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Taxation of Individual Assessees in India: An Impact Analysis in The Light of The New Tax Regime

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Abstract

At the time of announcement of budget people start to think the immediate impact of tax on their earned income and always expect reduction of tax liability on their part and in the same tune before the budget for the financial year 2020-2021or 2021-22 people of India expected that there should have significant cut in personal income tax rates, specially when they followed the attitude of the Government to cut in Corporate Taxes on 20th September 2019 to boost consumption in the economy. But practically people observed that the Government did cut the tax rate but it in an unprecedented manner. In the two consecutive budgets people could know the New Tax Slabs and the caveats attached with them. It becomes clear that this measure certainly will impact Indian Society in the long run as the Government wants to shift the economy from saving oriented economy to consumption oriented economy. In the Finance Act-2020 a new taxation regime under personal taxation has been introduced and is continued to the current year's budget.. Instead of giving relief to all the Individuals & HUFs by increasing the tax slabs directly, hon'ble Finance Minister has proposed to introduce new section 115BAC in the Income Tax Act 1961 in which Individuals or HUF have been given an option to give up various exemptions and get advantage of lower tax rates. In this pretext this article has attempted to analyse this Finance Act.

Keywords: Assessee, Income, Tax, Rates, Individual, Budget, Finance, Financial year, Assessment year, Exemption, Deduction, Assessment**.**

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Introduction

Taxation is a means and mechanism of the governments to finance their expenditure by imposing charges/toll on citizens and corporate entities. Tax is one of the most important sources of revenue to the Government and at the same time it is one of the important parameters for analysis of economic growth. Every year this financial proposal is placed before the Parliament by the Ministry of Finance, Govtt. of India and it becomes Act only after getting the ascent from the hon'ble President. In continuation of the earlier practice, these financial proposals have been passed in both the house of the Parliament very hurriedly on 23rd of March, 2020 due to outbreak of Covid-19 virus and it has become as Finance Act with due ratification from the President. It has come into force for and from Assessment Year 2021-2022 relevant to Financial Year 2020-2021 and in this year too this budget have been passed in both the house of Parliament and it is awaiting to have assent of the President. In the Finance Act 2020 Hon'ble Finance Minister has commended that this financial proposal is to build a new India on the pillars of Aspiration, Economic Development and Caring Society. But the most surprising fact is that she has undertaken the radical Income tax reforms for individual assessees with belying some expectations of slashing tax. It is therefore a newly emerged individual taxation system and it is to be considered as a unique in many ways. Instead of giving relief to all the Individuals & HUFs by increasing the tax slabs directly, in the Finance Act-2020 a new section 115BAC of the Income Tax Act 1961 has been inserted where an Individual or HUF have been given an option to give up various exemptions and get advantage of lower tax rates. But we know that investment in tax-saving schemes is one of the most effective tax planning measures adopted by the individual assessees and accordingly they opt to invest their income in various such scheme and find the ways to reduce tax liability.

Methodology

In this article descriptive analysis has been done. Budget speech, statistics and data from authenticated agencies, bodies and websites have been consulted. Mainly current statistics and secondary information have been brought into consideration in the study.

Review of Literature

Chattopadhyay Saumen and Das-Gupta Arindam (2002), in their study "The Personal Income Tax in India: Compliance Costs and Compliance Behaviour of Taxpayers" the impact of compliance costs on compliance is mixed. While compliance costs (for legal and illegal), have a negative impact on compliance. Money used for advice from tax advisors contributes to compliance costs and possibly adversely affects compliance.

Kaushik Rajiv (2012), In his article "Assessment of Individual Income Tax, Tax Planning and Saving in India", suggested that any individual wants to calculate his/her total income then with the effect of tax planning in respect of their savings and investment and then compute the income tax as per tax structure. If tax is paid in access then get refund from the income tax department and then audit of tax.

Patil Sonali &Nandawar Kalpana (2014) In their article "A Study on Preferred Investment Avenues Among Salaried People With Reference To Pune, India" concluded that Investors are aware of their investment avenues available in India but still investors are preferred to invest in bank deposit, real estate, metals(Gold). In their data analysis it is revealed that the safety is the important factor while they choose their investment avenues.

Dey S K (2015), "Tax Planning Practices by Salaried Employees: A Case Study of Lecturers in Odisha" concluded that tax payer is interested to pay as minimum as admissible with effect to maximum tax advantage for their savings and investment.

Suganya, V. (2015) in her study "A Study of the Awareness of Tax Planning Measures Among Private Sector Employees in Madurai City" In their study it was revealed that 35% of the respondents are aware of the existence of tax planning measures and adopt the same with the help of investment analysts. 65% of the respondents approach auditors to file returns and take tax planning measures without any knowledge of the same.

As the provisions of income tax act keep on changing every year. So every year is a fresh year, definitely having new scope of study on the same topic and it will be going on in future as well.

Object of the study

The main objective of this study is

1. to study the effect of New tax regime with respect to individual assessee both for the Financial year-2020-21 and 2021-22
2. to make aware salaried class individual assessees in respect of their tax planning regarding their saving and investment
3. to present the actual effect of the provision of Income tax Act relating to individual assesses before the Government of India with respect to its claim and practical effect

New Tax Regime

Immediate after placing the budget in the year 2020 there were some confusion regarding computation of income tax for an individual and implication of the new provisions u/s 115BAC. There was huge curiosity whether the new tax system would be beneficial at all. In this respect the new provisions are underlined:-

Comparison between existing tax rates and the new tax in the different slabs

Incomes (in Rs)	**Old Rates (in %)**	**New Rates (in %)**
Up to Rs 2,50,000	NIL	NIL
RS 2,50,001 to Rs 5,00,000	5	5
Rs 5,00,001 to Rs 7,50,000	20	10
Rs 7,50,001 to Rs 10,00,000	20	15
Rs 10,00,001 to Rs 12,50,000	30	20
Rs 12,50,001 to Rs 15,00,000	30	25
Above Rs 15,00,000	30	30
Total applicable rates	**Three**	**Six**

Lower income tax rates adopted for an individual in this Finance Act-2020 is conditional and optional. There are two options for any individual.

Option–1

If any individual wants to avail new beneficial income tax rates, he needs to lose the benefit of all deductions and exemptions.

Option–2

If any individual opts for existing income tax rates and can avail all deductions and exemptions.

A salaried individual shall not be entitled to avail the following deductions or exemptions:-

1. Leave Travel concession u/s 10(5)
2. House Rent Allowance u/s 10(13A)
3. Some of the allowances specified u/s 10(14)
4. Allowance of M.P./MLA as mentioned u/s 10(17)
5. Std. Deduction, Professional Tax or Entertainment Allowance u/s16
6. Free food/beverage provided through voucher to the employee by the employer u/s 10(14)

An individual assessee who has income under the head 'Profit & Gains from Business or Profession' shall not be entitled to avail the following deductions or exemptions:-

1. Additional depreciation specified u/s 32(1)(iia)
2. Deductions u/s 32AB,33AD,33ABA
3. Various deduction for donation for or expenditure for Scientific Research as referred in 35(2AA)/(1)Cl.(ii)/(iia)/(iii)
4. Deduction u/s 35AD, 35CCC
5. Exemption for SEZ unit specified u/s 10AA
6. Provisions relating AMT u/s 115JC and provisions relating to set off or carry forward of

AMT credit as mentioned u/s 115JD shall not apply for such individual assessees having Business or Profession income

Some other General deductions are also not eligible to be deducted:

1. Allowance for income of minor u/s 10(Cl.34)
2. Interest u/s 24 in respect of borrowing for Self Occupied House or vacant property specified u/s 23(2) including loss under the head house property for rented accommodation and carry forward of losses
3. Deduction from Family Pension specified u/s 57(iia)
4. Any deduction under Chapter VI-A like-80C,80CCC,80CCD,80D,80DD,80DDB,80E,80EEA,80EEB,80G,80GGA,80GGC,80IA,80IAB,80IAC,80IB,80IBA etc..But employer's contribution for the employees in notified Pension Scheme u/s 80CCD(2) and for new employment u/s 80JJAA can be claimed
5. Individuals who do not have business or profession income shall have the option to choose new income tax regime for every previous year. For other assessees the option to choose the new income tax regime is once and it shall have to be continued for all subsequent previous years. They will be given the option to opt out once. The individual shall never be eligible to exercise option under the same section except where such individual ceases to have any business or profession income.

Some exemptions u/s10 (14) allowable under the new tax regime:

1. Transport allowance granted to physically challenged employee by the employer to meet the expenditure for the purpose of commuting between the place of residence and place of duty
2. Conveyance allowance granted to meet the expenditure on conveyance in performance of the duties of an office
3. Any allowance granted to meet the cost of travel on tour or on transfer
4. Daily allowance to meet the ordinary daily charges incurred by an employee on account of absence from normal place of duty

Motive of the Govtt. in view of Finance Minister's Speech

According to the Hon'ble Finance Minister in the Budget Speech-2020 "Currently Income Tax Act is riddled with various exemption and deductions which make compliance the tax payer and administration of the Income Tax Act by the authorities a burdensome process. It is almost impossible for a tax payer to comply with I.T. Laws without taking help from professionals. In order to provide significant relief to the individual tax payer and to simplify the Income Tax Laws, I propose to bring a new and simplified personal income tax regime wherein income tax rates will be significantly reduced for the individual tax payers who forgo certain deductions and exemptions.

In the new tax regime substantial tax benefit will accrue to a tax payer depending upon deductions and exemptions claimed by him. For example a person earning Rs 15,00,000 in a year and not availing any deductions etc. will pay only Rs. 1,95,000 as compared to Rs 2,73,000 in the old regime. Thus his tax burden will be reduced by Rs. 78,000 in the new regime. He would still be gainer in the new tax regime even if he was taking deduction of Rs. 1,50,000 under various sections of Chapter VI-A of the income Tax Act under the old regime".

Based upon the speech of the Finance Minister the intention is summarized as below:-

1. Reduction in compliance cost and ease of complexity for the assessees
2. Reduction in tax liability of the assessees

Analysis of the new tax regime u/s 115BAC

Now we shall analyse these intention with the practicability.

Reduction of Compliance cost and easing of complexity

Under the new tax regime assessees shall have to decide every year (especially for the assessees having no business & professional income) whether to continue with the old tax system or choose the new tax system. Further he shall have to calculate how much tax benefit will get under the existing tax system with availing or by forgoing all deductions and exemptions against the reduction in the tax liability under the new tax system. It is too much to expect from a normal assessee to make such complex calculation himself and conclude the option to opt to be benefitted. So there is no way but to consult with the professionals and there by complexity at the end of the assessee is increased with bearing compliance cost. So the claim of simplifying the new tax system doesn't sustain. It is therefore resolved that new tax system creates more complexity with more cost than simplifying.

Reduction in Tax Liability of the Assessees

The example given by the hon'ble Finance Minister that of a person earning 15 lac p.a. and highlighting a major tax saving of Rs. 78,000 by comparing the tax liability under both existing tax system and new tax regime with assumption that the assessee do not avail any deduction and exemption. But the assumption has itself a big flaw. It is because if we see the income tax filling records then we will see that out of 4.86 crore return filed by the individual & HUF (for whom this section is applicable) for the Financial year 2019-2020 till January, 2020 there will be an extremely a tiny number of assessees who might not have claimed any deduction or exemption in any form in the income tax return. Many deductions are mandated by the Statute, e.g. Contribution to Provident Fund by the employees, Professional tax etc.. Many of the deductions or exemptions are claimed by the assesses for the expenses, they will have to incur for their livelihood, e.g. paying rent and claiming HRA exemption(in case of salaried assessees) or claiming deduction u/s 80GGA (in case of other assessees). Almost all the assessees shall have at least one account in saving bank in which assessees will earn an interest and claim deduction u/s 80TTA. Apart these lots of expenses are incurred like payment of premium for medical insurance or life insurance, expenses incurred for the education of child, expenses incurred for medical treatment of some incurable diseases, expenses incurred for physical rehabilitation of near and dear and also some amounts are needed to deposit or save in some notified schemes for unforeseen incidence management. Therefore some of the deductions or exemptions claimed by the assessees are actually either mandated by some other Statute or they have to be incurred necessarily for their lively hood. But in the present system of tax all are ignored totally. Hence we can say that some deductions or exemptions cannot be optional but necessary

Analysis with Case Study having moderate earner

Mr. X is an employee of ABC Ltd. in Kolkata and earns the following income during the financial year 2020-2021.

Basic Salary- Rs. 8,00,000, HRA- Rs. 1,20,000 and Other allowance-Rs. 2,50,000 and therefore Total Salary becomes Rs. 11,70,000. He pays Professional Tax Rs. 2,400. Own Contribution to P.F. Rs.72,000. He pays rent Rs.10,000 p.m. Mr. X invests Rs.60,000 to various tax saving Mutual funds. He also pays a premium of Rs. 30,000 for health insurance (including parents). He earns Rs. 7,000 interest for bank's savings account. He availed housing loan Rs. 40,00,000 (dated 01.06.2020), where he remits Rs.2,00,000 as interest and Rs.1,00,000 as principal.

Now we will calculate the amount of tax to be paid under the old tax and new tax system.

Table-1 shows computation of tax under both the system of tax

In the afore said analysis we see that Mr. X has to pay amount of tax including cess Rs. 52,645 as per existing system of tax where as in the new system of tax he will have to pay Rs. 1,12,840 including cess. Thus, he has to pay more tax by Rs. 60,195 in compliance with the new system of tax.

We considered another Case Study of higher income earner

Mr. A draws annual Gross salary for the financial year 2020-2021 Rs.19,26,312 and earn interest of Rs. 6,000 from savings bank account. He deposits in P.F. Rs. 1,20,000 and pays premium on the insurance of health of Rs. 20,000. Also he pays interest of Rs. 2,00,000 and principal of Rs 1,50,000 towards payment of HBL drawn for self occupied house property.

Particulars	Old tax system(Rs.)	New tax system(Rs.)
Gross Salary (Basic+ HRA+ Other allowance)	**11,70,000**	**11,70,000**
Less-HRA exemption	40,000	--
Less-Std. Deduction	50,000	--
Less- P. tax	2,400	--
Taxable Salary	**10,77,600**	**11,70,000**
Income from self occupied H.P.-Interest on HBL	(-)2,00,000	--
Gross Total Income	**8,77,600**	**11,70,000**
Less- Deduction u/s 80C up to Rs.1,50,000 PF conbn.72,000+Investment in tax saving Mutual fund 60,000+ Principal amount paid for HBL 1,00,000	1,50,000	--
Less- Deduction u/s 80D-Premium on Health insurance	30,000	--
Less- Deduction u/s 80TTA-Savings interest	7,000	--
Taxable Income	**6,90,600**	**11,70,000**
Tax liability (including Cess)	**52,645**	**1,12,840**
Additional Tax in new system of tax	**Rs.60,195**	

Table-2 shows computation of quantum of income tax under old and new system

Particulars	Old System of tax(Rs.)	New System of tax(Rs.)
Income from 'Salary'		
Gross Salary	19,26,312	19,26,312
Less- Std. Deduction	50,000	Not allowed
,, P. Tax	2,400	Not allowed
Taxable Salary-A	18,73,912	19,26,312
Income from H.P.-B Int. on HBL	(2,00,000) As rent is Nil	Not allowed
Income from other sources-C Int. on saving account	6,000	6,000
Gross Total Income (A+B+C)	**16,79,312**	**19,32,312**
Less Deduction u/s 80C, 80D & 80TTA For principal under HBL, deposit in P.F.	**1,76,000 (1,50,000+20,000+6,000)**	**Not available**
Total Income	**15,03,312**	**19,32,312**
Total amount of tax (including cess)	**2,74,034**	**3,29,882**

In this Case Study we see that Mr. A has to pay Rs. 2,74,034 in the existing system of tax and Rs. 3,29,882 in the new system of tax. In the old system an individual has to bear the tax burden nearly 1.71

times of his monthly pay. This was as such too high. It is not a proper justice for an individual belong to middle class and as white earner. But in the new system we see it becomes much higher than the earlier.

Tax Burden

In the 1st Case study we see that Mr. X has to pay tax in the new system of tax Rs.1,12,840 which is just 116 percent of monthly salary and needs to allow for TDS of Rs. 9,404 p.m..In the 2nd Case study we see it is 1.71 times and he has to comply for monthly TDS of Rs. 27,490. So with pace of income burden of tax is increasing in more pace. In few years back tax burden on individual assessees was not as much as present. It should be consistent with the change of WPI.

Expectation on the part of individual assesses

Individual assesses expected from the Government in both the financial years that **a)** Maximum limit in the deduction u/s 80C will be enhanced **b)** Limit of Interest on HBL of Rs. 2,00,00 will be increased **c)** Limit of Std. Deduction (which is related with Whole Sale Price Index-WPI) will be increased at least from Rs. 50,000 to Rs. 75,000 **d)** Threshold limit of exemption of total taxable income will be enhanced from Rs. 2,50,000 to at least Rs. 3,00,000. But in reality we see that individual assessees have become hopeless as their tax burden has been inflated and even reached to double of monthly pay. Thus, in the new system of tax pain has been enhanced than to provide relief and therefore claim of hon'ble Finance Minister, relief to individual assesses, is not tenable in any way

Direct Impact of the New Tax Regime

There are chances that people will discourage to buy insurance policies or to buy various tax savings bond etc. which would happen mainly at the end of the financial year with the motivation of tax saving.

Some individual tax payers may be benefitted in the new system of tax which do not have tendency to save and invest of their income rather to increase their consumption, which in turn in the long run they may be financially unsecured.

Indirect Impact of the new tax regime

India is country where Govtt. doesn't address social justice to its all citizen. There are a few schemes in health care benefits, subsidized housing benefits and pension benefits that are applicable for specified section of people of the country. So we see there is lac of fully developed social security mechanism in India like other developed countries in the world. Hence people have to save and invest on their own and at their need at the present or at future. Various deductions u/s 80C and or 80D undoubtedly motivates and incentivizes the people to invest or save with availing tax benefits. Hence, the new tax regime with no incentive to invest and save may mislead the people, especially younger generation will encourage spending recklessly than to save and thereby they may lose sufficient retirement corpus with moderate savings at the retirement.

1. We know that one of the most ambitious dream of the Govtt. of India is 'Housing for All till 2022' under Prodhan Mantri Awas Yojana and therefore for fulfilling the dream Govtt. is giving subsidy to first time home buyers. But with this Finance Act Govtt. has taken a contrarian stand under the new system of tax by not allowing deduction on Int. on HBL u/s 24(b) or Principal on HBL u/s 80C along with stamp duty payment under same section. So this new system of taxation may be a road block for so called the ambitious dream.
2. In order to incentivize the purchase of electric vehicle by the individual, the Govtt. in the Finance Act-2019 introduced a section 80EEB, where an individual can claim deduction of interest payment up to Rs. 1,50,000 on loan borrowing for purchase of such vehicle. But in the new tax system an individual assessee will not be able to claim this deduction. So it is another road block for the Government's effort towards clean energy.
3. Individual having business and profession income have not been given to choose the option in every previous year unlike other assessees. So this is quite differentiation and discrimination among the assessees and uttered it is unbecoming.
4. The new system is a big headache for the employers as regards getting the declaration in respect of amount of TDS as there is absence of the clarity in the provision of tax as to how and when the declaration be made by the employees to the employers.

Conclusion

In this part it is concluded that Government is gradually shifting to a so called new tax regime with lower taxes with lesser deductions and exemptions. Here we have observed the attitude of the Government as reflected in the Finance Act-2020 has been continued in the budget of 2021 too. We further foresee that this tendency will be going to stay in the coming years as well. In this situation individual assesses have to give up of any hope or expectation from the Government but to reconsider the plan of investments and tax saving option in order to maximize tax benefit in comparison to the existing system and in the new tax regime.

Suggestions

The Govt. May implement the suggestion of the DTC report, submitted to the Govtt. in August, 2019, incorporating substantial changes in tax slabs with the continuation of the existing cess, that was as follows:-

Total income (Rs.)	Tax rates
Up to 2,50,000-	Nil
2,50,000-10,00,000	10%
10,00,000-20,00,000	20%
20,00,000-2 Crore	30%
Above of Crore	35%

So in practice this deviation and continuation is highly unexpected. It should be in a manner that has been the tax neutral for individual assessees.

1. Govtt. Has to think to retain some of the deductions and exemptions which are mandatory for an assessee–i.e Payment of Professional tax and Contribution to Provident Fund. So

employees should have been allowed these deductions in computing their taxable income.

2. Govtt. should encourage the individuals to come under the umbrella of LIC and therefore forgoing of all items u/s 80C is misleading the people indirectly.
3. Govtt. should allow deduction for interest on HBL u/s 24(b) of the I.T Act and payment of Principal u/s 80C of the same Act in implementing the Govtt's vision.
4. Govtt. should allow deduction u/s 80D of the I.T. Act as it is a health care cost that rising rapidly in India and it is necessary to build safe guard against medical exigencies for every individual and family.
5. Govtt. should allow the assesses having business and profession income **an option** to choose the new tax regime every year like other assesees and therefore the restriction to choose the option 'Once' should be removed.

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