TAX PAYER

It's a bonanza for the small taxpayer as Piyush Goyal's budget gifts full rebates to those earning up to ₹5 lakh a year. But with tax slabs unchanged, there are hardly any goodies for high income earners. Even senior citizens have been left out

Crowd Pleaser, Poll Teaser

TEN ISSUES FACING THE ECONOMY

2/10

Low Tax-to-GDP Ratio

India's tax collection is well below global norms

General government revenue to GDP (%)

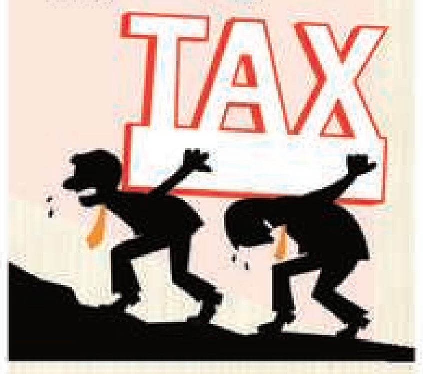
India	20.8
China	28.7
Brazil	29.2
Japan	33.2
US	31

Source: IMF, for 2018

Corporate tax rate is higher but effective tax rate is low because of exemptions

Effective tax rate in % of profit

FY16	FY17
28.24	26.89



Number of taxpayers is rising but still low

Returns filed (million)

FY14	38
FY15	40.4
FY16	46.3
FY17	55.7
FY18	68.5

Direct tax-to-GDP ratio has picked up

(%)

FY01	3.25
FY05	4.1
FY10	5.85
FY15	5.55
FY16	5.47
FY17	5.57
FY18	5.98

Sharp cut in GST rates will also lower Centre's indirect tax-to-GDP ratio

(%)

FY17	FY18	FY19 (RE)
5.6	5.6	5.5

States' tax collection low but rising at a tepid pace

States' own tax revenue (% of GDP)

FY16	FY17 (RE)	FY18 (BE)
5.3	5.5	5.6

HOW MUCH TAX WILL YOU SAVE?

Income between ₹2.5 lakh and ₹5 lakh

Particulars	Pre-budget	Post-budget
Income from salary	3,60,000	3,60,000
Less: Standard deduction	40,000	50,000
Taxable salary	3,20,000	3,10,000
Tax on above	1,040	0
Less: Rebate u/s 87A	1,040	0
Final tax payable (including cess)	0	0
Tax saved	1,040	

Income between ₹5 lakh and ₹6 lakh

Particulars	Pre-budget	Post-budget
Income from salary	5,50,000	5,50,000
Less: Standard deduction	40,000	50,000
Taxable salary	5,10,000	5,00,000
Tax on above (including cess)	15,080	0
Tax saved	15,080	

All figures in ₹

Income between ₹6 lakh and ₹10 lakh

Particulars	Pre-budget	Post-budget
Income from salary	8,50,000	8,50,000
Less: Standard deduction	40,000	50,000
Taxable salary	8,10,000	8,00,000
Tax on above (including cess)	77,480	75,400
Tax saved	2,080	

Income above ₹10 lakh

Particulars	Pre-budget	Post-budget
Income from salary	10,50,000	10,50,000
Less: Standard deduction	40,000	50,000
Taxable salary	10,10,000	10,00,000
Tax on above (including cess)	1,20,120	1,17,000
Tax saved	3,120	
For income above ₹50 lakh	3,432	
For income above ₹1 crore	3,588	

Calculations by: Cleartax.com

Income slabs and tax rates	Up to ₹2.5 lakh	₹2.5 lakh to ₹5 lakh	₹5 lakh to ₹10 lakh	Over ₹10 lakh
	Nil	5%	20%	30%

There is 4% cess on total tax; 10% surcharge on tax if income above ₹50 lakh and 15% surcharge if above ₹1 crore

Babar Zaidi & Riju Mehta

The interim budget seeks to reduce burden on small taxpayers by giving full rebate to those earning up to ₹5 lakh a year. "Even persons having gross income up to ₹6.5 lakh may not be required to pay tax if they make investments in specified savings," interim finance minister Piyush Goyal said in his speech.

"With some tax planning, someone earning less than ₹60,000 a month will not pay any tax at all," says Dhirendra Kumar, chief executive, Value Research. For instance, if she invests ₹1.5 lakh under Section 80C of the Income Tax Act, puts ₹50,000 in the National Pension System (NPS) under Section 80CCD(1b) and buys medical insurance with ₹20,000, her income will fall below the threshold.

The measure will send an estimated 3 crore taxpayers out of the tax net, costing the exchequer about ₹18,500 crore in revenue foregone. At present, people earning up to ₹3.5 lakh a year are eligible for a tax rebate of ₹2,500 under Section 87A. The budget proposed to increase rebate ₹12,500 and eligibility to ₹5 lakh. "Only low-income taxpayers will gain from the rebate. For others, there is very little change," says Amit Maheshwari, partner, Ashok Maheshwary & Associates LLP.

Tax outgo of higher income earners will not change much because tax slabs and basic exemption limit have not been touched. The only benefit is increase in standard deduction to ₹50,000, which will bring down annual burden of salaried taxpayers in the 30% bracket by a little over ₹3,000. "It is a nominal relief provided to salaried employees," says Poorva Prakash, senior director, Deloitte India.

Budget proposals are likely to put greater stress on tax planning. Those with income close to the threshold will have to ensure their total income does not exceed ₹5 lakh. The rebate vanishes if the income exceeds ₹5 lakh by even one rupee. This can be very challenging for taxpayers not aware of their total income. "Most taxpayers get to know exactly how much their total income is, and deductions, only at the time of filing their tax return," says Archit Gupta, founder and chief executive, Cleartax.com.

Budget proposals are likely to put greater stress on tax planning

The rebate is likely to encourage aggressive tax saving. If they have already exhausted Section 80C limit, taxpayers can opt for NPS. Section 80CCD(2) benefits can reduce taxable income significantly as up to 10% of basic pay put in NPS by the employer is tax deductible. "Now that 60% of the maturity corpus of NPS is tax free and one can withdraw for emergencies, it makes sense to use the pension scheme to save tax," says Sudhir Kaushik, co-founder, Taxspanner.com.

RELIEF FROM TDS

The budget has also proposed to raise TDS threshold for interest income from bank and post office deposits to ₹40,000 from ₹10,000. This does not mean this interest has been exempted and should not be confused with existing exemption to savings bank interest under Section 80TTA. It is only that interest income up to ₹40,000 from bonds and fixed deposits will not be subject to TDS. Interest income will continue to be fully taxable at the marginal rate applicable.

"Hike in the TDS threshold is a convenience, rather than a tax benefit," said Priya Sunder, director, PeakAlpha Investment Services. "Small depositors will not have to go through the annual hassle of submitting Form 15G or claiming a refund by filing tax returns."

The move will benefit small depositors and non-working spouses, most of whom have low or no salaries, but interest from bank deposits and post office deposits easily exceed ₹10,000 in a year.

On the other hand, the interim budget has nothing in particular for senior citizens above 60 years of age and very senior citizens above 80. Last year's budget had raised the TDS threshold for senior citizens to ₹50,000. Also, very senior citizens have a basic exemption limit of ₹5 lakh. So the proposed rebate will not affect them at all.

INTERIM BUDGET 1957-58

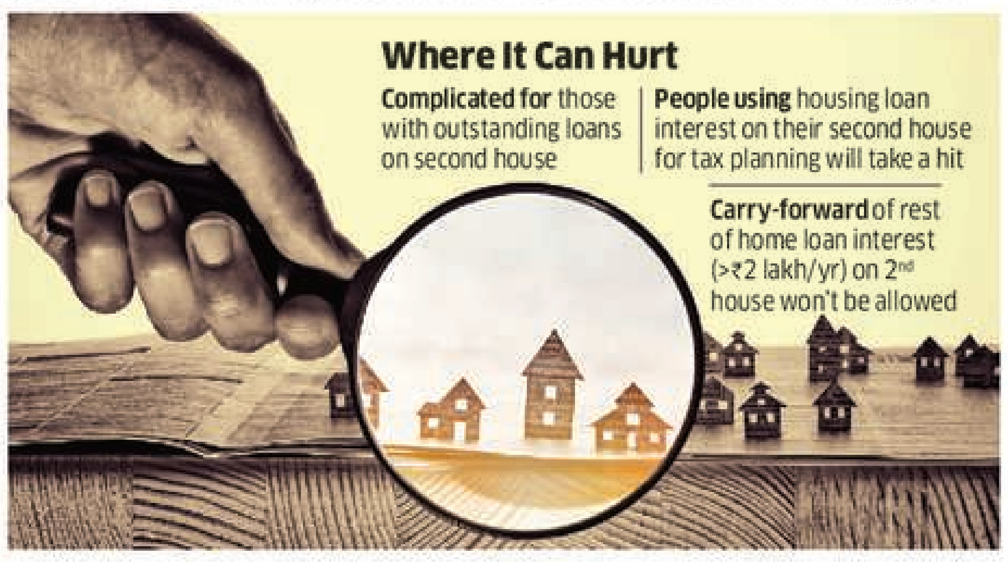
TT Krishnamachari

The second general election was held in February-March 1957 and finance minister TT Krishnamachari presented an interim budget for 1957-58 on March 19, 1957. A white paper on the budget was issued separately. During that period, domestic prices and balance of payments had been under pressure on the back of growing developmental activity. TTK's interim budget highlighted the problem of poor foreign exchange reserves – something that troubled FMs all through the 50s and 60s– and the continued efforts of governments to secure foreign financial assistance, both in terms of loans and aid. Although TTK expressed concern at the size of the deficit, he said it was inevitable as plan spending had to be stepped up.

Tax on Notional Rent from Second House Scrapped

Those with two houses but no outstanding loan on second house set to gain

Narendra.Nathan@timesgroup.com



The interim finance minister abolished income tax on notional rent from the second self-occupied house, benefiting those with two houses but no outstanding loan on the second one.

"Since most people don't have housing loans running on their self-occupied second house, this will benefit them. The main advantage of this move is operational – it does away with disputes regarding the computation of notional rent," said Suresh Surana, founder, RSM India.

However, it will complicate matters for those with outstanding loans on their second house. "This is because the general taxation rule is that once an income source becomes tax-free, deduction available on expenses related to that also goes," said Surana.

People who are using housing loan interest on their second house for tax planning will take a hit because the maximum interest benefit allowed on both these houses will now be restricted to ₹2 lakh. More importantly, the carry-forward of remaining housing loan interest (above ₹2 lakh per annum) on the second self-occupied house will not be allowed now.

"Carry-forward benefit is available only for houses rented out or treated as rented with notional rent and not for self-occupied houses," said Karan Batra, CEO, Chartered Club.

CAPITAL GAINS BENEFIT

Section 54 of the Income Tax Act stipulates capital gains from residential real estate are exempt if used for buying another house. However, this is the case only when one house is bought, posing a problem to people who sold an ancestral home and split the proceeds among family members.

To mitigate this problem, the interim budget proposed a two-way splitting or purchase of two houses. But this will be allowed only once in a lifetime and only in cases where the sale proceeds are below ₹2 crore. There is no restriction, though, if only one house is bought.

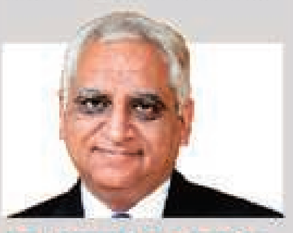
"The ₹2 crore restriction is applicable only to people who want to buy two houses using capital gains. For those who are buying only one house, there is no restriction," said Batra.

Tarun Chugh
CEO, Bajaj Allianz Life Insurance

"With tax benefits (for an) income of ₹5 lakh, savings component will increase in households and add to India's consumption story"

B Gopkumar ED, Reliance Securities

"Election budget meets multiple objectives of stoking consumption, reducing farmer distress, tax burden for middle class while managing fiscal deficit"



Ashwani Bhatia
CEO, SBI MF

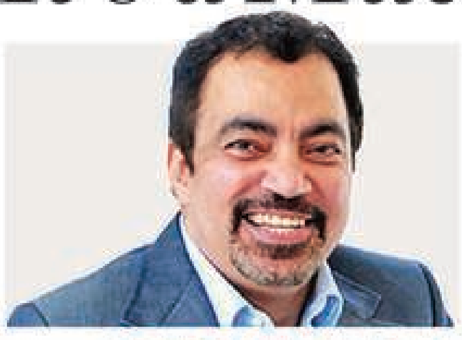
"There is a very strong intent to put money in the hands of the common man. This will boost consumption"

Arun Thukral
CEO, Axis Securities

"(Interim) FM gave a road map and vision for 10 years on where he would like to take the economy"

"The government will spend ₹7,627 crore per day. But it earns only ₹5,418.33 crore per day. So it will borrow ₹1,928.76 crore per day... that is ₹80.36 crore per hour"
@ShankkarAiyar

It's a Much-Needed Step in the Right Direction



ASHOK WADHWA
Group CEO, Ambit

The interim budget has holistically focused on three key elements — farmers, the urban middle class and focus on real estate.

In the previous two budgets, the intent to drive rural demand was apparent. Today as well, there were announcements providing monetary support to farmers, with assured income support benefitting 12 crore families.

For micro, small & medium enterprises (MSMEs), which are critical, large-scale growth engines of the economy, the interest subvention scheme is expected to help drive capex and generate employment in the unorganised sector.

This budget has also laid much-needed focus on realty, underpinning government commitment towards housing for public and providing tax exemptions to developers. Hopefully, these initiatives will help improve end-user demand towards real estate, bringing relief to developers amid the current demand and liquidity slowdown.

A positive stimulus for real estate will aid financial institutions since they serve as a large source of funding to the sector, and also help in employment generation.

In line with the increasing tax collection, the minister has offered an impressive tax rebate for individuals having income of up to ₹5 lakh. Other initiatives have also brought taxpayers cheer. Separately, the minister's aim to announce certain measures to improve efficiency within the Income Tax Department is likely to go a long way in improving tax compliance. The government has clearly delivered on its goal of reducing the tax burden.

The improving health of the banking sector was highlighted, considering recapitalisation of ₹2.6 lakh crore.

The budget also underlined the achievement in containing inflation at 4.6% despite overall growth. Though India is solidly on track of development, given the progressive reforms and GDP growth, we still saw a slip in the fiscal deficit target for FY19, having increased to 3.4% from 3.3%. That said, the markets have so far taken the announcement in their stride and continue to bat solidly.

Overall, I would rate this as a good interim budget, a much-needed step in the right direction. And amen to the concluding remarks of India becoming a $5-trillion economy in five years and $10-trillion economy in the next eight years.

Three key segments benefit largely – farmers, the urban middle class and the real estate sector

IN A NUTSHELL

- **Positive stimulus for real estate** will aid financial institutions
- **Underpins govt commitment** towards housing for public
- **Plan for measures to improve** I-T department's efficiency will help in better tax compliance
- **MSMEs, which are growth** engines, will get impetus now
- **The intent to drive rural** demand is apparent