Budget 2020: Income tax rate cuts high on the wish list

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- The cuts in individual tax rates will enhance the disposable income and in turn augment individual spending
- Increase in tax deductions is also on the wish list, with the deduction for housing topping them.

With Budget 2020 announcements around the corner, the euphoria on Budget expectations are very high. Budget 2019 saw a significant increase in surcharge rates, increasing the effective tax rate for those at higher income levels from 35.88 percent to 42.74 percent. This has put India on the trajectory of significantly high personal income tax rates globally and has come at a time when countries such as the US have reduced personal tax rates. Subsequently, there has been a slicing down of corporate tax rates, triggering high hopes on reduction in personal tax rates to boost spending and to provide impetus to the economic growth.

The cuts in individual tax rates will enhance the disposable income and in turn augment individual spending, positively impacting the middle class sector whose major source of income is from employment.

Non-corporate entrepreneurs who have their own start-ups and businesses are also looking forward to the rate cuts, since they did not benefit from the recent corporate tax return reductions.

The basic exemption of Rs 2.5 lakh has been unchanged since 2014-15. With inflation eroding into the spendable income, there is the definite need to increase this exemption limit. With its focus on widening the tax base, the government has not increased these exemption limits. Rather, a rebate has been provided to individuals where the total income does not exceed Rs 5 lakh. However, this does not really meet the wider expectation of providing enhanced exemption to all.

With the existing tax rates, there is a steep hike of tax rate from 5 percent to 20 percent where the income level exceeds Rs 5 lakh, significantly impacting the take-home pay. A softening of the tax rate at this level is high on the expectation.

The income tax rate cuts will definitely hit revenue but that is the balancing act that the government needs to weigh in to provide a fillip to economic growth.

Increase in tax deductions is also on the wish list, with the deduction for housing topping them.

Though there are deductions available for first time home buyers, the same is restricted to value of house property being not more than Rs 45 lakh and loans up to Rs 35 lakh. The expectation is that this is extended to all first time home buyers irrespective of the property value. This will be a big relief for individuals contemplating to invest in their primary homes.

Deductions for children tuition fees is covered under Section 80C, within the overall limit of Rs 1,50,000. In today's competitive world, parents want the best for their children and spend significantly on education from premier schools, private classes after schools, various extra-curricular activities etc. The expectation is that a separate deduction be provided for education expenses. These deductions will majorly help an individual in saving tax on such high expenses.

With low interest rates, which does not reflect the inflationary trends, and with taxes eating into such incomes, fixed income investments do not provide any benefit to investors. Currently there is no deduction for interest income from fixed deposits. The deduction for savings account of Rs 10,000 is very low. This limit was increased to Rs 50,000 for senior citizens. Extending the deduction to fixed deposit interest as well as enhancing the quantum to Rs 50,000 across the board is also on the wish list.

In short, the middle income group has high expectations from Budget 2020 and is looking forward to having higher disposable income.

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