

Budget 2020-21

Brief Summary on changes in Income Tax and Income Tax Rates with Examples

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A. RATES OF INCOME TAX: For Individual/HUF

Assessee		OLD Rate	Income Slab	NEW Rate [Subjt. to Condi..]
Individual below age of 60 years / HUF	Up to Rs.2.50 Lakh	Nil	Up to Rs.2.50 Lakh	Nil
	Above Rs. 2.50 Lakh to Rs. 5.00 Lakh	5.00%		Above Rs. 2.50 Lakh to Rs. 5.00 Lakh
Senior Citizen age of 60 years to 80 years	Above Rs. 5.00 Lakh to Rs. 10.00 Lakh	20.00%	Above Rs. 5.00 Lakh to Rs. 7.50 Lakh	10.00%
	Above Rs. 10.00 Lakh	30.00%	Above Rs. 7.50 Lakh to Rs. 10.00 Lakh	15.00%
			Above Rs. 10.00 Lakh to Rs. 12.50 Lakh	20.00%
			Above Rs. 12.50 Lakh to Rs. 15.00 Lakh	25.00%
Super Senior Citizen (age above 80 years)	Up to Rs.5.00 Lakh	Nil	Above Rs. 15.00 Lakh	30.00%
	Above Rs. 5.00 Lakh to Rs. 10.00 Lakh	20.00%		Note: This new scheme can also be opted by senior and senior citizens.
	Above Rs. 10.00 Lakh	30.00%		

A.1 Conditions for opting new scheme:

A.1.1 Following exemption and/or deduction CANNOT be claimed:

1. Leave travel concession as contained in clause (5) of section 10;
2. House rent allowance as contained in clause (13A) of section 10;
3. Some of the allowance as contained in clause (14) of section 10;
4. Allowances to MPs/MLAs as contained in clause (17) of section 10;
5. Standard deduction, deduction for entertainment allowance and employment/professional tax as contained in section 16;
6. Interest under section 24 in respect of self-occupied or vacant property referred to in sub-section (2) of section 23. (Loss under the head income from house property for rented house shall not be allowed to be set off under any other head and would be allowed to be carried forward as per extant law);
7. Any deduction under chapter VIA (like section 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, etc). However, deduction under sub-section (2) of section 80CCD (employer contribution on account of employee in notified pension scheme) and section 80JJAA (for new employment) can be claimed.
8. Allowance for income of minor as contained in clause (32) of section 10;
9. Exemption for SEZ unit contained in section 10AA;
10. Additional depreciation under clause (iia) of sub-section (1) of section 32;
11. Deductions under section 32AD, 33AB, 33ABA;
12. Various deduction for donation for or expenditure on scientific research contained in sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) of section 35;
13. Deduction under section 35AD or section 35CCC;

14. Deduction from family pension under clause (ia) of section 57;

A.1.2 Following exemption and/or deduction CAN only be claimed:

1. Transport Allowance granted to a divyang employee to meet expenditure for the purpose of commuting between place of residence and place of duty.
2. Conveyance Allowance granted to meet the expenditure on conveyance in performance of 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 his normal place of duty.
5. It is also proposed to remove exemption in respect of free food and beverage through vouchers provided to the employee, being the person exercising option under the proposed section, by the employer.

A.1.3 Time to exercise New Scheme:

IN CASE OF INDIVIDUAL / HUF HAVING		
	NO business Income	Business Income
Time to Exercise option	Along with Return of Income	Any time before due date of filing Income Tax Return
Option to exercise	Every Year	Only once [opt out is also once]
Flexibility to opt-in and opt-out	No restriction on opt-in and opt-out [means can be opt-in in any year and can be opt-out next year	Once opt-out from new scheme then CANNOT opt-in again

Examples are shown at attached Annexure 1, However please note that it seems that new scheme will only benefit to those person making Nil eligible investments. But those making good eligible investment, for them old scheme will be beneficial. It also to note that there cannot be particular formula of earning investment ratio at where old and new both scheme will tie, so same is depend upon earning amount and investment amount of individual person.

B. Rationalization of tax treatment of employer's contribution to recognized provident funds, superannuation funds and national pension scheme

Under the existing provisions of the Act, the contribution by the employer to the account of an employee in a recognized provident fund exceeding twelve per cent. of salary is taxable. Further, the amount of any contribution to an approved superannuation fund by the employer exceeding one lakh fifty thousand rupees is treated as perquisite in the hands of the employee. Similarly, the assessee is allowed a deduction under National Pension Scheme (NPS) for the fourteen per cent. Of the salary contributed by the Central Government and ten per cent. of the salary contributed by any other employer. However, there is no combined upper limit for the purpose of deduction on the amount of contribution made by the employer. This is giving undue benefit to employees earning high salary income. While an employee with low salary income is not able to let employer contribute a large part of his salary to all these three funds, employees with high salary income are able to design their salary package in a manner where a large part of their salary is paid by the employer in these three funds. Thus, this portion of salary does not suffer taxation at any point of time, since Exempt-Exempt-Exempt (EEE) regime is followed for these three funds. Thus, not having a combined upper cap is iniquitous and hence, not desirable.

Therefore, it is proposed to provide a combined upper limit of seven lakh and fifty thousand rupee in respect of employer's contribution in a year to NPS, superannuation fund and recognised provident fund and any excess contribution is proposed to be taxable. Consequently, it is also proposed that any annual accretion by

way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the fund or scheme may be treated as perquisite to the extent it relates to the employer's contribution which is included in total income.

C. Removing dividend distribution tax (DDT) and moving to classical system of taxing dividend in the hands of shareholders/unit holders.

It has vast impact for those earning high income particularly those paying surcharge because in older system company was paying DDT around 20% but now in new proposed system same will be taxed at maximum rate of 42.74% for those earning income exceeding Rs. 5 Crore and at rate of 39.00% those earning between 2 Crore to 5 Crore. Take an example that a person earning income of Rs. 1.50 Crore and receiving dividend of Rs. 10 Lakh, then what was happening in old scheme that Company declaring dividend was paying DDT around at 20%, now as person receiving the dividend is taxed at average rate of 35.88% so now he has to pay tax of Rs. 3,58,800/- out of dividend received Rs.10 Lakh.

It is also proposed to provide that the deduction for expense under section 57 of the Act shall be maximum 20 per cent of the dividend or income from units.

D. Exempting non-resident from filing of Income-tax return in certain conditions.

Section 115A of the Act provides for the determination of tax for a non-resident whose total income consists of:

- a. certain dividend or interest income;
- b. royalty or fees for technical services (FTS) received from the Government or Indian concern in pursuance of an agreement made after 31st March 1976, and which is not effectively connected with a PE, if any, of the non-resident in India.

Sub-section (5) of said section provides that a non-resident is not required to furnish its return of income under sub-section (1) of section 139 of the Act, if its total income, consists only of certain dividend or interest income and the TDS on such income has been deducted according to the provisions of Chapter XVII-B of the Act.

While, the current provisions of section 115A of the Act provide relief to non-residents from filing of return of income where the non-resident is not liable to pay tax other than the TDS which has been deducted on the dividend or interest income, the same relief has not been extended to non-residents whose total income consists only of the income by way of royalty or FTS of the nature as mentioned in point (b) above. Representations have been received to extend this benefit to royalty and FTS income as well.

Therefore, it is proposed to amend section 115A of the Act in order to provide that a non-resident, shall not be required to file return of income under sub-section (1) of section 139 of the Act if, -

- a. his or its total income consists of only dividend or interest income as referred to in clause (a) of sub-section (1) of said section, or royalty or FTS income of the nature specified in clause (b) of sub-section (1) of section 115A; and
- b. the TDS on such income has been deducted under the provisions of Chapter XVII-B of the Act at the rates which are not lower than the prescribed rates under sub-section (1) of section 115A.

E. Deferring TDS or tax payment in respect of income pertaining to Employee Stock Option Plan (ESOP) of start-ups.

ESOPs have been a significant component of the compensation for the employees of start-ups, as it allows the founders and start-ups to employ highly talented employees at a relatively low salary amount with balance being made up via ESOPs.

Currently ESOPs are taxed as perquisites under section 17(2) of the Act read with Rule 3(8)(iii) of the Rules. The taxation of ESOPs is split into two components:

- I. Tax on perquisite as income from salary at the time of exercise.
- II. Tax on income from capital gain at the time of sale.

The tax on perquisite is required to be paid at the time of exercising of option which may lead to cash flow problem as this benefit of ESOP is in kind.

In order to ease the burden of payment of taxes by the employees of the eligible start-ups or TDS by the start-up employer, it is proposed to amend section 192 of the Act, and insert sub-section (1C) therein to clarify that for the purpose of deducting or paying tax under sub-sections (1) or (1A) thereof, as the case may be, a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite of the nature specified in clause (vi) of sub-section (2) of section 17 of the Act, in any previous year relevant to the assessment year 2021-22 or subsequent assessment year, deduct or pay, as the case may be, tax on such income within fourteen days —

- a. after the expiry of forty-eight months from the end of the relevant assessment year; or
- b. from the date of the sale of such specified security or sweat equity share by the assessee; or
- c. from the date of which the assessee ceases to be the employee of the person;

whichever is the earliest on the basis of rates in force of the financial year in which the said specified security or sweat equity share is allotted or transferred.

Similar amendments have been carried out in section 191 (for assessee to pay the tax direct in case of no TDS) and in section 156 (for notice of demand) and in section 140A (for calculating self-assessment).

F. TCS

Widening the scope of section 206C to include TCS on foreign remittance through Liberalised Remittance Scheme (LRS) and on selling of overseas tour package as well as TCS on sale of goods over a limit:

An authorised dealer receiving an amount or an aggregate of amounts of seven lakh rupees or more in a financial year for remittance out of India under the LRS of RBI, shall be liable to collect TCS, if he receives sum in excess of said amount from a buyer being a person remitting such amount out of India, at the rate of five per cent. In non-PAN/Aadhaar cases the rate shall be ten per cent.

- A seller of an overseas tour program package who receives any amount from any buyer, being a person who purchases such package, shall be liable to collect TCS at the rate of five per cent. In non-PAN/ Aadhaar cases the rate shall be ten per cent.
- The above TCS provision shall not apply if the buyer is, -
 - liable to deduct tax at source under any other provision of the Act and he has deducted such amount.
 - the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority as defined in Explanation to clause (20) of section 10 or any other person notified by the Central Government in the Official Gazette for this purpose subject to such conditions as specified in that notification.

Further, in order to widen and deepen the tax net, it is proposed to amend section 206C to levy TCS on sale of goods above specified limit, as under:

- A seller of goods is liable to collect TCS at the rate of 0.1 per cent. on consideration received from a buyer in a previous year in excess of fifty lakh rupees. In non-PAN/ Aadhaar cases the rate shall be one per cent.
- Only those sellers whose total sales, gross receipts or turnover from the business carried on by it exceed ten crore rupees during the financial year immediately preceding the financial year, shall be liable to collect such TCS.
- Central Government may notify person, subject to conditions contained in such notification, who shall not be liable to collect such TCS.
- No TCS is to be collected from the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority as defined in Explanation to clause (20) of section 10 or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to conditions as prescribed in such notification.
- No such TCS is to be collected, if the seller is liable to collect TCS under other provision of section 206C or the buyer is liable to deduct TDS under any provision of the Act and has deducted such amount.

G. Incentives to resident co-operative societies

New section (115BAD) inserted to provide Resident co-operative society benefit of concessional rate of income tax of 22% provided that-

1. notwithstanding anything contained in the Act but subject to the provisions of Chapter XII and satisfaction of certain conditions, a co-operative society resident in India shall have the option to pay tax at 22 per cent. for assessment year 2021-22 onwards in respect of its total income so however that if it fails to satisfy the conditions in any previous year, the option shall become invalid and other provisions of the Act shall apply;
2. the condition for concessional rate shall be that the total income of the co-operative society is computed, —
 - a. without any deduction under the provisions of section 10AA or clause (iia) of sub-section (1) of section 32 or section 32AD or section 33AB or section 33ABA or sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) of section 35 or section 35AD or section 35CCC or under any provisions of Chapter VI-A;
 - b. without set off of any loss carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in (a) above; and
 - c. by claiming the depreciation, if any, under section 32, except clause (iia) of sub-section (1) thereof, determined in such manner as may be prescribed;
 - d. the loss and depreciation referred to in (ii)(b) above shall be deemed to have been given full effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year. However, where there is a depreciation allowance in respect of a block of asset which has not been given full effect to prior to the assessment year beginning on 1st April, 2021, corresponding adjustment shall be made to the written down value of such block of assets as on 1st April, 2020 in the prescribed manner, if the option is exercised for a previous year relevant to the assessment year beginning on 1st April, 2021;
 - e. the concessional rate shall not apply unless option is exercised by the co-operative society in the prescribed manner on or before the due date specified under sub-section (1) of section 139 of the Act for furnishing the returns of income for any previous year relevant to the assessment year commencing on or after 1st April, 2021 and such option once exercised shall apply to subsequent assessment years;
 - f. if the person has a Unit in the International Financial Services Centre (IFSC), as referred to in sub-section (1A) of section 80LA, the deduction under section 80LA shall be available to such Unit subject to fulfilment of the conditions contained in that section; and

g. the option so exercised cannot be withdrawn;

h. The surcharge applicable to such co-operative society shall be levied at 10 per cent.

It is further proposed to amend section 115JC of the Act so as to provide that the provisions relating to Alternate Minimum Tax (AMT) shall not apply to such co-operative society.

H. Other Changes

Trust: Trust registered u/s. 12AA of the Act and registered u/s. 80G shall be required to apply for approval or registration or intimate regarding it being approved, as the case may be, and on doing so, the approval, registration or notification in respect of the entity shall be valid for a period not exceeding five previous years at one time calculated from 1st April, 2020. Also, an entity already approved under section 80G shall also be required to apply for approval and on doing so, the approval, registration or notification in respect of the entity shall be valid for a period not exceeding five years at one time.

Deduction under section 80G/80GGA to a donor shall be allowed only if a statement is furnished by the donee who shall be required to furnish a statement in respect of donations received and in the event of failure to do so, fee and penalty shall be levied.

Deduction: Extending time limit for sanctioning of loan for affordable housing for availing deduction under section 80EEA of the Act to 31-March-2021.

Annexure 1 : Few Examples of Tax implication in current and new scheme

MR. X HAS SALARY INCOME OF Rs.15 LAKH, HRA EXEMPTION OF Rs.50,000, EDUCATION AND UNIFORM EXEMPTION OF Rs.2,400/- EACH, LTC EXEMPTION Rs.25,000/-, 80C INVESTMENT Rs.1.50 LAKH, 80D INVESTMENT Rs.25,000, 80CCD(1b) INVESTMENT Rs.50,000 AND HOME LOAN INTEREST OF Rs. 1.50 LAKH THEN WORKING OF TAX WILL BE AS FOLLOWS-

Particulars	Current/Old Scheme	New Scheme
Salary Income	15,00,000	15,00,000
[-] HRA	-50,000	-
[-] Education Allowance	-2,400	-
[-] Uniform Allowance	-2,400	-
[-] LTC	-25,000	-
[-] Standard Deduction	-50,000	-
[-] Professional Tax	-2,400	-
[-] Interest on Home Loan	-1,50,000	-
Gross Total Income	12,17,800	15,00,000
[-] 80C Deduction	-1,50,000	-
[-] 80CCD(1B) Deduction	-50,000	-
[-] 80D Deduction	-25,000	-
Total Income	9,92,800	15,00,000
Tax Calculation		
Basic Tax	1,11,060	1,87,500
Add: Surcharge	-	-
Add: Health & Education Cess @ 4%	4,442	7,500
Total Tax	1,15,502	1,95,000

MR. X HAS SALARY INCOME OF Rs.45 LAKH, HRA EXEMPTION OF Rs.50,000, EDUCATION AND UNIFORM EXEMPTION OF Rs.2,400/- EACH, LTC EXEMPTION Rs.25,000/-, 80C INVESTMENT Rs.1.50 LAKH, 80D INVESTMENT Rs.25,000, 80CCD(1b) INVESTMENT Rs.50,000 AND HOME LOAN INTEREST OF Rs. 1.50 LAKH THEN WORKING OF TAX WILL BE AS FOLLOWS-

Particulars	Current/Old Scheme	New Scheme
Salary Income	45,00,000	45,00,000
[-] HRA	-50,000	-
[-] Education Allowance	-2,400	-
[-] Uniform Allowance	-2,400	-
[-] LTC	-25,000	-
[-] Standard Deduction	-50,000	-
[-] Professional Tax	-2,400	-
[-] Interest on Home Loan	-1,50,000	-
Gross Total Income	42,17,800	45,00,000
[-] 80C Deduction	-1,50,000	-
[-] 80CCD(1B) Deduction	-50,000	-
[-] 80D Deduction	-25,000	-
Total Income	39,92,800	45,00,000

Annexure 1 : Few Examples of Tax implication in current and new scheme**Tax Calculation**

Basic Tax	10,10,340	10,87,500
Add: Surcharge	-	-
Add: Health & Education Cess @ 4%	40,414	43,500
Total Tax	10,50,754	11,31,000

MR. X HAS SALARY INCOME OF Rs.80 LAKH, HRA EXEMPTION OF Rs.50,000, EDUCATION AND UNIFORM EXEMPTION OF Rs.2,400/- EACH, LTC EXEMPTION Rs.25,000/-, 80C INVESTMENT Rs.1.50 LAKH, 80D INVESTMENT Rs.25,000, 80CCD(1b) INVESTMENT Rs.50,000 AND HOME LOAN INTEREST OF Rs. 1.50 LAKH THEN WORKING OF TAX WILL BE AS FOLLOWS-

Particulars	Current/Old Scheme	New Scheme
Salary Income	80,00,000	80,00,000
[-] HRA	-50,000	-
[-] Education Allowance	-2,400	-
[-] Uniform Allowance	-2,400	-
[-] LTC	-25,000	-
[-] Standard Deduction	-50,000	-
[-] Professional Tax	-2,400	-
[-] Interest on Home Loan	-1,50,000	-
Gross Total Income	77,17,800	80,00,000
[-] 80C Deduction	-1,50,000	-
[-] 80CCD(1B) Deduction	-50,000	-
[-] 80D Deduction	-25,000	-
Total Income	74,92,800	80,00,000
Tax Calculation		
Basic Tax	20,60,340	21,37,500
Add: Surcharge	-	-
Add: Health & Education Cess @ 4%	82,414	85,500
Total Tax	21,42,754	22,23,000