INDIVIDUAL TAX UPDATES

INDIA UNION BUDGET 2023

Union Budget 2023, has proposed many changes to the tax provisions relevant for individual taxpayers in India. These proposals aim to simplify various tax provisions, reduce tax burdens, provide ease in administration and ensure better governance.

HIGHLIGHTS FOR INDIVIDUAL TAXPAYERS

Attractive New Tax Regime: To make the New Tax Regime more attractive to individual taxpayers, several changes to the scheme have been introduced. Changes such as reduced tax rates, enhanced rebate, standard deduction, reduced and lower surcharge for super rich individual taxpayers high net-worth individuals are proposed.

Changes in various exemptions: Changes are proposed to limit certain exemptions to those who genuinely need such benefits. A limit of INR 10 crores is introduced on the maximum exemption available on long term capital gains by re-investment into residential house property. Similarly, the exemption for the sum received under life insurance policies is restricted to policies where the annual premium is below INR 5 lakhs. Leave encashment exemption is proposed to be increased from INR 3 lakhs to INR 25 lakhs

Improvisation in taxpayer's experience: Steps such as deployment of additional joint commissioners for early disposal of appeals, common income-tax return form and more selective approach for scrutiny of cases are proposed.

KEY PERSONAL TAX PROPOSALS

1. **Updates in the New Tax Regime (NTR):**
   Budget 2020 introduced the NTR under section 115BAC giving individuals and HUF taxpayers an option to pay income tax at lower rates. An individual can choose to pay income tax under an optional NTR or old regime whichever is more beneficial. The NTR is available with lower tax rates but once opted, the taxpayer has to forgo the deductions/exemptions available under the old regime. To make the NTR more attractive, the Finance Bill 2023 has proposed the following changes:
   a) The basic income exemption threshold has been increased from INR 2.5lakhs to INR 3lakhs. The following reduced tax slab rates are proposed under the NTR:

New Regime introduced in Finance Bill 2020	
Income	Tax Rate*
Up to INR 250,000	Nil
INR 250,001 - INR 500,000	5%
INR 500,001 - INR 750,000	10%
INR 750,001 - INR 1,000,000	15%
INR 1,000,001 - INR 1,250,000	20%
INR 1,250,001 - INR 1,500,000	25%
Above INR 1,500,000	30%

New Regime introduced in Finance Bill 2023	
Income	Tax Rate*
Up to INR 300,000	Nil
INR 300,000 - INR 600,000	5%
INR 600,000 - INR 900,000	10%
INR 900,000 - INR 1,200,000	15%
INR 1,200,000 - INR 1,500,000	20%
Above INR 1,500,000	30%

*Excluding surcharge and Health and Education Cess @4% on tax and surcharge

b) Currently for any resident individual with taxable income up to INR 5 lakhs there is no need to pay tax as a rebate up to INR 12,500 is available. The Finance Bill proposes to increase the amount of rebate to INR 25,000. Hence, a resident individual with taxable income up to INR 7 lakhs is not required to pay any taxes under the NTR.

c) The salaried class is now eligible to claim a standard deduction of INR 50,000 under the NTR as well. This was not available earlier under the NTR.

d) The NTR shall be considered as default regime for all taxpayers.

e) The maximum rate of surcharge on income above INR 5 Crore is proposed to be restricted to 25% under the NTR as compared to 37% in the old regime. The surcharge under the NTR shall be as follows:

Income Bands	Surcharge rates on income other than dividend and capital gains covered under Section 111A and 112A	Surcharge rates on dividend Income and capital gains covered under Section 111A and 112A
Up to INR 5,000,000	Nil	Nil
INR 5,000,0001- INR 10,000,000	10%	10%
INR 10,000,0001- INR 20,000,000	15%	15%
Above INR 20,000,000	25%	15%

The above changes in the new tax regime shall be effective from FY 2023-24 onwards. There is no change in the tax rates, surcharges and slabs under the old tax regime.

Although the above tax rate updates seem lucrative, it is recommended that the taxpayers look at their personal situation, the various investments and expenditure that are eligible for tax exemptions under the old regime and then decide which regime is better for them. Under the Finance Bill, the NTR shall be the default regime, but individual taxpayers still have an option to opt for the old regime if the same is more beneficial in terms of tax outflow.

2. Presumptive Taxation of Professionals

Section 44ADA provides for a presumptive taxation scheme for taxpayers engaged in specified profession wherein 50% of gross receipts is presumed to be income subject to tax. The Finance Bill 2023 proposes to increase the limit of maximum gross receipts applicable to professional for availing benefit under this provision as follows:

Current Provisions	Current Limits	Increased Limits/ Changes
Taxpayers engaged in specified profession having gross receipts of INR 50 lakhs or less	INR 50 lakhs	INR 75 lakhs provided cash receipts* does not exceed 5% of total gross receipts

* Receipt by a cheque drawn on a bank/ by a bank draft, which is not account payee, shall be deemed to be receipt in cash

Further, the bill also proposes that professionals offering their income to tax under section 44ADA are exempt from Tax Audit as mandated under section 44AB.

3. Gift to Not Ordinarily Resident

Currently, under the provision of Section 9(1)(viii), any sum of money or value of property received without consideration (i.e., a gift) exceeding INR 50,000 by a non-resident from a person resident in India shall be considered as income deemed to accrue or arise in India.

The Finance Bill proposes to include any sum of money or value of property received without consideration by a Not Ordinarily Resident as well under the purview of deemed income under Section 9(1)(viii).

4. Deduction available from Capital Gain

Section 54 (on sale of long-term capital asset being a residential house property) and section 54F (on sale of long-term capital asset other than residential house property) provides for deduction if the capital gain is reinvested in a residential house property or deposited in the Capital Gains Account Scheme as per the prescribed conditions. There was no upper limit for this deduction.

The Finance Bill 2023 proposes to impose a limit of INR 10 crore on the maximum deduction that can be claimed as deduction under these sections. Post the update, the deduction available under Sections 54 and 54F of the IT Act shall be the least of the following:

- Cost of the new residential house property; or
- Amount of capital gains; or
- INR 10 crore

5. **Rationalisation of Exemption for Life Insurance Policies**

Currently, income from Unit Linked Insurance Policies issued on or after 1 February 2021 are exempt as per the provisions of Section 10(10D), subject to the satisfaction of prescribed conditions.

The Finance Bill proposes to tax income from insurance policies (other than Unit Linked Insurance Policies and other than death of the insured) issued on or after 1 April 2023 having premium or aggregate of premiums above INR 5 lakhs per year, as ‘income from other sources’ in the hands of an individual.

6. **Enhancement in Tax Exemption Limit Of Leave Encashment**

The Finance Minister in her Budget Speech proposed to increase the tax exemption limit for leave encashment from INR 3 lakhs to INR 25 lakhs for employees working in non-government sectors.

The Finance Bill does not specifically provide for such increase and the same is required to be incorporated in the fine print.

7. **Taxation of Market Linked Debentures (MLD)**

MLDs are listed securities and currently any long-term capital gain on their sale is taxable @ 10% without the benefit of indexation.

The Finance Bill 2023 proposes that since these securities are like derivatives, they should be taxable at slab rates applicable to individuals. Thus, effective FY 2023-24 any capital gain from MLD shall be proposed to be considered as short-term capital gains irrespective of the holding period and hence taxable at regular slab rates applicable to individuals.

8. **Conversion of Gold to Electronic Gold Receipts (EGR) and vice versa**

To promote Electronic Gold, the Finance Bill 2023 proposes that the conversion of physical gold to EGRs and vice versa shall not be regarded as ‘Transfer’ for the purpose of capital gains.

The Cost of acquisition for the purposes of calculation of capital gain on the actual sale of such physical gold or EGR shall be as follows:

- Where Physical Gold is converted to EGR: Cost of physical gold in the hands of EGR holder
- Where EGR is converted to physical gold: Cost of EGR

In both the above cases, the period of holding for capital gain taxation shall also include the period of holding prior to such conversion of the physical gold to EGR or vice versa.

9. **Withholding tax on the Payment of PF Accumulated Balance due to an Employee**

Withholding tax @10% is required to be deducted on taxable payment of accumulated balance due to an employee under the Employees' Provident Fund Scheme, 1952. No such withholding tax is required where the amount of such payment is less than INR 50,000. There is a corresponding provision that provides that any person entitled to receive any amount on which tax is deductible shall furnish his Permanent Account Number (PAN) to the person responsible for deducting such tax, failing which tax shall be deducted at the maximum marginal rate.

The Finance Bill proposes to omit the second proviso to Section 192A of the IT Act, i.e., where the PAN is not available, post which TDS on the same shall be deducted @ 20% instead of the maximum marginal rate.

10. **Increase in Tax Collected at Source (TCS) rate**

TCS is applicable at the rate of 5% on certain foreign remittances and overseas tour package. The rate for TCS has been proposed to be increased to 20% on such foreign remittances, without any threshold limit.

However, there is no change in TCS rates for remittances with respect to education or for medical treatment.

11. **Rationalisation of valuation of residential accommodation provided by an employer**

The Finance Bill proposes to rationalise the valuation of residential accommodation provided to employees by prescribing a uniform methodology in the rules for computing the value of perquisites.

It proposes to take the power of prescription of the method for computation of value of the perquisite in the following cases w.e.f. 1 April 2024:

- Rent-free accommodation provided to the employee by his employer.
- Accommodation provided to the employee by his employer at a concessional rate.

The rules in this regard are to be prescribed.

12. Prevention of Double Deduction of Interest on Borrowed Capital

Any interest payable on borrowed capital for acquiring, renewing or reconstructing a property is allowed as a deduction under the head "Income from house property" under section 24. Many taxpayers have included such interest in the cost of acquisition of property while calculating the capital gain at the time of the disposal of such property.

To limit the claim of any double deduction of the interest paid on borrowed capital by a taxpayer, the Finance Bill proposes to amend section 48 by adding a proviso to provide that the cost of acquisition or the cost of improvement for the purposes of calculation of capital gain shall not include the amount of interest claimed as deduction under section 24.

13. Increase in the amount of Maximum Deposit under the Senior Citizen Saving Scheme (SCSS) and Monthly Income Account Scheme

Under the SCSS, senior citizens can invest up to INR 15 lakhs and receive interest @8% on a periodic basis while the principal is returned on maturity. The Finance Minister has proposed to increase the limit from INR 15 lakhs to INR 30 lakhs in SCSS.

Similarly, the Finance minister has proposed to allow a maximum deposit for Monthly Income Account Scheme be enhanced from INR 4.5 lakhs to INR 9 lakhs for a single account and from INR 9 lakhs to INR 15 lakhs for a joint account.

14. Set-off and Withholding of Refunds in certain cases

The Finance Bill proposes to merge section 241A relating to withholding of refund with section 245 of the relating to set off of refund against the existing demand. Post merging, the provision shall provide that where refund is due to a taxpayer, such refund shall be set off against existing demand, and if proceedings for assessment or reassessment are pending, the balance refund due will be withheld by the tax authorities till the date of assessment or reassessment.

It is also proposed that interest under section 244A shall not be payable for the period from the date of withholding of refund till the date of completion of the assessment.

15. Steps to Improve Taxpayers' Experience

- Additional Joint Commissioners to be deployed for disposal of appeals at the first appellate level
- Roll out of a next-generation common Income-tax return form is planned
- More selective approach towards selection of scrutiny cases to be followed

The Finance Minister has indeed presented a prudent and growth-oriented Budget with higher capital spending and at the same time managed to pass on the reward of tax buoyancy to the taxpayers. The proposals are in right direction to create a simple and easy to understand tax framework with complete focus on digitalisation.

CONTACT US

For any content related queries, you may please connect with the respective subject experts at taxadvisory@bdo.in

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