

Government needs to clarify how TDS from Salary will work in New Income Tax regime

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If an employee informs employer at the start of the financial year about opting for new tax regime, will he/she be allowed to switch to the existing regime during the year and vice versa? The new option may lead to higher deduction of taxes from the employee's salary.

Budget 2020 has proposed a New Lower Income Tax Rate regime which is optional in nature. The option of lower income tax rates (sans tax-exemptions and deductions) under the new regime can be exercised by an individual at the time of filing of Income Tax Return (ITR) as per the Finance Bill, 2020

However, there is no clarity in the Finance Bill regarding the calculation and deduction of tax at source by the employer at the time of paying salary. If an employee informs his/her employer at the start of the financial year about opting for the proposed New Tax regime, will he/she be allowed to switch to the existing tax regime during the year and vice versa?

Remember, individual taxpayers having no business income in a financial year have the option to choose between the existing tax regime and new one every financial year as per their convenience. How does an employer know in advance as to which tax rates to use to calculate each employee's estimated tax liability for the purpose of TDS? If the employee chooses at the start of the fiscal then TDS from his/her salary would be deducted as per the tax regime chosen.

If the individual changes his/her mind at the time of filing ITR, then he/she may have to claim large refunds or pay excess tax with interest for late payment in case of Advance tax, depending on whether there has been excess or less TDS. Further, it would be difficult for an individual to be able to judge which tax regime would suit him/her at the start of a fiscal because the type and amount of income during the year may vary from estimates.

Chartered Accountant Naveen Wadhwa, DGM, Taxmann.com says, "The new section does not specify any time limit to opt for the new tax regime. The employees can decide to pay tax as per new scheme or old scheme at any time before filing of return of income. If any tax is found short at the time of filing of return of income, the employee shall be liable to pay the self-assessment tax."

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