In the Wonderland of Investments

Budget 2009: Key Highlights

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1. Marginal relaxation in income tax slabs

The basic exemption limit has been increased by Rs. 10,000 for men and women and by Rs. 15,000 for senior citizens. This would translate into a tax benefit for Rs. 1,000 for non-senior citizens and Rs. 1,500 for senior citizens respectively.

2. Surcharge on income tax abolished

Simultaneously, the 10% surcharge has been discontinued for all categories of taxpayers except for corporate. Since for individuals, surcharge was only applicable to income above Rs. 10 lakh, this move will essentially benefit only the higher income group. The highest tax rate will drop down from 33.99% to 30.9%. The 3% education cess stays put for all taxpayers.

Table1

Taxpayer category	For FY 08-09	As proposed by Budget 2009 for FY 09-10	Tax benefit
Men	Rs. 1,50,000	Rs. 1,60,000	Rs. 1,000
Women	Rs. 1,80,000	Rs. 1,90,000	Rs. 1,000
Senior Citizens	Rs. 2,25,000	Rs. 2,40,000	Rs. 1,500

Table 2: Impact of Budget provisions on income marginally above Rs. 10 lakh

Category	Previous tax payable	As per Budget	Difference
Men	Rs. 2,25,500	Rs. 2,04,000	Rs. 21,500
Female	Rs. 2,22,200	Rs. 2,01,000	Rs. 21,200
Senior Citizen	Rs. 2,17,250	Rs. 1,96,000	Rs. 21,250

3. Scope of Sec. 80E deduction extended

Section 80E provides for a deduction in respect of interest paid on loan taken for the purpose of pursuing full time graduate or post graduate studies in specified fields. Now the scope of this deduction has been extended to cover all fields of studies (including vocational studies) pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognized by the Central or State Government.

4. Deduction for medical treatment of a dependent suffering from disability

Section 80DD offers a deduction in respect of expenditure for the medical treatment of a dependant with disability. The present limit for deduction is Rs.50, 000 if the dependant is suffering from disability and Rs.75, 000 if the dependant is suffering from severe disability.

The Budget proposes to increase the limit for severe disability to Rs.1 lakh. However, the limit for ordinary disability is proposed to be retained at the existing level of Rs.50, 000.

5. Enhancement of the limit for payment of advance tax

Advance tax needs to be paid if the tax payable for any financial year is Rs. 5,000 or more. This limit is being doubled to Rs. 10,000

6. Enhancement of the limit for payment of wealth tax

Currently wealth tax is charged @1% in the net wealth exceeds Rs. 15 lakh. This limit too is being doubled to Rs. 30 lakh.

7. Fringe Benefit Tax no longer applicable

In a significant move that will bring immense cheer to corporates, the much disliked Fringe Benefit Tax (FBT) has been abolished. However, the cheer ought to be short lived for the Budget simultaneously proposes to restore the taxation of fringe benefits as perquisites in the hands of employees. In short, an employer based tax system is being brought back to employee based taxation.

For example, immediately after the budget speech, a section of the media had hailed this move as Employee Stock Options (ESOPs) will no longer be subject to FBT. But perhaps what was not being considered was that these ESOPs will be subject to perquisite tax in the hands of the employees. The perk tax will be the difference between the Fair Market Value (FMV) of the shares on the date of exercise of the options less the exercise price. The story does not end here. Upon sale, capital gains tax will also be payable. Capital gains will be calculated on the difference between the sale price of the shares as reduced by the aforementioned FMV.

This move while benefiting employers (read corporate) will adversely affect employees. While it was true that FBT was anyway being passed on to employees, the effective FBT tax rate in most cases was 6.8 %. Now, these very FBT items will be added to the employee's income as perks and subject to slab rates. So in all probability, instead of having to bear a tax of 6.8%, the employee would be paying a tax of 30.9%.

8. Tax benefits for New Pension System

The New Pension System (NPS) earlier applicable only to government employees has been opened up to all citizens of India since the 1st of May, 2009. Contributions to NPS attract tax benefits under Sec. 80CCD. This deduction was hitherto available to "employees" only. However, Budget 2009 has amended Sec. 80CCD so as to extend the tax benefit there under also to "self-employed" individuals.

A significant point of note here is that there is a limit of 10% of salary on the amount of Sec. 80CCD deduction for employees. Since there is no mention of any similar limit for non-employees, it may be inferred that for this category the overall limit of Rs. 1 lakh will be applicable.

Lastly, there would be no TDS on income flowing from NPS.

9. Sec. 56: Scope of gift tax extended

Readers may know that as per Sec. 56, any sum above Rs. 50,000 in the aggregate received from non-relatives was taxable as income of the recipient. Since these provisions were applicable to 'a sum of money', hitherto, non-cash gifts used to escape this gift tax net. Budget 2009 has effectively plugged this loophole.

Now, the value of any non cash property such as land or building, shares and securities, jewellery, drawings, paintings, sculptures or any works of art etc. transferred without consideration will be subject to income tax in the hands of the recipient.

For immovable property the stamp duty valuation will be considered whereas for movable property, the fair market value on the date of the gift will be considered for arriving at the assessable value.

10. Additional incentive for quoting PAN for TDS

The government finds that non-quoting of PANs by deductees is creating problems in the processing of income tax returns as also for granting credit for TDS. In order to strengthen the PAN mechanism, it is proposed that any person, whose receipts are subject to TDS i.e. the deductee, shall have to mandatorily furnish his PAN to the deductor failing which the deductor shall deduct tax at source at the rate applicable or 20% whichever is higher.

This would also be applicable for those who file forms 15G or 15H. Forms 15G and 15H are filed by investors requesting the institution concerned not to deduct tax at source. What this means is that if these forms are filed without quoting PAN, TDS will be deducted and that too at the rate of at least 20%.

To Conclude

These were the key proposals of Budget 2009. There was absolutely no action taken regarding big ticket items such as disinvestment, fuel policy, FDI, the high fiscal deficit etc. Significantly, the Finance Minister in his budget speech announced that a new Direct Tax Code will replace the current Income Tax Act and the same is going to be introduced within 45 days. One can't help but get the feeling that the tinkering and fixing exercise that Budget 2009 eventually turned into is a precursor to the new Tax Code. Watch this space for updates.

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