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IMPACT OF THE TAX PROPOSALS IN THE UNION BUDGET FOR 2016-17 ON INDIVIDUAL INCOME TAX ASSESSEES: AN ANALYSIS

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ABSTRACT

The Finance Minister has placed his Budget Proposals in the Lok Sabha on 29th February, 2016. Among various proposals in the Budget for the year 2016-17, the proposals relating to direct tax particularly in the area of income tax are very important to the tax payer individuals. In the present article, an attempt has been made to analyse the impact of some major proposals of the Finance Minister relating to income tax provisions on Individual Assesseees. In respect of each of these proposals discussions and analyses have been made. It is observed that the FM is not so pleased with the salaried individuals who are considered as more or less honest tax payers but he is very much pleased with the dishonest black money holders of our country who have accumulated black money of crores of rupees over a number of years and now the FM has given them the golden opportunity to convert their accumulated black money into white money just paying tax @ 45 per cent and without any harassment by the Government. The present researcher is of the opinion that instead of being kind to the gigantic tax evaders, the government should have used its enforcement machinery stringently to compel them to comply with the tax laws of our country.

KEYWORDS

Lok sabha, finance minister, individual assessee.

1. INTRODUCTION

The Union Budget, 2016 placed in the Lok Sabha by the Finance Minister Arun Jaitley on 29th February, 2016 has created a mix reaction among the public of different sections of the society. The Budget has a number of good sides as well as many minus sides from the point of view of the public based on the impact of the budget proposals on the public. Among various proposals in the Budget, the proposals relating to direct tax particularly in the area of income tax are very important to the tax payer individuals. In the present article, an attempt has been made to analyse the impact of the proposals of the Finance Minister relating to income tax provisions on the Individual Assesseees.

2. IMPORTANCE OF THE STUDY

The public eagerly wait for the day when our Union Finance Minister announces some new proposals to be effective for the next financial year. Any good announcement is always welcome. But when some new proposal is made in the Budget which is not beneficial to the general public or is against the principles of ethical justice, the proposal becomes a matter of criticism. So far the matter of income-tax proposals is concerned, the honest tax payers of the country expect hopefully from the Finance Minister to ease their tax burden and at the same time expect to take some stringent actions against the tax evaders. In the Budget proposals for the Union Budget for the year 2016-17, it has been observed that the Finance Minister has proposed only some minor reliefs for the salaried persons but has proposed a mega incentive in favour of the tax-evaders by paving the way for them to convert their accumulated black money into white money. Hence, the present analytical paper in the area of the tax proposals in the Union Budget for the year 2016-17 is very important from the point of view of academic discussion.

3. OBJECTIVES OF THE STUDY

The Objectives of the present study are:

1. To make a computation of the tax benefits that may be available to the tax payer individuals under different income groups in the financial year 2016-17 after taking into account the new budget proposals made by the Finance Minister in the Union Budget, 2016;
2. To analyse the impact of the major income tax proposals on the individual income tax assesseees; and
3. To make some concluding remarks.

4. RESEARCH METHODOLOGY

The present researcher has gone through all the new tax proposals relating to income tax made by the Finance Minister in the Union Budget, 2016. The major income tax proposals which have direct impact on the Individual Assesseees have been selected. Then, after making necessary computations, analyses have been made with respect to impact of these tax proposals on the individual assesseees. Here, major revised and/or new income tax proposals include proposed revision of tax-rebate under Section 87A, proposed revision in respect of deduction under Section 80GG towards payment of rent of house, proposed additional deduction under newly substituted Section 80EE in respect of interest on loan taken for acquiring residential flat or property, proposal for increase in the rate of Sur Charge, proposal for imposition of tax on dividend in the hands of the recipients and proposal for introduction of Voluntary Disclosure Scheme for unearthing black money.

5.0 RESULTS AND DISCUSSION

5.1 PROPOSAL TO ENHANCE TAX REBATE U/S 87A OF THE INCOME TAX ACT

To provide relief to the lower income group individual assesseees having taxable income up to Rs 5 lakh the Finance Minister has proposed to raise tax rebate under Section 87A of the Income Tax Act to Rs 5000 for the Assessment Year 2017-18 instead of tax rebate of Rs 2000 for the Assessment year 2016-17.

ANALYSIS: As a result of introduction of this new provision, an individual tax payer will be benefitted with an additional tax-saving of (Rs 3000 + 3 per cent of Rs 3000) i.e. Rs 3,090, in comparison to tax payable for the Assessment Year 2016-17. Here, normal tax rate @ 10per cent and Education and Higher Education Cess @ 3per cent will be applicable.

5.2 PROPOSAL TO ALLOW ENHANCED DEDUCTION U/S 80GG

As per Budget proposal the Finance Minister has hiked the allowable deduction under Section 80GG. The Finance Minister has proposed that an assessee who does not own any house property and does not get any house rent allowance from the employer but stays in a rented house and pays rent in excess of 10 per cent of total (i.e. taxable) income will be allowed a deduction in respect of house rent paid and this deduction would be up to Rs 5000 per month i.e. Rs 60,000 in a year for the Assessment Year 2017-18. Earlier this deduction was up to Rs 2000 per month i.e. up to Rs 24,000 in a year.

ANALYSIS: The new proposal will bring to the assessee an additional tax-saving which works out minimum at Rs (3600 + 3per cent of 3600) i.e. Rs 3,708 and maximum at Rs 12,793. Here, for the purpose of computing maximum tax-saving, the maximum marginal tax rate of 30 per cent plus Sur Charge @ 15per cent (assuming that the assessee is a super-rich individual having total income above Rs 1 crore) plus Education and Higher Education Cess @ 3per cent have been taken into account. Here, computed maximum tax-saving in the hands of the individual assessee = Rs 10,800 x 1.15x 1.03 = Rs 12,793.

5.3 PROPOSAL FOR ADDITIONAL DEDUCTION UNDER NEW SECTION 80EE

As per the proposal of the Finance Minister, the interest payable on a housing loan that an individual takes from any financial institution for acquiring a residential flat or property shall be allowed as a deduction up to Rs 50,000 under the newly substituted Section 80EE, if the loan is taken in the financial year 2016-17, the cost of the house is not exceeding Rs 50 lakh and the loan amount does not exceed Rs 35 lakh. Such person should not own any residential property on the date of sanction of this housing loan.

ANALYSIS: This provision will encourage the home-less individuals to buy homes for their own. The tax-benefit available to an individual assessee works out minimum at Rs (5000 + 3 per cent of 5000) i.e. Rs 5150 and maximum at Rs 17,768. Here, for the purpose of computing maximum tax-saving, the maximum marginal tax rate of 30 per cent plus Sur Charge @ 15per cent (assuming that the assessee is a super-rich individual having total income above Rs 1 crore) plus Education and Higher Education Cess @ 3per cent have been taken into account. Here, computed maximum tax-saving in the hands of the individual assessee = Rs 15,000 x 1.15x 1.03 = Rs 17,768.

5.4 PROPOSAL FOR INCREASE IN THE RATE OF SUR CHARGE

The Finance Minister has proposed to raise the Sur Charge which was @ 12per cent for financial year 2015-16 to 15 per cent for the financial year 2016-17 (i.e. for Assessment Year 2017-18) on persons other than companies, firms and co-operative societies having taxable income above Rs 1 Crore.

ANALYSIS: Only the super-rich individuals will have to bear additional tax burden with an extra levy of 3 per cent on normal tax payable.

5.5 PROPOSAL FOR IMPOSITION OF TAX ON DIVIDEND INCOME IN THE HANDS OF THE RECIPIENTS

Dividend Distribution Tax which is now (up to Assessment Year 2016-17) paid by companies will continue as before. In addition to this, the Finance Minister has proposed for the financial year 2016-17 (i.e. for Assessment Year 2017-18) a tax @ 10 per cent on the gross amount of dividend which will be payable by recipient individuals, HUFs and firms who will receive dividend in excess of Rs 10 lakh per annum.

ANALYSIS: Up to financial year 2015-16, any dividend from any domestic company was tax-free in the hands of the recipients irrespective of the quantum of dividend. But for the financial year 2016-17 such dividend will be taxable at applicable marginal rate of tax along with other taxable income of the assessee. That is, on this dividend amount (if it exceeds Rs 10 lakh) applicable Sur charge and Cess will also have to be paid.

5.6 PROPOSAL TO INTRODUCE VOLUNTARY DISCLOSURE SCHEME

In the Budget proposal the Finance Minister has announced a Voluntary Disclosure Scheme (VDS) for a period of four months from June 1 to September 30, 2016 for the domestic black money holders to disclose now their previous undisclosed income remaining in the form of any asset and clear up their past unpaid tax by paying a normal tax @ 30 per cent plus Sur charge @ 7.5 per cent plus penalty @ only 7.5 per cent totalling a tax of 45 per cent on undisclosed income. The Finance Minister has announced that there will be no scrutiny or inquiry either in respect of Income Tax Act or Wealth Tax Act and such tax payers will have immunity from any prosecution.

ANALYSIS: This is a golden opportunity for the high net worth individuals having black money to convert their black money into white money by paying tax at a flat rate of 45 per cent which is not too high considering the highest marginal rate of tax applicable to the honest tax payers of the country. It may be pointed out here that Government introduced such type of Voluntary Disclosure scheme in the year 1997.

6.0 CONCLUSION

In the budget proposals for the year 2016-17 the FM has not proposed any change in the income tax rates or the slabs of tax rates applicable to the individual assesses. The FM has given only a token relief to the small income earners by allowing Rs 5,000 tax-rebate instead of Rs 2000 for financial year 2015-16. The FM is not so pleased with the salaried individuals and the retired individuals who are considered as more or less honest in respect of payment of income tax and they are now charged income tax @ 30.9 per cent including Education and Higher Education Cess, if their taxable income exceeds Rs 10 lakh. The FM has no mercy on these honest tax payers of our country but he is very much pleased with the dishonest black money holders of our country who have accumulated black money of crores of rupees over a number of years and after waiting for eighteen years they have been given the golden opportunity by dear FM of our country to convert their accumulated black money into white money just paying tax @ 45 per cent and obviously without any harassment by the Government. Such type of government sponsored amnesty scheme is not for the first time in our country. Since independence, the government had introduced Voluntary Disclosure Scheme (VDS) in some name or other for a number of times. It comes again and again and only patience is required to adopt the opportunity. Now this golden chance for them has come after a gap of eighteen years after its last introduction in the year 1997.

But the present researcher is of the opinion that instead of being kind to the gigantic tax evaders the government should have used its enforcement machinery stringently to compel them to comply with the tax laws of our country.

REFERENCES

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