Proceedings of Online National Level Conference on
Innovative Business Strategies to cope with the present era of Globalisation
Organized by Indira Global Business School, Pune, Maharashtra, India
JournalNX- A Multidisciplinary Peer Reviewed Journal
ISSN: 2581-4230, Website: journalnx.com, May 30th, 2020

ANALYSIS OF TAX IMPACT ON INDIVIDUALS
(With reference to changes in income tax slab for FY 2020-21)

Vishal Yadav,
Mohit Tiwari
Indira College of Engineering and Management
Mail id - vishal.yadav@indiraicem.ac.in, mohit.tiwari@indiraicem.ac.in

INTRODUCTION-

Budget 2020 has proposed to introduce new tax slabs with reduced rates for those foregoing 70 tax exemptions and deductions. This new simplified tax regime is optional and will co-exist with the old one with three tax slabs and various tax exemptions and deductions available to the taxpayer.

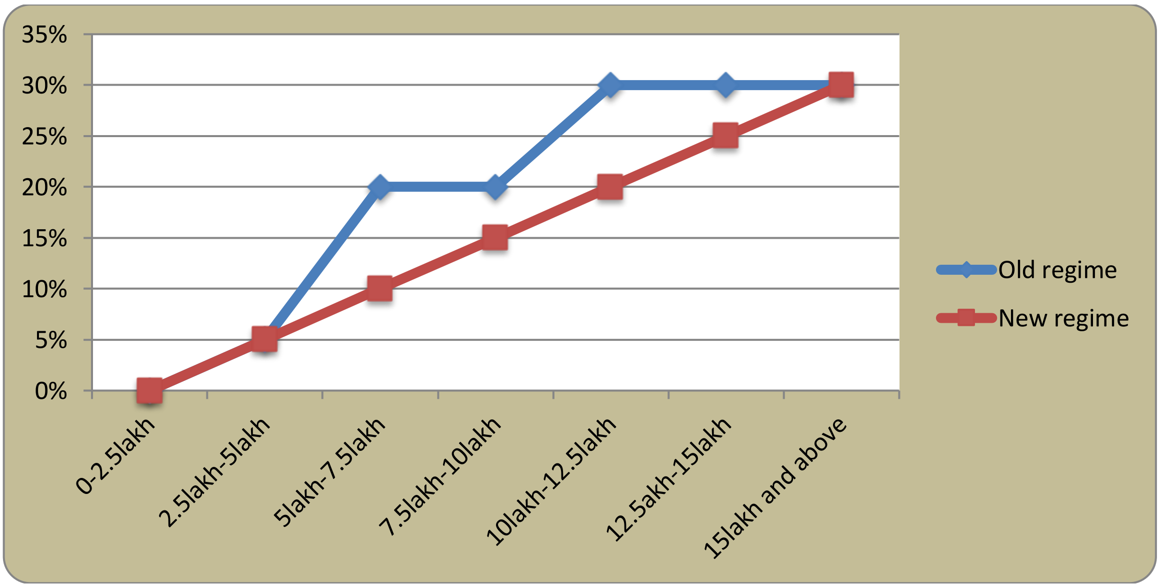
The government has already defended its tax move and said 90 per cent income tax filers in India claim tax deductions less than Rs.2lakh. At least 5.3crore people of 5.78crore claimed deductions of less than Rs.2lakh(standard deductions, PF, Home Loan interest, NPS, Life Insurance, Medical Insurance, etc.) while filing returns.

The old and new tax regimes are shown in the below mentioned table.

OLD RATE	ANNUAL INCOME	NEW RATE
NIL	UPTO 2.5 LAKHS	NIL
5%	2.5-5 LAKHS	5%
20%	5-7.5 LAKHS	10%
20%	7.5- 10 LAKHS	15%
30%	10- 12.5 LAKHS	20%
30%	12.5- 15 LAKHS	25%
30%	ABOVE 15 LAKHS	30%

The income will not be taxed up to 2.5lakhs in both regimes. From 2.5 to 5lakhs income will be taxed at 5%.Income between 5lakh and 7.5lakh will be taxed at 10% down from current 20%, income between 7.5lakh and 10lakh will be taxed at 15% down from current 20%, and income between 10lakh and 12.5lakh will be taxed at 20% down from current 30%. Income between 12.5lakh and 15lakh will be taxed at 25% down from current 30%. Incomes above 15lakh in a financial year will continue to be taxed at 30%.

Health and Education Cess charge of 4% will be added to the every tax slab, and a surcharge of 10% of income tax where total income exceeds Rs.50lakh will be added. If income exceeds Rs.1Crore surcharge would be at 15%.



LIERATURE REVIEW

Changes in personal income tax (2018) and its impact on individual's Finances-

1. Standard deductions of Rs.40000 were introduced in lieu medical reimbursement of Rs.15000 and travel allowance Rs.19200 net tax benefit came upto total of 5800.
2. Health and Education cess was increased to 4% in 2018 from existing 3% in 2017
3. Introduction of Long Term Capital gains tax of 10% on equity shares and equity oriented mutual funds applicable only if the gains exceeds Rs.1lakh
4. TDS limit was hiked to Rs.50000 from existing Rs.10000 for senior citizen.
5. Increase in limit of health insurance premium(Section 80D), deduction up from Rs.30000 to Rs.50000 for senior citizen while premium for people below 60 years continues to Rs.25000.
6. If a person has parents above 60 years then he can claim a total deduction of Rs.75000(50000+25000) under section 80D.

Changes in personal income tax (2019) and its impact on individual's Finances-

1. No tax liability if your net taxable income does not exceed Rs.5lakh because the rebate limit under section 87A was hiked to Rs.12500 from Rs.2500 earlier.
2. TDS threshold limit was hiked to Rs.40000 from earlier Rs.10000 giving relief to small tax payers. For senior citizen this threshold is hiked to Rs. 50000.
3. Hike in standard deductions from Rs.40000 to Rs.50000.The term standard deduction was introduced in budget 2018 in lieu of medical reimbursement and transport allowance.
4. Withdrawal from NPS becomes tax free as exemption on lump-sum withdrawal increases to 60% from earlier 40%.
5. According to the rules of NPS a subscriber can withdraw up to 60% from NPS as lump-sum rest 40% is insured for the Annuity.
6. Health and Education cess was kept as it is at 4%
7. ITR filing mandatory for certain cases-

a) If foreign travel expenditure exceeds Rs.2lakh.
b) Electricity bill incurred by individual of Rs.1lakh or above.
c) If amount deposited with bank or cooperative bank held in savings account Exceeds Rs.1Crore in a financial year.
d) Claiming Capital gain tax exemption on investment in house etc.

Changes in personal income tax (2020) and its impact on individual's Finances-

1. Standard deductions is the same as in 2019 i.e. 50000 for people opting to old regime.
2. The TDS rate on income depends on the salary of an individual and based on that it ranges from 10% to 30%.
3. Due to the introduction of new tax regime and an existing old regime; now the tax payer has an option to choose between the two whichever suits him best. However, after a choice has been made and if the taxpayer wants to switch to other regime he could be allowed to do so, but just for once in a year. This option (of switching) is available to taxpayer on a year-on -year basis. If a taxpayer feels availing a certain deduction in a particular year, his old set-up is better, he will opt for that. But if new regime offers him a better rate, he will opt for it.

4.Some of the 70 exemptions and deductions you won't get in new regime-

a. Section 80C investments
b. House rent allowance
c. Housing loan interest
d. Leave travel allowance
e. Medical insurance premium
f. Standard deduction
g. Savings bank interest
h. Education loan interest

ISSN: 2581-4230, Website: journalnx.com, May 30th, 2020

5.Health and Education cess is kept as it is at 4%.
6.Experts say that the new tax system will provide slightly higher disposable income in peoples' hands, providing more flexibility to spend. Quoting data from National Statistical Office (NSO), the report said household savings in India has dropped to a low of 6.5 per cent of GDP-the lowest in eight years.

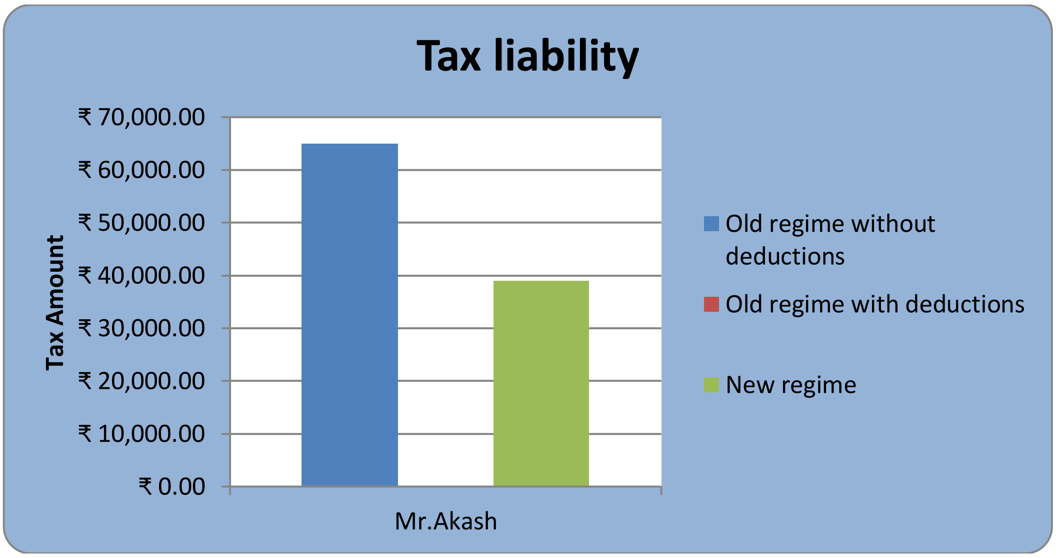
OBJECTIVES-
1) To find out tax liability for both old and new tax regimes.
2) To create awareness and provide suggestions for the taxpaying population for various income categories.

DATA-
Let us take the example of three different persons- Akash, Yash, Divya.
Mr. Akash earning - Rs. 7.5lakh (middle class)
Mr. Yash earning - Rs. 15lakh (upper class)
Ms. Divya earning -Rs. 55lakh (rich class)
We will do tax calculations for each of them assuming deductions of Rs.2.75lakh (50000 standard deduction, 150000 under section 80C, 50000 under 80CCD and 25000 under 80D)

Let us do the calculation for each of them and find out their respective tax liabilities.

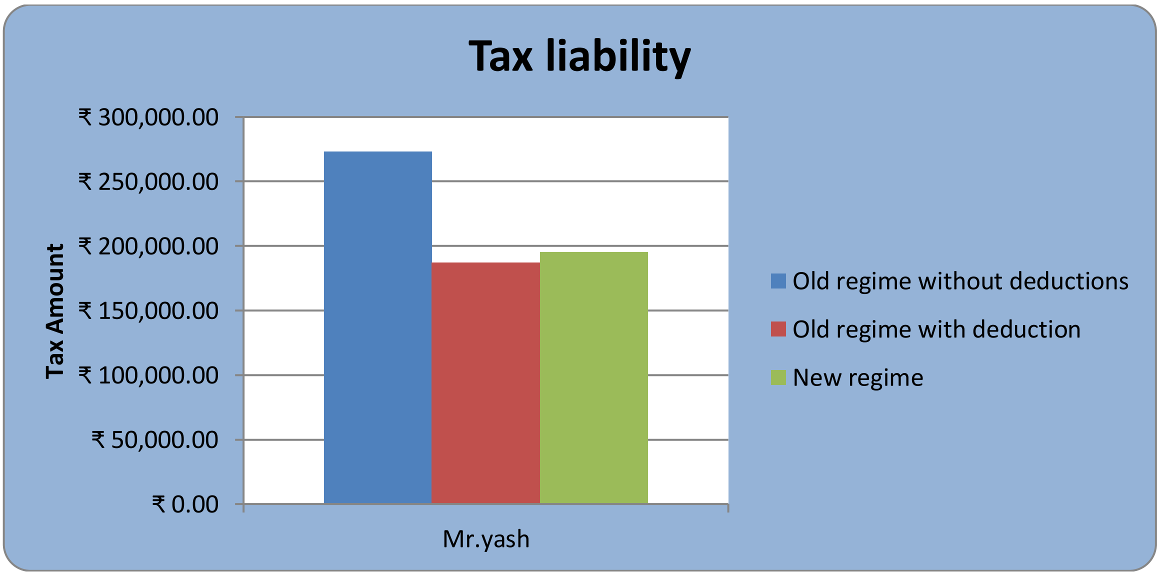
Tax Calculation	**Old Tax Regime (without deductions)**	**Old Tax regime (with deduction)**	**New Tax Regime**
Gross Income	750000	750000	750000
Standard deduction	-----	50000	-----
Net salary	750000	700000	750000
Deduction- 80C	-----	150000	-----
Deduction-80CCD	-----	50000	-----
Deduction-80D	-----	25000	-----
Total taxable income	750000	475000	750000
Income Tax	62500	11250	37500
Rebate-87A	-----	11250	-----
Cess-4%	2500	-----	1500
Total Tax	65000	-----	39000

Above calculation shows the tax liability for Mr. Akash in the three cases undertaken.



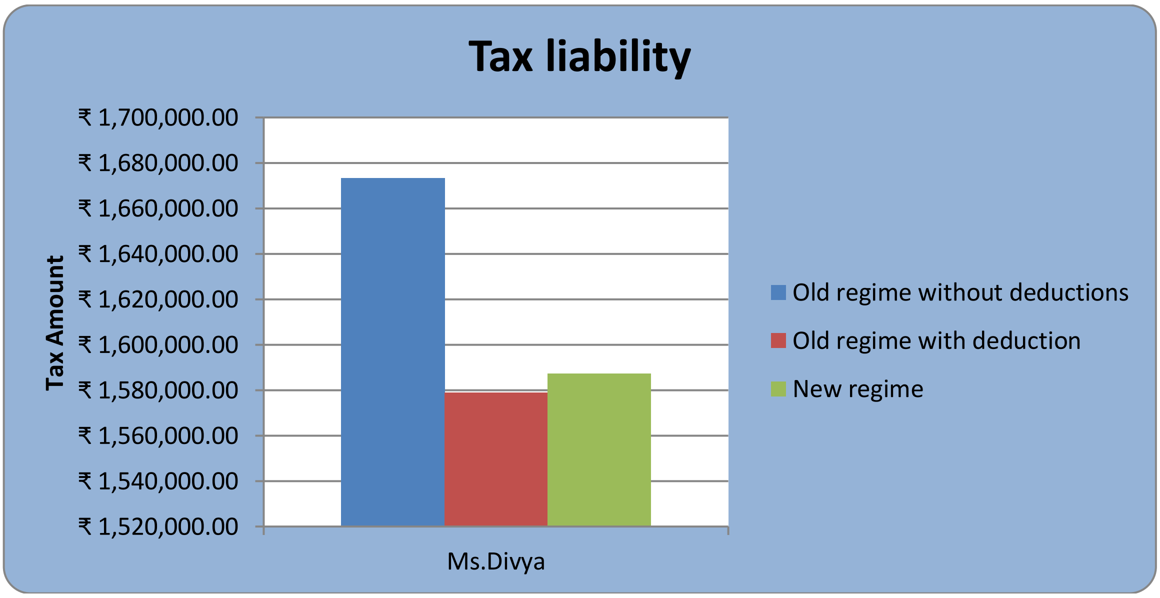
Tax Calculation	Old Tax Regime (without deductions)	Old Tax regime (with deduction)	New Tax Regime
Gross Income	15000000	1500000	1500000
Standard deduction	-----	50000	------
Net salary	1500000	1450000	1500000
Deduction- 80C	- -----	150000	-----
Deduction-80CCD	-----	50000	-----
Deduction-80D	-----	25000	-----
Total taxable income	1500000	1225000	1500000
Income Tax	262500	180000	187500
Rebate-87A	-----	-----	-----
Cess-4%	10500	7200	7500
Total Tax	273000	187200	195000

Above calculation shows the tax liability for Mr. Yash in the three cases undertaken.



Tax Calculation	**Old Tax Regime (without deductions)**	**Old Tax regime (with deduction)**	**New Tax Regime**
Gross Income	5500000	5500000	5500000
Standard deduction	-----	50000	------
Net salary	5500000	5450000	5500000
Deduction- 80C	- -----	150000	-----
Deduction-80CCD	-----	50000	-----
Deduction-80D	-----	25000	-----
Total taxable income	5500000	5225000	5500000
Income Tax	1608750	1518000	1526250
Rebate-87A	-----	-----	-----
Cess-4%	64350	60720	61050
Total Tax	1673100	1578720	1587300

Above calculation shows the tax liability for Ms. Divya in the three cases undertaken.



FINDINGS AND CONCLUSION-

1) The person with Rs.7.5lakh income(Mr. Akash) will have very low disposable income , also his risk taking ability will be on lower side because of average income standard (Middle class) so he can't afford to invest heavily in more riskier options like Stock market, derivatives etc. so he would definitely go for safer options such as ELSS, bank fixed deposit, debentures, savings accounts, PF ,life insurance (mainly schemes under Section 80c of income tax act) etc. as long term investment plans as they are more safer, some of them have tax free returns and he could also claim deductions on that investments and can rebate the entire tax amount (if claims Rs.2.75lakh final tax liability) because tax up to Rs.12500 is rebated by income tax authority.

So it would be better for him to follow old tax regime instead of following new tax regime and paying additional tax of Rs.39000.

2) While person with Income of Rs.55lakh (Ms. Divya) coming under the surcharge category will roughly have 72% of her income charged at the same rate irrespective of the regime she follows, if she follows old tax regime then she has to pay Rs. 8580 (if claims up to Rs.2.75lakh) less tax which is only

0.16% of her income; not very significant, but as her risk free investment is taken care of with these deductions she would go for old tax regime.
As her risk taking ability is high due to significant disposable income of Rs.36lakh rich class income standard (roughly after the deductions and tax) she is also able to invest in more riskier options like Stock Market, derivatives etc. So it is a win -win condition for her and she would follow old tax regime.

3) If we consider the case of person with income of Rs. 15 lakh (Mr. Yash) he is neither bound to invest only in safer investment options when compared to person earning Rs.7.5 lakh nor has a leverage to invest heavily in both safer and riskier investment options like Divya earning Rs.55 lakh because of moderate risk taking ability due to upper middle class income standard and might not be able to claim deductions of assumed 2.75 lakh.
Let us consider that he is able to achieve those deductions then the additional tax that he saves is only Rs.7800 that is only 0.52% of his income, whereas if he neglects it and considers that he invests (suppose) 1.75 lakh out of these (1lakh subtracted for life insurance Medi-claim and NPS) 2.75 lakh in riskier options then he is definitely going to get better returns which would outweigh this additional tax of 0.52% so he would definitely go for new tax regime.

4) Income tax slabs ensure that the right people get taxed in the country and people bear responsibility for building nation according to their income standard. For rich class people (income above Rs.50 lakh) this responsibility is further increased by surcharges.

5) Following the above guidelines while filing the returns can prevent any discrepancies. Failing to do so could lead to notices from IT department.

(NOTE- all numerical considerations except % are in Rupees.)

REFERENCES-

1. www.incometaxindia.gov.in
2. www.economictimes.indiatimes.com
3. www.cleartax.in
4. www.aegonlife.com
5. www.charteredclub.com
6. www.indiatoday.in