THE ECONOMIC TIMES INDIA

Income tax highlights of Budget 2020

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Last Updated: Feb 06, 2020, 09.17 AM IST

- A new income tax regime has been proposed. A taxpayer can opt for it by forgoing 70 tax exemptions.
- A taxpayer has an option to choose between existing tax regime and new tax regime.
- Budget 2020 has proposed amendments in the definition of income tax residency in India. **By Shalini Jain**

The Finance Minister introduced several proposals in relation to the personal tax regime in the Union Budget 2020 presented in the parliament on February 1, 2020.

Determination of residential status for certain categories of individuals

The budget 2020 proposes to introduce the following amendments in determining residential status for certain categories of individuals. As per the proposed amendments, a citizen of India would be deemed to be a resident of India in any financial year, if such individuali s not liable to tax in any other country.

As per existing provisions, an Indian Citizen or Person of Indian Origin, who being outside India, comes on a visit to India in any financial year, would be considered as a resident in India, if such individual stays in India for 182 days or more. The amendment proposed by the budget provides for such an individual to be resident in India in either of the two scenarious – the individual's stay in India during the financial year is 182 days or more; or the individual's stay in India is 120 days or more in the current financial year and 365 days or more in the preceding 4 financial years.

The basic conditions for determining residential status for other categories of individuals remains the same.

Conditions to be categorized as not ordinarily resident or ordinarily resident

A resident in India would be considered as not ordinarily resident if the individual has been a non-resident in India in 7 out of 1 preceding financial years.

Individuals should take note of the proposed amendments in relation to residential status since the taxability of income depends on the residential status. While non-residents and not ordinarily residents are taxed on India sourced income, ordinarily residents are taxed on their worldwide income in India.

Optional new tax regime

While there is no change in the existing Income-tax slab rates for individuas, a new tax regime has been proposed under which individuals foregoing exemptions and deductions would be taxed at reduced tax rates.

The exemptions and deductions that woud need to be foregone includes inter alia exemptions and deductions claimed widely by individuals including House Rent Allowance (HRA), Leave Travel Concession (LTA), standard deduction, deductions unde Section 8C, deduction in relation to self-occupied house property, set-off of loss from house property against any other source of income etc.

The Income-tax slab rates applicable under the new tax regime would be:

Slab rates	**Rate of tax**
Up to INR 2,50,000	**Nil**
INR 2,50,001 to INR 5,00,000	**5%**
INR 5,00,001 to INR 7,50,000	**10%**
INR 7,50,001 to INR 10,00,000	**15%**
INR 10,00,001 to INR 12,50,000	**20%**
INR 12,50,001 to INR 15,00,000	**25%**
Above 15,00,000	**30%**

Surcharge and education cess would apply as per existing rates.

The new tax regime is optional. Individuals who opt to claim available exemptions/ deductions would be taxed as per the existing rates.

Individuals who earn taxable income up to INR 5,00,000 continue to be exempt from tax liability under the existing and new tax regimes.

Certain contributions to be taxed as perquisite

Contributions exceeding INR 7,50,000 made by employer to an employee's account in a recognized provident fund, notified pension scheme or approved superannuation fund would be taxable perquisite in the hands of the employees.The annual accreditations to such contributions exceeding INR 7,50,000 would also be considered as taxable perquisite.

Taxation of benefits under Employee Stock Benefit Plans

Securities issued under Employee Stock Benefit Plans by employers are taxable in the hands of the employees at the time of their exercise (i.e. allotment). In case of eligible start-ups, the payment of tax on such benefit is proposed to be deferred to within 14 days after (i) 5 years from the end of

financial year in which options are exercised, or (ii) date of sale of such security by the employee or (iii) the date of the employee ceasing employment with the company, whichever is earliest.

Taxation of dividend from domestic companies and mutual funds

As per the existing provisions of the Income-tax, domestic companies that declare, distribute or pay dividend are required to pay a dividend distribution tax.Such dividend was exempt in the hands of the recipients up to INR 10,00,000.

It is proposed to remove the dividend distribution tax payable by companies and tax the dividend from such companies and mutual funds in the hands of the recipients at the tax rates applicable to the respective recipients (i.e. applicable slab rates for individuals.)

Enhanced timeline to take loan to buy home under affordable housing scheme

An additional deduction of INR 1,50,000 was made available in the Finance Act 2019 in relation to interest on loan taken for acquisition of house property for which the stamp duty value does not exceed INR 45,00,000.Such deduction was available subject to satisfaction of specified conditions including that the loan is required to be sanctioned between 1 April 2019 to 31 March 2020.The present budget proposes to extend the timeline for sanction of such loan to 31 March 2021.

Efficient tax administration

The FM stressed the need for efficiency of tax administration and proposed the incorporation of a "Taxpayer's Charter" in the statute with the objective of ending taxpayer harassment.The contents of the charter would be notified soon.

A system to allow Permanent Account Number (PAN) based on Aadhaar would be introduced by which PAN would be instantly allotted online without requirement to fill up detailed application form.

In line with the faceless assessment process that has been introduced, the budget proposed to introduce faceless appeal process.

It has been proposed to bring a scheme "Vivad se Vishwas" for reducing litigations. Under the scheme, a taxpayer would be required to pay only the amount of the disputed taxes and will get complete waiver of interest and penalty provided the taxes are paid by 31 March 2020.Those who avail the scheme after 31 March 2020 will have to pay some additional amount. The scheme will remain open till 30 June 2020.