P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-4* ISSUE-1* (Part-1) April- 2019
E: ISSN NO.: 2455-0817 Remarking An Analisation

Introduction of Standard Deduction u/s 16 of the Income Tax Act in India for Salaried Individual Assessees: An Impact Analysis

SK. Ataur Rahman
Principal,
Chandidas Mahavidyalaya,
Bolpur
Birbhum, W.B.

Abstract

Indian Income Tax falls under the jurisdiction of Central Government. The whole matter are guided India by the Income tax Act, Income Tax Rules and Juridical Pronouncement from time to time. If an individual wants to assess his/her income tax and or plan to tax then he/she should have knowledge in all these. In order to calculate tax and to minimize its implications an Individual always try use the scope of different provisions of the Act or Rules and even various court orders and very obviously he will find various deduction and or exemption opportunities abiding by the provisions of the Act. In different years these provisions are varied. In the assessment year 2019-20 a new provision u/s 16(i) of the I.T. Act 'Standard deduction' has been introduced for salaried individual assesses. It is very well known that the merit of the Standard deduction is to eliminate the cost associated with the earning of income. Through application of this provision Gross Salary is reduced by the same and thereby it results reduction of tax liability in the hands of the individual. This paper has tried to analyse the same provision with showing related impact.

Keywords: Income, Tax, Std. Deduction, Assessment, Gross Salary, Assessee, Financial year and Assessment year, Computation of Total Income, Computation of Income Tax.

Introduction

According to the Constitution of India, the government has the right to levy taxes on organizations and individuals. However, the constitution states that no one has the right to levy taxes except the authority of law of the parliament. The main body, which is responsible for the collection of taxes, is the Central Board of Direct Taxes, which is a part of the Department of Revenue under the Ministry of Finance of the Indian government. The CBDT functions as per the Central Board of Revenue Act of 1963. Every year various taxation proposals are presented in the Parliament for discussion. In the proposal it is seen that several provisions are either introduced, or deleted or amended. But in maximum cases substantive logic are not found. However, in last 10-15 years, Indian taxation system has undergone wonderful reforms and the tax laws have been simplified and the tax rates have been rationalized resulting in better compliance, ease of tax payment and better enforcement. In the same tune Government has introduced 'Standard Deduction' of Rs 40,000 with scrap of the exemption benefit in the name of transport allowance of (Rs.1,600 per month) or annually Rs.19,200 and medical reimbursement by the employer of Rs. 15,000 per annum. In view of this Section 17(2) (viii) of the Income-tax Act has also been amended. Interestingly, the provision of Standard Deduction was earlier available but was abolished in the Finance Act 2005. It is also interesting that it is applicable for all salaried individual.

Review of Literature

The term 'tax' has derived from the word Taxation, which means estimate. There are two types of tax , one is Direct and another is Indirect. The concept of Taxation has emerged from Manu, Smrity and Arthasastra. Main principle of imposition of tax is ability to pay criteria. It is either direct or indirect monetary burden of the people but in exchange nothing can be claimed directly. It is so certain that nobody can avoid. This is duty of a citizen to pay it to the Government. Government undertake the welfare activities of the people with utilizing the revenue collected under the head tax. The principle to incur the tax revenue depends upon particular Government. Every year various provisions as regards financial policy in the name of Financial Bill of the Government are presented in the parliament with the supervision of Ministry of Finance and whenever it takes assent of the Honb'le President of the country it becomes Taxation Act.

In India it is first introduced by Sir James Wilson in 1860 in order to meet the excessive financial burden arose to control Military Mutiny in 1857. Since 1860 onwards the concept and its mechanism has been developed. The present Taxation Act 1961 has been in this position after lots of amendments, insertion and deletion.

Central Board of Revenue bifurcated and a separate Board for Direct Taxes known as Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act,1963.

At very first time under the Indian Income Tax Act of 1886, income was divided into four schedules taxed separately: (1) Salaries, pensions or gratuities (2) Net profits of companies (3) Interests on the securities of the Government of India (4) Other sources of income.

At present there are five heads of income and one of them is "salary" income. It is a broad concept which includes every kind of payment made by an employer to employee, i.e., monetary as well as non-monetary facilities. It comprises the components as mentioned under section 17(1) of the Income Tax Act.

In case of charging of income under the head "Salary", Section 15 of the I.T. Act is dealt with and from gross salary some deductions are allowed u/s 16 of the I.T Act. One of them is Standard deduction, which is allowed to be deducted from Gross salary under section 16(i).

The world over, income tax is payable on incomes remaining after deduction of expenses incurred in earning of it. In the tune of the same Standard deduction was first introduced in India for the salaried taxpayers from the assessment year 1974-75. This policy was followed till the assessment year 2005-06. But later it is abolished. In the Assessment year 2002-03 and 2003-04 it was 30,000 subject maximum of one third of salary and in the assessment year-2004-05 and 2005-06 it was 30,000 but subject to maximum of 40% of salary. In the financial year 2005-06, the then finance minister P Chidambaram, while presenting the budget for the assessment year

2006-07, decided to tax salary income on gross basis withdrawing the meager deduction for employment-related expenses in the form of Standard Deduction (SD) given to salaried employees. He further cited in favour of such withdrawal that general exemption limits were being raised, and the income slabs were being broadened.

Aim of the Study

Ministry of Finance, Govtt. of India sets provisions of Income Tax every year. Here, we see that several changes, addition, deletion take place. But it is obvious there is certain effect in respect of every change. Although, there have been no empirical studies or even no analysis with case studies either before introducing a provision, during its continuance or after its withdrawal. Sometimes some changes take place overlooking the existing provision bearing almost similar effect. This paper aims to bring into the discussion one of the provisions as laid down in section 16(i) of the Income Tax Act relating to the salaried individual assessees, i.e Standard Deduction(SD) and to show the direct impact in the hands of the Assessees as well as of the Government

Analysis 1

With the introduction of Standard deduction u/s 16(i) of the I.T Act the benefit of exemption in respect of income in the name of transport or medical allowance has been scrapped. Hence, we are to show the impact of this provision in the hands of the Individual assessees, having income of such allowances before and after the introduction of Standard deduction.

Impact in the hands of tax payers who would avail the Benefit of Exemption of Travelling and Medical Allowances

Case Study-1

An individual having gross salary of Rs. 8,00,000 and would avail exemption benefit in respect of transport allowance and medical allowance in the assessment year 2018-19 and in the assessment year 2019-20 and 2020-21 same individual having same gross salary including the same income component but doesn't get the benefit of exemption of these allowances with availing the benefit of standard deduction of Rs. 40,000 in the assessment year 2019-20 and Rs 50,000 in 2020-21.

Table-1

Particulars	**Until AY 2018-19**	**AY 2019-20**	**AY 2020-21**
Gross Salary (in Rs.)	8,00,000	8,00,000	8,00,000
(-) Transport Allowance (exemption)	19,200	Not Applicable	Not Applicable
(-) Medical Allowance (exemption)	15,000	Not Applicable	Not Applicable
(-) Standard Deduction	Not Applicable	40,000	50,000
Net Salary	7,65,800	7,60,000	7,50,000

Here, we see that net salary is reduced by Rs. 5,800 in the assessment year 2019-20 and Rs. 15,800 in 2020-21 in comparison to the previous assessment year 2018-19 in the hands of an salaried individual tax payer and thereby they are being benefitted by coming down the same amount of taxable income. On the other hand Government is losing the same in its earning of revenue under the head "Direct Taxes".

Analysis 2

Case Study-2

An individual having gross salary of Rs. 8,00,000 and he has no any income component in the name of transport or medical allowances and thereby no question to avail exemption benefit in respect of these allowances in any of the assessment year. But he even is eligible to avail the benefit of standard deduction of Rs. 40,000 in the assessment year 2019-20 and Rs.50,000 in 2020-21

Table-2

Particulars	Until AY 2018-19	AY 2019-20	AY 2020-21
Gross Salary (in Rs.)	8,00,000	8,00,000	8,00,000
(-) Transport Allowance (exemption)	Not Applicable	Not Applicable	Not Applicable
(-) Medical Allowance (exemption)	Not Applicable	Not Applicable	Not Applicable
(-) Standard	Not Applicable	40,000	50,000
Deduction			
Net Salary	8,00,000	7,60,000	7,50,000

Here, we see that an individual having same of amount of gross salary i.e Rs.8,00,000 gets the full benefit of Standard deduction i.e Rs 40,000 in the assessment year 2019-20 and Rs. 50,000 in the assessment year 2020-21 and his taxable salary is being reduced by the same amount and on the other hand Government is losing the same amount of tax revenue.

Further, it is observed that with the introduction of Standard deduction there is discrimination. It exists between the salaried individual assessees who get transport allowance and or medical allowance and salaried individual assesses who do not get at all such allowances. But it should equally be benefitted and uniformly be applicable for all salaried individual. So its application in lieu of any exemption of any allowance is uttered injustice and illogical.

In respect of ability in introduction of Standard deduction, it is said that this deduction is allowable to the salaried individual with a view to meet the cost which is incurred to earn such income. It should be applied as straight deduction from gross salary and there shouldn't have any such restriction and thereby its basic motive is being violated.

Analysis 3

Test of Efficiency

It is explained in favour of introduction of Standard deduction that it allows for a flat deduction from salary income, to make up for some of the expenses which an employee would typically incur in relation to his employment. So, the quantum of Standard deduction should be related with Whole Sale Price Index (WPI) for the particular financial year. In this respect it is observed that this deduction were discontinued for long period of time from the assessment year 2006-07 to 2018-19 and suddenly it is introduced from the assessment year 2019-20. Again in the assessment year 2020-21 it is increased by Rs.10,000. So, it is observed in respect of its withdrawal or introduction that this neither followed with the basic rule nor consistent with the WPI. Although, in respect of withdrawal it is argued that instead there is given the benefit of higher general exemption and income tax slabs and is available to all assesses, regardless of nature of Income. But this argument is not tenable because the benefit cited is not exclusively for salaried person but available to person having income from business or any other sources as well. So this logic is uttered fallacious and thereby it loses its efficiency.

Analysis 4

Impact in the hands of the Government

In the assessment year 2019-20 when Standard deduction is introduced in respect of salaried individual assesses in lieu of freezing the benefit of exemption under Transport and Medical allowances Govtt. will lose more revenue as regards direct taxes and with cesses on Rs. 5,800 in the assessment year 2019-20 and 15,800 in the assessment year 2020-21 in comparison to the assessment year 2018-19. However, it is assumed that all other provision specially related to basic general exemption remained intact.

Conclusion

Tax is levied on net income. A businessman calculate tax on net profit after deducting of business related expenses. Similarly when an individual sells any capital asset, tax is not paid on Gross receipts but is paid after deduction of cost of acquisition of asset and selling expenses from the Gross receipts. Taking forward the same logic to income from house property, which is taxed not on gross rental income, but after deducting municipal taxes and standard deduction of 30% of net annual value.

In a limited way, Income from Salary is taxed on gross basis. Not all legitimate expenses incurred by a person to earn Salary income are allowed as deduction. Only specific portion of Salary, i.e. some allowances like HRA and like this are treated as tax free. There are limits applicable to the amount of these allowances regarded as tax free and any amount received in excess of this limit is taxable. It is to be noted that the employee might actually be incurring expense on house rent or travel in excess of the amount treated as tax free, but still the Salary income is not reduced by the entire expenditure amount, but only to the extent of applicable limit for these allowances Salary income should be allowed all related costs as deductions. Expenses incurred on subscription of journals or for buying books which enhances knowledge of an employee and enables him to earn this income should be allowed as deduction. Standard deduction is supposed to take care of such expenses which are not allowed under the Income tax rules and no proof is required to claim of it. It only should be consistent to Whole Sale Price Index (WPI).

Reintroduction of Standard deduction is obviously a good measure which at least ensures taxing of net salary of a salaried person in a limited way. But it should be set logically and ideally. Hence, it should be on percentage basis not as an arbitrary fixed amount. It is because amount of expenses incurred by a person is directly proportional to salary level and it can't be fixed irrespective to level of salary. Therefore, fixing of quantum of Standard deduction should be continuous, logical and consistent.

So, finally it is said that the introduction of Standard deduction as effective in the present way but shows no any basic motive and logic and consequently whole initiative is confusing.

References

1. *Ahuja, Girish and Gupta Dr. Ravi : "Professional Approach to Direct Taxes" (Various editions), Bharat Law House Pvt. Ltd., New Delhi*
2. *Singhania, Dr. Vinod K. and Singhania, Dr. Monica: "Taxmann's Direct Taxes Laws and Practice" (Various editions), Taxmann Publications Pvt. Ltd., New Delhi*
3. *Tzanetakin P. and Poddar S. : "Taxation – Changes and Implications" (2004), The Chartered Accountant, March*
4. *Singhania, Dr. Vinod K. and Singhania, Dr. Monica : "Direct Tax Planning and Management" (Various Editions), Taxmann Publications Pvt. Ltd., New Delhi.*
5. *Suman, H.N.P.S. : "Direct Taxation and Economic Growth in India" (Edition : 1974), Sterling Publishers Pvt. Ltd., New Delhi*
6. *Rao, M. Govinda and Rao, R. Kavita: "Trends and Issues in Tax Policy and Reform in India" (Edition : 2005), Working Paper No. 13, National Institute of Public Finance and Policy.*