

Salaried need tax breather

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The Government should look at increasing the limit of deduction under Section 80C from Rs 1 lakh to Rs 2 lakh.



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There are a lot of expectations from the forthcoming Budget. The manifesto of the Congress party pointed out that the focus of the new measures will be to stimulate demand in the domestic economy and augment the purchasing power of the people. Given the current global meltdown, impetus is needed on the personal tax front. This will not only stimulate demand but provide a much-needed breather to the public at large.

Burden on middle class

While the personal income-tax rates were streamlined by the Finance Act, 2008 resulting in the reduction of tax liability at all levels, the tax rate of 33.99 per cent (inclusive of surcharge and education cess) on income of Rs 5 lakh and above still casts a sizeable burden on the middle class, reducing the surplus in their hands.

If we look at other countries, the peak tax rate is 17 per cent in Hong Kong, 20 per cent in Singapore, 28 per cent in Malaysia and 29 per cent in Canada. In other countries, where the tax rate is higher, the slabs are generally wider.

Keeping in mind the current tax rates, there is still scope for further reduction in the personal tax rates, while at the same time the Government can explore the option of widening the income slabs, so that only high earners are subjected to tax at higher rates.

In the context of ongoing economic slowdown, what is crucial is to bring back the individual buyers into the market. One of ways through which this could be done is lowering of income-tax rates or increasing income slabs, thereby raising the income levels.

Section 80C deduction

Also, it is worthwhile to note that the avenues available to the “*aam aadm*” for making investment have virtually dried up. The current regime provides a deduction up to a maximum of Rs 1 lakh for specific investments under Section 80C of the Income-Tax Act, 1961.

Given that the Government is looking at mobilisation of funds for the infrastructure sector, which remains a critical constraint for growth, the Government should look at increasing the limit of deduction available under Section 80C from Rs 1 lakh to, say, Rs 2 lakh, with a condition that Rs 1 lakh should be invested only in securities of companies engaged in the infrastructure sector.

Further, housing being a very critical requirement, there is need for strengthening the incentives for investment in residential house property, by way of increased quantum of deduction for interest on loans taken for acquisition of house property, deduction under Section 80C of the Act on repayment of housing loan, etc.

Medical reimbursement

The current stress level and hectic lifestyle necessitate regular medical care. The relief available to employees is pegged at a maximum of Rs 15,000 per annum, which appears inadequate considering that the said expenditure can be incurred by the employee either on himself or his family (that is, spouse, children, dependent parents/brothers/sisters). Keeping in view the ever rising medical costs, it is suggested that the medical reimbursement exemption be increased to at least Rs 40,000 to provide sufficient tax advantage to salaried class.

The increased cost of education, particularly at the primary level, is a matter of concern. At present, an employee is allowed a paltry deduction towards children’s education (Rs 100 per month per child with a restriction to two children) and hostel expenses (Rs 300 per month per child with a restriction to two children).

The actual expense incurred by an employee is way beyond such exemption limits. It is suggested that the Government should consider revising the limits to keep them in tune with the market rates.

Similarly, the limit for transport allowance, which is currently pegged at Rs. 800 per month, needs to be raised.

FBT on ESOP

The Finance Act, 2007 brought Employee Stock Option Plan (ESOP) within the ambit of Fringe Benefit Tax (FBT). This has been a cause of concern for India Inc., for whom ESOP is the main motivational tool for attracting and retaining talented personnel, where high attrition in workforce is a common phenomenon.

It is to be noted that while the tax paid by the employer can certainly be recovered from employees under an agreement or through a suitable provision in the stock option scheme, at times the employer may not like to opt for recovering the tax, apprehending that the same would not achieve the objective of the ESOP for which it was designed, that is, motivating the employees and reducing the attrition rate.

In this context, a re-look at ESOPs being taxed as FBT may be desirable.

It is not wrong to state that “after the Government takes enough to balance the Budget, the taxpayer has the job of budgeting the balance.”

Let’s hope the forthcoming Budget invests in the future, protects the most vulnerable among us and helps create jobs and economic security.