

New Income Tax Policy- An overview

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Abstract:The new Income tax slab came into effect for the financial year 2020-21.In this article an attempt is made to analyse the tax schemes available for the tax payers in the existing and new tax scheme proposed in the recent Budget. The Budget proposal for the new tax scheme is prepared to face the challenges of post COVID-19 economic situation in the country and it affects to a greater extent to the middle income group.In this article an analysis is made about the existing and new tax schemes available for the individual tax payers.

Keywords: Budget, Deductions, Income tax, Prudent, Scheme, Tax rate.

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I. Introduction

Taxes are the basic sources of revenue to all types of Governmental system.Modern state follows the policy of welfare schemes and hence naturally overburdened with developmental activities.To meet the challenges of developmental activities need huge amount of money.The states strives hard to meet the expenses widely depends upon different types of taxes levied on its citizens.In the Indian context, the Central Govt introduced different types of taxes-both Direct and Indirect.Income tax is one of the Direct tax introduced by the Govt and applies directly to the individual tax payers.Every year the tax policy and the norms changes according to the Budget proposal prepared by the Ministry of Finance.The present tax policy introduced by the Govt for the financial year 2020-21 has given flexibility to tax payers compared to the erstwhile system (2019-20) prevailed wherein the tax payer had wider scope for deductions U/S 80.The new system has simplified version wherein tax payer has the choice to pay the taxes as per the new or previous one.In this context , an attempt is made to analyse the new Income tax slabs applicable for the 2020-21.

Income tax slab for the financial year -2019-20: This tax system has allowed to the tax payers to deduct housing loan interest U/S 24, Standard deduction, 80C, 80D, 80E and other deductions like HRA, LTA etc. The excess Income after deductions is treated as taxable Income on which tax is calculated as under.

Income (Rs)	Rate of tax
First 250000	Exempted
Next 250000 to 500000	5%
Next 500000 to 1000000	20%
Balance 1000000 and above	30%

Cess at the rate of 4% on the tax amount calculated accordingly.

Income tax slab for the Financial year 2020-21:In the new tax system, U/S 80 CCD (2) in respect of NPS contribution by the employer is only deductible and erstwhile deductions are not available.ie-80C, 80D, 80E,HRA, LTA etc.

The new tax rates for the financial year 2020-21 are :

Income (Rs)	Rate of tax
First 250000	Exempted
Next 250000 to 500000	5%
Next 500000 to 750000	10%
Next 750000 to 1000000	15%
Next 1000000 to 1250000	20%
Next 1250000 to 1500000	25%
Balance 1500000 and above	30%

Cess at the rate of 4% on the tax amount calculated accordingly.

An Analysis

Both the old scheme as well as new scheme are available for the tax payers, but the choice is left to the prudent tax payer after analyzing pros and cons of the schemes.While choosing the scheme, the tax payer has to select judiciously depending on the total amount of deductions under various heads.If the tax payer's deduction

is within Rs.310000, (Rs.50000+260000 other deductions) then the payment of tax remains same under both the schemes.If it is below Rs.310000, then tax payer may go for the choice of new tax system. Because the liability of tax paying is less.

This can be better explained with the help of following calculation.

Calculation of Tax

Particulars	Tax payable according to old scheme (2019-20)	Tax payable according to new scheme (2020-21)
Gross salary	1600000	1600000
Less:Standard deduction	50000	-
Net salary	1550000	1600000
Less:Exemptions (U/S80)	260000	60000 (U/S 80 CCD (2))
Taxable Income	1290000	1540000
Tax on Income	199500	199500
Rebate U/S87 (A)	-	-
Tax payable	199500	199500
Health and E.Cess @4% on tax	7980	7980
Total tax payable	207480	207480

From the above, the tax calculation for Financial year 2020-21 is made if the Income is Rs.1600000, wherein NPS contribution by the employer Rs.60000 is deducted U/S 80 CCD (2).Balance Income of Rs.1540000 is total Taxable Income under new scheme.

On Income of Rs.1540000, the tax liability under new scheme is

Income (Rs)	Tax Rate (2020-21)	Tax liability
First 250000	Exempted	Nil
Next 250000 to 500000	5%	12500
Next 500000 to 750000	10%	25000
Next 750000 to 1000000	15%	37500
Next 1000000 to 1250000	20%	50000
Next 1250000 to 1500000	25%	62500
Balance of 40000	30%	12000
199500		
Cess@4%	7980	
Total Tax payable	207480	

Now, we compare the above calculation of tax with the existing tax system when the taxable Income is Rs.1290000.(After deduction of Rs.310000)

Income (Rs)	Rate of tax (2019-20)	Tax liability
First 250000	Exempted	Nil
Next 250000 to 500000	5%	12500
Next 500000 to 1000000	20%	100000
Balance 290000	30%	87000
Cess@4%		199500 7980
Total tax payable		207480

From the above. It is clear that, if the total deduction within Rs.310000, then the tax liability both the scheme is same. Further, if the total Income exceeds Rs.50 lakhs a Surcharge is levied under the new scheme and Rebate U/S 87 (A) up to Rs.12500 if the total Income does not exceed Rs.500000 also continued in the new scheme.

Suggestions

1. In order to select the scheme for payment of tax, first of all one has to make a prudent choice of various avenues of investment and then calculate the tax amount.
2. One should be aware of the tax slabs available under the existing and new scheme.
3. Due to the pandemic COVID-19 after effects, the tax policy aimed at not encouraging investment nor tax saving.
4. If once total deduction is less than Rs.310000 one can opt for new scheme.

II. Conclusions

The present study reveals that, an analysis of the existing and new tax schemes shows that, the new tax scheme is launched in the midst of Pandemic COVID-19, not stresses on Individual savings / tax saving to Individual tax payers comes under this scheme.Besides, the new scheme may cause a reduction in future investment in various saving schemes.To Conclude, one may arrive at decision that, for those who have

sufficient deduction under various heads can choose old scheme otherwise conveniently go for the new tax scheme.

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