
THE OUTDATED EXEMPTION: RETHINKING CHILDREN'S EDUCATION ALLOWANCE

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ABSTRACT

Allowances and deductions are used by tax systems around the world not just to manipulate income but also as social policy tools to alleviate households' and individuals' financial hardships. The Children Education subsidy is one such subsidy in India that was put in place to help parents pay for their child's education. However, each child's exemption under this allowance is still limited to a maximum of 100 rupees per month; this amount hasn't been revised in decades. This article examines the allowance's initial rationale, situates it within the broader context of fiscal incentives, and highlights the stark disparity between the statutory relief and the true cost of education in contemporary India. It also examines cross-country patterns in other territories, the role of tax policy as a tool of social fairness, and constitutional commitments to education. Finally, the argument makes the case that the allowance in its current form is symbolic rather than substantive and ends with recommendations for changes that could give this clause context and make it appropriate for the modern economy.

Introduction

Most people equate income tax with the government deducting a portion of their earnings. The fact that tax legislation does not strictly apply to the entire pay is often overlooked. Before the final taxable amount is determined, some income is set aside for deductions or exemptions. These exclusions are meant to recognize that there are costs associated with living that are either unavoidable or socially required. For example, housing, vacations, and education are requirements rather than luxuries. The law aims to lessen the burden on families and encourage frugal spending by exempting a small percentage of such expenses.

This means that taxes are paid on income after deductions like these exemptions rather on the assessee's whole income. While some allowances are predetermined amounts regardless of actual spending, others are based on actual costs spent. The Children's Education Allowance, which helps parents pay for their children's education, falls under the latter type of fixed allowances.

On the surface, the very fact that such an allowance exists shows that education is recognized as a public resource as well as a personal necessity. However, the relief provided under this heading is remarkably minimal. Only one hundred rupees per month is exempt for each child, up to a maximum of two, under the Income-tax Act, 1961, read in conjunction with the Income-tax Rules, 1962. This amount may have been noteworthy decades ago, but it seems nearly nothing now because even modest schools receive several thousand rupees every month.

The difference between the allowed and actual expenditure is not the only problem. This stagnation shows how responsive tax policy is. A centuries-old exemption implies that education is not considered seriously in the structuring of taxes if allowances are intended to alleviate actual burdens and promote societal priorities. Thus, the Children's Education Allowance offers a glimpse of the more significant challenges in connecting tax breaks with the realities of taxpayers' lives.

Scope of the Study

This study looks into the Children's Education Allowance (CEA) program in India, specifically focusing on its policy significance and financial sufficiency within the current tax system. The CEA exemption is still controlled by Rule 2BB(2) and Section 10(14). The structure of personal taxation has changed significantly since the new tax framework under Section 115BAC was implemented. In exchange for a more straightforward system with lower tax

rates, the new administration has given up the majority of exemptions and deductions, including those pertaining to allowances like the CEA.

Many taxpayers still choose the previous system in spite of this change, mostly in order to keep certain exemptions and allowances. Since many people still choose the previous tax system, this document is restricted to it. The argument is that the deduction should be raised to account for growing educational expenses, with an emphasis on the magnitude and growth of the CEA. The analysis emphasizes the need for the allowance to continue being a significant and fair source of support for parents by highlighting the discrepancy between existing policy and real spending.

Understanding Income tax

As the name suggests, tax which is levied on the income of an individual is called income tax. Income tax is direct tax levied on the individual's income. According to Section 2(24)¹, 'income' is defined inclusively to cover salaries, business profits, capital gains, dividends, and even unlawful gains. On this foundation, income tax is understood as a direct levy on such income, serving as a key source of public revenue while enabling the State to fund governance, infrastructure, and welfare. The term income has a wide scope under the Income tax act. Judicial Interpretations have also illustrated the wide ambit of income in a variety of. In CIT v. G.R. Karthikeyan², where the assessee won a car as a prize in a rally and argued that it could not be taxed since such winnings were not expressly mentioned in Section 2(24).³ The Supreme Court rejected this contention, holding that the definition of income is inclusive, not exhaustive, and that windfalls such as prizes fall within its scope. Thus, even unexpected or non-traditional receipts can be taxed as income.

To channel the inclusive definition into computation, the Act⁴ classifies income under five heads. **Salary, Income from house property, profits or gains from business or profession, capital gains, and income from other sources.** The Act's broad definition of income is reinforced by this structure, which guarantees that all receipts—regular or irregular—are included in the tax net.

¹ Income-tax Act, 1961, s 2(24)

² *Commissioner of Income Tax, Madras vs G.R. Karthikeyan*, 1993 SCR (3) 328

³ Income-tax Act, 1961, s 2(24).

⁴ Income-tax Act, 1961, s 14

Allowances in Tax Law

When people hear the word "allowance," they usually think of pocket money or extra money given for a specific purpose. The idea is similar in taxation. An allowance is a sum of money that an employer gives an employee for a particular use, like housing, travel, or the education of their children. Allowances are considered salary income for taxation purposes. Nonetheless, the law recognizes that some allowances are exempt, either completely or in part, because they are intended to cover necessities rather than augment personal wealth. For example, the law may regard a portion of money that a company gives an employee to cover travel or educational costs to be tax-exempt. This is done to ensure that individuals are not taxed on funds that they are not actually in a position to spend but are utilizing for basic requirements. Although Section 17 of the Income-tax Act states that allowances are typically considered part of salaries, Section 10(14) exempts certain allowances because it acknowledges that they are given to cover specific expenses.⁵ Special allowances given wholly, necessarily, and exclusively for carrying out official duties are exempt under this section, but only to the extent that such costs are actually incurred.⁶ Subject to certain restrictions, allowances provided to cover personal expenses at the place of employment or residence or to offset rising living expenses are exempted too.⁷ As a result, only allowances that meet these requirements are not included in taxable income; all other allowances are still subject to salary taxes.

Understanding this requires an examination of how income is computed for tax purposes. Tax is not charged on the entire salary that appears on the assessee's paycheque. First, certain parts of that salary may be treated as allowances. Out of these, some are fully taxable and some enjoy exemptions up to a limit. An exemption means that a specific amount is legally ignored while calculating tax.

Deductions Allowed

After calculating the assessee's gross total income Deductions are taken into account. The deductions that can be made when determining gross total income are the subject of Chapter VI-A. The deductions specified in Sections 80C through 80U shall be allowed from the gross total income for determining the assessee's total income, as per Section 80A (1) and the provisions of this Chapter. Additionally, Section 80A (2) states unequivocally that the total of

⁵ Income-tax Act 1961, ss 17, 10(14).

⁶ Income-tax Act, 1961, s 10 (14) (i)

⁷ Income-tax Act 1961, ss 10(13A), 10(14), read with Income-tax Rules 1962, rr 2A, 2BB

all deductions cannot exceed the assessee's gross total income. Even while allowances and other components make up the taxable income, these clauses ensure that taxpayers have the right to reduce their liabilities through permitted deductions. Because of this, the tax computation is fair and well-structured. For instance, an assessee may be able to claim payments under Section 80C if they are contributing to a provident fund or purchasing life insurance. While deductions are deducted from total income to lower the taxable income, exemptions reduce income at the beginning, before it is included in gross total income.

Finally, taxable income is what remains after deductions and exemptions. Only this sum is subject to taxation; the assessee's entire salary is not. To put it simply, exemptions prevent some income from ever being included. Once income has been added, deductions reduce it. The final sum on which taxes are actually calculated is known as taxable income.

The Role of Allowances as Social Policy

Allowances are important. Tax laws are used by governments to fund important social goals in addition to raising money. The law provides assistance if the public must pay for housing, education, medical care, or transportation to work in order to prevent these inescapable costs from becoming more taxable. Allowances are an instrument of social policy. They list the sources from which the state believes aid is necessary.

For example, allowing tax breaks on home rent acknowledges that housing is a basic human necessity. Allowing exemptions for education allowances shows that education is a public asset that should be promoted rather than just a personal expense. By determining what allowances to recognize and how much relief to offer, the state shapes behavior.

The Children's Education Allowance: Origins and Provisions

CEA is one of the oldest and most popular fixed allowances granted under the Indian Income-tax regime. In the general context of allowances, remember that allowances are supposed to help employees cover unavoidable expenses without increasing their taxable income. Unlike variable reimbursements, which are related to the amount spent, fixed allowances, like CEA, permit a fixed amount to make administration easy and ensure uniform relief to all taxpayers. This procedure ensures that parents are not required to provide elaborate proofs of spending above the common threshold while still getting some alleviation from taxation.

Legal Reference and Framework

CEA is given under the provisions of Income-tax Act, 1961, and the full rules are specified under the provisions of the Income-tax Rules, 1962. These rules state that an educational allowance provided by an employer for a child's education can be exempted from tax, but only in well-defined limits. The exemption, in case of one child or two children of the parents, is ₹100 per month for each child. Additionally, if the child is staying in a hostel, ₹300 per month per child can also be claimed. The allowances are cumulative; a parent with a hostel child can claim both the education allowance and the hostel allowance for the same child, but within the specified limits.

Note that this exemption is only for up to two children. Those children beyond two do not carry any additional relief, a function of the original policy assumptions regarding family size and the normal educational spending at the time of drafting the law. The non-variable nature of allowance also implies that regardless of the actual tuition or hostel charges incurred, the maximum tax relief is always capped at the given amount. This makes it easier to administer by employers and tax authorities but at the same time reduces the real value for parents in today's time.

Existing Restrictions and Practical Effects

Assume that a parent has two school-going children. The maximum exemption of the education allowance would be $₹100 \times 2 \times 12 \text{ months} = ₹2,400$ annually. If both kids are staying in hostels, an additional $₹300 \times 2 \times 12 = ₹7,200$ annually can be claimed. In total, the maximum a parent can claim under this provision for the education expenses of kids is ₹9,600 annually. Though this may have been a big deal many decades back, in contemporary times, it is practically negligible. Even considering just tuition fees, the monthly fees for one child at a private school can range from ₹2,500 to ₹8,000. Thus, the allowance provides minimal relief, barely covering a fraction of one month's fees.

This shortfall between statutory relief and educational expenses shows that, in practice, the CEA has become irrelevant. The fact that the allowance is fixed, added to its modest size, is that it cannot be indexed for inflation or the increasing cost of education, and parents must pay it almost entirely out of pocket. Thus, the allowance is as much a symbol as it is actual assistance.

The Allowance for Children's Education was enacted at a time when education was much cheaper, and ₹100 per month for every child was significant financial support. At the time, the allowance could easily pay for a major part of the tuition or school-related expenses, which was why it was incorporated into the Income-tax Act. But unlike most other allowances or deductions that have been revised periodically, the CEA has stood the test of time for decades, even while the cost of living, school charges, and related educational costs have skyrocketed.

It was both functional and symbolic. Functionally, it provided workers with a quantifiable financial relief. Symbolically, it was an expression of governmental acknowledgment of education as a concern of families. Now it is still symbolic, but the practical purpose has mostly vanished. The same amount also underscores a larger concern with fixed allowances in tax legislation: they do not adjust automatically for inflation or social change, so that they may lose their connection to the day-to-day experience of taxpayers.

Position within Broader Tax Policy

Among the overall framework of Indian tax policies, CEA is one of many allowances aimed at addressing basic needs. Others, such as House Rent Allowance, or Leave Travel Allowance, are directly related to actual expenses or revised from time to time to keep them aligned with economic fluctuations. The CEA is one such allowance that has remained largely static in terms and thus serves as a good case study on how tax policy can become obsolete if statutory values are not reconsidered. Its limitations also lay the groundwork for debate about likely reform, policy sensitivity, and the social ends for which tax exemptions are intended.

Inflation and the Diminishing Real Value of ₹100

CEA as laid out under the Income Tax Rules is ₹100 per child per month. The present value of the Child Education Allowance has been completely eroded, if not by general inflation, surely by the rapid and disproportionate rise in private school education. The rise in education costs has been always ahead of the general CPI inflation in India. According to a report by the National Sample Survey Office 2024, fees at urban private unaided schools have risen by over 169% during the last ten years, way above the average rate of inflation. Likewise, household spend on education surged 4.6 times in 12 years from 1.8 lakh crore in FY12 to 8.43 lakh crore in FY24. Then there are the additional costs of book fees, school uniforms, and transportation, adding to the expense for parents. All these are rising relentlessly, increasing the gap between the statutory grant and actual cost.

Now, let us understand this gap using the example of a parent who has two children in private schools: The most that relief could be under the CEA is ₹2,400 annually for tuition and ₹7,200 for hostel, making ₹9,600 per year. By comparison, the annual tuition fee alone for two students could easily be over ₹100,000, so the grant substitutes less than 10% for real expenses. This is the glaring gap between the relief mandated by law and the actual cost incurred, showing how disconnected the provision has come from current economic realities.

Comparison with Government Employee Reimbursements

The stagnation of CEA becomes most glaringly obvious when compared to the reimbursements allowed for government employees. For example, Central Government employees are currently eligible to receive a far higher CEA of ₹2,812.50 per child per month a hike from the earlier ₹2,250 per month reflecting updates correlated to inflation and increasing cost of education. This ongoing adjustment guarantees that the allowance is still reflective of true education costs and remains effective money assistance.

However, the CEA exemption for private taxpayers under the Income Tax program has stood still for decades and thus failed to keep pace with current education expenses. The divergence between these two regimes underlines not just the insufficiency of the present tax exemption for the general populace but also betrays a systemic inconsistency-one which provides fair relief to government officials while ignoring the wider base of taxpayers. Such fiscal divergence appropriates the legitimate query of fairness and necessitates policy amendment to reinstate parity and pertinence to the CEA framework.

The Constitutional Promise of Free and Compulsory Education

Education is a fundamental right under the Constitution of India and was made operational through Article 21A and the Right of Children to Free and Compulsory Education Act as an assurance on the part of the state that every child will have schooling. Despite this constitutional impetus, the CEA remains static and paltry as a tax relief mechanism, not keeping pace with rising costs of education. This indicates that education, as it is practiced, is not accorded the priority its constitutional status would demand. An increase in deduction for CEA will provide meaningful financial support to parents to spend more on schooling and bridge the gap between the constitutional promise and the fiscal reality of funding education.

The formulation of tax policy in India has generally been slow to keep pace with the stride of social and economic change within the country. CEA, which was instituted many years ago,

may indeed have been a genuine attempt to assist families in providing for their children's education initially. However, as earlier discussions have pointed out, the inflexible nature of the CEA has rendered it woefully inadequate in these times of rising education fees and inflation. This stagnation reflects a broader weakness of Indian tax policy—a tendency to retain obsolete provisions without periodic revision to meet existing realities.

This gap in policy intention and real-world effect underlines how far such a shift is from what is necessary—a more adaptive approach to tax reform sensitive to the evolving needs of both society and the economy. Lacking such flexibility, tax policies themselves would become rigid and ineffective, failing to confer benefits intended for the populations they served.

Suggestions

1. Indexing the Allowance to Inflation

The easiest way to reform the CEA would be to index it to inflation so that the allowance does not erode in value over time. Currently, the allowance is fixed at ₹100 per month per child, and due to inflation, it has lost quite a lot of value. By linking the allowance to some credible indicator of inflation, such as the Consumer Price Index, the government can ensure that the CEA remains relevant in its ability to provide relief to families. This would be a gesture indicating a desire to keep up with the rising cost of education and would demonstrate the government's awareness of the economic pressures faced by taxpayers.

2. Tying the Allowance to Actual Tuition Expenses

Another possible reform is that the CEA should be linked to the real tuition fees, either by linking it to a percentage of the fees or by giving a fixed amount per child that co-incides with the average expense on tuition. If, for example, the average annual fee for a child is ₹50,000, the CEA may be fixed as a percentage of this figure to make the allowance contribute a far larger percentage toward the costs of schooling. In this regard, the CEA would be more appropriate and helpful to parents because it directly tackles the cost involved in schooling.

3. CEA combined with Section 80C

The CEA and Section 80C of the income tax act, 1961 tuition fee deduction are two different provisions today, and hence prone to being misused and underutilized. Merging the CEA with 80C may have the effect of easing the procedure and providing larger tax relief. For example, the overall allowance can be restricted to ₹2,50,000 per year for both tuition fees and other

education expenses. Such a merger would facilitate the process of filing taxes by parents with ease and ensure that the financial assistance extended is more substantial and easier to avail.

4. Establishing a Tiered System According to Income Levels

The government may also consider the adoption of a tiered system to make the CEA more equitable, where the allowance is determined based on income levels of the taxpayer. More wealthy families might get a reduced allowance, while less well-off families may receive a bigger benefit. In this way, financing help is provided in areas that need it most, as stipulated by the principle of equity in taxation.

5. Direct Reimbursement to Parents

The government could instead pay parents' CEA directly, rather than through employers. It could thus create a central system in which parents present their educational expenses and are directly reimbursed. This would reduce the administrative workload on the employers and at the same time ensure that the parents get reimbursement as and when needed.

These reforms would go a long way in lending credibility to Indian tax policy. Right now, the CEA looks anachronistic and somewhat detached from the reality of the times. Making the allowance current with the contemporary economic realities and linking it to actual expenditure, the government would show that it is genuinely interested in responsive and responsible fiscal policy. This responsiveness would not only regain confidence in the tax system but also ensure more people come into compliance and participation as taxpayers.

Alignment of tax incentives with education priorities is both an economic and social imperative. Education is a constitutional right under Article 21A of the Indian Constitution, and the government has an obligation to ensure every child gets quality education. By reforming the CEA, the government can actually make a difference in the lives of families by ensuring that education becomes accessible and equitable. Economically, too, education pays a high dividend in the form of a better workforce, productivity, and less social inequality. Hence, enhancing the CEA is not just a tax policy measure but an investment in the future of the country.

Conclusion

The Children's Education Allowance tells the story of intent versus consequence. What began as a genuine financial support to parents, over time, has turned symbolic in perpetuity with the

expense of education skyrocketing. ₹100 per month per child does not ease anybody's burden today, but the allowance continues to remind one of times past. The contrast is jarring; a law meant to support education now highlights the chasm between law and reality. This is not only a matter of figures on a pay slip. It's about tax policy that falls behind social change, with the state sending one message of care but providing little of practical use; it's about families still struggling to pay for basic educational requirements despite constitutional provision for free and compulsory education. In its current format, the CEA erodes the credibility of tax policy so that it looks out of date with respect to the current economic and social circumstances. Reform is not only desirable but imperative: indexing the allowance to inflation, relating it to real tuition, integrating it with Section 80C, or making a tiered system with income would be ways to restore its relevance. This would give not only real relief to parents but also show that tax policy is responsive, equitable, and in tune with national objectives such as education. This, therefore, reflects a larger reality: policies and legislation that cannot keep pace with society become ineffective in helping the very constituents they were designed to assist. All that is required is to force the stagnation to end, heed the disparities, and act emphatically to reshape the Children's Education Allowance from a symbolic gesture into a substantive tool of social policy. The time has come to go beyond mere symbolism and to ensure that the promise of education-essential to India's social and constitutional vision-is underpinned by fiscal fact. Education is not only an issue of individual investment; it is also a national imperative. A reformed, responsive CEA can close the gap between hope and achievement, making a once-forgotten allowance into an instrument that really empowers families and fortifies the nation's future.

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