## **Budget 2020: Detailed Analysis of New Optional Income Tax Scheme**

Honorable FM Nirmala Sitaraman presented Union Budget 2020 on 1st February, 2020. A new scheme (optional) of taxation has been introduced. Detailed Calculation regarding new scheme is given below (Income Tax Calculator for New Vs Old Regime is also attached ~~below~~):

- **Income Tax Slab**

| Current Tax Slab | | | | | | New Optional Tax Slab | |
|---|---|---|---|---|---|---|---|
| Below 60 Years of age | | Senior Citizens (60 to 80 Years) | | Super Senior Citizens (Above 80 Years) | | For Citizens of all Age# | |
| Up to 2.5L | NIL | Up to 3L | NIL | Up to 5L | NIL | Up to 2.5L | NIL |
| 2.5 – 5L | 5%* | 3 – 5L | 5%* | 5 – 10L | 20% | 2.5 – 5L | 5%** |
| 5 – 10L | 20% | 5 – 10L | 20% | Above 10L | 30% | 5 – 7.5L | 10% |
| Above 10L | 30% | Above 10L | 30% | | | 7.5 – 10L | 15% |
| | | | | | | 10 – 12.5L | 20% |
| | | | | | | 12.5 – 15L | 25% |
| | | | | | | Above 15L | 30% |

***Notes:***

\# New Optional Tax Regime does not offers differential tax slab for citizens of different age groups as is the case in Old Tax Regime.

* Rebate u/s 87A available up to Rs 12500, if Total Income (Income after all deductions) is up to 5L,i.e tax will be nil.

** Rebate u/s 87A available up to Rs 12500, if Total Income (Income after **prescribed** deductions) is up to 5L,i.e tax will be nil.

- Some **Deductions have to be forgone** for availing New Tax Slab. Deductions excluded from New Tax Regime are listed below:
    1. Leave Travel Concession ***(LTC/LTA)***
    2. House Rent Allowance ***(HRA)***
    3. Allowance to MPs/MLAs
    4. Allowance for income of minor
    5. Exemption for SEZ
    6. Standard deduction, deduction for entertainment allowance and professional tax
    7. **Interest u/s 24 in respect of House Loan** on Self-occupied or vacant property
       (Loss under income from house property for rented house shall not be allowed for set off under any other head; however it can be carried forwarded)
    8. Additional depreciation u/s 32(1)(iia)
    9. Deductions u/s 32AD, 33AB, 33ABA
    10. Various deduction for donation for/or expenditure for scientific research contained in section 35(1)(ii), 35(1)(iia), 35(1)(iii) or 35(2AA)
    11. Deduction u/s 35AD or 35CCC
    12. Deduction from family pension u/s 57(iia)
    13. **Deduction under chapter VI-A** like section 80C (e.g. PF, LIC, SI, FDR etc.), 80CCC, 80D, 80E, 80G etc.)

       ***Note:*** Deduction under 80CCD(1)/(1B) **(Employee/Individual contribution in NPS) has been removed**. However, deduction under section 80CCD(2) (**Employer contribution in NPS**) and section 80JJAA(for new employment) **can be claimed**.

14. Some of the allowances contained in section 10(14)

Common deductions for salaried assessees have been highlighted

- ***Deduction for employer contribution to NPS or EPF has been restricted to 7.5 Lakhs*** *i.e. Employer's contribution to NPS and EPF exceeding 7.5 L will be taxable in hands of employee.*

- ***Is New Tax Slab beneficial****?*

  Whether New Tax Slab is beneficial or not depends upon the amount of deductions an assessee is claiming. Let's see this through examples (***deduction u/s 80CCD(2) available in new tax regime also, is not considered in examples 1-4***)

1. Salary Income: 8 Lakhs

| | Old Tax Regime | New Tax Regime |
|---|---|---|
| Gross Total Income | 800000 | 800000 |
| Deductions: | | |
| Std. Deduction | 50000 | - |
| 80C(LIC, PF etc.) | 87500 | - |
| Total Deductions | 137500 | - |
| Total Income | 662500 | 800000 |
| Total Tax with cess | 46800 | 46800 |

***NOTE:*** If an employee having income of 800000 has deduction of more than Rs.137500, then old tax regime will be beneficial for him and vice-versa.

2. Salary Income: 10 Lakhs

| | Old Tax Regime | New Tax Regime |
|---|---|---|
| Gross Total Income | 1000000 | 1000000 |
| Deductions: | | |
| Std. Deduction | 50000 | - |
| 80C(LIC, PF etc.) | 137500 | - |
| Total Deductions | 187500 | - |
| Total Income | 812500 | 1000000 |
| Total Tax with cess | 78000 | 78000 |

***NOTE:*** If an employee having income of 1000000 has deduction of more than Rs.187500, then old tax regime will be beneficial for him and vice versa.

3. Salary Income: 12 Lakhs

| | Old Tax Regime | New Tax Regime |
|---|---|---|
| Gross Total Income | 1200000 | 1200000 |
| Deductions: | | |
| Std. Deduction | 50000 | - |
| 80C(LIC, PF etc.) | 141670 | - |
| Total Deductions | 191670 | - |
| Total Income | 1008330 | 1200000 |
| Total Tax with cess | 119600 | 119600 |

***NOTE:*** If an employee having income of 1200000 has deduction of more than Rs.141670, then old tax regime will be beneficial for him.

4. Salary Income: 15 Lakhs

| | Old Tax Regime | New Tax Regime |
|---|---|---|
| Gross Total Income | 1500000 | 1500000 |
| Deductions: | | |
| Std. Deduction | 50000 | - |
| 80C(LIC, PF etc.) | 150000 | - |
| 80CCD(1B) | 50000 | - |
| Total Deductions | 250000 | - |
| Total Income | 1250000 | 1500000 |
| Total Tax with cess | 195000 | 195000 |

***NOTE:*** If an employee having income of 1500000 has deduction of more than Rs.250000, then old tax regime will be beneficial for him.

5. Salary Income: 16 Lakhs (Basic Salary + DA = 10 Lakhs)

| | Old Tax Regime | New Tax Regime |
|---|---|---|
| Gross Total Income | 1600000 | 1600000 |
| Deductions: | | |
| Std. Deduction | 50000 | - |
| 80C(LIC, PF etc.) | 50000 | - |
| 80D(Mediclaim) | 25000 | - |
| LTA | 25000 | - |
| 80CCD(1) | 100000 | - |
| **80CCD(2)** | **100000** | **100000** |
| Total Deductions | 350000 | 100000 |
| Total Income | 1250000 | 1500000 |
| Total Tax with cess | 195000 | 195000 |

***NOTE:*** If an assessee has deduction u/s 80CCD(2), then calculation will be changed as he will get deduction u/s 80CCD(2) for employer contribution in New Tax Regime also.

6. Salary Income: 95 Lakhs (Basic Salary + DA = 80 Lakhs)

| | Old Tax Regime | New Tax Regime |
|---|---|---|
| Gross Total Income | 9500000 | 9500000 |
| **Add: Perquisite*** | **50000** | **50000** |
| Deductions: | | |
| Std. Deduction | 50000 | - |
| 80D(Mediclaim) | 25000 | - |
| LTA | 25000 | - |
| 80C/80CCD(1) | 150000(Limited to 1.5L) | - |
| 80CCD(2) | 800000 | 800000 |
| Total Deductions | 1050000 | 800000 |
| Total Income | 8500000 | 8750000 |
| Total Tax with cess | 195000 | 195000 |

* Employer Contribution to NPS/EPF exceeding 7.5 L will be treated as perquisite and will be taxable in hands of employee.

***NOTE:*** If an assessee has *income more than 50L/1cr/2cr/5cr*, then assessee should check whether he can bring the income below 50L/1cr/2cr/5cr by availing deductions available under Old Tax Regime, as by bringing income below 50L/1cr/2cr/5cr, *he can save Surcharge* of 10%/15%/25%/35% respectively .

- General Deductions in Old Vs New Tax regime:

| | Old Tax Regime | New Tax Regime |
|---|---|---|
| Standard Deduction | 50000* | - |
| 80C/ 80CCD(1)* | 150000 | - |
| 80CCD(1B) | 50000 | - |
| 80D | 25000(Max. is 100000) | - |
| LTA | 25000* | - |
| HRA | as per prescribed rules* | - |
| OR | | |
| Interest on Home Loan | 200000 | - |
| 80CCD(2) | 10% of basic salary* | 10% of basic salary* |
| TOTAL | 500000 + 80CCD(2) | 80CCD(2) |

* Available only for salaried assesses. ***In above examples**, if assessee doesn't have salary income then these deductions will not be available for him.*

***CONCLUSION:*** The New Optional Tax Regime makes the tax calculation more complicated as new tax regime has more tax slabs and disallows many deductions/exemptions. The new option is beneficial only to assessees with low deductions and high income. But in most of the cases existing tax regime will be better. It can be said that the new tax slab option is like mirage for most of the assessees which will make them think that they will get benefit in new option, where there is nothing like that.