

Budget on your fingertips

By Ameet Patel

1. Have the Income Tax Rates changed? The Good News this year is that there are no new taxes. He has also not tinkered with the basic tax rates applicable to individuals. So, a person earning more than 250,000 will continue to pay tax on that higher income @ 30%. Similarly, companies and partnership firms will continue to pay tax at the flat rate of 30% irrespective of the income levels.

It may be noted that last year, the infamous and ridiculous Fringe Benefit Tax (FBT), Banking Cash Transaction Tax (BCTT) were brought in. The Securities Transaction Tax (STT) came in 2004.

2. Service Tax goes up: The Finance Minister has increased the service tax from 10% to 12 % besides the education cess of 2%. Which means at present the service tax is 10.2% but once the budget is passed the service tax would be at the rate of 12.24% - an increase of 2.04%. Note that service tax is calculated on the Gross value of services. So every service that we avail of in our daily lives would attract service tax.

In other words while you continue to pay income-tax at the same rates as last years, you would be paying more by way of service tax. Since this tax is on the gross value, you would pay much more every time you avail of services.

3. Excise duty on Idli, Dosa, Pasta reduced: Duty on Idli mixes, pasta, dosa, small cars have come down. So go ahead. Indulge your taste buds

4. Savings Schemes:

Another very common concern that we all have whenever the Budget is announced is what is the change affecting our savings. Last year, the FM said that he proposed to bring in the EET regime under which tax payers who claimed tax benefits on their savings would be taxed when their investments matured. But Budget 2006 was mum about EET. Now the question in most minds is whether PPF and NSC would be taxed on maturity?

Pension Schemes (80CCC):

The upper limit for investment in 80CCC schemes has gone up from the existing 10,000 to 100,000. So, now, a tax payer who would like to make provision for his old age, can invest upto 100,000 in a pension scheme and claim that much amount as deduction from his income.

Benefits: But this is like a tiger without teeth because the over all limit of 100,000 is common between 80CCC investments and 80C investments. In simple terms 80C allows a deduction of upto 100,000 per year from your taxable income if you invest in any of the listed schemes. The popular schemes under this section are Life Insurance Premium, PPF, Company PF, NSC, ELSS and Housing Loan repayment.

Now, the overall limit for 80C is also 100,000 and for 80CCC too it has become 100,000. (The problem is that there is another section 80CCE which says that the joint limit of 80C and 80CCC and also 80CCD but that section applies only to Central Govt. employees) will be 100,000.) So, if you have already put in say 70,000 in PPF and 30,000 in ELSS then you have already exhausted the overall limit of 100,000 for 80C and 80CCC. So, in short, you cannot get any tax benefit by investing anything in the pension schemes.

5. Capital Gains:

Some expected the FM to bring back taxes on Long Term Capital Gains this year. Fortunately, they were proved wrong. The FM has made no major changes in the law relating to capital gains.

But there is one very retrograde step that he has taken. The tax on long-term capital gains can be saved by investing in the tax saving bonds under section 54EC.

At present, the bonds can be issued by NABARD, SIDBI, NHAI, REC & NHB. If you invest within 6 months from the date of sale of the long term capital asset then you can get a tax exemption. This section has been on the law book for a long time and based on that, many people would have already invested in the bonds after 1st April, 2005 till 28th February, 2006 i.e. in the current year.

Now, the FM has proposed to amend the section whereby only two agencies will be recognised for issuing these bonds. They are REC and NHAI. The other three i.e. SIDBI, NHB and NABARD will now no longer be recognised for this purpose.

And guess what – this amendment comes into effect from current year i.e. from 1st April, 2005. So, if you have invested in bonds issued by SIDBI or NHB or NABARD and have felt happy that you have saved tax on long term capital gains, think again!

6. Mutual Funds:

The Budget has brought Open ended equity funds on par with close ended ones. So, now, open ended funds and close ended equity funds both will not have to pay the Income Distribution tax every time they distribute income amongst the unit holders.

Which means mutual funds will have more funds at their disposal to be distributed amongst the investors. In other words NAVs would be higher and in both cases, the investors stand to benefit.

7. Procuring a TDS Certificate:

The new law wherein you would have to approach the respective Income Tax Officer for a TDS certificate and not your employer as is the practise now was to come into force from 1-4-2005. But the Government realized a bit late that the necessary infrastructure was not yet in place to enable the issuing of TDS certificates by the ITOs. So, the scheme has been postponed to 1-4-2008.

8. Minimum Alternate Tax:

As per the provisions, if a company's tax as per normal provisions of the Income-tax Act is less than the tax 7.5% of the book profit then it would compulsorily have to pay that 7.5% of the book profit as MAT.