

## Understanding Taxation for Residents in India

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### 1. Applicable Tax Rates For Resident Individuals, HUF, AOP, BOI, and AJP

India follows a progressive tax system. Two tax regimes are available for individual taxpayers and HUFs: the **New Tax Regime (default under Section 115BAC)** and the **Old Tax Regime (optional)**. Selecting the most beneficial regime is one of the most impactful income tax saving strategies available to taxpayers, and our tax consultants at Finstreet India can help you make the right choice.

#### ▪ **New Tax Regime (Default) — Individuals, HUF, AOP, BOI, and AJP**

The New Tax Regime is the default option from FY 2025–26. It offers lower slab rates and a wider nil-tax band, but most deductions and exemptions (HRA, 80C, 80D, LTA, etc.) are not available. It is particularly beneficial for younger salaried taxpayers and those with limited tax-saving investments.

Income Slab	Tax Rate
Up to ₹4,00,000	Nil
₹4,00,001 – ₹8,00,000	5%
₹8,00,001 – ₹12,00,000	10%
₹12,00,001 – ₹16,00,000	15%
₹16,00,001 – ₹20,00,000	20%
₹20,00,001 – ₹24,00,000	25%
Above ₹24,00,000	30%

#### Key Benefits under the New Regime:

- i. Standard Deduction of ₹75,000 for salaried employees and pensioners.
- ii. Rebate under Section 87A: Up to ₹60,000 for resident individuals with taxable income up to ₹12,00,000, effectively making income up to ₹12 lakh tax-free (up to ₹12.75 lakh for salaried after standard deduction).
- iii. Uniform rates for all age groups — below 60, senior citizens (60–80), and super senior citizens (80+).

#### ▪ **Old Tax Regime (Optional)**

The Old Tax Regime offers higher basic exemption limits for senior citizens and allows a wide range of deductions. It remains the preferred choice for taxpayers who have maximised their **Section 80C investments, health insurance deductions under 80D**, home loan interest claims, and other eligible expenses.

#### A. For Individuals Below 60 years, HUF, AOP, BOI, and AJP

Income Slab	Tax Rate
Up to ₹2,50,000	Nil
₹2,50,001 – ₹5,00,000	5%
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

## B. For Senior Citizens (60-80 years)

Income Slab	Tax Rate
Up to ₹3,00,000	Nil
₹3,00,001 – ₹5,00,000	5%
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

## C. For Super Senior Citizens (Above 80 years)

Income Slab	Tax Rate
Up to ₹5,00,000	Nil
₹5,00,001 – ₹10,00,000	20%
Above ₹10,00,000	30%

### Key Benefits under the Old Regime:

- Standard Deduction of ₹50,000 for salaried employees.
- Rebate under Section 87A: Up to ₹12,500 for individuals with taxable income up to ₹5,00,000.
- Deductions under Sections 80C (up to ₹1.5 lakh), 80D, HRA, LTA, and 70+ other exemptions remain available.

## 2. Applicable Tax Rates for Resident Partnership Firms and LLPs

Partnership firms (including Limited Liability Partnerships) are taxed at a **flat rate of 30%** on their total income, irrespective of the quantum of income. There are no slab rates and no basic exemption limit.

## 3. Applicable Tax Rates for Resident Cooperative Societies

Co-operative societies have three tax options: the normal slab regime, a concessional regime under **Section 115BAD (22%)**, and a further concessional regime for new manufacturing societies under **Section 115BAE (15%)**. Tax planning for co-operative societies requires careful evaluation of which regime minimises overall tax after considering available deductions.

### a. Normal Tax Regime Slabs

Income Slab	Normal Tax Rate
Up to ₹10,000	10%
₹10,001 – ₹20,000	20%
Above ₹20,000	30%

### b. Concessional Tax Regimes: 115BAD & 115BAE

- **115BAD:** If a society opts for this section, the tax calculation becomes **flat 22%** and bypasses the progressive slabs. which, when combined with a mandatory **10% surcharge** and **4% cess**, results in an **effective tax liability of approximately 25.17%**. This regime bypasses the traditional progressive tax slabs and provides a major administrative advantage by **exempting the society from Alternate Minimum Tax (AMT)**, thereby removing the need to calculate and

track AMT credits. However, this lower rate comes at the cost of forfeiting several key tax incentives. Most significantly, societies must give up the **Section 80P deduction**, which often provides a 100% tax break on various operational profits. Additionally, they cannot claim **additional depreciation**, investment-linked deductions for scientific research or specified businesses, or set off any brought-forward losses and unabsorbed depreciation tied to these restricted incentives. Once this option is exercised, it remains irrevocable for all subsequent years.

- **115BAE:** Section 115BAE provides a specialized tax regime for **new manufacturing co-operative societies**, offering a highly competitive **base tax rate of 15%**. When the mandatory **10% surcharge** and **4% cess** are added, the **effective tax rate is approximately 17.16%**. This section was introduced to bring co-operative manufacturing units on par with the concessional rates available to new manufacturing companies. A significant administrative benefit of this regime is that societies opting for it are **exempted from Alternate Minimum Tax (AMT)**, simplifying their tax compliance and eliminating the need to manage AMT credits.

To qualify for this 15% rate, strict eligibility criteria must be met. The society must have been **registered on or after April 1, 2023**, and must have **commenced production by March 31, 2024**. The business cannot be formed by splitting up an existing entity, and it must primarily use new machinery—though a small window allows for up to **20% of the plant and machinery value to be second-hand**. While the business must focus on manufacturing or production (including power generation), certain activities like mining, gas bottling, and software development are specifically excluded from this benefit.

If a society generates income that is not derived from or incidental to its manufacturing activities, that specific "other income" is taxed at a higher rate of **22%** (plus surcharge and cess), rather than the 15% rate. Furthermore, if the Assessing Officer determines that profits have been artificially inflated through "close connections" with other parties, those excess profits can be taxed at an even higher rate of **30%**.

Opting into this regime requires the forfeiture of several traditional tax benefits. Most notably, the society cannot claim the **Section 80P deduction**, additional depreciation, or various investment-linked incentives for research and development. Additionally, any brought-forward losses or unabsorbed depreciation related to these forfeited deductions cannot be set off against the society's income. Once this option is exercised via the prescribed form on or before the tax return due date, it is **irrevocable** and will apply to all subsequent years.

#### 4. Applicable Tax Rates for Resident Local Authorities

Local authorities (municipalities, panchayats, cantonment boards, port trusts, etc.) are taxed at a **flat rate of 30%** under the Income-tax Act. Certain incomes of local authorities are exempt under **Section 10(20)**. Local authorities are **not subject to MAT / AMT**.

#### 5. Applicable Tax Rates for Domestic Companies

Domestic companies — being always residents of India — have three tax options depending on their turnover and strategic choices.

#### a. Normal Tax Regime Slabs

Category	Tax Rate
Turnover <= ₹400 crore in FY 23-24	25%
Turnover > ₹400 crore in FY 23-24	30%

#### b. Concessional Tax Regimes: 115BAA & 115BAB

- **115BAA:** available to all domestic companies, regardless of their incorporation date or business type. It offers a **base tax rate of 22%**, which, when combined with a flat 10% surcharge and 4% cess, results in an **effective tax rate of 25.17%**. This section is particularly attractive for established firms looking for simplicity, as it exempts the company from Minimum Alternate Tax (MAT) and eliminates the need to track MAT credits, though it requires the forfeiture of several traditional deductions like Section 10AA or additional depreciation.
- **115BAB:** a specialized "super-concessional" regime designed to catalyze greenfield manufacturing investments with a lower base rate of **15%** (an **effective rate of 17.16%**). To qualify, companies must have been incorporated on or after October 1, 2019, and must focus exclusively on manufacturing, production, or related research and distribution. However, as of March 2026, the eligibility window for this section is currently closed for new entrants, as the law required production to **commence by March 31, 2024**. Any manufacturing company registering today would generally default to the 22% rate of Section 115BAA or the normal slab-based regime.

#### 6. Applicable Tax Rates for Foreign Companies

Foreign companies that are tax-resident in India by virtue of POEM, or which earn income from Indian sources, are taxed at different rates depending on the nature of income. Unlike domestic companies, foreign companies are not eligible for the concessional regimes under Sections 115BAA or 115BAB.

Nature of Income	Tax Rate
General Business Income	35%
Royalties & Fees for Technical Service	20%
Dividend Income	20%
Interest Income (from Govt/Indian Concerns)	20%
Interest from Infrastructural Debt Funds	5%

**The Treaty Advantage:** Most foreign companies from countries like the US, UK, or Singapore do not pay these 20% rates. Instead, they utilize **Double Taxation Avoidance Agreements (DTAA)** to bring these rates down to **10% or 15%**, provided they have a valid Tax Residency Certificate (TRC).

#### 7. Applicable Tax Rates on Special Categories of Income

Certain categories of income are taxed at flat rates specified in the Income-tax Act, independent of the taxpayer's normal slab rate or choice of tax regime. These special rates apply regardless of whether the taxpayer has opted for the New or Old Tax Regime, and the **Section 87A rebate** is generally not available against tax computed

on such income. Understanding these rates is critical for investors, traders, and taxpayers with diverse income sources.

- **Capital Gains Taxation**

Capital gains arise from the transfer of capital assets like equity, real estate, and gold, and the structure has been significantly rationalized since July 23, 2024. For **short-term capital gains (STCG)**, listed equity and equity-oriented mutual funds are taxed at a **flat 20% under Section 111A** if held for **12 months** or less. Conversely, **long-term capital gains (LTCG)** on these assets (held for more than 12 months) are taxed at **12.5% under Section 112A** for gains **exceeding ₹1.25 lakh per year**. Other assets like **immovable property**, unlisted shares, and gold are now generally taxed at **12.5%** for LTCG (held over **24 months**) without indexation, though a beneficial option of **20% with indexation** remains for properties **acquired before July 23, 2024**.

- **Winnings from Gains, Lotteries and Online Money Gaming**

Income from lotteries, crossword puzzles, gambling, and betting is governed by **Section 115BB** and is taxed at a flat rate of **30%** plus applicable surcharge and cess. Under this section, no deductions for expenses or set-off of losses are permitted, and the basic exemption limit cannot be applied to reduce this liability. Similarly, Section **115BBJ** specifically targets online gaming, applying a **30% flat tax** on net winnings.

- **Virtual Digital Assets**

Income from the transfer of Virtual Digital Assets, including cryptocurrencies and NFTs, is governed exclusively by **Section 115BBH**. These gains are taxed at a **flat 30%** regardless of the holding period or the taxpayer's total income level.

- **Unexplained Income/Cash Credits/Investments**

Unexplained income, such as unexplained cash credits, investments, or expenditures under Sections 68 through 69D, is subject to highly punitive taxation under Section 115BBE. This income is taxed at a flat **60%**, which, when combined with a mandatory **25% surcharge** on the tax and a **4% cess**, results in an effective tax rate of approximately **78%**. No deductions, allowances, or loss set-offs are permitted against such income, making it one of the most stringent provisions in the Act designed to deter tax evasion.

## 8. Surcharge on Income Tax

- **For Individuals, HUF, AOP, BOI & AJP**

A surcharge is levied on the income tax amount for high-income taxpayers. Rates are as follows:

Income Slab	Old Regime	New Regime
₹50 lakh – ₹1 crore	10%	10%
₹1 crore – ₹2 crore	15%	15%
₹2 crore – ₹5 crore	25%	25%
Above ₹5 crore	37%	25% (capped)

- **For Partnership Firms, LLPs and Local Authorities**

Rates are as follows:

Income Slab	Tax Rate
Up to ₹1,00,00,000	Nil
Above ₹1,00,00,000	12%

- **For Domestic Companies**

Surcharge rates for domestic companies depend on their total turnover/income and whether they have opted for the concessional tax regimes (Section 115BAA or 115BAB).

Income Slab	Normal Tax Rate	If Opted 115BAA/115BAB
Up to ₹1,00,00,000	Nil	10% (flat)
₹1,00,00,001 – ₹10,00,00,000	7%	10% (flat)
Above ₹10,00,00,000	12%	10% (flat)

- **For Foreign Companies**

Since foreign companies have a higher base tax rate (40%), their surcharge rates are lower than those for domestic companies.

Income Slab	Tax Rate
Up to ₹1,00,00,000	Nil
₹1 crore – ₹10 crore	7%
Above ₹10 crore	12%

- **For Cooperative Societies**

Co-operative societies follow a structure similar to domestic companies, with distinct rates for those opting for Section 115BAD or 115BAE.

Income Slab	Normal Tax Rate	If Opted 115BAD/115BAE
Up to ₹1 crore	10%	10% (flat)
₹1 crore – ₹10 crore	15%	10% (flat)
Above ₹5 crore	37%	10% (flat)

**Note:** Surcharge is capped at **15%** for **Capital Gains** and **Dividend Income**.

Example: A taxpayer with total income of ₹6 crore comprising ₹3 crore in business income and ₹3 crore in LTCG (Sec. 112A) will pay 37% surcharge on the tax attributable to the ₹3 crore business income, but only 15% surcharge on the tax computed on the ₹3 crore LTCG. This differential treatment makes **capital gains tax planning** particularly significant for high-net-worth investors and is an area where our **investment tax advisors** at Finstreet India add meaningful value.

## 9. Health And Education Cess

A Health and Education Cess of **4%** is levied on total tax payable (including surcharge) under both regimes. This cess applies to all taxpayers without exception.

## 10. Minimum Alternate Tax and Alternate Minimum Tax

- **MAT: Section 115JB**

The basic rate of MAT has been **reduced to 14% (previously 15%)** for companies, effective for this fiscal year.

Type of Entity	MAT Rate
Companies	14% of Book Profits
Companies in IFSC	9% of Book Profits
Companies under Concessional Regime u/s 115BAA & 115BAB	Exempt. MAT does not apply.

▪ **AMT: Section 115JC**

AMT applies to Individuals, HUFs, AOPs, and BOIs only if their Adjusted Total Income **exceeds ₹20 Lakhs**.

Type of Entity	MAT Rate
General Rate (Individuals, HUF, AOP, etc.)	18.5% of Adjusted Total Income
Co-operative Societies	15% of Adjusted Total Income
IFSC Units (receiving foreign exchange)	9% of Adjusted Total Income

MAT / AMT credit: Any tax paid in excess of regular tax under MAT/AMT can be carried forward as MAT/AMT credit for **15 years** and set off against regular tax in subsequent years. MAT and AMT do **not** apply to entities that have opted for concessional regimes under Sections 115BAA, 115BAB, 115BAC, 115BAD, or 115BAE.

**11. Rebate u/s 87A**

The Union Budget has significantly enhanced the Section 87A rebate, particularly for those opting for the New Tax Regime. These changes are designed to provide relief to middle-income earners and encourage the adoption of the simplified tax structure.

Feature	New Tax Regime	Old Tax Regime
Total Income	Up to ₹12,00,000	Up to ₹5,00,000
Maximum Rebate	₹60,000	₹12,500

**12. Conclusion**

For FY 2025–26, the New Tax Regime’s wider tax-free band and the ₹12 lakh effective nil-tax threshold represent a significant benefit for middle-income taxpayers. However, those with large deductible investments may continue to benefit more from the Old Regime. A structured **tax review** at the beginning of every financial year is the single most effective step a taxpayer can take.

For personalised guidance, reach out to **Finstreet India Investment Services LLP** — your **trusted tax and investment advisor**. Our experts are here to help you navigate every aspect of Indian taxation with clarity and confidence.