

3. Disability Pension

Prelims Syllabus: Schemes

Mains Syllabus: GS-II Welfare schemes for vulnerable sections of the population by the Centre and States and the performance of these Schemes; Mechanisms, Laws, Institutions and Bodies constituted for the protection and betterment of these Vulnerable Sections.

Why in News?

- Recently, the government has withdrawn a circular, that had directed banks to deduct income tax on pension and disability benefits provided to disabled retired military personnel.

About Categories of Disabled Veterans:

- They are classified under three categories: battle casualties (war wounded), battle casualties and disabilities due to service conditions.
- The military personnel who have been disabled due to wounds or injuries suffered by them in operations with the enemy or terrorists/ insurgents or suchlike operations are battle casualties (war wounded), while personnel who have been declared battle casualties but have not suffered injuries due to physical wounds are classified under battle casualties.
- The third category pertains to personnel who have been disabled due to conditions of service, wherein some of the disabilities akin to lifestyle diseases are also included.

Benefits are based on the Percentage of Disability:

- ✓ Less than 20% disability is not entitled to any benefits.
- ✓ Those with disability from 21% to 50% are categorised as 50% disabled,
- ✓ Those with 51% to 75% disability are classified as 75% disabled, and
- ✓ Those with 76% or more disability are classified as 100% disabled.
- **The Amount of disability pension is based on two categories**

The first rate is for battle casualties (war wounded) and battle casualties:

- ✓ For 21% to 50% disability, 30% of the last pay drawn is given as disability pension;
- ✓ for 51% to 75% disability, 45% of the last pay; and
- ✓ for 76% of more disability, 60% of last pay drawn on retirement is given as disability pension.

The second rate applies to personnel with disabilities due to service conditions:

- ✓ For 21% to 50% disability, 15% of the last pay drawn is the disability pension;
- ✓ for 51% to 75% disability, 22.5% of the last pay; and for 76% of more disability,

- ✓ 30% of the last pay drawn on retirement is given as disability pension.

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 Central Board of Direct Taxes (CBDT) notified 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 an order dated August, 2019, directed all parties to maintain 'status quo' on the matter.

About Central Board of Direct Taxes (CBDT):

- It is a statutory body established as per the Central Board of Revenue Act, 1963.
- It is India's official financial action task force unit.
- It is administered by the Department of Revenue under the Ministry of Finance.

About CBDT Structure:

- The Central Board of Direct Taxes consists of a **Chairman and six members** that deal with the following:
 1. Income Tax
 2. Revenue
 3. Legislation and Computerisation
 4. Audit and Judicial
 5. Investigation
 6. Personnel and Vigilance
- The Members of the CBDT are selected from the Indian Revenue Service (IRS). The members constitute the top management of the Income Tax Department.

Functions of CBDT:

- It deals with matters related to levying and collecting Direct Taxes.
- Formulation of various policies.
- Supervision of the entire Income Tax Department
- Suggests legislative changes in Direct Tax Enactments
- Suggests changes in tax rates
- Proposes changes in the taxation structure in line with the Government policies.

Current Controversy:

- The Principal Controller of Defence Accounts, Allahabad issued a circular on February 20, for “necessary action” on the June 2019 CBDT notification to deduct income tax from pensions of disabled soldiers.
- The State Bank of India then 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.

