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From Recruitment to Reward: The Tax Benefits of Hiring Under Section 80JJAA



Section 80JJAA- Deduction for Employment of New Employees

✦ Eligible assessee:

- Assessee **to whom section 44AB applies** (i.e., those subject to tax audit).
- Having **gross total income including profits and gains from business**, and
- Who **employ "additional employees"** during the previous year.

💡 **Special Note:**
Deduction u/s 80JJAA would be available irrespective of the regime under which such assessee pays tax.

✦ Quantum & duration:

- **30%** of **additional employee cost** incurred in the previous year.
- Allowed for **3 consecutive assessment years**, starting from the year in which employment is provided

✦ Conditions to be fulfilled:

- 1 •The business should not be formed by splitting up or the reconstruction of an existing business.
- 2 •The business should not be acquired by the assessee by way of transfer or as a result of business reorganisation
- 3 •Audit report in Form 10DA must be filed before the specified date referred u/s 44AB i.e one month prior to due date for filing return of income u/s 139(1).

✦ Key definitions:

Additional employee cost	
In case of an existing business:	There will be no additional employee cost if the number of employees does not increase compared to the total number of employees on the last day of the previous year.
First year of new Business	The entire amount of salary or wages (emoluments) paid to employees hired during the year is considered the additional employee cost .

Key Terms

✦ Additional employee:

- Must **be employed** during the previous year.
- The emoluments paid or payable should be **less than or equal to Rs 25,000 per month**.
- The employee should be a contributor to recognised provident fund.
- The employee must be employed for at least **240 days** during the previous year. In case of an assessee engaged in the business of manufacturing of apparel or footwear, or leather products, the minimum employment period is **150 days**.
 - If an employee is employed for less than 240 days (or 150 days for businesses in apparel , footwear, or leather) during the year of joining , but is employed for 240 days or 150 days as the case maybe in the succeeding year, he shall be deemed to have been employed in the succeeding year. The employer can claim 30% deduction of the additional employee cost in the next year.

💡 **Special Note:**

Additional employees **does not include:**

- An employee for whom the entire contribution is paid by the Governmentt, under the Employee Pension Scheme.

💡 **Special Note:**

As **per Form No 10DA** , the emoluments shall not include any amount paid otherwise than by way of **account payee cheque/bank draft/ECS and other prescribed electronic modes**

✦ Documents required to claim this deduction:

- **Form 10DA:** Mandatory audit report certified by Chartered Accountant. This report should certify the additional employee cost and confirm that all the conditions under this section have been met.
- **Employment records/Appointment letter:** This document should include the details regarding the date of joining, total salary (not exceeding Rs25,000) , type of employment etc.
- **Identity Proof:** The company should maintain the identity proof such as Aadhar , PAN card, UAN details to validate his / her identity.
- **PF registration & contribution proof:** Proof of contribution to Recognized Provident Fund (RPF) such as copy of challans.
- **Bank payment proofs:** Evidence that salaries were paid via account payee cheques or other electronic modes.



Frequently asked questions

✦ *Is it necessary for an employee to remain employed in the subsequent years?*

➤ The provisions of Section 80JJAA do not impose any conditions regarding the **continued employment** of the additional employee in the subsequent two financial years. Therefore, it can be inferred that even if the employee leaves the organization in the second or third year, the deduction calculated in the first year will remain unaffected. This interpretation is supported by the ruling of the **Bangalore Tribunal in the case of DCIT v. Page Industries.**

✦ *Is the claim under Section 80JJAA calculated on a per-employee basis (based on their name), or does it simply consider the total number of incremental employees?*

➤ Under Section 80JJAA, the claim is calculated based on the total **incremental employees** added during the year, rather than on a per-employee basis. The deduction is available to an employer who employs additional workers (beyond the existing workforce). The key factor is the **net increase in the number of employees** compared to the previous year.

✦ *Can contract workers or employees through manpower agencies be included?*

➤ **No.** The deduction is only allowed for **regular employees** on the employer's payroll. Contract or outsourced workers are not eligible.

✦ *Does the 240/150-day threshold include leave or holidays?*

➤ **Yes.** As long as the employee is continuously on the payroll, **authorized leaves, weekends, and holidays count** toward the employment duration.

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