Getting ready to implement Direct Taxes Code, a few steps at a time

Small decline in tax liability of men and significant changes for senior citizens

No increase in tax relief for women. Tax advantage narrows in line with DTC proposals

Senior citizen benefit at 60 years, down from 65 years now. Those over 80 get higher tax break

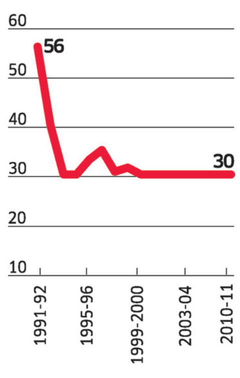
Taxpayers with only salary income to be exempt from filing income-tax returns

VOYAGE FROM '91

Thank you Dr Laffer, Welcome DTC

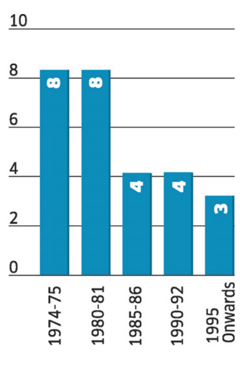
The reforms in personal income tax system since 1991 have proved economist Arthur Laffer right— a simpler system and lower rates eventually increase tax revenues

Since '91 peak income tax rate has halved...
Peak personal income tax rates, in %



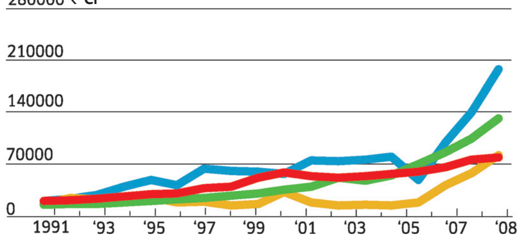
Source: Budget documents

... tax structure has been simplified by cutting slabs...
Number of tax slabs



Source: Budget documents

...boosting financial savings...



Source: CMIE

...and multiplying the number of taxpayers

33.4 Million

Is the number of people who filed tax returns in 2008-09, up from 84.26 lakh in 1995-96. Yet only about 3% of population pays income tax

The new DTC will further reform the system

Direct Taxes Code has retained the tax rates but proposed higher tax slabs— to reduce the burden of taxation

TAX SLABS	POST BUDGET	DTC
Nil	up to ₹1.8 lakh	**up to ₹2 lakh**
10%	₹1.8 lakh-₹5 lakh	**₹2 lakh - ₹5 Lakh**
20%	₹5 lakh - ₹8 Lakh	**₹5 lakh - ₹10 lakh**
30%	Over ₹8 lakh	**Over ₹10 lakh**

Small Change for Now

Building on last year's Budget, the finance minister gave additional tax relief to low-income groups and tweaked the tax treatment on contributions to the NPS, nudging individuals to save more

Tax Windfall for Seniors, Little for Others

The finance minister has rolled out a tax bonanza for senior citizens by bringing down the eligibility age to 60 and raising the basic exemption for those over 80. But for those below 60, gains will be muted while there is nothing for female taxpayers in that age group

New tax slabs

Figures in ₹

MALES
Raising of exemption limit by ₹20,000 leads to minor gains

TAX RATE	NOW	POST BUDGET
Nil	1.6 lakh	1.8 lakh
10%	1.6 lakh-5 lakh	1.8 lakh-5 lakh
20%	5 lakh-8 lakh	5 lakh-8 lakh
30%	Above 8 lakh	Above 8 lakh

FEMALES
No change in tax structure

TAX RATE	NOW	POST BUDGET
Nil	1.9 lakh	1.9 lakh
10%	1.9 lakh-5 lakh	1.9 lakh-5 lakh
20%	5 lakh-8 lakh	5 lakh-8 lakh
30%	Above 8 lakh	Above 8 lakh

SENIOR CITIZENS (60-80 years)
Age for eligibility reduced from 65 years to 60 years

TAX RATE	NOW	POST BUDGET
Nil	2.4 lakh	2.5 lakh
10%	2.4 lakh-5 lakh	2.5 lakh-5 lakh
20%	5 lakh-8 lakh	5 lakh-8 lakh
30%	Above 8 lakh	Above 8 lakh

VERY SENIOR CITIZENS (80 years & above)
Hike in exemption limit to ₹5 lakh will result in big gains

TAX RATE	NOW	POST BUDGET
Nil	2.4 lakh	5 lakh
10%	2.4 lakh-5 lakh	-
20%	5 lakh-8 lakh	5 lakh-8 lakh
30%	Above 8 lakh	Above 8 lakh

The education cess of 2% for primary education and 1% for higher education on total tax paid will continue

Hike in exemption will reduce the tax of male taxpayers by ₹2,060 but no change for females.

Deduction for home loans and infrastructure bonds will continue, providing some relief to taxpayers.

	Raj Prakash, 26	Ekta Phull, 31	Laksh Kapoor, 36
	Executive at Reliance MF	*Manager at Bharti Airtel*	*Manager in Universal Sompo*
Home loan benefit	Nil	Nil	₹1.5 lakh
Basic exemption	₹1.6 lakh	₹1.9 lakh	₹1.6 lakh
ANNUAL INCOME	₹6 lakh	₹9 lakh	₹14.2 lakh
Current tax	₹35,020	₹89,000	₹1,97,245

Post Budget (In ₹)

	Raj Prakash	Ekta Phull	Laksh Kapoor
Basic exemption	**1,80,000**	**1,90,000**	**1,80,000**
Tax saving investments (1.2 lakh*)	1,20,000	1,20,000	1,20,000
Medical insurance (Max 15,000)	Nil	4,000	Nil
Med insurance for parents (Max 15,000**)	Nil	Nil	Nil
Home loan deduction (Max 1.5 lakh)	Nil	1,50,000	1,50,000
Taxable income	4,80,000	5,65,000	11,05,000
TAX PAYABLE	**30,900**	**45,320**	**1,95,190**

Deduction for infra bonds will reduce Prakash's tax

Home loan deduction will reduce Phull's tax by almost half

Minor change in the tax liability for Kapoor

* Including ₹ 20,000 in infrastructure bonds **Maximum ₹20,000 if parents are senior citizen

What taxpayers were looking forward to

Higher exemption limit
Basic exemption was expected to be raised to ₹2 lakh

Higher deduction for insurance
Deduction for health insurance was seen higher at ₹20,000

Higher tax saving deductions
Annual limit under Sec 80C was expected to be ₹1.5 lakh

	NEW SENIOR CITIZENS (60-65 YRS)		VERY SENIOR CITIZENS (80 YRS)	
Tax rate	**Current**	**Post budget**	**Current**	**Post budget**
Nil	1.6 lakh	2.5 lakh	2.4 lakh	5 lakh
10%	1.6-5 lakh	2.5-5 lakh	2.4-5 lakh	0
Taxable income	3.4 lakh	2.5 lakh	2.6 lakh	0
Tax	34,000	25,000	26,000	-
Tax with cess	35,020	25,750	26,780	-
		Tax lower by ₹9,270		Tax lower by ₹ 26,780

Tax Pain Eases in the Eighties

In Focus

Personal Prosperity
Personal I-T collections

15.4% EXPECTED GROWTH IN 2011-12

18.4% OF GROSS TAX REVENUES

AFTER THE BIG BANG restructuring of the income slabs in the last Budget, finance minister Pranab Mukherjee chose to restrict additional tax relief to the more vulnerable segments of the population, namely the senior citizens and those at the bottom of the tax pyramid. He has also sought to reduce the burden of compliance for certain categories of the salaried taxpayers and small businesses and attempted to correct the anomaly in tax treatment of the New Pension System (NPS).

Thus, tax exemption limit for men below 60 years was increased by ₹20,000 to ₹1.8 lakh and for senior citizens by ₹10,000 to ₹2.5 lakh. Women were not given any additional relief, perhaps as the Direct Taxes Code to be implemented next year does away with gender-based tax exemption.

Alongside, the qualifying age for senior citizen benefit was lowered to 60 years from the existing 65 years and a new category of very senior citizens was introduced. Individuals aged 80 years or more will enjoy tax exemption on annual taxable income of ₹ 5 lakh, translating into a relief of ₹26,780. Effectively, an 80-year old individual with annual taxable income of ₹5 lakh will have no tax liability. The savings for other senior citizens range from ₹1,030 to ₹9,270.

The reduction of the minimum age for senior citizens is in line with the normal retirement age. Kaushik Mukerjee, executive director, tax & regulatory services, PwC India contends that the minimum age for very senior citizens should have been 70 years, as that would have given relief to people who were neither able to invest in pension schemes introduced during the last decade nor benefit from the post millennium economic boom.

Compliance burden of small businesses is sought to be lightened with a new form, Sugam. All those who fall within the scope of presumptive taxation, mostly those who pay nominal taxes on their income from business, can henceforth file their returns using this form.

The Budget has also tweaked the tax treatment of contributions to the NPS, aligning it with that of the statutory provident fund. The employer's contribution to the employee's pension account will no longer be included in the ₹1 lakh ceiling under Section 80C. This should nudge individuals to save more instead of relying on their employer's contribution to fetch them tax benefits under Section 80C.

TEAM ET

I-T Impact Marginal; Push for NPS, MFs

Expert Take

Dhirendra Kumar
CEO, Value Research

FROM A PERSONAL TAXATION AND investment perspective, the Union Budget 2011 makes only a handful of changes, the impact of which is likely to be marginal and mostly along expected lines.

The main change is that the exemption limit has been raised from the current ₹1.6 lakh to ₹1.8 lakh. This was widely anticipated but the hike has been small.

Over the years, finance ministers doled out these paltry increases as though they were some largesse.

What would actually be fair would be to make these increases automated, based on some inflation-linked index. It is not a new concept; it is followed in the case of long-term capital gains. It is ironic that capital gains—generally earned by the rich—are automatically adjusted for inflation every year while salary-earners have to make do with these handouts.

The other major change the finance minister has made is in the definition of senior citizen, following the example of his colleague from Bengal, Mamata Banerjee. Now, tax laws will consider you to be 'old' at the age of 60 instead of 65. This is interesting because in many jobs, retirement comes after the age of 60. The last two or four years of many taxpayers' working career will get a welcome income boost.

The finance minister also went one step beyond the railway minister in creating a 'very senior citizen' category. We await the creation of 'super senior' citizens and 'ultra senior' citizens in the years to come. And 100 years and 120 years would be the appropriate age limits for these new categories. The revenue impact of the concessions will surely be minimal.

The Budget has done some commendable work on consolidating the New Pension System (NPS), as in the Budgets of the previous years. The Swalamban scheme, which gives what is effectively a subsidy for small depositors to join the NPS, was extended and made more beneficial.

Getting members from the unorganised sector to join the NPS will need continuous attention, and it's great to see that the government is not wavering in its effort to make the NPS a success. There is also a change that will allow employers' NPS contributions to be classified as business expense, something that wasn't done earlier.

There isn't any change for mutual fund investors. Of course, the fund industry can now try and get investors from abroad, something that should bring cheer to the AMCs as well as the markets. Funds' business could suffer a minor setback because the taxation on debt funds for corporate investors has been brought on a par with bank deposits, which takes away one of the selling point of these funds.

New Moves

FM has changed the definition of senior citizen

Swalamban scheme of NPS to be extended

STOCKS TO *WATCH OUT* FOR
INFRASTRUCTURE | FMCG

Budget 2011's impact on fund investors' returns will arise only from the general effect on equity markets, rather than any differentiated sectoral effect. Investors should stick to whatever strategy was otherwise suited to them