

Entertainment Allowance: Is It Still Deductible from Tax Year 2026-27?

Description

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Quick summary

- Under section 16(ii) of the 1961 Act, only Government employees could deduct entertainment allowance, in the old regime, limited to the least of ?5,000, 20% of basic salary and the allowance received.
- Private sector employees never got this deduction; the allowance was fully taxable for them.
- The Income-tax Act, 2025 does not carry the deduction forward, so from Tax Year 2026-27 the allowance is taxable in full for everyone.
- For FY 2025-26 (assessment year 2026-27) the old rule still applies to Government employees in the old regime.

Entertainment allowance is an amount an employer pays for entertaining visitors or clients on the employer's behalf. It is part of salary and is taxable. For many years one narrow deduction existed for Government employees. The Income-tax Act, 2025 does not carry it forward.

The old rule: section 16(ii) of the 1961 Act

The allowance is first added to salary. A deduction is then allowed, but only to a Government employee in the old tax regime. The deduction is the **least** of:

1. ?5,000,
2. 20% of the basic salary, and
3. the entertainment allowance received.

Points to note:

- The amount actually spent on entertainment makes no difference. The deduction is a fixed formula.
- “Salary” for the 20% test excludes any allowance, benefit or perquisite, so it is in practice the basic pay.
- The deduction depends on the allowance being paid as an entertainment allowance.
- Private sector employees, and employees of statutory and local authorities, never got any deduction. The whole allowance was taxable for them.

Example (up to FY 2025-26, old regime)

A Government employee has a basic salary of ?4,00,000 and receives an entertainment allowance of ?40,000.

Test	Amount in ?
Fixed limit	5,000
20% of basic salary (20% of 4,00,000)	80,000
Allowance received	40,000
Deduction (the least)	5,000

The remaining ?35,000 stays taxable as salary.

What the Income-tax Act, 2025 says

From Tax Year 2026-27, deductions from salary are listed in section 19 of the Income-tax Act, 2025. The list covers tax on employment (professional tax), the standard deduction, and the gratuity, pension commutation, retrenchment compensation, voluntary retirement and leave salary items. Entertainment allowance does not appear in it, and the Act does not mention the allowance anywhere else. So from Tax Year 2026-27 the whole entertainment allowance is taxable in every employee’s hands, whether in the government or the private sector.

New regime

The new regime never allowed this deduction. It allows the standard deduction of ?75,000 and the few other items that survive in section 202.

What this means for payroll

A Government department paying entertainment allowance should stop allowing the ?5,000 deduction in the TDS calculation for Tax Year 2026-27 onwards, and show the whole allowance as taxable salary.

Frequently asked questions

Who could claim a deduction for entertainment allowance?

Only Government employees, under section 16(ii) of the 1961 Act and only in the old tax regime. Private sector employees and employees of local authorities or statutory bodies could not.

What was the limit?

The least of ?5,000, 20% of basic salary, and the entertainment allowance actually received. The amount spent is not relevant.

Is the deduction available for Tax Year 2026-27?

No. The list of deductions from salary in section 19 of the Income-tax Act, 2025 has no entry for entertainment allowance, so the whole allowance is taxable.

Does the allowance have to be called entertainment allowance?

Yes. The deduction depended on the employer paying it as an entertainment allowance.

Is it available in the new tax regime?

No. The new regime never allowed it, apart from the standard deduction.

Official sources

- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (section 19, deductions from salaries)

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