

Chandigarh, Wednesday, March 3, 2003

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The Budget 2003-04 was perhaps the least secretive budget of India. Earlier, there used to be an element of suspense attached to the budget, but this time, having floated the reports of two task forces and a mid-year review of economy, the Finance Minister had already gauged the pulse of the people. Opinions had been sought in writing from everybody through post and e-mail virtually opening the ministry to the whole world. The process of consultation has been very good. But does being open mean the same as being effective?

In my article published in FE Newsline on November 13,2.0.02, entitled Not Quite There For Big Time Reform, I had mentioned that the recommendations made by the Kelkar Committee were far ahead of times and therefore impractical at the moment.

The pulse of the current budget is vindication of the author's viewpoint. The Kelkar committee report has been accepted only in a pick and choose manner.

Though it is felt that this budget has some" thing for everybody, the following provisions are striking:

Health sector has been appropriately touched by introduction of health insurance at the rate of one rupee a day, with access to hospitals in a circle identified, including private hospitals where the insured can go for treatment.

There is an attendant benefit. Suppose the insured patients go to a government hospital where they get their treatment free-now these state hospitals can think in terms of charging for services given, since the insurance company is going to pay the bill.

By making additional money in this manner, the states will be able to spend on improving the quality of health care in the existing system. This is a step in the right direction.

Education: The budget has provided for deduction of Rs 12,000 per child up to two children from the taxable income under Section 88,per assessee This will mean(till any further clarification) that if both the parents are assessees, then both can claim deduction for two children ,totaling to four children.

This is a smart move, because in case one is spending more than 12,000 per child, then the excess amount shall now form apart of the parents withdrawal. More the withdrawal more requirement of capital hence more disclosure of income. All said and done, this provision is of practical importance and will bring the tax computations more close to the realities in the hands of the assessee.

Senior citizens: They should be a happy lot as they can now have a tax free income of up to Rs 1.83 lakh. The best and the most respectable part being that now no deduction of tax at source(TDS) will be made in case of senior citizens on filing of self -declaration to the effect that the tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be nil.

This will save a lot of harassment to the senior citizens who had to make rounds of the department for seeking refunds of such TDS.

Salary : Standard deduction has been pegged at 40 per cent of salary or Rs 30,000.0 which ever is lower for an income of up to Rs 51akh. This increase is a reward for the honest tax payers and is a welcome provision.

Dividend tax: Dividends have been made tax free in the hands of the shareholders by levying tax on distributed profits in the hands of the company. This is again a welcome step but this change has been done/undone so many times now that one cannot be sure when the backswing shall follow. So let us get used to the confusion at the top.

Block assessment was introduced by Mr Manmohan Singh wherein unaccounted income found in raids, search and seizure was taxed at a flat rate of 60pc. It was felt that it was serving as an incentive to conceal because if caught one could pay 6.0 pc in place of 35 pc. Now tax plus interest and penalty will be payable. In many cases, the amount payable could exceed concealed income which shall serve as a deterrent.

Annual information return: It is proposed to insert a new section 285BA to provide that any assessee, who enters into any financial transaction, as may be prescribed, with any other person, shall furnish, within the prescribed time, an annual information return in such form and manner, as may be prescribed, (details awaited) in respect of such financial transactions entered into by him during any previous year.

This mechanism shall ensure that the flow of information regarding the material financial transactions entered into by a taxpayer with other persons is automatic so that the same can be utilized for widening and deepening of the tax base

Service tax has been increased from 5 to 8%. In my opinion, the rate should not have been increased but an attempt should have been made to spread the tentacles of the service tax to many untouched fields. By the way, what stops the FM from applying the act to advocates and doctors.

Illusion?

There are three things which in my opinion will almost offset the benefits expected in the hands of a common man: one the reduction in the interest rates on PPF and small savings schemes, second the increase in the price of petrol and diesel and lastly increase of service tax. What remains to be seen is whether the feel good factors in the budget are for real or not. Implementation will tell.