

# Govt weighs cutting tax rates in new I-T regime

Centre may move to phase out the older personal income tax regime

Dilasha Seth & Gireesh Chandra Prasad  
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**T**he finance ministry is working to sweeten the two-year-old exemptions-free personal income tax regime by offering lower tax rates, a government official said, after the new system failed to click with taxpayers.

Alongside, the government may also phase out the older personal income tax regime, which offers several deductions and benefits. The move aims to simplify the income tax regime and reduce litigation, which is seen as complex amid several deductions and benefits available to taxpayers.

Exemption-free personal income tax slabs with lower rates were introduced as an option in the Union Budget 2020-21, but are yet to find acceptance in a big way.

The benefits of the old regime include deductions allowed under personal income tax, including house rent, life insurance and health insurance. "We have not seen much traction for the new personal income tax regime without exemptions so far. That's because individuals are calculating their taxes based on both the regimes and seeing which one is beneficial. Those already taking benefits of insurance or house rent

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**FEW TAKERS**

- THE** new personal tax system has failed to click with taxpayers
- GOVT** may expand range of income in each of the slabs
- THE** govt must put in place just one income tax scheme, say analysts

would not like to opt for a regime that does not offer any incentive. There is a need to sweeten the new income tax regime to find takers," the official cited above said on the condition of anonymity.

One of the ideas is to have a wider range of income in each of the slabs so that more people benefit from opting for the lower slabs, and a taxpayer's shift to the subsequent slabs will only happen with a substantial

jump in income.

The official added that there should not be two personal income tax schemes but only one. "We will need to see if we need to lower the tax rates or rework the slabs to make it attractive. The tax regime will become easier. Litigation will also ease. People who make more money should pay more tax; those who

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make less money should pay less," he added.

The move would be in line with the overhaul of the corporation tax regime, which began with the introduction of sunset clauses on several exemptions, including for special economic zones.

In 2019, the government cut the corporation tax rate to 22% from 30% for existing companies that did not enjoy any exemptions and offered a concessional tax rate of 15% for new manufacturing units if they start production up to March 2022, which was extended by a year in this year's budget. Companies opting for lower tax rates must forgo all exemptions and incentives.

Similarly, the Centre is exploring ways to do away with exemptions in the personal income tax regime and eventually do away with the two options and have only a single regime without any tax benefits.

Queries emailed to the spokespeople for the Central Board of Direct Taxes and the finance ministry on Friday remained unanswered till press time.

Under the option without deductions introduced in FY21, there are six slabs: 5%, 10%, 15%, 20%, 25%, and 30%, as against three under the one with benefits at 5%, 20%, and 30%.

The new personal income tax regime has to be simple for individuals to understand and make a choice as a lot of taxpayers (particularly those with

annual income falling below ₹10 lakh) do not seek the help of professionals to file tax returns, said Amit Singhania, a partner at law firm Shardul Amarchand Mangaldas. "Also, we need to ensure the tax regime is not changed very often as it would warrant frequent changes in systems for employers as well," Singhania said.

Sachin Garg, partner, direct taxation, Nangia Andersen LLP, said phasing out personal income tax benefits and having a single regime would be in line with the policy of the government to simplify tax laws and

bring in transparency and clarity. "Even though a new regime without benefits but lower tax rates was introduced last year, most taxpayers have chosen to continue with the old regime of

**Revenue secretary Tarun Bajaj had said that the new regime without exemptions will not take off if govt kept giving exemptions**

taxation as it results in lower tax liability. The government will need to play a balancing act to ensure any increase in tax liability due to phasing out of exemptions is neutralized by the reduction in tax rates," Garg said.

Opposing exemptions, revenue secretary Tarun Bajaj said in February at an industry interaction that the new regime without

exemptions would never take off if government kept giving exemptions. He also said the government would see how it could bring about parity between the new exemption and the old income tax regime for individuals to encourage more people to move to the new one. He also spoken about the need to simplify direct tax laws as various carve-outs or exemptions announced every year made them complicated.

Under the new tax regime, annual income of up to ₹2.5 lakh is exempt, while a 5% tax applies on annual income between ₹2.5-5 lakh. An income of ₹5-7.5 lakh attracts a reduced tax rate of 10% and 15% for income between ₹7.5 lakh and ₹10 lakh.