

Govt may offer taxpayers incentives to shift to new income tax regime

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- The government can make the new tax system attractive by raising basic exemption limit, which is ₹2.5 lakh for both regimes, said experts.

NEW DELHI: The budget may sweeten the optional income-tax regime of lower tax rate without exemptions that it announced in 2020, with most people preferring to continue with the older regime.

While a similar tax regime for corporate taxpayers received good response, it hasn't been the case with individual taxpayers. The matter is being examined by the finance ministry, which might further incentivize taxpayers to move away from old and complicated exemption regime, two people with direct knowledge of the matter said on condition of anonymity.

Following the September 2019 decision of reducing the corporate tax rate to 15% for new companies, and 22% for existing firms provided they forgo exemptions, finance minister Nirmala Sitharaman on 1 February 2020, announced a similar option to individual taxpayers that reduced income-tax rates significantly for those taxpayers willing to forgo deductions and exemptions, such as provident fund, home loans, life insurance, medical insurance, education fee for children, and the New Pension Scheme.

The concept of exemption-free regime with lower tax rates will not work for all individuals because of various reasons, including lack of an independent social security system, increased relevance of medical insurance policies in the covid-19 era, and the burden of filing income-tax returns even under the exemption-free regime, tax consultants and experts said.

To my understanding, to a large extent there has not been a big response to the simplified tax regime. There could be several reasons. For instance, at lower levels of income the reduction in tax is offset by the reliefs foregone in the form of standard deduction, HRA (house rent allowance) deduction, etc. At higher levels of salary in excess of ₹15 lakh, the tax rates continue to be at 30%," said Tapati Ghose, a partner at consultancy firm Deloitte India.

Some accountants said the regime is rigid for taxpayers with business income. "The pandemic and work from home culture turned many people towards the stock market along with jobs... Thus, they become taxpayers having a salary and a business income... The 'opt out' from section 115BAC is available only once in the case of persons having income from business or profession. Therefore, these conditions make business taxpayers less inclined towards the new regime," said Tarun Kumar, a Delhi-based chartered accountant. The section 115BAC of Income-tax Act refers to the new tax regime without exemption.

"All issues faced by taxpayers under the new regime are under examination. Suitable solutions will be announced to make the new taxation system attractive," one of the two people mentioned above said. The ministry of finance, the revenue department and the Central Board of Direct Taxes (CBDT) did not respond to emailed queries on this matter.

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The new tax system can be made attractive by raising the basic exemption limit, which is ₹2.5 lakh for both regimes, said Naveen Wadhwa, deputy general manager at Taxmann, a tax research and advisory firm.