Opinion | Budget for low income, middle class taxpayers

4 min read . Updated: 04 Feb 2019, 08:48 AM IST Gautam Nayak

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- Reasonably good budget particularly for those with lower levels of income
- The increase in the limit for TDS on bank interest will reduce the woes of senior citizens, persons with incomes below the taxable limit

This year's Budget, which was largely expected to be a vote on account, without any changes in the tax law, surprised taxpayers by containing eight amendments, all of which are beneficial to taxpayers. The additional pleasant surprise was that, other than these eight proposals, all mentioned by finance minister Piyush Goyal in his Budget speech, there were no lurking surprises in the fine print of the law proposing the changes.

The increase in the taxable income limit for rebate from Rs. 3.50 lakh to Rs 5 lakh effectively means that many taxpayers with gross incomes of even a little over Rs 8.35 lakh may not have to pay any tax at all, given the deductions for tax savings investments of Rs 1.5 lakh, the additional deduction of Rs 50,000 for National Pension System, Rs 5,000 for mediclaim premium, Rs 10,000 for bank interest, and standard deduction of Rs 50,000 for salaried employees. However, though no tax may be payable by such taxpayers, if their income is more than Rs.2.5 lakh, they would still have to file a return of income. Besides, taxpayers with taxable income in excess of Rs 5 lakh would not benefit in any manner by the change in this rebate, and would continue to pay the tax as before.

Two significant benefits for the middle class have been those relating to house property—the exclusion of one more house from the purview of notional rent, and the extension of the benefit of exemption of long-term capital gain on reinvestment in a residential house to purchase up to two houses.

Today, if you own more than one residential house, which is occupied by you and your family members or relatives, and not let out, you still end up paying tax on the notional rent of all the houses, except one. You, therefore, pay tax on an artificial income, which you have not actually earned. This adversely affected many taxpayers, who owned one house for their own residence, and another house for the residence of their parents or siblings, or as a holiday home, as they had to pay tax on a rental income which they had not earned. This also affected taxpayers who bought two properties jointly with their spouses, both contributing to the cost of each house. Both husband and wife were taxable on their respective shares of notional rent in respect of one house each. There has also been substantial litigation as to what is the notional rent that should be taxed in such cases.

Now, the benefit is being extended to one more house, so that no notional rent is taxable on two self-occupied houses. This would reduce the tax burden of many taxpayers. However, the concept of taxing a notional rent, which is not really earned, will still apply to the other houses if you own more than two houses, though you may not have let them out. This was, perhaps, an opportunity to restore the concept of only taxing real incomes, and not notional incomes, by extending the benefit to all self-occupied houses, and not just two. Unfortunately, given the amendment, one will still have to live with litigation in cases where taxpayers have more than two self-occupied houses.

The exemption for long-term capital gains on sale of a residential house was restricted to the cost of acquisition of one residential house in 2014. This has now been increased to the cost of acquisition of two residential houses. Therefore, if a person wishes to buy two residential houses at two different locations out of the sales proceeds of one residential house and claim exemption for long-term capital gains, he can now do so. The limit of Rs 2 crore for the capital gain and the once-in-a-lifetime nature of this facility does restrict the number of cases where this can be availed of. In the similar exemption for sale of assets other than residential house, there is no similar amendment. In that case, the exemption will continue to be available only for the cost of acquisition of one residential house.

The increase in the limit for tax deduction at source (TDS) on bank interest will reduce the woes of senior citizens and persons with incomes below the taxable limit, who attempt to distribute their fixed deposits across various banks, to avoid a part of their low incomes getting locked up in pending refunds, due to applicability of TDS. Of course, even if the interest exceeds Rs 40,000, they still have the option of furnishing Form 15G or Form 15H, as the case may be, to avoid deduction of TDS. Unfortunately, Form 15G cannot be furnished in a case where the interest income being paid by the bank exceeds Rs 2.5 lakh, though no tax may be payable on account of the rebate. One hopes that this provision will also be amended to increase the limit of interest where such form can be furnished.

All in all, this has been a reasonably good budget for most taxpayers, particularly those with lower levels of income.

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