

Budget implications

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IMPLICATIONS OF some provisions of the budget-2005 affecting the common man are far reaching, and very often misunderstood. Here are the clarifications to some of the commonly discussed questions in offices, homes, coffee houses and tea stalls.

Q-1 What are the new provisions for levy of Banking Cash Transaction Tax(BCTT), i.e. .01% for a single withdrawal above Rs. 10,000/- will one get any credit or set off of the same under any other provision of the act. And when is it applicable from?

Ans-1. A new clause is being inserted in sub-section(1) of section 36 of the Income Tax Act so as to provide for allowing deduction in respect of banking cash transaction tax paid by the assessee during the year on the taxable banking transactions entered into by him.

The new provision of the levy of BCTT will come into force w.e.f. 01.06.2005.

Suggestion: Since deductions available under section 36 are allowed only in case of computing Profit and gains of business or profession, this may not be beneficial to all the persons liable to the BCTT. It would be better if this payment is treated as advance tax deposited and the assessee can claim the same on filing his return at the end of the financial year on prescribed dates.

Q- 2. Have the Senior citizens and women assesseees actually benefited out of the budget as claimed by the FM in his speech i.e.,

-No resident woman below the age of 65 years needs to pay tax on incomes upto Rs.1,25,000/-

-No Senior citizen would pay any tax on incomes upto Rs.1,50,000/-

Ans-2. As per the existing provisions, a resident woman assessee having salary income is not liable to pay any tax if the total income is Rs.1,47,000/- (because she gets Standard deduction of Rs. 30,000.00, rebate u/s 88C Rs. 5,000.00 and deduction u/s 80L Rs. 12,000.00)

In case of the senior citizens, as per the existing provisions, if they are pensioners then they are not required to pay any tax upto an income of Rs.1,95,000/-(standard deduction Rs.30,000/-,u/s80L Rs.12,000/-and deduction u/s88B)

In view of above, the statement of the FM might not be correct in all such cases.

Q-3. In the case of Companies, tax rate has been brought down from 35% to 30% ,is it as good as it appears or there is more to it?

Ans-3. See the tax rate has been brought down to 30% but the surcharge has been increased from 2.5% to 10% therefore the effective rate can be computed as below :

	EXISTING	PROPOSED
Tax Rate (%)	35.00	30.00
Surcharge (2.5%) =	0.875	3.00 (10%)

	35.87	33.00
Education (2%)=	0.72	0.66
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Total	36.59	33.66

Net reduction in tax rate is 2.93% which is set off by the reduction in the rate of depreciation (in case of plant and machinery from 25% to 15% and other reduced rates of depreciation are yet to be specified in the rules).

And if the Fringe Benefit Tax (FBT) @30% is to be taken into consideration, I am of the opinion that one will end up paying more taxes than what one was paying under the existing provisions.

Q-4. With the elimination of section 88 for contributions/investments in specified savings schemes and introduction of new section 80C what difference is it going to make in the current scenario. Are the old savings like LIC etc. still alive ? And what is EEE and EET?

Ans-4. The above changes have been brought to switch over the present system of taxing the contribution made to saving schemes from EEE to EET. There are three stages in any investment

- 1) Contribution
- 2) Accumulation thereon
- 3) Terminal stage

Currently the saving made under specific schemes are exempt in all the three stages (EEE). The change brought about by section 80C is to render such savings EET i.e. they will be exempt only at the time of contribution and anything that accumulate thereon but such savings would be taxable at the time of their maturity (EET).

This is not going to be simple because of the existing EEE savings and taxation norms for which the FM has stated that an expert committee is to be set up to look into it.

The investment eligible for deduction under the proposed section 80C are the same as those entitled for rebate from income tax under section 88. These include Life Insurance Premium, Contribution to provident fund, schemes for deferred annuities, purchase of infrastructure bonds, payment of tuition fees, repayment of principle amount of housing loans etc. However there are no sectoral caps in the new 80C and the assessee is free to invest in any one or more of the eligible instrument within the overall ceiling specified.