Budget Proposals on Personal Tax

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The Finance Minister (FM), Nirmala Sitharaman presented her fifth and the last full-fledged budget of the Modi 2.0 government before the 2024 General Elections in India. This year's budget proposals revolved around the 7 priorities that have been set by the government, namely - Inclusive government, Reaching the last mile, Infrastructure and investment, Unleashing the potential, Green growth, Youth power and Financial sector.

On the tax front, the budget continues to focus on the government's agenda of simplified tax structure by reducing compliance burden and improving tax administration. The FM started the tax proposal speech with highlights of tax department's achievements which contributed to enhanced services to the taxpayers by making compliance easy and smooth, such as-

- Tax portal received a maximum of 72 lakhs returns in a day;
- 6.5 crore tax returns already processed this year;
- Average processing period has reduced to 16 days now as compared to 93 days in the past;
- 45% of filed tax returns were processed within 24 hours.

The FM also indicated the government's intention of further improving the services to the taxpayers by rolling out a next-generation common Income Tax Return Form and by strengthening the grievance redressal mechanism.

The major personal tax changes that were proposed by the FM in the budget are-

- **Individuals with income up to INR 7 lakhs not to pay taxes under New Personal Tax Regime (NPTR)**: Presently, an individual qualifying as a resident in India with income up to INR 5 lakhs does not pay taxes under both the old and new tax regime. The FM has proposed to increase this limit to INR 7 lakhs for those individuals opting NPTR. This would benefit such individuals up to INR 33,800 in tax savings compared to the previous years.
- **New tax slabs under NPTR**: As part of the finance budget 2020, the FM had introduced the NPTR with six income slabs. Now, it has been proposed to simplify it further by amending the structure of the NPTR with five tax slabs and increasing the basic exemption limit to INR 3 lakhs from the erstwhile limit of INR 2.5 lakhs.

New Tax Regime

Current tax rates		Proposed tax rates (Effective FY 2023-24)	
Income in INR	**Tax Rates**	**Income in INR**	**Tax Rates**
0 to 2.5 Lakhs	Nil	0 to 3 Lakhs	Nil
2.5 to 5 Lakhs	5%	3 to 6 Lakhs	5%
5 to 7.5 Lakhs	10%	6 to 9 Lakhs	10%
7.5 to 10 Lakhs	15%	9 to 12 Lakhs	15%
10 to 12.5 Lakhs	20%	12 to 15 Lakhs	20%
12.5 to 15 Lakhs	25%	Above 15 Lakhs	30%
Above 15 Lakhs	30%		

For instance - the proposed change in the tax slabs under NPTR will result in a tax saving of INR 54,600 for the taxpayers having an income of INR 15.50 lakhs or more.

- **Extending the benefit of the standard deduction to NPTR**: The standard deduction of INR 50,000, which is presently applicable only for salaried individuals and pensioners opting for the old tax regime has now been proposed to be extended to the individuals opting NPTR.
- **Reduction in the highest rate of surcharge under NPTR**: Presently, the maximum marginal tax rate in India is 42.744% for individuals having taxable income exceeding INR 5 crore, which is among the highest in the world. The FM has proposed to reduce the highest surcharge rate from 37% to 25% for individuals opting NPTR. This would result in a reduction of the maximum marginal tax rate to 39 percent under the NPTR.
- **Increase in Tax Exemption limit for Leave Encashment**: Leave encashment is the amount of money received in exchange for a period of unused leave not taken by an employee. The tax exemption limit on leave encashment on retirement for the non-government employees has been increased from INR 3 lakhs to INR 25 lakhs. This is applicable for those opting either of the tax regimes. While this is part of the FM's speech, the related amendments have not been captured in the Finance Bill. It is expected that intended changes will be incorporated in the Finance Act.

In addition to the above, other key changes that have been proposed in the budget are-

- Amendment proposed in section 10(10D) – Presently, any money received under a life insurance policy other than a unit linked insurance policy is exempt under section 10(10D), provided the annual premium paid is less than 10% of the sum assured. However, it has been proposed that the said exemption will not be available for the policies issued after April 01, 2023, if the annual aggregate premium exceeds INR 5 lakhs in any year during the term of the policy/ policies.
- To support small business and reduce tax compliances, it has been proposed to increase the turnover limit for eligibility under the presumptive taxation under section 44AD and section 44ADA from INR 2 crores to INR 3 crores in case of business and from INR 50 lakhs to INR 75 lakhs in case of profession respectively.
- A new clause has been inserted in Section 47 whereby the conversion of gold into Electronic Gold Receipt and vice a versa will not be considered as transfer and accordingly not liable to capital gains tax at the time of conversion.
- Section 48 has been amended to exclude interest paid on housing loan as cost of acquisition/cost of improvement if deduction has been claimed for the same under the provisions of the Income Tax Act.
- Section 54 and section 54F provides deduction against long term capital gains if an individual invests in a residential property within the specified timelines. Presently, there is no cap on the amount of deduction under these sections. It has been proposed to amend these provisions to cap the deduction at INR 10 Crores.
- Amendment proposed in section 80C – The deduction available for contribution to approved superannuation fund has been proposed to be omitted.
- Gifts exceeding INR 50,000 from an Indian resident to Not Ordinarily Resident of India would be

deemed to accrue or arise in India. This has been introduced as an anti-tax avoidance measure.

- Presently, TDS on EPF withdrawal for employees without PAN is at the rate of 30%. The FM has proposed to reduce this to 20% to address the hassle of employees earning lower income.

The budget has not made any changes in the existing income slabs and tax rates under the old tax regime. In her budget speech, the FM stated that NPTR will become the default tax regime and the taxpayers intending to go with the old tax regime will need to opt for the same. It is evident that the government is making the NPTR more lucrative for the taxpayers which was first introduced in the 2020 Budget but did not gain the intended traction. With the overhauling of NPTR, it is anticipated that more taxpayers would get benefitted by opting NPTR. Further, the reduction in the highest rate of surcharge under NPTR will significantly benefit the high-income earners (having more than INR 5 crore taxable income) as it will bring down their effective tax rate by 3.744%.

The personal tax proposals would certainly bring a much-needed respite to the middle-class taxpayers in the form of reduced tax liability under NPTR. Overall, the budget provides a big cheer to the middle class amongst the otherwise tough recent economic conditions.