An Evaluation of Alternative Taxation System for Individuals and Hindu Undivided Families

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ABSTRACT

Income tax is one of the leading source of income to the Government. The first Indian Income tax Act was passed in 1961. This act came into force from 1st April 1962 in whole of the country. The income tax plays an important role in elimination of economic disparities in the society. The Finance Minister of India introduced a new alternative tax regime from fiscal year 2020-21 for individual and HUF taxpayers with more tax slabs and lower tax rates but it came with a grasp of removal of all obtainable deductions and exemptions. It provides option to the individual and HUF taxpayers to opt between new VS old tax system every year.

Key Words: Old tax system, New tax system, Section 115 BAC, Deductions and Exemptions.

Introduction

The tax structure of the country plays a very important role in the working of our economy. The Indian taxation structure is divided into two categories direct and indirect taxes. The taxes levied by the Government from a pool of resources to be used for the collective benefit of the public. Income tax is the major part of the direct taxes. The income tax was first time imposed by British rulers in India in 1860. In September 1961 the finally Indian Income Tax Act was passed. This act came into force from 1st April 1962 in whole of the country. In present days income tax plays an imperative role as a source of revenue of the government and useful for elimination of economic disparities of the society. It is established as an inevitable imposition on the citizens in order to raise funds for fulfilling the socio economic development of the country.

Earlier the prominence was on higher rates of tax and more incentives. But recently in the budget of 2020 Finance Minister of India has introduced an alternative tax regime and inserted a section 115BAC for individual and HUF taxpayers with more tax slabs and lower tax rates. After insertion of this section the taxpayers are not able to claim all obtainable deductions and exemptions or set off of losses. It provides an option to the individual taxpayers to opt between new VS old tax system every year. The government has not enforced compulsion to switch to the new tax regime. In case such an individual or HUF is also having income from business then this selection is not allowed to be changed every year. These alternative tax systems create a new query which one system is suitable for individual because taxpayers remain aware of how much tax they can be expected to pay in a financial year and prepare well in advance. Keeping in view the above situation present study deals with the evaluation of alternative tax regime for individual and HUF in India.

Review of Literature

The following important studies are helpful to accomplish the present study.

Kumar and Anees (2014) discussed about the benefits of electronic filling of tax returns to the authorities, policy makers, present and prospective tax payers, e-filing mediators, financial software engineers and academicians. The study focused on the benefits derived by the different sections of the society due to e-filling of income tax returns.

Shamika and Shikhar (2017) suggested that the Government should also focus on the income taxpayer's expectations that what problems occurs during filling online returns that will help to the income tax payers for filling the income tax returns. For the betterment of the website the government must focus on the server so that the website can work properly in peak months and make sure to use advance technology for filling the income tax returns.

Jayadev (2020) concluded that the share of direct taxes in the total tax revenue has been continuously increasing after the tax reform initiated in 1991. The study is an attempt to understand whether the growth rates in various types of direct taxes are different and to expect the growth of direct taxes in India for a future period of time.

Suresh and Nikita (2020) stated that the existing tax structure has many deductions and exemptions under various sections availing a few of these required people to investments is stated tax saving tools, which implant of good habit of investment and saving. On conversely, the new tax system offering to person lower tax rates and tries to simplify the overall process. If someone who is affirming a lot of deduction under existing system he can probably save better staying with same tax system, as per the computation. If any taxpayers who is looking for flexibility in the investment options and does not want to invest in the stated entitled tools, may consider selecting for the new tax system.

Research Gap

Through the review of previous literature, it was found that the majority of researchers of direct taxes have focused on its conceptual frame work, its adoption and outline of the development of taxation system in India. Only a few research studies have been conducted in India in the context of old and new tax regimes. No previous study is found that can suggest the better system for individuals.

Objectives of the Study

1. To analyze the alternative tax regimes.
2. To study the collision of the section 115 BAC on tax planning of the taxpayers.

Analysis and Interpretation

In the present study an attempt has been made to analyze the old tax regime VS new tax regime and interpret the results. After the instigation of new tax regime for individual and HUF all taxpayers is perplexed to indentify which one of the old VS new regimes is suitable and applicable. To resolve the above perplexity we will try to analyze the alternative tax regime i.e. old VS new tax system and to recommend a few suggestions.

Alternative Taxation System

In the union budget 2020 an alternative tax regime for individual and HUF has introduced. These systems provide an option to taxpayers to choose any one between the new VS old tax regime which is better for them. In the old tax regime only three tax slabs and tax rates with lot of scope for tax planning of individuals are applicable to claim several deductions and exemptions which has been explained under Income Tax Act, Chapter VI-A. Although according to the new tax regime the government has introduced six tax slabs with existing rates of tax reduced upto the income of Rs. 15 lakh. However there is no change in the surcharges; it will remain the same as the old one. The newly tax regime will be applicable from the assessment year 2021-22. The rates of tax and income slabs of both regimes are as under.

Table-1 Old VS New Tax System F.Y. 2020
Assessment Year 2021-22

Old Tax Regime		New Tax Regime	
Income Slabs	Rate of tax	Income Slabs	Rate of taxes
Upto 250000	No Tax	Upto 250000	No Tax
250001 to 500000	5%	250001 to 500000	5%
500001 to 1000000	20%	500001 to 750000	10%
Above 1000000	30%	750001 to 1000000	15%
		1000001 to 1250000	20%
		1250001 to 1500000	25%
		Above 1500000	30%

It is quite evident from the table that under new tax regime the taxpayers are likely to pay a higher tax amount in the long-term as compared to the old tax regime. Let's deep drive into the subject and try to understand to get more information on the subject it is worthwhile to discuss the matter with the help of example.

Example I: It is assumed that a taxpayer earns Rs. 950000/- p.a. and claim following deductions which are claimed by most of the taxpayers. i) Rs.50000/- standard deduction, ii) Rs. 150000/- saving u/s 80C, iii) Rs. 50000/- investment in NPS, iv) Rs. 200000/- u/s 24b (interest on self occupied house property)

Taxable Income:

Case-I	Rs. 950000- 450000 = 500000/- (claiming exemption & deductions)	
Case –II	Rs 950000/-	(without exemption and deductions)
New Tax Regime	Rs 950000/-	

Table-2 Tax Liabilities of Individual

Income Slabs (in Rs.)	**Case-I Old Tax Regime (with exemption and deduction)** (taxable income Rs. 5 lakh)		**Case-II Old Tax Regime (without exemption and deduction)** (taxable income Rs.9.5 lakh)	**New Tax Regime** (taxable amt. Rs. 9.5 lakh)	
	Rate of tax	**Tax**	**Tax**	**Rate of tax**	**Tax**
Upto Rs. 2.5 lakh	Nil	Nil	Nil	Nil	Nil
2.5 lakh to 5 lakh	5%	12500/-	12500/-	5%	12500/-

5 lakh to 7.5 lakh	20%	----	50000/-	10%	25000/-
7.5 lakh to 10 lakh (Bal. amt 2 lakh)	20%	----	40000/-	15%	30000/-
Total tax		**12500/-**	**102500/-**		**67500/-**

The above table depicts that the tax liability of individual according to the old tax regime as per Case-I, is Rs. 12500/- .In such situation the taxpayer can take the benefit of section 87A. This section provides tax relief upto Rs. 12500/- for small taxpayers. In the second case where the individual does not claim any deduction and exemption then the tax liability of the individual is more than the new tax regime. It is clear that New tax regime is very much suitable to someone who does not intending to invest in any tax saving plan.

Example II: It is assumed that the annual income of taxpayer is Rs. 1800000/- p.a. and he claims the following deductions which are claimed by most of the taxpayers commonly: i) Rs. 150000/- saving u/s 80C, ii) Standard Deduction Rs. 50000/- and House loan interest Rs. 50000/-.

Table-3 Tax Liabilities of an Individual

Old Tax Regime (with exemption and deduction) (taxable income Rs. 15.50 lakh)			**New Tax Regime (taxable income Rs. 18 Lakh)**		
Upto Rs. 2.5 lakh	Nil	Nil	Upto Rs. 2.5 lakh	Nil	Nil
2.5 lakh to 5 lakh	5%	12500/-	2.5 lakh to 5 lakh	5%	12500/-
5 lakh to 10 lakh	20%	100000/-	5 lakh to 7.5 lakh	10%	25000/-
Above 10 Lakh	30%	165000/-	7.5 lakh to 10 lakh	15%	37500/-
			10 lakh to 12.5 lakh	20%	50000/-
			12.5 lakh to 15 lakh	25%	62500/-
			Above 15 lakh	30%	90000/-
Tax liabilities		**277500/-**	**Tax liabilities**		**277500/-**

The above table exhibit that the tax liability of the taxpayer is same in both of the cases. In this example it is found that if the taxpayer belongs to the income group of above Rs. 15 lakh and claim deduction and exemptions upto Rs. 2.5 lakhs in a particular year that he will not gain anything by opting to the new tax regime. It is suggested that if the investment of taxpayer in their preferred tax saving schemes is more than Rs. 2.5 lakhs than sticking to the old tax regime would be beneficial.

Collision of Section 115 BAC

The newly inserted section 115 BAC in the Income Tax Act, 1961 deals with the new income tax regime. This section and alternative tax regime was introduced in the Union Budget 2020 which is effective from FY 2020-21 and applicable to individuals and Hindu Undivided Families only. After the insertion of this section the total income of the individual or Hindu Undivided Family shall be computed without claiming subsequent exemptions and deductions or set off the losses. Under this section more than 70 deductions and exemptions have been detached from the old tax regime. The list of exemptions and deductions which are not applicable in the new tax regime is as under:

Sr. No.	Exemptions that not prevalent in the system
1.	Standard deduction of Rs. 50000/- (salaried individual only)
2.	Leave travel allowance u/s 10(5)
3.	House rent allowance u/s 10(13A)
4.	Special allowance that are provided u/s 10 (14) except: Transport allowance granted to a disabled employee, Conveyance allowance, and Daily allowance, any allowance granted for meeting the cost of travel on tour or transfer of an employee.
5.	Exemption u/s 10(17)
6.	Exemption in respect of clubbing of minor’s income u/s 10(32)
7.	Exemption for SEZ units u/s 10AA
8.	Deduction under section 16
9.	Deduction of interest upto Rs. 2 lakh u/s 24b in respect of self occupied house property
10.	Option of additional initial depreciation in respect of plant and machinery u/s 32(1)(iia)
11.	Tax saving investment deduction under Income Tax Act, Chapter-VI-A 80C, 80D, 80E, 80CCC, 80CCD, 80D, 80DDB, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80 IA, 80 IAB, 80 IAC, etc. except the deduction u/s 80 CCD(2) and section 80 JJAA.
12.	Contribution to NPS u/s 80CCD(1B)
13.	Investment allowance in respect of new plant and machinery in notified backward area u/s 32AD.
14.	Various deductions for donation for expenditure on scientific research or social research u/s 35(1)(ii), 35(1)(iia), 35(1)(iiia) and 35(2AA)
15.	Various deductions u/s 33AB, 33ABA, 35CCC and 35AD
16.	Set off of any losses are not allowed under the head **“Income from House Property”**
17.	Professional tax (Maximum of Rs. 2500/-)
18.	Deduction u/s 80TTA and 80TTB (Interest on deposit in saving account)
19.	Exemption u/s 80U (Medically Handicapped or mentally retired assesses)
20.	Exemption u/s 80QQB (Authors of books of scientific nature)
21.	**Adjustment in WDV of the Block:** If the written down value of the block of asset shall be increased by the amount of depreciation carried forward which is not available for set-off due to the restrictions contained in the newly inserted section 115BAC

Conclusion

There is no custom-fit approach for all taxpayers and it is not easy to say that which one is better for taxpayers because each tax regime have their own merits and demerits. The old tax system offers taxpayers to claim various deductions and exemptions but it is very difficult for a common person to understand all the applicable exemption and deductions out of many exemptions are available. As compared to the new tax regime it is very simple and suitable for those taxpayers who are looking flexibility in the investment plans and not interested to invest in the particular entitled areas. Hence, it is suggested that if the taxpayers preferred to invest and save money in prescribed tax saving schemes than it is better to select the old tax regime as compared to the new one. However, it is advisable to make a comparison between new and old regime in every year and adopt any one which is favorable for the taxpayers.

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