

## A goody bag for middle class

By Ameet Patel

Mr P Chidambaram, the Finance Minister (FM) of India has presented yet another Budget on Friday. The overall thrust of the Budget appears to be towards spurring growth and providing a helping hand to a select few sections of the society viz. farmers, women, scheduled caste/ scheduled tribe (SC/ST), and the poor.

The waiver of the farm loans is a very major concession announced. This is bound to affect a large section of the society. While it is not clear how and from where the FM proposed to get this money, the most logical conclusion is that the taxpayer will bear the brunt. One hopes that the fine print of the Budget does not throw up unpleasant shocks for the taxpayer.

Let's look at a few of the important changes proposed in the Income-tax Act which would affect the common man.

### Increase in threshold limit for tax:

The most welcome amendment brought about by this Budget is the increase in threshold limits across the board for individual tax payers. The measures of simplification and also the steps taken to widen the tax base have definitely boosted the direct tax collections. Enthused by this, the FM has increased the threshold limits significantly this year.

| Type of tax payer                    | Income slabs        | Tax Payable                           |
|--------------------------------------|---------------------|---------------------------------------|
| <b>Resident Senior Citizens</b>      | 0 – 2,25,000        | NIL                                   |
|                                      | 2,25,001 – 3,00,000 | 10%                                   |
|                                      | 3,00,001 – 5,00,000 | 7,500 + 20% of income above 3,00,000  |
|                                      | 5,00,001 & above    | 47,500 + 30% of income above 5,00,000 |
| <b>Resident Women below 65 years</b> | 0 – 1,80,000        | NIL                                   |
|                                      | 1,80,001 – 3,00,000 | 10%                                   |
|                                      | 3,00,001 – 5,00,000 | 12,000 + 20% of income above 3,00,000 |
|                                      | 5,00,001 & above    | 52,000 + 30% of income above 5,00,000 |
| <b>Other Individuals</b>             | 0 – 1,50,000        | NIL                                   |
|                                      | 1,50,001 – 3,00,000 | 10%                                   |
|                                      | 3,00,001 – 5,00,000 | 15,000 + 20% of income above 3,00,000 |
|                                      | 5,00,001 & above    | 55,000 + 30% of income above 5,00,000 |

The new slab rates would be as follows:

The surcharge and education cess continue at the same rates. Based on the above new slab rates, an individual (other than senior citizen and women) earning Rs 500,000 of income would save approximately Rs 44,000 now!

**Reverse Mortgage for senior citizens:**

Last year, the FM introduced this provision whereby senior citizens could mortgage their house and get a loan to help them sustain themselves.

The biggest hurdle in this scheme was the uncertainty revolving around the taxability of the loan amount received and also the doubt whether the mortgage itself resulted in a transfer of the house resulting in capital gains in the hands of the senior citizen.

In the Budget 2008, it is clarified that the reverse mortgage will not be considered as a "transfer" and therefore there will not be any capital gains on such a mortgage. At the same time, the loan amount received will not be considered as an income in the hands of the senior citizen. This is a very welcome move and will ensure that senior citizens are not put to hardship.

**Deduction under section 80C:**

There are no changes in the existing investment avenues under this section. However, two more have been added to the list. Now, a person investing in the Senior Citizens Savings Scheme 2004 or in the five year Time Deposit Account under the Post Office Time Deposit Rules, 1981 would be eligible for the deduction under this section subject to the limit of Rs 1 lakh per year.

**Mediclaim benefit under Section 80D:**

Presently, the deduction available under section 80D for mediclaim premium is restricted to Rs 15,000 and Rs 20,000 for a senior citizens.

In the Budget, it is proposed to give a double benefit under this section to those tax payers who also pay premium on the mediclaim policy of their parents who are senior citizens. The highest deduction that a person can now get under this section would be Rs 35,000 as against the existing Rs 20,000.

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*This author, Ameet Patel is a Partner, Sudit K. Parekh & Co., Chartered Accountants*  
**Tax on Short Term Capital Gains:**

This one is going to hurt a lot of my readers. The present rate of tax of 10% payable on short term capital gains arising on transfer of listed shares and units of equity oriented mutual funds is proposed to be increased to 15%.

**Deduction for STT:**

All you day traders – this one is for you. At present, the STT paid by a person dealing in shares (not an investor but a trader) is allowed as a rebate from tax payable on the profit generated from the business of trading. This meant that if the trader had a loss from trading then the STT was a complete loss because there was no question of rebate from tax since there was no tax payable on that loss.

Now, it is proposed to replace the existing system of rebate under section 88E with the system of allowing deduction from the business income itself.

This is a welcome move as it simplifies the method of claiming deduction. It also means that a person who was hitherto losing out on the STT because he had a loss will now not lose out. This is because, in the event that a trader makes a loss, the STT will now increase his loss to that extent. This higher loss can then be set off by him against his other income (subject to the conditions laid down).

**Due date for filing return of income:**

Those tax payers who are required to get their accounts audited under any law are supposed to file their returns of income by 31<sup>st</sup> October. Now, this due date is preponed to 30<sup>th</sup> September and that too with effect from current year. Therefore, all such assesseees who would have filed their return in the normal course by 31<sup>st</sup> October would now have to file the same by 30<sup>th</sup> September. All practicing CAs would rejoice at this proposal as they would now be able to celebrate Diwali without being under pressure!

**Banking Cash Transaction Tax:**

This is one of the most infamous taxes levied by the present FM. It is a tax paid by you and me for withdrawing our own money from our bank account. Fortunately, the FM has decided to discontinue this tax with effect from 1<sup>st</sup> April, 2009 i.e. A.Y. 2009-10. For a layman, this refers to F.Y. 2007-08. Therefore we all would have the freedom to withdraw as much as we want from our bank accounts after 31<sup>st</sup> March, 2008!

**Uniform stamp duty on securities transactions:**

The FM has proposed to remove the differences existing in the rates prevailing in the various states for stamp duty payable on transactions in securities. This is a good move and will provide for a level playing field amongst the different states.

**PAN to be made the common identification number:**

It is proposed to make PAN mandatory for transactions in all financial markets. At present, all mutual fund investments would require the furnishing of PAN. Now, the reach of PAN has been widened.