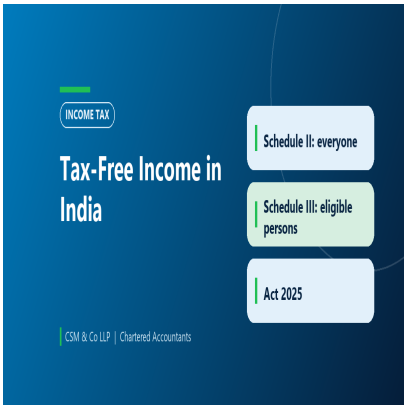

Tax-Free Income in India: Complete List for Tax Year 2026-27

Description

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Quick summary

- The Income-tax Act, 2025 lists tax-free income in Schedule II (for everyone) and Schedule III (for eligible persons), with salary items in section 19 and gifts in section 92.
- Agricultural income, Sukanya Samriddhi payouts, PPF and EPF within the interest limits, most life insurance maturity, gratuity and VRS compensation within limits are tax-free.
- Several Schedule III items, such as LTA and special allowances, are lost in the new tax regime.
- Tax-free income must still be reported in the return.

Some income does not form part of your total income at all. It is not taxed and no deduction has to be claimed for it. In the Income-tax Act, 2025, which applies from 1 April 2026, this list sits mainly in Schedule II (income not to be included in total income) and Schedule III (income of eligible persons), with salary related receipts in section 19 and gifts in section 92. For FY 2025-26 the corresponding list is in section 10 of the 1961 Act.

Exemption and deduction are different

An exemption keeps the income out of total income, so you only report it. A deduction is taken from income that has been included, and is allowed only up to its limit. Standard deduction, section 80C and similar items are deductions, not exemptions.

Schedule II: tax-free for everyone

Income	Conditions and limits
Agricultural income	No condition. It is still counted to fix the tax rate on other income if it exceeds ?5,000

Income	Conditions and limits
Life insurance maturity or other payout, including bonus	Policy issued 01/04/2003 to 31/03/2012: premium up to 20% of sum assured. 01/04/2012 to 31/03/2013: up to 10%. 01/04/2013 to 31/01/2021: up to 15% for a special policy and 10% for others. From 01/04/2023: below 15% (special policy) or 10% (others), and for ULIPs total yearly premium below ?2,50,000, for other policies below ?5,00,000 across all policies. Keyman policies and the sum under section 127(4) are not exempt. A death claim is exempt
Payment from a statutory provident fund or notified fund	Interest on contributions made on or after 01/04/2021 is taxable if the yearly contribution is above ?5,00,000 (no employer contribution) or ?2,50,000 (other cases)
Accumulated balance of a recognised provident fund (EPF)	To the extent provided in the Act; the same ?2,50,000 and ?5,00,000 interest limits apply
Sukanya Samriddhi Account payouts	No limit
National Pension System payout	On closure or opting out, up to 60% of the amount payable.
Agniveer Corpus Fund payout	Whole amount
Approved superannuation fund payments	On death, retirement or incapacity, and certain refunds
Scholarships	Granted to meet the cost of education
Awards and rewards	Instituted in the public interest by the Government or approved by it
Interest on notified Central Government securities, bonds, savings certificates and deposits	As notified
Gold Deposit Bond and Gold Monetisation Scheme interest	Whole amount
Interest on local authority and State pooled finance entity bonds	As notified

Income	Conditions and limits
Transfer of units of the Unit Scheme, 1964	On or after 01/04/2002
Unified Pension Scheme payouts	Up to 60% of the individual corpus on retirement, and the notified lump sum

Schedule III: tax-free for eligible persons

Income	Who and conditions
Sums received by a member from a Hindu undivided family	Paid out of family income, and not covered by section 99(3) and (4)
Partner’s share of profit	Firm separately assessed, in the profit sharing ratio. Salary and interest from the firm are taxable
Compensation for a disaster from the Government or local authority	Where no deduction was earlier allowed for the loss
NPS partial withdrawal	Up to 25% of the contributions made by the subscriber
Daily allowance and constituency allowance of MPs and members of State Legislatures	Whole amount
Leave travel concession (LTA)	Up to the prescribed journeys and amount actually spent. Not available in the new regime
Allowances and perquisites paid by the Government outside India	Citizen of India serving outside India
Tax paid by the employer on a non-monetary perquisite	At the employer’s option
Special allowance for actual expenditure (serial 11), and the prescribed allowances in serial numbers 12 and 13 (Rule 280)	Within the limits of the Income-tax Rules, 2026. Mostly not available in the new regime
Income of Scheduled Tribe members in notified areas, and of Sikkimese	See the separate post on section 10(26)

Salary related receipts (section 19)

Receipt	Tax-free limit
Death-cum-retirement gratuity of government employees	Entire amount
Gratuity under the Payment of Gratuity Act, 1972	As calculated under section 4(2) and (3) of that Act, up to ?20,00,000
Other gratuity	Least of the actual amount, the notified limit, and half a month's average salary of the last ten months for each completed year of service
Commutation of pension	Government employees: entire amount. Others: one-third of the pension where gratuity is received, or one-half where it is not
Retrenchment compensation to a workman	Least of the compensation, the amount under section 25F(b) of the Industrial Disputes Act, 1947, and the notified amount (not less than ?50,000)
Voluntary retirement compensation	Up to ?5,00,000
Leave encashment on retirement	Government employees: entire amount. Others: least of the cash equivalent of leave (up to 30 days a year of service), ten months' average salary, the notified limit and the amount received

"Salary" for gratuity and leave encashment means basic pay plus dearness allowance if the terms of employment provide for it, and no other allowance or perquisite. The ceilings are fixed by Central Government notification: ?20,00,000 for gratuity (notifications of 29 March 2018 and 8 March 2019) and ?25,00,000 for leave encashment on retirement of a non-government employee (Notification 31/2023, from 1 April 2023). Check that no later notification has changed them. Employees who change jobs should also note that the gratuity limit is a lifetime figure reduced by gratuity already exempted in earlier years.

Gifts (section 92)

Money or property received without consideration is taxable if it totals more than ?50,000 in a year (for property bought for less than its value, if the shortfall exceeds ?50,000). It is not taxable at all when it comes from a relative, on the occasion of the individual's marriage, under a will or by inheritance, in contemplation of death, from a local authority, from a registered non-profit organisation (with exceptions), through certain transactions not treated as transfers, or from an individual to a trust created solely for the benefit of a relative.

New tax regime

Section 202 of the 2025 Act removes some of these when the new regime applies: the Schedule III items at

serial numbers 5, 6, 7, 8, 11 and 17, and the prescribed allowances at serial numbers 12 and 13, along with professional tax and a few other deductions. Schedule II items, section 19 receipts, and gifts are not touched. The family pension deduction is ?25,000 in the new regime and ?15,000 otherwise, each limited to one-third of the pension.

Tax-free income is not the same as the basic exemption limit

Income up to the basic exemption limit is simply not taxed at the slab rates. The limit is ?4,00,000 under section 202 (new regime), and in the old regime ?2,50,000 below age 60, ?3,00,000 for resident seniors and ?5,00,000 for resident super seniors. On top of that, a resident individual gets a rebate: ?60,000 where total income does not exceed ?12,00,000 (new regime, section 156), and ?12,500 where it does not exceed ?5,00,000 (old regime).

Report exempt income

Show exempt income in the exempt income schedule of the return. The department matches it with Form 26AS, AIS and the Taxpayer Information Summary, and an unreported receipt causes mismatches.

Frequently asked questions

Where does the Income-tax Act 2025 list tax-free income?

In Schedule II (income not included in total income of anyone), Schedule III (for eligible persons), section 19 (salary related receipts such as gratuity and leave encashment) and section 92(3) (gifts that are not taxed).

Is life insurance maturity tax-free?

Mostly. A policy issued on or after 01/04/2023 qualifies if the premium is below 10% of the sum assured (15% for special policies) and, for non-ULIP policies, the aggregate annual premium is below ?5,00,000. A death claim is tax-free.

Is PPF interest tax-free?

Yes, with a limit. Interest on contributions above ?2,50,000 a year (?5,00,000 where the employer makes no contribution) made on or after 01/04/2021 is taxable.

Are gifts taxable?

Money or property received without consideration above ?50,000 in a year is taxable, unless it is from a relative, on marriage, by will or inheritance, in contemplation of death, or from certain institutions.

Do tax-free incomes go in the return?

Yes. Exempt income is reported in the exempt income schedule, even though it is not taxed.

Official sources

- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (section 19, section 92, Schedules II and III, section 202)

Related reading

- Verify Your PAN Name Before You Apply: Free TRACES PAN Verification for Income Tax, TDS, GST, ICEGATE and DSC
- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27
- Section 80C of Income Tax Act: 80C Deduction List, Limit and Examples

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