



Tax Guide 2015 - 16



Series : 1

Tax Liability



A salaried person can't escape the monthly deduction of tax at source, but buried in the statutes are several provisions to minimize the burden and boost your take-home.

How your Tax Liability will Change?

The Fresh deductions under Sections 80C, 80D, and 80CCD will bring down the tax outgo for different income categories.



₹50,000	₹75,000	₹1 lakh	₹2 lakh	₹5 lakh	₹10 lakh	MONTHLY INCOME
₹6 lakh	₹9 lakh	₹12 lakh	₹24 lakh	₹60 lakh	₹120 lakh	
₹4.5 lakh	₹7.5 lakh	₹10.5 lakh	₹22.5 lakh	₹58.5 lakh	₹118.5 lakh	ANNUAL INCOME
₹18,540	₹77,250	₹1,44,200	₹5,15,000	₹16,27,400	₹38,29,540	AFTER SEC 80C DEDUCTION
₹18,540	₹77,250	₹1,44,200	₹5,15,000	₹16,27,400	₹38,29,540	TAX (BEFORE BUDGET)
3.1%	8.6%	12%	21.5%	27.1%	31.9%	TAX AS % OF INCOME
₹13,390	₹66,950	₹1,28,750	₹4,99,550	₹16,11,950	₹38,81,864	TAX (AFTER BUDGET)
₹13,390	₹66,950	₹1,28,750	₹4,99,550	₹16,11,950	₹38,81,864	TAX AS % OF INCOME
2.23%	7.44%	10.73%	20.81%	26.87%	32.35%	



Series :2

Does the Budget benefit you?

Some good things from a long-term savings perspective, but these aren't likely to put substantial cash in your hands



The retail investor or consumer will be quite confused after the Union Budget 2015-16. While there are no apparent tax benefits, in terms of higher basic exemption limit, increasing tax slabs or even the 80C limit, the finance minister has told us that there are substantial benefits up to Rs 4.44 lakh. Let's look at some of these benefits and if they really work.

The Budget allows an additional investment of Rs 50,000 in NPS.

Should I invest in it?

Read our full coverage on Union Budget

Tapati Ghose, tax partner, Deloitte, Haskins & Sells LLP, believes there is a case for New Pension System (NPS) because of embedded benefits like investment in equities. However, she believes that changing the taxation on NPS to exempt-exempt-exempt (EEE) regime would have helped matters substantially.

So, the tax benefit of investing Rs 50,000 in NPS might not yield great benefits. Under the existing tax guidelines, NPS does not enjoy EEE status. Instead, there is a tax (EET)

on the final corpus. On the other hand, the Employees' Provident Fund (EPF) enjoys EEE status in which the final corpus is not taxable. NPS, however, provides a higher return compared to EPF because of its exposure to equities.

(INCOME-TAX IMPACT ON INDIVIDUALS)

Let's look at the numbers: If one invests Rs 50,000 in EPF and NPS for 10 and 20 years, respectively, considering the average EPF returns of 8 per cent for the next 10 and 20 years, the end corpus will be Rs 7.24 lakh and Rs 22.88 lakh. If returns from NPS are 10 per cent for the same time period, the returns for the same time periods will be Rs 7.96 lakh and Rs 28.63 lakh. But these numbers will

come down substantially due to taxes. For example, if the entire NPS corpus is taxed at 30.9 per cent after 20 years, the value will fall to Rs 19.78 lakh. Clearly, the investor is a loser if he uses the Rs 50,000 limit for now.

If the government gives the same tax treatment to NPS, the investor will gain immensely. Interestingly, the government is pushing investments in NPS through tax benefits. But it has also indicated it is discarding the Direct Taxes Code which had given NPS EEE status.



What does the tax benefit of Rs 4,44,200 mean?

This is a combination of different deductions an individual can claim from income. Taxpayers can claim Rs 1.5 lakh under Section 80C, then Rs 50,000 towards contribution to NPS and health insurance deduction of Rs 25,000. Then, there's deduction of up to Rs 2 lakh on the interest component of a housing loan for self-occupied property. And finally, transportation allowance has been raised from Rs 9,600 a year to Rs 19,200.

"The figure looks big on paper. The actual tax saving it translates (to) is minuscule," says Kuldip Kumar, partner and leader Personal Tax, PwC India. For someone earning Rs 8 lakh a year and making use of all the deductions, he will end up paying tax of Rs 31,065. Before the Budget, the tax liability would have worked out to Rs 47,462. This translates to an actual saving of just Rs 16,398. For those earning above Rs 1 crore, the tax outgo can marginally rise due to the two per cent surcharge.

If I withdraw from EPF before five years, how will I be taxed?

This will be applicable if the amount withdrawn exceeds Rs 30,000. In case the employee does not quote his PAN, tax deduction will be applicable at the maximum marginal rate. "The PF income is sometimes inadvertently missed out while filing tax returns. Withholding the tax will help in recognising this payment in the tax returns," says Rajesh Srinivasan, partner, Deloitte, Haskins & Sells.

According to Srinivasan, individuals whose annual income does not exceed the basic exemption limit of Rs 2.5 lakh have the option to furnish form 15H to their employers ask them not to deduct TDS for PF payment.



How will service tax and Swachh Bharat tax impact me?

The Budget has introduced a Swachh Bharat cess of two per cent, while service tax has been raised by 1.64 per cent to 14 per cent. Accounting for the cess, the effective service tax would work out to 16 per cent. The overall hike in service tax will make a dent in your monthly budget. Activities ranging from eating out, watching movies and talking on the phone will cost more.

"It is not yet clear whether the Swachh Bharat cess will be applicable across the board or include only select services. It will only be cleared once the Finance Bill gets passed in May," says Saloni Roy, senior director, Deloitte.

How to use the medical insurance benefits?



Buying medical insurance for self and family, especially senior citizens, will be a lot more beneficial. "The proposed increase in premium deduction under 80D for senior citizens is a very positive step which would entail that senior citizens, especially those in their retirement phase, will now be incentivised to buy adequate health covers commensurate with the increasing costs of treatments incurred in their age band. The best part is that employees covered under ESI would have an option to shift to health insurance which would open for them the entire range of hospitals with ultra modern facilities and ensure even they can avail the best treatment," says Rakesh Jain, CEO, Reliance General Insurance

Deduction for medical health insurance premium has been increased to Rs 25,000 from the existing Rs 15,000 and for senior citizens it has been increased from Rs 20,000 to Rs 30,000. There are benefits for medical expenses as well. The limit for claiming deduction in respect of medical treatment of dependents with disability has been increased to Rs 75,000 from Rs 50,000 for claiming deduction; in respect of medical treatment of dependents with severe disability, it has been increased to Rs 1.25 lakh from Rs 1 lakh.

INCOME-TAX IMPACT ON INDIVIDUALS

Tax liability	Pre Budget	Post Budget	Additional savings/tax
(All figures in ₹)			
If your annual income is above basic exemption limit but below ₹5 lakh			
	5,00,000	5,00,000	
A. Maximum deduction under Section 80CCD(1B) for contribution to National Pension System	-	50,000	
B. Maximum deduction under Section 80D*	35,000	55,000	
C. Transport allowance**	9,600	19,200	
Income chargeable to tax for Non-senior citizens	4,55,400	3,75,800	
Income chargeable to tax for senior citizens and super senior citizens***	4,65,000	3,95,000	
Tax payable			
I Individuals below 60 years of age	22,145	14,935	7,210
II Senior citizens (resident individuals between the age of 60 years to 80 years)	30,900	30,900	-
III Super senior citizens (resident individuals above 80 years of age)	-	-	-
If your annual income is more than ₹5 lakh but less than ₹10 lakh			
	10,00,000	10,00,000	
A. Maximum deduction under Section 80CCD(1B) for contribution to National Pension System	-	50,000	
B. Maximum deduction under Section 80D*	35,000	55,000	
C. Transport allowance**	9,600	19,200	
Income chargeable to tax for non-senior citizens	9,55,400	8,75,800	
Income chargeable to tax for senior citizens and super senior citizens***	9,65,000	8,95,000	
Tax payable			
I Individuals below 60 years of age	1,21,540	1,07,120	14,420
II Senior citizens	82,400	82,400	-
III Super senior citizens	82,400	82,400	-
If your annual income is above ₹10 lakh but less than ₹1 crore			
	15,00,000	15,00,000	
A. Maximum deduction under Section 80CCD(1B) for contribution to National Pension System	-	50,000	
B. Maximum deduction under Section 80D*	35,000	55,000	
C. Transport allowance**	9,600	19,200	
Income chargeable to tax for Non-senior citizens	14,55,400	13,75,800	
Income chargeable to tax for senior citizens and super senior citizens***	14,65,000	13,95,000	
Tax payable			
I Individuals below 60 years of age	2,72,435	2,50,805	21,630
II Senior citizens	1,85,400	1,85,400	-
III Super senior citizens	1,85,400	1,85,400	-
If your annual income is more than ₹1 crore			
	1,50,00,000	1,50,00,000	
A. Maximum deduction under Section 80CCD(1B) for contribution to National Pension System	-	50,000	
B. Maximum deduction under Section 80D*	35,000	55,000	
C. Transport allowance**	9,600	19,200	
Income chargeable to tax for Non-senior citizens	1,49,55,400	1,48,75,800	
Income chargeable to tax for senior citizens and super senior citizens***	1,49,65,000	1,48,95,000	
Tax payable			
I Individuals below 60 years of age	48,88,329	49,52,982	64,653
II Senior citizens	2,03,940	2,07,648	3,708
III Super senior citizens	2,03,940	2,07,648	3,708

* It is assumed that the parents of the Individual are senior citizens.

** Deduction for transport allowance is allowed only in case of salaried individuals.

*** For the purpose of above analysis, benefit of transport allowance is considered only in case of individuals below 60 years of age.

Source: PwC

Series :3

How over ₹10 Lakh a year can be tax free?

In his Budget speech, Finance Minister Arun Jaitley said that a taxpayer enjoys deductions of up to Rs 4.44 lakh a year. But he missed a few deductions commonly available to taxpayers. If one adds up all these deductions, exemptions and tax-free reimbursements, an income of more than Rs 10 lakh a year can escape the tax net.

FM'S CALCULATIONS

How Arun Jaitley arrived at the figure of

₹4,44,200

₹2 lakh

Home loan interest



₹1.5 lakh

Investment under
Sec 80C



₹19,200

Travel Allowance



₹25,000

Health
Insurance



₹50,000

Sec 80CCD



Deductions and Exemptions in Income

These are commonly availed by all salaried taxpayers.

	AMOUNT		AMOUNT
Basic Exemption The basic threshold income that is tax free.	₹2,50,000	Tax Free Medical Allowance Payable to most salaried people. Need to submit actual bills.	₹15,000
Sec 80D Deduction Includes PF, PPF, insurance premium, ELSS, pension plans, Fd's and NSC's	₹1,50,000	Tax Free Transport Allowance The limit of this tax-free allowance has been hiked this year.	₹19,200
Sec 80CCD(IB) Investment in NPS The additional deduction announced this year.	₹50,000	Medical Insurance The deduction limit for this has also been hiked but this is reasonable.	₹20,000
Contribution to NPS by Employer under Sec 80CCD(2) Restricted to 10% of the salary (Basic = DA).	₹1,00,000	Medical Insurance of Parents The deduction for this has also been hiked this year.	₹30,000
Home Loans Interest or HRA HRA can be higher but we kept the deduction equal to the home loan benefit.	₹2,00,000	Leave travel Allowance Given out every two years, we have taken a reasonably low figure.	₹25,000

₹8,59,200

Reimbursements And Perks

These reimbursements are tax free if you submit bills for the expenses incurred.

	AMOUNT		AMOUNT
Travel & Fuel Reimbursements Expenses incurred for official travel.	₹1,00,000	Newspapers & Periodicals Actual bills for newspapers and magazines reimbursed.	₹14,000
Phone & Communications Telephone & internet expenses reimbursed against actual bills.	₹24,000	Meal Coupons Given as part of CTC by some companies. Up to ₹50 per meal is tax free.	₹12,000

₹1,50,000



Total Untaxed Income

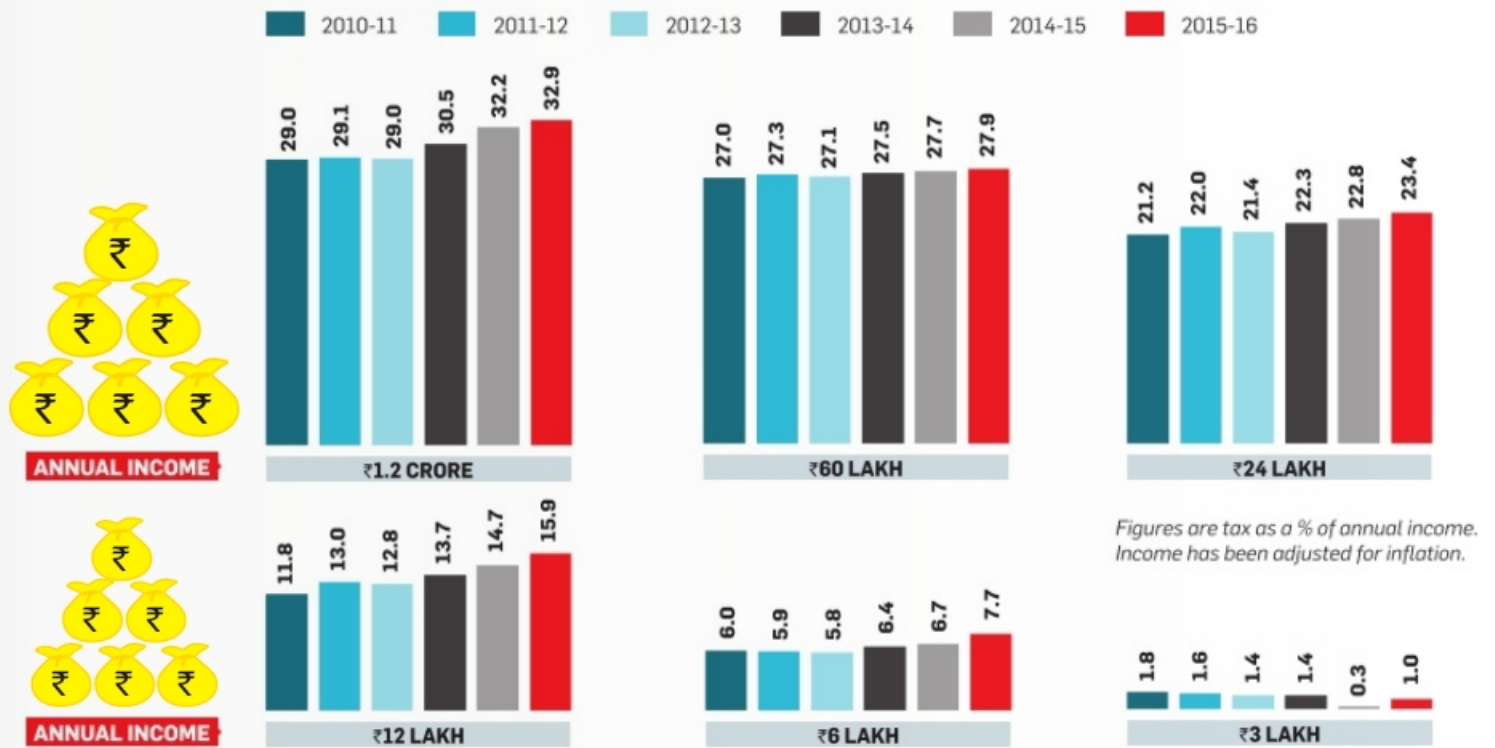
This is the total income that escapes the tax net

	AMOUNT		AMOUNT
Salary & Allowances	₹8,59,200	Tax Free Perks	₹1,50,000

₹10,09,200

Even Middle Class pays **more tax now !!!**

Tax as a percentage of income has steadily risen in the past five years for almost all taxpayers.



Tax as a percentage of income has steadily risen in the past five years for almost all taxpayers.

- 1) Calculation hasn't taken into account tax deductions and exemptions because investments vary across individuals.
- 2) Incomes have been adjusted for inflation using the cost inflation index. Tax has been calculated on that income as per tax slabs and rates prevailing in a financial year.
- 3) If deductions are taken into account, the effective tax for low and mid income taxpayers would be lower.

Series :4

How dividing Rent between Spouses can Multiply TAX GAINS?



ASSUMPTIONS

Basic Salary (monthly)

HRA receivable

Tax bracket

Tax payable if HRA not claimed

HUSBAND

₹24,000

₹12,000

10%

₹1,200

WIFE

₹16,000

₹8,000

10%

₹800

Scenario 2 Rent claim split

Scenario 1 Husband claims entire rent

PARTICULARS	HUSBAND	HUSBAND	WIFE
Rent paid	₹24,000	₹12,000	₹12,000
HRA received (a)	₹12,000	₹12,000	₹8,000
50% of basic (b)	₹12,000	₹12,000	₹8,000
Rent in excess of 10% if basic ©	₹21,600	₹9,600	₹10,400
Available exemption (lower of a,b,c)	₹12,000	₹9,600	₹8,000
Tax saved per month	₹1,200	₹960	₹800
Tax saved for the year	₹14,000	₹11,520	₹9,600
Total savings	₹14,400	₹21,120	



Clearly, splitting the rent payment between husband and wife works better than one partner claiming the entire rent amount towards HRA exemption.