

## 8 tax rules a salaried individual must know – Sep 2005

*By Ameet Patel*

The last Budget presented by the Finance Minister on 28th February, 2005 has brought about substantial changes in the taxation of the salaried class. Ameet Patel clarifies some of the important changes affecting salaried taxpayers.

### 1. Basic Tax Slabs:

The most important change brought about was the raising of the basic tax slabs. Earlier, we had the following tax slabs:

Level of Income	Tax rate	Tax payable
From 0 to 50,000	NIL	NIL
50,001 to 60,000	10%	1,000
60,001 to 1,50,000	20%	1,000 + 18,000
1,50,001 and above	30%	19,000 + 30% of income exceeding 1,50,000

After the Budget 2005, the new income-tax slabs are as under:

Level of Income	Tax rate	Tax payable
From 0 to 100,000	NIL	NIL
100,001 to 150,000	10%	5,000
150,001 to 2,50,000	20%	5,000 + 20,000
2,50,001 and above	30%	25,000 + 30% of income exceeding 2,50,000

For lady taxpayers, the income slabs are as under:

Level of Income	Tax rate	Tax payable
From 0 to 135,000	NIL	NIL
135,001 to 150,000	10%	1,500
150,001 to 2,50,000	20%	1,500 + 20,000
2,50,001 and above	30%	21,500 + 30% of income exceeding 2,50,000

For senior citizens, the income slabs are as under:

Level of Income	Tax rate	Tax payable
From 0 to 185,000	NIL	NIL
185,001 to 250,000	20%	13,000
2,50,001 and above	30%	13,000 + 30% of income exceeding 2,50,000

In all the above cases, income-tax has to be increased by a sur-charge of 10% of the tax if the income exceeds Rs. 10,00,000.

In addition to the tax (and sur-charge wherever applicable), an education cess of 2% is also payable by all assesses.

## **2. Deletion of Tax Rebates:**

The Finance Minister has simultaneously deleted all the rebates that were earlier available under section 88, 88B, 88C and 88D.

The rebate under section 88 was in respect of contributions to PPF, recognised PF, Life Insurance Premium etc. This was allowable to those individual taxpayers whose gross total income did not exceed Rs. 5 lakhs per year.

Section 88B provided rebate to senior citizens upto Rs. 20,000 of tax liability. Therefore, earlier, any senior citizen who had a tax liability of upto Rs. 20,000 did not have to pay any tax. Now this rebate is no longer available.

Section 88C provided a rebate available to lady taxpayers who were not senior citizens. A maximum of Rs. 5,000 was available as rebate from tax for such tax payers.

Section 88D provided a rebate from tax to those taxpayers whose taxable income did not exceed Rs. 1 lakh per year. Thus, such taxpayers did not have to pay any tax.

## **3. Removal of Standard Deduction:**

The Finance Minister has also removed the standard deduction which was available to all salaried tax payers. Earlier, a maximum deduction of Rs. 20,000 was allowable as Standard Deduction. This deduction is now no longer available.

## **4. Removal of Deduction under section 80L:**

The Finance Minister has also done away with yet another popular deduction under section 80L. Under this section, a taxpayer earning interest on bank balances, Government Securities, 8% RBI Bonds, NSC, etc. was allowed a deduction upto Rs. 12,000 + Rs. 3,000 per year. Now, the entire income would be taxable in the hands of the taxpayer without any deduction.

## **5. New Section 80C:**

As if the Income-tax Act was not long enough, the Finance Minister has introduced one new section into the Act. Section 80C seeks to compensate the taxpayers for the deletion of the various rebates from tax.

Under the new section 80C, a taxpayer gets a deduction from income (as compared to the rebates from tax). The deduction is in respect of various items of investments/payments made by the taxpayer during the year. The upper limit for this deduction is Rs. 1 lakh per year. There are 3 positive points about this deduction as compared to the rebates available earlier:

- a) This deduction is available to any resident individual tax payer irrespective of his/her level of income. Earlier, the rebate under section 88 was not available to tax payers whose income exceeded Rs. 5 lakhs
- b) There are no sub-limits in this section for the different investment options. Earlier, in section 88, there were sub-limits for different items (for example Rs. 10,000 for housing loan repayment, Rs. 12,000 per child for educational expenses etc.). Now, theoretically, a taxpayer can put in the entire Rs. 1 lakh in any one of the various options available. There is no bar under the Income-tax Act. It may be noted however, that the upper limit

- for investment in PPF account continues to be Rs. 70,000 since that limit has been prescribed under the PPF Act and that Act has not undergone any change.
- c) This deduction is from income as compared to the earlier rebate which only reduced the tax. Thus, now, the deduction reduces the taxable income directly.

#### **6. Another new Section 80CCE:**

Another addition to the Income-tax Act this year is Section 80CCE. As per this section the overall limit for deductions under sections 80C, 80CCC (for investment in a pension fund) and 80CCD (for Govt. employees) is Rs. 100,000. Therefore, for those salaried persons who have invested in Pension Funds upto Rs. 10,000 will effectively get an opportunity to invest only Rs. 90,000 in the various options under section 80C.

#### **7. Concept of EET:**

The Finance Minister has, in his budget speech, indicated that he proposed to bring onto the statute, the concept of EET.

At present, in the tax saving investment options, when a person invests his money, he gets a tax benefit or Exemption. When he gets any income from such investments, either the same is Exempt (e.g. interest on PPF) or it is tax deductible (e.g. interest on NSC was deductible upto Rs. 12000 under the erstwhile section 80L). Thereafter, when the investment matured and the principal was received back, again the same is Exempt in his hands. Hence, at present, we have what is known as EEE concept whereby the investing taxpayer enjoys Exemption at all 3 stages.

The Finance Minister has now cautioned taxpayers that he proposes to change the scenario and bring in the EET concept whereby, as and when the investor gets back his money, he will have to pay tax on that amount.

This EET concept is not yet on the statute but it appears quite certain to make its appearance very soon. The Government has already constituted an expert committee to work out the roadmap for moving towards EET system. This committee will also examine the mix of savings instruments that would qualify under the new EET system. As and when the same is finalized and comes into force, taxpayers will have to rethink their investing strategy.

#### **8. Fringe Benefit Tax:**

Another extremely important change brought about by the Finance Minister was the imposition of the Fringe Benefit Tax (FBT). This is a tax payable by employers on the value of fringe benefits provided to their employees. Simultaneously with the introduction of this tax, the Finance Minister has amended the requisite rules and has removed some of the perks from the list of taxable perks. Thus, for example, motor car provided by an employer to his employee is no longer a perk in the hands of the employee but the employer will have to pay FBT on the motor car expenses.

As a result of FBT, several companies are reworking salary packages with a view to recover the FBT from the employees.