

P.R. GUPTA & CO.

CHARTERED ACCOUNTANTS

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‘NEW SYSTEM OF INCOME TAX FOR INDIVIDUAL/HUF’

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“An option to Individuals and HUF has been given to get taxed at reduced rates after foregoing certain deductions/Exemptions. This should benefit many tax payers”

I. Preamble:

From Assessment year 2021-22, an option has been given to individual and HUF under section 115BAC to get taxed at reduced rates. However, the Tax-Payer will have to forego certain exemptions/deductions. Therefore a comparative analysis will have to be made in every case to evaluate which system shall be better.

II. Option under Section 115-BAC (New Tax System):

Reduced rate of Income Tax as per the new slab rates are as follows

Sl.No	Total Taxable Income	Rate of Tax
1	Up to 2,50,000	NIL
2	From 2,50,000 to 5,00,000	5 %
3	From 5,00,000 to 7,50,000	10%
4	From 7,50,000 to 10,00,000	15%
5	From 10,00,000 to 12,50,000	20%
6	From 12,50,000 to 15,00,000	25%
7	Above Rs. 15,00,000	30%

The rate of surcharge and 4% cess (HEC) will remain same as in the Old System of Tax. Marginal Relief shall also be accorded under the new regime. Further deduction under section 87A for a Tax payer having taxable income up to Rs. 5 Lacs shall also be accorded.

III. Certain Deductions not available under New Tax System:

The following Deductions/ Exemptions will not be allowed if the new tax system is opted:

- 1) Standard deduction of Rs. 50,000
- 2) Deduction for Professional Tax
- 3) No deduction will be allowed for House Rent Allowance (HRA), Leave travel, Food Coupons or any allowance prescribed under section 10 (14)
- 4) Deductions under Chapter VI A. That is deduction under section 80C, 80D etc. (however deduction under the provisions of sub-section (2) of section 80CCD or section 80JJAA will be allowed)
- 5) Loss from house property is not eligible to be set off against any other head of Income. The loss can not be carried forward to set off against next year House Property Income.
- 6) Deduction for additional depreciation under section 32(1)(iia) which is available to manufacturing units for addition of plant and machinery



- 7) Deduction under section 10AA. That is deduction for profits of eligible SEZ undertaking.
- 8) Deduction under section 32AD, 33AB, 33ABA,
- 9) Deduction under section 35((1)(ii)/(ii)/(ia), 35(2AA)/(2B), 35AD,35CCC, 35CCD

IV. The following Salient features be noted:

- 1) The option can be availed starting from AY 2021-22 and in subsequent years.
- 2) The option can be changed every year. However in the case of Tax Payer having income from Business or Profession, the option can be changed only once in the subsequent years and once it is changed, it cannot be changed further in subsequent years.
- 3) The salaried tax-payer can inform the employer to calculate TDS as per the option exercised by him. However it will be open to the employee to change this option at the time of filing the return. The option once exercised for a particular year is irrevocable. Also the TDS option can also be changed every year.
- 4) Form 10-IE under sub rule (1) of rule 21AG for exercising the option will have to be filed online before the due date of filing return under section 139(1). If not filed before due date or if return is not filed before the due date, then assessee will have no option to choose the new system.



V. Conclusion:

Every assessee must evaluate this option which is beneficial for many tax payers. However some intricate points need to be taken care. Our website www.prgupta.com can be accessed to download a Tax Calculator for comparison of tax liability under the two regimes.

ABOUT AUTHOR:

Author is a Fellow Member of the Institute of Chartered Accountants of India (ICAI) and also Fellow Member of The Institute of Company Secretaries of India (ICSI). Author is doing CA practice and has more than 40 years of experience. He is a former Senior Vice-President of Noida Management Association, Former Chairman of Noida Chapter of the ICSI and Former Secretary of Noida Branch of ICAI.

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