

New versus Existing Income Tax Regime: A Tactical Call

The Union Budget 2020 brought out a path breaking changes in the personal income tax. The Union Budget 2020 introduced a new personal income tax regime for individual taxpayers in India without abolishing the existing tax regime. As a consequence, now the individual taxpayers have to choose between the existing and the new tax regime. The new tax regime will have its own ramifications in terms of the savings attitude of the people and the mix of investment avenues. This will disrupt the insurance, banking, mutual funds and the capital market. The choice is tactical and is based on the context.

Existing Income Tax Regime: It provides for various exemptions and deductions as per the Income Tax Act, 1961. The income tax rates are:

Rates of Income tax FY 2020-2021 for Individuals [AY 2021-22]					
Below 60 years		60 & Above but below 80 years		80 years & Above	
Up to Rs. 2,50,000	0%	Up to Rs. 3,00,000	0%	Up to Rs. 5,00,000	0%
Rs. 2,50,001 to Rs. 5,00,000	5%	Rs. 3,00,001 to Rs. 5,00,000	5%		
Rs. 5,00,001 to Rs. 10,00,000	20%	Rs. 5,00,001 to Rs. 10,00,000	20%	Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%	Above Rs. 10,00,000	30%	Above Rs. 10,00,000	30%

New Income Tax Regime: The income tax rates for the FY 2020-2021 for Individuals [AY 2021-22] are:

Up to Rs. 2,50,000	0%
From Rs. 2,50,001 to Rs. 5,00,000	5%
From Rs. 5,00,001 to Rs. 7,50,000	10%
From Rs. 7,50,001 to Rs. 10,00,000	15%
From Rs. 10,00,001 to Rs. 12,50,000	20%
From Rs. 12,50,001 to Rs. 15,00,000	25%
Above Rs. 15,00,000	30%

Unlike the existing income tax regime, the exemptions under section 10, deductions under section 16 and total income deductions under section 80 are not available under the alternate or new tax regime.

The Health and Education Cess (HEC) is 4% under both the tax regimes.

The various contexts are provided below.

Context 1:

Mr. Abraham, aged 67 years, is expected to earn a pension of Rs. 7,25,000 for the financial year 2020-21. He is a resident of Bengaluru. He has no plans to make any tax saving investments.

During the financial year 2020-21, his other estimated receipts would be:

Interest on bank's fixed deposit: Rs. 50,000

Dividends from Indian Companies: Rs. 70,000

Context 2:

Mr. Amogh, aged 47 years, is expected to earn salary of Rs. 12,50,000 for the financial year 2020-21. The salary would include HRA Rs. 1,00,000 and Leave Travel Concession Rs. 50,000. The Basic Salary is Rs. 40,000 p.m. There is no dearness allowance. He is a resident of Delhi and pays monthly house rent of Rs. 35,000.

During the financial year 2020-21, his other estimated receipts would be:

Interest on bank's SB account: Rs. 7,000

Rent from let out property: Rs. 1,00,000

During the financial year 2020-21, his expected payments would include:

Interest on home loan: Rs. 34,000

Donation to University by online payment: Rs. 5,000

Life insurance premium: Rs. 40,000

National Pension System [NPS] contribution: Rs. 1,20,000

Context 3:

Mr. Akbar, aged 44 years, has earned Rs. 25,00,000 as profit as per the Forecast Profit and Loss Statement for the financial year 2020-21. He is a resident of Hyderabad and pays monthly rent of Rs. 30,000, which he debited to the Forecast P&L Statement.

The Forecast P&L Statement has the following credits.

Interest on Post Office Savings Account: Rs. 10,000

Dividends from HUL: Rs. 10,000

Refund from PPF: Rs. 5,00,000

Income Tax refund: Rs. 25,000

GST refund: Rs. 6,000

During the financial year 2020-21, his expected payments would be:

Life insurance premium: Rs. 40,000 [Debited to Forecast P&L Statement]

Donation to University by online payment: Rs. 5,000 [Not debited to Forecast P&L Statement]

National Pension System [NPS] contribution: Rs. 70,000 [Not debited to Forecast P&L Statement]

Required / Prompts:

- (a) Bring out the gist of new tax regime from the individual tax payers' perspective.
- (b) Analyse the relative merit of new vis-à-vis existing for different profiles of individuals.
- (c) Evaluate the net taxable income for the three contexts.
- (d) Find the tax burden under new and existing tax regimes.
- (e) Create a dashboard for decision making in the new versus existing tax regime context.
- (f) Assess the impact of new tax regime on the capital market, mutual fund, banking and insurance.

Pre-reading Material:

Union Budget 2020 Income Tax Proposals for Individuals

Target:

Students of Direct Taxes Course, 2nd Semester