

Income Tax Rebate vs. Filing Requirements: A Common Misconception

Recent changes in India's income tax structure, particularly the introduction of rebates, have led to some confusion among taxpayers regarding their obligations to file Income Tax Returns (ITRs). A prevalent misconception is that individuals with incomes up to ₹12 lakh are entirely exempt from income tax and, consequently, from filing ITRs. This is not accurate. While rebates can reduce tax liability, the thresholds for mandatory ITR filing are distinct and generally lower.

Clarifying the Tax Rebate

Under the new tax regime introduced in the Finance Budget 2025, individuals with taxable incomes up to ₹12 lakh are eligible for a rebate under Section 87A, effectively reducing their tax liability to zero. However, this rebate does not imply that the income tax exemption limit has been raised to ₹12 lakh. The basic exemption limits, which determine the necessity to file an ITR, remain unchanged.

Income Tax Slab Rates as per Finance Budget 2025 The Finance Budget 2025 introduced significant revisions to the income tax slab rates under the new tax regime, applicable for the Assessment Year (AY) 2025-26:

Income tax slabs (Rs)	Income tax Rate (%)
From 0 to 4,00,000	0
From 4,00,001 to 8,00,000	5
From 8,00,001 to 12,00,000	10
From 12,00,001 to 16,00,000	15
From 16,00,001 to 20,00,000	20
From 20,00,001 to 24,00,000	25
From 24,00,001 and above	30

Actual Limits for ITR Filing

It's crucial to differentiate between tax liability and the obligation to file an ITR. The requirement to file an ITR is based on the basic exemption limits, not on the post-rebate tax liability. As per the current regulations:

For individuals below 60 years of age: The basic exemption limit is ₹2,50,000.

For senior citizens (60 years or above but below 80 years): The exemption limit is ₹3,00,000.

For super senior citizens (80 years and above): The exemption limit is ₹5,00,000.

Therefore, any individual with gross total income exceeding these limits before claiming deductions under sections like 80C, 80D, etc., is mandatorily required to file an ITR, irrespective of the rebates that might reduce their tax liability to nil.

Why You Should File an ITR Even If No Tax is Payable

Even if an individual's tax liability is zero due to rebates, filing an ITR has multiple benefits:

1. **Loan and Visa Processing:** Banks and financial institutions often require ITRs for loan approvals. Similarly, foreign consulates may ask for ITR copies when processing visa applications.
2. **Claiming Refunds:** If Tax Deducted at Source (TDS) has been deducted on any income, an ITR is necessary to claim a refund.
3. **Avoiding Notices:** Not filing an ITR despite earning above the exemption limit may lead to notices from the Income Tax Department.
4. **Carrying Forward Losses:** Filing an ITR allows taxpayers to carry forward certain losses to future years, which can be set off against future incomes.
5. **Legal Compliance:** It is a legal obligation to file an ITR if income exceeds the prescribed limit. Non-compliance can attract penalties.