7,20,000

The company claims ?7,20,000 in each of the next three years (Tax Years 2026-27, 2027-28 and 2028-29) as long as the conditions are met for the cost of these employees. Hiring someone at ?30,000 a month would not qualify, because that employee's emoluments are above ?25,000.

Which tax regime?

The deduction stays available in the new tax regime. Section 202 of the 2025 Act removes most Chapter VIII deductions in the new regime but keeps section 146, along with 124(1), 124(2) and 125(2).

Frequently asked questions

Who can claim section 80JJAA?

A business whose accounts are subject to tax audit (section 44AB, now section 63) and whose income includes business profits, in any sector. It is not limited to manufacturers.

How much is the deduction?

30% of the additional employee cost, allowed for three consecutive years starting with the year in which the employment is provided.

Which employees count as additional employees?

Employees whose total emoluments are up to ?25,000 a month, who are in a recognised provident fund, who work at least 240 days in the year (150 days for apparel, footwear and leather), and whose employment raises the headcount over the last day of the preceding year.

Which form is needed?

Form 10DA up to FY 2025-26, and Form 34 under Rule 68 of the Income-tax Rules, 2026 from

01/04/2026, certified by a chartered accountant.

Is it available in the new tax regime?

Yes. Section 146 of the 2025 Act is one of the Chapter VIII deductions that stay allowed under section 202.

Official sources

- Income Tax Department: Section 146, Income-tax Act 2025
- Income Tax Department: Section 80JJAA, Income-tax Act 1961
- Income Tax Department: Section 202, Income-tax Act 2025

Related reading

- Filing of ITR after the Due date: Detailed legislative consequences, examples, and financial implications
- Decoding the Direct Tax Landscape: Budget 2025 Insights

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Author
meetsoni