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Budget 2020

Understand the new income tax slab

An optional income tax regime for individuals and Hindu Undivided Family (HUF) taxpayers is proposed with the below tax slabs:

New slab rates (optional)		Old slab rates	
Income from Rs 2.5 lakh to 5 lakh	5%	Income from Rs 2.5 lakh to Rs 5 lakh	5%
Income from Rs 5 lakh to 7.5 lakh	10%	Income from Rs 5 lakh to 10 lakh	20%
Income from Rs 7.5 lakh to 10 lakh	15%	Income above Rs 10 lakh	30%
Income from Rs 10 lakh to 12.5 lakh	20%		
Income from Rs 12.5 lakh to 15 lakh	25%		
Income above Rs 15 lakh	30%		

For the FY 2020-21 (AY 2021-22), the taxpayer choosing the optional income tax regime should forego the standard deduction against salaries, and certain exemptions/deductions they are entitled under the old income tax regime. The taxpayer will not be entitled to claim exemptions for house rent allowance, leave travel allowance, allowances granted by the employer to meet expenses incurred in the course of employment and certain other special allowances if the new regime is chosen.

Further, the taxpayer cannot claim deductions for interest on housing loan for a self-occupied property; deductions for tax saving investments made in LIC, PPF, NSC, and mutual fund; or repayments of the principal portion of the housing loan or children’s tuition fees. We explain the impact of the Budget 2020 on income tax calculations with an example with respect to the old tax rates and new tax rates

For a salaried income of Rs 10 lakh				
Income		**Old Regime**	**New Regime**	**Difference**
Salary	10,00,000			
Less: Standard deduction	50,000			
Less: Professional tax	2,400			
	9,47,600			
Less: HRA exemption	2,00,000			
Gross total income	**7,47,600**			
Less: Deduction u/s 80C	1,50,000			
Less: Deduction u/s 80D	25,000			
Total income	**5,72,600**			
Income Tax		27,020	75,000	
Add: Education Cess @ 4%		1,081	3,000	
Total Tax Payable		**28,101**	**78,000**	**-49,899**

In the example mentioned above, the taxpayer pays Rs 28,101 as income tax based on the old tax regime. However, the taxpayer has to pay an income tax of Rs 78,000 after foregoing the exemptions and deductions under the new regime. Thus, the taxpayer pays a higher income tax of Rs 49,899 and does not get a deduction for the cash outflows towards house rent, tax savings, medical insurance, the standard deduction, and professional tax when the new tax regime is chosen.

In another case, if the taxpayer does not have any cash flow commitments towards house rent, housing loan, and yearly tax savings, the tax impact would be as follows

For a salaried income of Rs 10 lakh				
Income		**Old Regime**	**New Regime**	**Difference**
Salary	10,00,000			
Total income	**10,00,000**			
Income Tax		1,12,500	75,000	
Add: Education cess @ 4%		4,500	3,000	
Total Tax Payable		**1,17,000**	**78,000**	**39,000**

In the above case, the taxpayer saves Rs 39,000 in income tax payment.

Consider a taxpayer who has no cash flow commitments and earns Rs 15 lakh or above. The tax savings, in this case, would be Rs 78,000.

For a salaried income of Rs 15 lakh				
Income		**Old Regime**	**New Regime**	**Difference**
Salary	15,00,000			
Total income	**15,00,000**			
Income Tax		2,62,500	1,87,500	
Add: Education cess @ 4%		10,500	7,500	
Total Tax Payable		**2,73,000**	**1,95,000**	**78,000**

Thus, the taxpayer has to choose the option of the new tax regime after taking into account the following:

a) **Cost of accommodation**: The annual house rent payment or the payment of interest on housing loan for a self-occupied house.
b) **Tax savings commitments**: The annual payment of life insurance premium; contribution to PPF, NPS, and SIP of mutual fund ELSS; or repayments of the principal portion of the housing loan or children's tuition fees.
c) **Medical insurance premium**: The medical insurance premium commitment for self, spouse, dependent children and parents.
d) **Education loan**: Interest paid on loan taken for higher education.
e) **Housing loan**: Interest paid on loan taken for an affordable house (additional interest deduction for housing loan).

The list of the deductions or exemptions that has been discontinued is enclosed as ***Annexure 1***. In the case where the above-mentioned cash outflows, the old slab rates will reduce the tax liability with exemptions or deductions allowed. However, if the taxpayer has no cash flow commitments, the new regime helps minimise the tax liability while leaving surplus money for disposal. For AY 2021-22, the optional new tax regime can be chosen by the taxpayer on or before filing the income tax return in July 2021.

Annexure 1

List of deductions and exemptions withdrawn under the new tax regime for FY 2020-21 (AY 2021-22):

1. Leave Travel Allowance (LTA)
2. House Rent Allowance (HRA)
3. Conveyance allowance
4. Daily expenses in the course of employment
5. Relocation allowance
6. Helper allowance
7. Children education allowance
8. Other special allowances [Section 10(14)]
9. Standard deduction
10. Professional tax
11. Interest on housing loan for a self-occupied house (Section 24)
12. All tax-saving investment deductions under Chapter VI-A (80C,80D, 80E and so on) (Except, deduction under Section 80CCD(2)—employers contribution to NPS, and Section 80JJA)
13. Exemptions or deductions for any other perquisites or allowances given under any other