New IT regime set for tweaks

Higher threshold of ₹20 lakh possible for 30% slab: Experts

SAIKAT NEOGI & PRIYANSH VERMA
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HOW THEY STACK UP

Gross total annual income (₹)

	10 lakh	20 lakh	30 lakh	40 lakh	50 lakh
A1: Benefit	No change	46,800	52,000	52,000	52,000
A2: Benefit	No change	46,800	1,04,000	1,04,000	1,04,000
A3: Benefit	No change	23,400	75,400	1,27,400	1,79,400

A1: If tax rate of 30% kicks in at ₹20 lakh
A2: If tax rate of 30% kicks in at ₹25 lakh
A3: If tax rate of 30% is lowered to 25%

Source: Nangia Andersen

ANY FURTHER SHIFT among the taxpayers to the concessional personal income tax (PIT) regime from 60% reported so far will require further tweaks to make it more attractive, government sources said on condition of anonymity.

RUN-UP TO THE INTERIM BUDGET 2024-25

A few options in this regard are under consideration, they said, but hinted that these steps might get deferred beyond the interim Budget on February 1.

Tax experts say the government might have to increase the threshold for the highest PIT rate of 30% – which now kicks in at ₹15,00,000 – to at least ₹20,00,000. Alternatively, the marginal rate itself may be reduced to 25%.

These changes would result in significant tax savings under the exemption-less regime, which was modified in the FY24 Budget to encourage taxpayers to discard the old regime, which allows sundry exemptions and deductions. However, any marginal increase in rebates – tax liability under the concessional regime is nil for annual income up to ₹7.5 lakh, thanks to rebates and the standard deduction of ₹50,000 – won't make any big difference, the experts reckon.

A higher threshold for the marginal tax rate would be suitable for a progressive income tax system, than reducing the highest tax rate, because the former benefits the low-income taxpayers more in relative terms (see chart).

Robust PIT collections this year – post-refunds receipts so far are up 27.26% on year against just 7% growth required to meet the Budget estimate for FY24 – have also boosted the government's confidence in the new regime's ability to churn out revenue. More concessions are expected to improve compliance, and keep the buoyancy in collections.

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IF THE BUDGET (either interim of the main) increases the threshold to ₹20,00,000, it will help an income tax assessee earning above ₹25,00,000 a year save ₹52,000 more. Similarly, an assessee earning ₹20,00,000 a year will be able to save an extra ₹46,800 a year, an analysis by FE shows. Those earning ₹10,00,000 a year will see no change in the tax outgo.

If the threshold is increased to ₹25,00,000 a year, an assessee earning above ₹30,00,000 can save ₹1,04,000 in tax a year. Those earning ₹25,00,000 can save ₹98,800 and those earning ₹20,00,000 can save ₹46,800, the analysis shows.

However, if the highest tax rate is reduced from 30% to 25%, an assessee earning above ₹20,00,000 will save just ₹23,400 additionally (just 1.17% of his income), while one who earns above ₹30,00,000 would save ₹75,400 (2.51%) extra.

To make the new tax regime popular, the government in the last Union Budget raised the rebate under Section 87(A) of the Income Tax Act, 1961 from ₹5,00,000 to ₹70,00,000. It also raised the basic exemption under this regime to ₹3,00,000 from ₹2,50,000 and also extended the standard deduction of ₹50,000 a year available for salaried and pensioners under the old tax regime to the default tax regime.

So, a resident individual with taxable income up to ₹7,00,000 will receive a ₹25,000 tax relief for FY2023-24 (AY2024-25). In the old tax regime, the rebate remains unchanged — ₹12,500 for income up to ₹5,00,000.

The new tax regime offers lower income tax rates with a threshold of ₹15,00,000 for the highest tax rate as compared to the old regime where the threshold for highest tax rate was ₹10,00,000.

Maneesh Bawa, Partner, Nangia Andersen LLP, says to further enhance the appeal of the new tax regime, the government should consider to lower the highest tax rate from 30% to 25% and to increase the income threshold for this highest rate from ₹15,00,000 to ₹20,00,000.

"Additionally, raising the standard deduction limit and the basic exemption limit, would provide more financial relief to taxpayers," he says.

He adds that the government should allow the set-off for house property loss under the new regime. "This would be a major incentive for taxpayers to switch to the new system, as it could potentially offset some of the lost deductions from the old regime."

Under the old regime, taxpayers have access to various deductions such as House Rent Allowance (HRA), Leave Travel Allowance (LTA), and 80C deductions, 80D and additional contribution of ₹50,000 under National Pension System (NPS). It also allows deduction under Section 24 for interest paid on a home loan up to ₹2,00,000 a year. However, these benefits are not available under the new regime.

For family pensioners, a standard deduction of ₹15,000 was introduced under the new tax regime last year. The new tax regime allows a deduction for NPS contribution by the employer to an employee's NPS account under section 80CCD (2). While private sector employees can claim a maximum deduction of 10% of their salary, government employees can claim a deduction of 14% of their salary (basic salary plus dearness allowance).

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