Withdrawal of Tax on Disability Pension

Why in News?

The government has directed the banks, not to deduct income tax on pension and disability benefits provided to disabled retired military personnel.

What is the story behind?

- A circular was issued by the Principal Controller of Defence Accounts (PCDA) in February, 2020.
- This circular allowed the banks to deduct the income tax on pension and disability benefits.
- It was based on a June 2019 notification of the Central Board of Direct Taxes (CBDT) which provided exemption to those invalidated from service due to bodily disabilities.
- But, the sudden deduction of tax liabilities by the banks led to a public outrage, forcing the government to keep the decision in abeyance.
- The defence accounts department has been directed by the government to withdraw this circular.

What are the categories of disabled veterans?

- They are classified under three categories: battle casualties (war wounded), battle casualties and disabilities due to service conditions.
- **Battle casualties (war wounded)** - Military personnel who have been disabled due to wounds or injuries suffered by them in operations with the enemy or such like operations.
- **Battle casualties** - Military personnel who have been declared battle casualties but have not suffered injuries due to physical wounds.
- **Disabilities due to service conditions** - Military personnel who have been disabled due to conditions of service, wherein some of the disabilities akin to lifestyle diseases are also included.

How are benefits given to disabled personnel?

- **Benefits** are based on the percentage of disability.
- Less than 20% disability is not entitled to any benefits while those with 50% disability, 75% disability and 100% disabled are entitled to.
- **Amount of disability pension** given is also based on the percentage of

disability.
- A percentage of last pay drawn on retirement by the military personnel is given as disability pension for the three categories of disabled veterans.

Are these disability pensions tax-free?

- The entire pension and disability element of pension in all the categories is exempt from payment of income tax.
- But the June 2019 CBDT notification had said that tax exemption on disability pension would be available only to personnel who had been invalidated from service and not to personnel who had retired otherwise.
- This has been challenged in the Supreme Court which, in a 2019 order, directed all parties to maintain 'status quo' on the matter.

What is the current controversy about?

- The PCDA circular was issued for taking "necessary action" on the 2019 CBDT notification.
- Then banks started debiting tax at source for the entire financial year 2019-20 from the February pension of retired military personnel who were receiving disability pension.
- This led to several pensioners receiving as little as Rs.1000 in their accounts.

Source: The Indian Express

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