

Are the salaried better off?

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Savings for individual taxpayers									
(in Rs)									
Taxable income	Senior Citizen			Women			Others		
	Before	After	Tax savings	Before	After	Tax savings	Before	After	Tax savings
5,00,000	48,925	47,380	(1,545)	53,560	52,530	(1,030)	56,650	55,620	(1,030)
10,00,000	2,03,425	2,01,880	(1,545)	2,08,060	2,07,030	(1,030)	2,11,150	2,10,120	(1,030)
20,00,000	5,63,668	5,10,880	(52,788)	5,68,766	5,16,030	(52,736)	5,72,165	5,19,120	(53,045)

As the focus of Budget 2009 is on ‘inclusive development’, the Finance Minister, Mr Pranab Mukherjee, has tried to cover within its ambit various communities and sections of society.

Though ‘aam aadmi’ continues to be in focus for all programmes and schemes, the key wish of the ‘aam aadmi’ relating to reduction in tax rates remains unfulfilled.

Minor relief

Marginal relief has been provided to salaried taxpayers by way of a change in income slabs. The basic exemption limit for all individual taxpayers stands increased by a moderate Rs 10,000 and that of senior citizens by Rs 15,000. The removal of the 10 per cent surcharge comes as a big relief, especially for taxpayers falling in the taxable income bracket of over Rs 10 lakh.

The estimated savings arising due to the above changes for different categories of income earners are presented in the Table.

It is evident from the Table that persons earning in excess of Rs 10 lakh are the main gainers as a result of the removal of surcharge.

Removal of FBT

One of the major proposals in the Budget 2009, and which is in sync with industry expectations, is the deletion of Fringe Benefit Tax (FBT). While this will give a boost to the corporate sector, it would mean revamping the ‘perquisite rules’ for the salaried class, as tax incidence of some of the fringe benefits will now shift to the employees. These would cover provision of car and driver, stock options, superannuation benefit in excess of Rs 1 lakh, etc.

The taxability of such benefits will get clearer once the Income-Tax Rules are announced, though it is likely that they will mirror the provisions applicable for non-FBT entities.

Though we would have to wait for the new valuation rules, the marginal benefit due to deletion of the surcharge may get nullified by the shift from the FBT to the perquisite regime.

Stock options

One of the key components where taxability shifts in the hands of the employees is 'stock options', which are now taxed as a 'perquisite' in the hands of the employees. Taxability gets triggered at the time of exercise of the Options — the differential between the Fair Market Value (FMV) on the exercise date and the 'exercise price' gets taxed as a 'perquisite", as opposed to the differential between the FMV on the vesting date and the 'exercise price' which was liable for FBT.

This change in law may lead to a potential cash flow issue for employees especially in a 'cashless' scenario.

While the global economic downturn takes a toll on individual incomes and savings and the 'aam aadmi' continues to struggle with high cost of living, it remains to be seen how effective the new Budget provisions are, especially once the tax rules for valuation of perquisites are announced.