

Union Budget 2015-16

Impact of Proposed Amendments on Personal Taxation



The Union Budget (2015-16) presented on 28th February, 2015, according to the Union Finance Minister, would lay out a roadmap for accelerating growth, enhancing investment and improving the quality life of the people of India. To achieve these objectives, several steps have been proposed. Unlike the last year when exemption limits and investment limits were increased, populist measures have been carefully avoided—no changes have been proposed in the rate structure of personal taxation in the present Budget. The author discusses some of the amendments proposed in the area of personal taxation in this article. Read on...

The present Government, under the leadership of Shri Narendra Modi, has presented its second budget on 28th February 2015. The Finance Minister, Shri Arun Jaitley, stated in the Para 4 of his budget speech that his proposals lay out a roadmap for accelerating growth, enhancing investment and passing on the benefit of the growth process to the common man, woman, youth and child, *i.e.* those, whose quality of life needs to be improved. To achieve this objective, he has proposed several steps in his speech. In the field of taxation he has adopted six broad themes, *viz.* (i) Measures to curb black money, (ii) Job creation through revival of growth and investment, (iii) Minimum government and maximum governance, (iv) Benefits to middle class taxpayers, (v) Improving the quality of life and public health and (vi) Certain proposals to maximise benefits to economy. He concluded his speech with a prayer in Sanskrit which translates as: *May all be happy, May all be free from illness, May all see what is beneficial and May no one suffer.*

In his last Budget presented in July 2014, the Finance Minister had raised the exemption limit

for Individuals, HUF, AOP, *etc.*, from ₹2.00 lakh to ₹2.50 lakh and for senior citizens from ₹2.50 lakh to ₹3.00 lakh. He had also raised the limit for investment under Section 80C of the Income-tax Act from ₹1.00 lakh to ₹1.50 lakh. Similarly, a deduction for interest on loan for self occupied property was also raised from ₹1.50 lakh to ₹2.00 lakh. In view of this, it appears that no changes are proposed in the rate structure of personal taxation in the Budget for 2015-16. Surcharge has been increased from 10% to 12% for *super rich persons* having income exceeding ₹one crore. There are, however, certain amendments proposed in the personal taxation in this year's Budget. Some of the important changes proposed in the Budget are:

Benefit under Section 80C—Subscription to Sukanya Samriddhi Account Scheme

At present, Section 80C(2)(viii) of the Income-tax Act provides that any subscription to a scheme notified by the Central Government will be eligible for deduction in the case of an Individual or HUF. By Notification No. 9/2015 dated 21-01-2015, a scheme for the welfare of girl child under the Sukanya Samriddhi Account Rules, 2014, has been notified. In view of this, amendment is proposed in the Section 80c with effect from 01-04-2015. Under this amendment any deposit by any Individual, in the name of a girl child of that Individual or by legal guardian of the girl child as specified in the scheme will be eligible for deduction under Section 80C



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within the overall limit of ₹1.50 lakh as provided in that Section. An amendment is also proposed in Section 10 to provide under Section 10(11A) to grant exemption to the Individual in respect of Interest on the deposit under the above scheme or for the amount withdrawn from such deposit. Since this amendment comes into effect from A.Y. 2015-16, any such deposit made on or before 31-3-2015 will be eligible for this deduction.

Contribution to Certain Pension Funds

Section 80CCC provides for deduction in the case of an Individual in respect contribution to any Annuity Plan of LIC or any other insurer for receiving pension from the fund set up under a pension scheme up to ₹1 lakh. This limit is now proposed to be raised to ₹1.50 lakh with effect from A.Y. 2016-17. It may be noted that under Section 80CCE an overall cap of ₹1.50 lakh for such deduction is provided for contribution under Sections 80C, 80CCC and 80CCD(1). There is no proposal to raise this limit.

Contribution to National Pension Scheme

At present, Section 80CCD provides that an Individual contributing to National Pension Scheme (NPS) can claim deduction up to 10% of salary, in the case of an employee or 10% of the gross total income in other cases subject to a cap of ₹1 lakh under Section 80CCD(1A). However, this deduction is subject to the overall ceiling limit of ₹1.50 lakh under Section 80CCE. It is now proposed to provide from A.Y.2016-17 that the cap of ₹1 lakh under Section 80CCD(1A) be removed.

With a view to encourage Individuals to contribute towards NPS, it is now provided, by insertion of Section 80CCD(1B), that an additional deduction up to ₹50,000/- will be allowed if the Individual contributes to NPS. This deduction will be allowed even if it exceeds 10% limit in respect of salary income (for employees) or gross total income (for others). Further, this deduction will be over and above the ceiling limit of ₹1.50 lakh provided under Section 80CCE relating to deduction under Sections 80C, 80CCC and 80CCD(1). Therefore, with proper planning of investments in PF, PPF, LIP, savings certificates, etc., (Section 80C), Annuity Plan of LIC or other insurers (Section 80CCC) and contribution to NPS (Section 80CCD), an assessee can claim a deduction up to ₹2 lakh under these Sections.

Deduction in Respect of Health Insurance

At present, Section 80D provides for deduction for premium paid for mediclaim policies for self, family members and parents of the individual. Similarly, similar deduction for premium paid by HUF for mediclaim policies of members of HUF is allowed. The present limits for such deduction is ₹15,000/- and for senior citizens it is ₹20,000/-. These limits are now proposed to be raised from A.Y. 2016-17 and a further provision is also proposed for deduction of actual medical expenses under certain circumstances. The new provisions are:

- (i) In view of the continuous rise in the cost of medical expenditure, the limit of deduction is raised from ₹15,000/- to ₹25,000/- in case of premium for mediclaim policy for Individual and his family members. Similarly, in the case of HUF such deduction for premium on mediclaim policies for members of HUF is also raised from ₹15,000/- to ₹25,000/-. In the case of a senior citizen, the deduction for premium on mediclaim policies is raised from ₹20,000/- to ₹30,000/-.
- (ii) In the case of a very senior citizen (i.e 80 years and above), it may not be possible to get a mediclaim policy and they cannot get benefit of the above deduction. Therefore, as a welfare measure, it is now proposed to allow deduction up to ₹30,000/- for medical expenditure in respect of very senior citizens if no mediclaim policy is taken out. The aggregate expenditure available for deduction in the case of an Individual/HUF for premium on mediclaim policy and expenditure on medical expenditure for parent or family member who is a very senior citizen shall not exceed ₹30,000/-.

On the above basis, if Mr. A pays a premium of ₹25,000/- on mediclaim policy for self and his family and pays premium of ₹15,000/- for mediclaim policy of mother and also spends on medical expenses of his father (82 years old) ₹20,000/- he will be entitled to claim deduction of ₹25,000/- + ₹30,000/- = ₹55,000/- from A.Y.2016-17.

Section 80CCC provides for deduction in the case of an Individual in respect contribution to any Annuity Plan of LIC or any other insurer for receiving pension from the fund set up under a pension scheme up to ₹1 lakh. This limit is now proposed to be raised to ₹1.50 lakh with effect from A.Y. 2016-17.

Union Budget 2015-16

Deduction for Medical Treatment

Section 80 DDB, at present, provides for deduction for expenditure incurred by a resident individual or an HUF for medical treatment of certain chronic and protracted diseases. It is provided that the expenditure in the case of Individual should be in respect of medical treatment of himself or his dependant relative and in the case of an HUF, it should for any member of an HUF. The medical treatment should be for a disease specified in the Rule 11DD and should be supported by a certificate from an authorised doctor in a government hospital. At present, the deduction allowable is upto ₹60,000 if the medical treatment is of a senior citizen and in other cases deduction is allowed up to ₹40,000/-. In view of the difficulties experienced in obtaining certificate from a specialised doctor in a government hospital, the Section is now being amended to provide that the assessee should obtain prescription from a specialised doctor as may be prescribed. Further, in the case of medical treatment of a very senior citizen the limit for deduction for expenditure is now being raised up to ₹80,000/- from the A.Y. 2016-17.

Deduction for Persons With Disability

Section 80DD provides that a resident individual or an HUF can claim deduction for (i) expenditure for medical treatment (including nursing), training and rehabilitation of a dependant relative suffering from specified disability or (ii) any amount paid to LIC or other insurer in respect of a scheme for the maintenance of a disabled dependant relative. At present, this deduction can be claimed up to ₹50,000/- in the case of medical treatment for specified disability and up to ₹1 lakh in the case of medical treatment for severe disability as defined in the Section. In view of rising costs of medical treatment, these limits are being raised, by amendment of this Section, from A.Y 2016-17 from ₹50,000/- to ₹75,000/- (for disability) and from ₹1 lakh to ₹1,25,000/- (for severe disability).

Similarly, at present, Section 80U provides for deduction of ₹50,000/- in the case of a resident individual suffering from a specified disability. If such individual is suffering from specified severe disability deduction of ₹1 lakh is allowed. In view of rising costs of special needs of disabled persons, these limits are now being raised from A.Y. 2016-17 from ₹50,000/- to ₹75,000/- (for disability) and from ₹1 lakh to ₹1,25,000/- (for severe disability).

Section 80 DDB, at present, provides for deduction for expenditure incurred by a Resident Individual or HUF for medical treatment of certain chronic and protracted diseases. It is provided that the expenditure in the case of Individual should be in respect of medical treatment of himself or his dependant relative and in the case of HUF it should for any member of HUF.

Exemptions and Deductions

- (i) Section 80G provides for deduction of amounts contributed by way of donations to various institutions set up for charitable purposes. In respect of certain donations to institutions such as Prime Minister's National Relief Fund, National Defence Fund, *etc.*, deduction is allowed for 100% of the amount donated. In cases of other approved charitable institutions deduction is restricted to 50% of amount donated subject to ceiling of 10% of gross total income. *Swachh Bharat Kosh* has been set up by the Central Government to mobilise resources for improving sanitation facilities in rural and urban areas and school premises through the *Swachh Bharat Abhiyaan*. Similarly, *Clean Ganga Fund* has been established by the Central Government to attract donations to rejuvenate the river Ganga. With a view to encourage people to participate in this national effort, Section 80G is proposed to be amended with effect from A.Y.2015-16 to provide that deduction of 100% of the donation to any of these funds will be allowed. Since this amendment is being made from A.Y. 2015-16, such donation made up to 31-3-2015 will be eligible for deduction under the amended Section. It may be noted that such donation made by a company in pursuance of corporate social responsibility (CSR) expenditure under Section 135(5) of the Companies Act, 2013, will not qualify for this deduction.
- (ii) It is proposed to amend Section 10(23c) from A.Y. 2015-16 to provide that income of *Swachh Bharat Kosh* and *Clean Ganga Fund* will be exempt from income tax.
- (iii) Another amendment is proposed to be made from A.Y. 2016-17. By this amendment, donation made to *The National Fund for control of Drug Abuse* will now be eligible to 100% deduction under Section 80G. It is clarified that eradication of Drug Abuse is also of national

importance and therefore this tax incentive will encourage assesseees to participate in this national effort.

Relief in Tax Deduction At Source

Section 194 DA, inserted by the Finance (No.2) Act, 2014, with effect from 1-10-2014 provides for the deduction of tax at source @ 2% of payment under life insurance policy which is changeable to tax. No such deduction is required if the payment in a financial year is less than ₹1 lakh. In order to give relief from this TDS provision, it is proposed to amend Section 197A with effect from 1-6-2015 to provide that the assessee can give a declaration in Form 15G or 15H to the effect that tax on his/ her estimated income for that year will be "NIL". If such a Form is filed with the insurance company, no tax will be deducted at source. This is a welcome amendment for assesseees who have no taxable income.

Residence in India

Section 6(1)(c) provides that an individual is considered to be a resident in India if his/her stay in India is for the specified period as stated in the

section. Some difficulties are experienced in cases of Indian citizens who are members of the crew on a foreign ship. To overcome this difficulty, this Section is proposed to be amended from A.Y. 2015-16. The amendment states that in the case of an individual who is a citizen of India and a member of the crew of a foreign bound ship leaving India, the period of stay in India, in respect of such a voyage, shall be determined as may be prescribed by the Rules.

Senior Citizens' Welfare Fund

A new scheme for establishing a *Senior Citizens' Welfare Fund* has been given in the Chapter VIII of the Finance Bill, 2015. This Scheme will be established on a date to be notified by the Central Government. For the purpose of establishing this Scheme it is provided in the Clause 145 of the Finance Bill that the credit balances in the following accounts with various Institutions which have not been claimed by the account holders for last 7 years will be transferred to this fund.

- (i) Small saving and other savings schemes of the Central Government with post offices and banks.

Union Budget 2015-16

- (ii) Accounts of public provident fund under PPF scheme or
- (iii) Such other amounts, in any accounts of schemes as may be prescribed.

This fund will be utilised for promoting welfare of senior citizens and for such other purposes as may be prescribed. The Finance Minister has stated in the Para 42 of his *budget speech* that about ₹9,000/- is available in such unclaimed accounts and this will form the corpus of this Fund. The Central Government will constitute a committee for administration of this Fund according to the Rules to be notified. This is a welcome provision which will benefit deserving senior citizens.

Abolition of Wealth Tax

The Wealth Tax Act, 1957 was introduced with effect from 1-4-1957. It was amended from time to time. This Act was revised with effect from 1-4-1993 and provided for taxation of non-productive wealth only. During the Budget speech the Finance Minister has observed that the revenue from wealth tax was only ₹1,008 crore in 2013-14. Compared to this the compliance cost and administrative cost was much high. He has, therefore, proposed that this tax should be abolished from A/Y: 2016-17. However, he has decided to levy additional surcharge of 2% on individuals and HUF having taxable income of over ₹1 crore. This will lead to tax simplification and the Government will be able to collect additional revenue of over ₹9,000 crore at no extra cost. Thus the rate of surcharge, on abolition of wealth tax, from A.Y. 2016-17 will be:

- (i) For individual, an HUF, an AOP, etc., if the total income exceeds ₹1 crore—surcharge on tax will be 12% (existing rate 10%).
- (ii) In the case of cooperative society, local authority or firm rate of surcharge, if total income exceeds ₹1 crore, will be 12% (existing rate 10%).
- (iii) In the case of domestic company, surcharge will be:

Income Slab	Surcharge on entire income	
	New Rate	Existing Rate
₹1 cr. to ₹10 crore	7%	5%
Above ₹10 crore	12%	10%

- (iv) In the case of a foreign company there is no change in the rates of surcharge. In other words, they remain the same, *i.e.* 2%, if total income exceeds ₹1 crore but is less than ₹10

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crore and 5% if the total income is over ₹10 crore.

To Sum Up

From the above discussion, it is evident that the Finance Minister has tried to show some sympathy so far as personal taxation is concerned. He has also given some benefit to the salaried employees by increasing the exemption limit for the transport allowance from ₹800/- per month to ₹1,600/- per month. However, if we consider the other procedural provisions of the Income-tax Act, very wide powers are proposed to be given to assessing officers and commissioners. This will be evident from the proposed amendments relating to taxation of charitable trusts where compliance cost to trusts will increase and the responsibility of trustees, who generally render honorary service, will increase. Further, amendments proposed in Section 263 will give wide powers to Commissioners to revise the orders of the assessing officers. Thus, cases in which the assessments cannot be reopened by the assessing officers will be reopened through this route. Again, the Finance Minister, while abolishing the Wealth Tax Act, has stated in Para 113 of his budget speech: *To track the wealth held by individuals and entities, information regarding the assets which are currently required to be furnished in wealth tax return will be captured in the Income tax Return. This will ensure that the abolition of wealth tax does not lead to escape of any income from the tax net.* This will show that compliance cost of getting valuation of assets which were subject to wealth tax will not reduce. Further, this information will have to be given by firms, AOP, etc., who were outside the wealth tax provision. Let us hope that this requirement of disclosing non-productive assets in income tax return is introduced only in cases where the value of such assets exceed the specified limit and is restricted to only those who were otherwise liable to the wealth tax. If this is not done, all taxpayers, whether small or big, will have to get valuation of assets done for disclosing in the income tax return. ■