

INDIA

Understanding India's Updated Income Tax

Republic of India

Characterised as a developing economy, India is the second most populous country in the world.

With an annual average of 6% - 8% GDP growth, India was considered the world's fastest growing economy between 2014 and 2018.

The country ranks second in the world in terms of food and agriculture production while construction and real estate remains the second largest employer nationally, after agriculture.

Overview of India's Personal Income Tax

Income tax in India is levied on individual taxpayers on the basis of a "slab system" where different tax rates are established for different slabs. Such tax rates will escalate in correlation with an increase in the income slab.

Under the existing tax regime, three categories of individual taxpayers are :

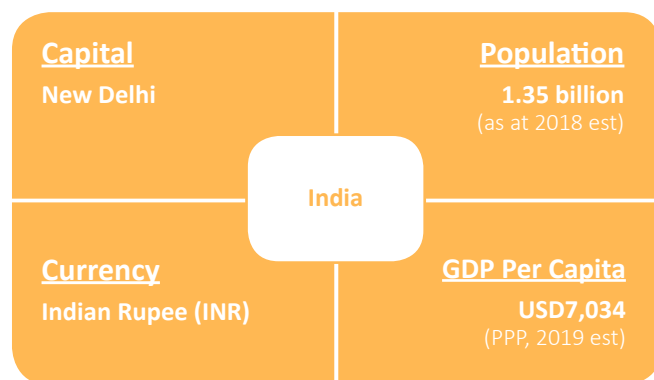
- Individuals (below the age of 60 years), which includes residents as well as non-residents
- Resident senior citizens (60 years and above but below the age of 80 years)
- Resident super senior citizens (above 80 years of age)

There are different slabs for each category of taxpayers with such tax slabs undergoing a change during every budget.

Union Budget 2020

To boost consumption, a tax relief for the fiscal year 2020-21 (commencing 1 April 2020) includes:

- Reducing the personal income tax rate for individuals earning less than Rs 15 lakh per annum
- Those earning Rs 15 lakh per annum will continue to pay 30% without any exemptions



Income Tax Slab	Tax Rate
Up to Rs 2.5 lakh	Nil
Rs 2.5 lakh to Rs 5 lakh	5% (Tax rebate of Rs 12,500 available under section 87A)
Rs 5 lakh to Rs 7.5 lakh	10%
Rs 7.5 lakh to Rs 10 lakh	15%
Rs 10 lakh to Rs 12.5 lakh	20%
Rs 12.5 lakh to Rs 15 lakh	25%
Rs 15 lakh and above	30%

Seven (7) seven tax rules taking effect in the new Financial Year

Although various tax-related deadlines have been extended, eg: filing of income tax return for FY 2018-19, tax saving for FY 2019-20, etc), several new tax related rules will come into effect on **1 April 2020**:

1. New income tax regime

Individual taxpayers without any business income have the option either to continue with the existing income tax regime, deductions and exemptions or avail the new tax regime with lower income tax rates (without deductions and tax exemptions).

2. Dividend becomes taxable in the hands of an individual

- From April 1, dividend received from mutual funds and domestic companies will be taxable.
- Up till FY 2019-20, dividend paid by mutual funds and domestic companies used to attract dividend distribution tax (DDT) with dividends of up to Rs 10 lakh in the hands of an individual tax-exempt.
- Hence, dividends received from April 1, will be added to an individual's income, and therefore taxed at the applicable income slab rate.
- In addition, such dividends will attract tax deduction at source (TDS) of 10%, if the dividend received by an individual in a financial year exceeds Rs 5,000.

3. Changes in determination of "Non-Resident Indian" (NRI) status

- Non-resident Indians visiting India will be considered "Resident but not ordinarily resident", if :
 - His/her taxable income accruing in India exceeds Rs 15 lakh.
 - His/her stay in India exceeds 120 days and his/her total stay in India in the previous four financial year is 365 days or more.
- However, if the taxable income accruing in India does not exceed 15 lakh, then the individual will be considered an NRI if his/her stay does not exceed 181 days.
- Further, Indian Citizens by reason of domicile or residence or any other criteria. This provision is applicable if the income accrued in India is more than Rs 15 lakh in a financial year.

4. Extension of date for availing additional tax benefit for first-time home owners

- Individuals who purchase a house for the first time to the value of up to Rs 45 lakh will be accorded an extension in the date for the availing additional tax benefit by a year to March 31, 2021.
- Home owners who have taken loans to purchase homes up to 45 lakh will be eligible to claim an additional tax deduction of ₹1.5 lakh on interest in addition to the existing deduction of Rs 2 lakh.
- Previously, this deduction was allowed on housing loans sanctioned on or before March 31, 2020.

5. Deferring tax payment in respect of income pertaining to Employee Stock Ownership Plan (ESOPs)

- Providing relief to employees of start-ups, the new tax regime from April 1 allows deferment of tax payment on shares allotted to them under ESOPs or employee stock ownership plan.
- The new tax regime, from April 1, has deferred the tax payment from the exercise date to 48 months after exercise, cessation of employment or sale of shares, whichever is earliest.

6. Employees' Provident Fund (EPF)

- Employer's contribution above Rs 7.5 lakh to EPF, superannuation funds, NPS becomes taxable.
- If employer contribution to Employees' Provident Fund (EPF), National Pension System (NPS) and superannuation fund on an aggregate basis exceeds Rs 7.5 lakh in a financial year, then the excess will be taxable.
- Up till FY 2019-20, there was no combined upper limit on the amount of deduction that could be claimed (from total income) for the contribution made by an employer. This resulted in advantage to employees earning higher salaries.
- Further, any interest or dividend earned on the excess contribution will also be taxable in the hands of an employee.

7. Insertion of Tax Payer's Charter in the Income Tax Act

- The objective of this charter is to provide time-bound services to the citizen.
- However, it is important to note that the contents of this Charter have yet to be made known.

Income Tax Slabs for Comparison

For comparison, here are the various income tax slabs by segment :

Income tax slabs for resident individuals below 60 years of age for FY 2019-20,2020-21

Taxable income slabs	Income tax rates and cess
Up to Rs 2.5 lakh	Nil
Rs 2,50,001 to Rs 5,00,000	5% of (Total income minus Rs 2,50,000) + 4% cess
Rs 5,00,001 to Rs 10,00,000	Rs 12,500 + 20% of (Total income minus Rs 5,00,000) + 4% cess
Rs 10,00,001 and above	Rs 1,12,500 + 30% of (Total income minus Rs 10,00,000) + 4% cess

Income tax slabs for resident individuals between 60 and 80 years of age for FY 2019-20,2020-21

Taxable income slabs	Income tax rates and cess
Up to Rs 3 lakh	Nil
Rs 3,00,001 to Rs 5,00,000	5% of (Total income minus Rs 3,00,000) + 4% cess
Rs 5,00,001 to Rs 10,00,000	Rs 10,000 + 20% of (Total income minus Rs 5,00,000) + 4% cess
Rs 10,00,001 and above	Rs 1,10,000 + 30% of (Total income minus Rs 10,00,000) + 4% cess

Income tax slabs for resident individuals above 80 years of age (Super Senior Citizen) for FY 2019-20,2020-21

Taxable income slabs	Income tax rates and cess
Up to Rs 5 lakh	Nil
Rs 5,00,001 to Rs 10,00,000	20% of (Total income minus Rs 5,00,000) + 4% cess
Rs 10,00,001 and above	Rs 1,00,000 + 30% of (Total income minus Rs 10,00,000) + 4% cess

Surcharges to be levied for FY 2019 - 20 and FY 2020 - 21

In addition, new surcharges rates have been introduced for the ultra-rich and high net-worth individuals:

Taxable income	Surcharge(%)
Income above Rs 50 lakh but below Rs 1 crore	10
Income above Rs 1 crore but below 2 crore	15
Income above Rs 2 crore but below 5 crore	25
Income above Rs 5 crore	37

Source :

[The Economic Times](#)

[ClearTax](#)

[LiveMint](#)



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