Budget 2018 impact on your tax: Who saves and who pays more

BY BABAR ZAIDI, ET BUREAU | UPDATED: FEB 05, 2018, 12.25 PM IST

Delhi-based chartered accountant H.C. Sogani hasn't stopped smiling since Finance Minister Arun Jaitley tabled the budget in Parliament. The senior citizen's tax will come down by almost Rs 15,450 due to the tax exemption for up to Rs 50,000 interest earned from bank deposits and Post Office schemes. "My wish has been fulfilled by the Finance Minister," he says excitedly.

However, senior citizen taxpayers like Sogani are alone in this celebration. Most other taxpayers, especially high income earners and investors in stocks and mutual funds, have been sorely disappointed by the tax proposals in the Budget. The Budget has hiked the cess on tax from 3% to 4% for all taxpayers, a measure that will push up the overall tax of high-income taxpayers.

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A taxpayer earning Rs 60 lakh a year will pay Rs 13,354 more in tax, while a high-income taxpayer with a taxable income of Rs 1.2 crore will pay Rs 33,868 more. "Rich taxpayers who were expecting some relief in surcharge are disappointed. They will pay more tax next year," says Amit Maheshwari, Partner, Ashok Maheshwary & Associates.

Retired pensioner: Big relief in tax

INCOME	₹9 lakh
DEDUCTIONS	
Sec 80 C	₹1.5 lakh
Medical insurance	₹30,000
Existing tax	₹55,620
After Budget	₹41,600
SAVINGS IN TAX	₹14,020

Biggest beneficiary of tax proposals in Budget 2018. The exemption of up to Rs 50,000 interest and higher deduction of medical insurance will reduce the tax of this segment.

No change in basic tax exemption, Sec 80C limit

A lot of taxpayers were hoping that the Budget will raise the basic exemption limits to Rs 3 lakh for general taxpayers and to Rs 5 lakh for senior citizens. Some had even hoped for a widening of the tax slabs and a higher tax savings limit under Sec 80C.

However, as many tax experts pointed out last week, these measures would have burned a big hole in the exchequer. Instead of major changes in the tax structure, Jaitley has done some tinkering by reintroducing a standard deduction of Rs 40,000 for salaried taxpayers.

Low-income earner: Negligible tax cut
Gross income: Rs 6 lakh

DEDUCTIONS	
Sec 80 C	₹1.5 lakh
NPS contribution	₹50,000
Medical insurance	₹15,000
Existing tax	₹6,953
After Budget	₹6,718
SAVINGS IN TAX	₹234

Gains from the introduction of standard deduction are almost nullifi ed by the removal of medical and transport allowances.

When Jaitley announced the standard deduction, salaried taxpayers across the country felt relieved. But the optimism soon dissipated when the Finance Minister followed that with the removal of the tax-free transport and medical allowances. Experts say if these allowances are removed, the standard deduction will have a limited impact on the tax outgo.

Mid-income with home loan: Expectations not met
Gross income: Rs 12 lakh

DEDUCTIONS	
Sec 80 C	₹1.5 lakh
NPS contribution	₹50,000
Medical insurance	₹20,000
Home loan	₹2 lakh
Existing tax	₹70,555
After Budget	₹70,033
SAVINGS IN TAX	₹521

No increase in basic exemption, investment limit or home loan benefi t means the gains from introduction of standard deduction are negligible.

"The standard deduction of Rs 40,000 for salaried individuals is a nominal benefit because medical reimbursements and transport allowance were anyway leading to Rs 34,200 as tax-free salary," says Alok Agrawal, Senior Director, Deloitte India.

The Rs 40,000 standard deduction will reduce the tax of a salaried person earning Rs 15 lakh by over Rs 12,000, but if he already gets Rs 19,200 transport allowance and Rs 15,000 medical reimbursements, his tax savings will be only Rs 521 (or less than Rs 50 a month).

High-income earner: More pain, no gain
Gross Income: Rs 60 lakh

DEDUCTIONS	
Sec 80 C	₹1.5 lakh
NPS contribution	₹3.5 lakh
Medical insurance	₹25,000
Home loan	₹2 lakh
Existing tax	₹15.81 lakh
After Budget	₹15.93 lakh
ADDITIONAL TAX PAYABLE	₹13,354

With no additional benefits, the impact of standard deduction is negligible while the additional 1% cess on tax pushes up the overall outgo.

However, tax professionals point to other non-monetary benefits. "Many taxpayers have to fudge medical bills to claim the tax-free allowance. This practice will now stop," says Sudhir Kaushik, co-founder of Taxspanner.com. "The compliance and paperwork for employers will also come down," says Preeti Khurana, chartered accountant & chief editor, Cleartax.

Very high income earner: Hit by higher cess
Gross Income: Rs 1.2 crore

DEDUCTIONS	
Sec 80 C	₹1.5 lakh
NPS contribution	₹5.5 lakh
Medical insurance	₹55,000
Home loan	₹2 lakh
Existing tax	₹37.02 lakh
After Budget	₹37.36 lakh
ADDITIONAL TAX PAYABLE	₹33,868

Got no respite from the surcharge on tax. The additional 1% cess pushes up tax liability even further, making this the worst hit segment of taxpayers.

NPS too awaits tax changes
Another major expectation was a change in the tax treatment of the NPS corpus. Right now, 40% of the NPS maturity corpus can be withdrawn tax free, 40% has to be put in an annuity plan to earn a monthly pension and 20% is taxable. This 20% can escape tax if put in an annuity. But it eventually gets taxed because the pension is fully taxable. Pension from the annuity is a mix of the principal and the gain, so the investor effectively pays tax not only on the gains but also on the invested capital.

Investors, pension funds and even the pension regulator were hoping for a change in the tax treatment of NPS to make it more attractive for investors. The Pension Fund Regulatory and Development Authority (PFRDA) had also written to the Finance Ministry that NPS Tier II savings should get the same tax benefit as mutual funds.

However, the Budget does not touch these issues at all. "No change in the tax treatment means the plan to allow Provident Fund subscribers to switch to NPS will also have to wait. Nobody will want to move from the 100% tax free Provident Fund to a scheme that is only 40% tax free," says a senior PFRDA official.

Tectonic changes in LTCG
On the other hand, the Budget has unleashed havoc in the stock markets by reintroducing the tax on long-term capital gains from stock and equity funds. The Sensex tanked by nearly 840 points on Friday due to widespread selling pressure. Analysts say this will continue as investors try to book profits before the LTCG tax comes into effect in the new financial year starting 1 April.

The good news is that the tax has a very liberal threshold and will apply to long-term gain beyond Rs 1 lakh. Small investors with a ortfolio of `10-15 lakh will not have to worry. Even big investors can avoid the tax by keeping an eye on the calender.

Even so, the big fear is that the sharp decline in stock prices could make new investors jittery. Small investors have taken to mutual funds in a big way in recent years, adding over two crore new folios in the past two years (70 lakh in 2016 and 1.4 crore in 2017). Nearly Rs 1,50,000 crore has flown into the equity markets through mutual funds in the past one year. Investors are pouring in nearly Rs 6,200 crore every month into equity funds via SIPs. This liquidity has helped the markets climb new peaks in recent months, but a sustained decline in stock prices could arrest the inflows.

The other danger is that investors will be lured by distributors of other products such as Ulips and traditional insurance policies. Being insurance products, the income from these plans are not taxable under Section 10(10d). Ulips have changed for the better after the insurance regulator capped charges in 2010, but traditional insurance plans continue to have very high charges. Their returns are barely 4-5%, but if stock markets are down and LTCG are taxed, insurance agents will be able to palm off these plans to investors. "It will be open season for insurance agents," says a fund manager.