ESOP TAX DEFERRAL

ESOP tax deferral is timing relief, not a tax exemption

Startup employees can postpone perquisite tax, but the liability remains. **Read the full guide on tax deferred on ESOP**.



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ELIGIBILITY

The deferral applies only to eligible startups

Confirm the employer’s status before relying on the relief.

DPIIT and 80-IAC	Employer must generally be DPIIT-recognized and satisfy section 80-IAC conditions, including applicable certification requirements.
Confirm the treatment	Not every DPIIT-recognized startup qualifies; confirm eligibility and deferral treatment with the employer.
Trace the reporting	Check how the deferral appears in **Form 16 and the TDS return**.

CHECK BEFORE FILING

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TRIGGER EVENTS

Three events can make the deferred tax payable

Sale

Sale of the allotted shares.

Leaving

Leaving the company.

Expiry

Expiry of the statutory window: 48 months from the end of the relevant year, or 60 months for later allotments under the corresponding new-Act provision.

The earliest event wins.

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RATE YEAR

The rate is tied to the year of exercise

Perquisite value is generally the fair market value on exercise minus the exercise price, taxed under Salaries.

Deferral changes when tax is paid, not the year whose rate applies.

This is a timing relief, not an exemption.

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ITR VISIBILITY

The ITR schedule is meant to stay visible

Do not delete it simply because tax is not yet payable.

Return record	What stays visible
ITR-3	Report the deferred perquisite in the dedicated schedule.
ITR-2	Use the corresponding schedule.
Until trigger	The entry remains until sale, cessation of employment, or expiry of the 48/60-month window.

For context, see the **ITR-2 / ITR-3 reporting explainer**.

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WHEN THE TRIGGER OCCURS

When the trigger occurs, the item moves into tax due

At the statutory trigger

The deferred amount is brought into the tax calculation; any tax due is paid.

If the entry is wrong

Use a revised return or respond to a notice with employer confirmation. Manual deletion can create a mismatch.

For the broader trigger-date framework, see **this ESOP taxation reference**.

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TWO TAX STAGES

ESOP taxation happens in two stages

01

Perquisite tax

At exercise, possibly deferred under the startup rules.

02

Capital gains tax

When the shares are later sold; the FMV at exercise becomes the cost of acquisition.

For the extended window, see the **60-month discussion**.



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Use a simple control checklist before filing



Confirm DPIIT recognition, 80-IAC status, and applicable certification with the employer.



Record allotment year, exercise value, shares still held, employment status, and the 48/60-month deadline.



Reconcile Form 16, the employer’s TDS return, and the ITR schedule.



Do not rely on a supposed “top firm” ranking; there is no official ranking for this service.

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ERROR CHECK

Common errors are mostly timing and eligibility errors

Eligibility and filing

- Assuming every startup ESOP qualifies.
- Forgetting residency checks for NRIs or employer reconciliation.

Timing and tax

- Treating deferral as permanent exemption or using the later year’s tax rate.
- Ignoring the first-of-three-events rule or the 48/60-month clock.
- Forgetting capital-gains cost basis.

Review the **DPIIT recognition** and **80-IAC conditions** before filing.

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BOTTOM LINE

Keep the record until the trigger

Tax deferred on ESOP remains reportable until the earliest of sale, exit, or the statutory window. It is not removable at will.

Revisit the source article before your next filing season.

This is general information, not individual tax advice. For support, see **tax-planning services**.



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