

**GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF REVENUE  
LOK SABHA**

**STARRED QUESTION NO. \*438**

TO BE ANSWERED ON MONDAY, MARCH 23, 2026/CHAITRA 02, 1948 (SAKA)

**DISCONTINUATION OF INCOME TAX EXEMPTION ON DISABILITY PENSION**

\*438. Shri Asaduddin Owaisi:

Will the Minister of FINANCE be pleased to state:

- (a) the rationale behind the discontinuation of income tax exemption on disability pension to defence personnel still serving despite disability (not invalidated out) or those who have completed their term or took premature retirement despite it being upheld by the Supreme Court in 2019;
- (b) the manner in which the Government proposes to reconcile the discontinuation of this tax exemption despite judicial rulings that such pensions are compensatory in nature;
- (c) the number of superannuated personnel with service-attributable disabilities as compared to those invalidated out;
- (d) the reasons for not introducing a grandfathering clause to protect veterans whose disability occurred prior to 1 April 2026; and
- (e) the measures taken by the Government to address borderline cases where the Medical Board recommended retention, but the disability is severe?

**ANSWER**

THE FINANCE MINISTER  
(SMT. NIRMALA SITHARAMAN)

(a) to (e): A statement is laid on the Table of the House.

\*\*\*\*\*

**Statement referred in reply to parts (a) to (e) of Lok Sabha Starred Question No. 438 to be answered on 23.03.2026 regarding Discontinuation of Income Tax Exemption on Disability Pension by Shri Asaduddin Owaisi:**

**(a)** The exemption in respect of disability pension received by members of the armed forces who are invalided out of service on account of a disability attributable to or aggravated by military service has existed since the framework under the Income-tax Act, 1922 as provided vide Notification No. 878-F (Income Tax) dated March 21, 1922. When the Income-tax Act, 1961 came into force, the exemption continued through the repeal and savings provisions.

With the enactment of the Income-tax Act, 2025, the earlier enactments pertaining to Income-tax Act, 1922 and related savings provisions ceased to operate. Therefore, in the absence of an express provision in the new Act, the exemption would have lapsed. The present provision has been included to ensure the continuation of the same exemption that existed earlier, including its scope and conditions.

**(b)** There is no discontinuation of the said tax exemption. On the contrary, the Finance Bill, 2026 proposes to explicitly provide for a specific exemption in respect of disability pensions under the Income-tax Act, 2025.

**(c)** As of 31.01.2026 number of armed forces personnel retired from service with disability are 1,47,263 persons, while the number of armed forces personnel receiving disability pension who have been invalided out are 89,598 persons.

**(d)** Since the provisions under the Income-tax Act, 2025 are intended to continue the pre-existing legal position rather than introduce a new levy or withdraw an existing exemption, the question of introducing a grandfathering clause does not arise.

**(e)** The present system of Medical Examination in Armed Forces follows a laid down protocol. Armed Forces personnel are inducted in SHAPE-I in Army, S1A1 in Navy & A1G1 or A4G1 in Indian Air Force [AO 09/2011, NO 17/14, IAP 4303 (6th Edition)]. These medical classifications (SHAPE-I, S1A1, A1G1 & A4G1) imply that the personnel are fit for all types of Military duties (A4G1 - is fitness classification for all operational requirements except flying duties in Air Force).

The medical fitness of the serving personnel is carried out annually. The personnel detected with disease/deformity/injuries/medical conditions are placed in the Low Medical Classification and are also reviewed periodically depending on the service specific orders. This annual medical examination includes general physical and systemic examination which is supported by battery of tests which differs based upon the role of the officer in their respective service. On detection of a condition the service specialist opines on the medical condition, employment restriction and medical classification of the personnel. The medical classification of a person is finalised by Medical Board constituted as per para 418 and 419 of Regulations for the Medical Services of the Armed Forces-2010 (Revised Version).

In case an individual is found to be suffering from any disease / injury, he / she is observed in temporary medical classification initially for three months to one year & later upgraded to SHAPE-1 and equivalent, on being cured of the disease or recovered from a condition to a level where no military restrictions are merited.

Personnel who do not improve are placed and observed in permanent medical category if the condition is not fully cured and thus, have restriction for military employability. They may continue to serve in Armed Forces with employment restrictions [Army Order 09/2011, NO 7/14 & IAP 4303 (6th Edition)].

Personnel in Permanent Low Medical Category are periodically reviewed at specified interval (Every two years in Army and Navy, and every year in Air Force). These reviews are carried out with the aim to assess in detail the medical condition, functional capacity and employment restriction of the individual.

Officers placed in permanent medical classification, undergo a Release Medical Board (RMB) before retirement/release/discharge [Army Order 3/89, NO 7/14 & IAP 4303 (6th Edition)]. The Release Medical Boards carry out assessment of impairment of such individuals in accordance with GMO- 2023 and the entitlement of the impairment is decided by Service HQs as per ER-2023 and GMO 2023.

Personnel in permanent medical classification if found unfit for discharging of military duties may be invalided out on medical grounds by an Invaliding Medical Board [Army Order 513/71, NO 7/14 & IAP 4303 (6th Edition)]. The Invaliding Medical Boards carry out assessment of impairment of such individuals in accordance with GMO- 2023 and the entitlement of the impairment is decided by Service HQs as per ER-2023 and GMO 2023.

The medical boards only define the medical condition and the various employability restrictions necessitated to ensure adequate recovery and prevention of further deterioration of the condition. The promotion policies of the Armed Forces officers are dealt by respective MS Branch/ equivalent branches of other services.

\*\*\*\*\*