For individual taxpayers, no big relief in budget

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This budget does not contain any significant new financial relief for individual taxpayers. Probably, this is on account of the fact that certain reliefs, such as exemption for LTC spent on purchase of specified goods or permitting higher variation of 20% from stamp duty valuation on purchase of property during a limited time period, had already been announced earlier, and are merely being given effect to in this budget. However, some administrative reliefs have been provided.

One such relief is in the form of new dispute resolution committees, where a taxpayer whose returned income does not exceed ₹50 lakh, and who is disputing a proposed addition of up to ₹10 lakh, can opt to settle his potential dispute, and avoid possible long-drawn-out litigation. One will have to wait and see the ground reality—whether these committees really function in an impartial manner, so that taxpayers really benefit as intended.

Another relief is for senior citizens, aged 75 years or more, who will not have to file their income tax returns under certain circumstances. They should only receive income by way of pension and bank interest, and that too, the bank interest has to be from the same bank in which they receive their pension. Besides, the bank has also to be specified by the government for this purpose. The bank will deduct the full tax payable, obviating the need to file the tax return. This benefit may be restricted to only a very few cases, as most senior citizens have deposits in multiple banks, to ensure safety and liquidity. The benefit will not be available if the senior citizen has income from mutual funds, dividends, rentals or capital gains, howsoever small such income may be.

The other relief is for residents, who have overseas retirement accounts, such as 401K plans, started when they were non-residents. So far, there used to be a timing mismatch, as income from such accounts was taxable in India on accrual, while it was taxable on withdrawal in the country where such an account was held.

Therefore, a resident ended up paying double tax on such income, as he could not claim tax credit for taxes paid overseas, since the foreign taxes were paid later on withdrawal, whereas taxes were being paid earlier in India each year.

Now, the manner of taxing such income will be laid down, to remove such difficulty. This provision will however not apply to cases where the income from the retirement account is not taxable at all in the country where the account is held.

Interest for shortfall in payment of advance tax will now not be payable if such shortfall is on account of dividend income, and advance tax has been paid on the due dates falling after such dividend is due, in the same manner as for capital gains.

This will of course mean that taxpayers will now have to keep a tab of date of declaration of dividends (in case of final dividends) and date of payment (in case of interim dividends), increasing the complexity of the tax computation. It would perhaps have been far simpler if dividends were not considered at all in the computation of advance tax liability. But simplicity is not something which our tax laws are known for!

On the negative side, new unit-linked insurance policies (ULIPs) taken after 1 February 2021 will be taxed on maturity as capital gains, if the premium of such new policy or policies for any year exceeds ₹2.5 lakh. The manner of computation of capital gains will be laid down, and such policies will be subject to securities transaction tax, seeking to bring them on par with mutual funds.

However, amounts received under such policies on the death of the policyholder will be exempt from tax. Policies taken before this date and policies where the aggregate annual premium is less than ₹2.5 lakh will continue to be exempt from tax.

The one area where administrative provisions have placed the taxpayers worse off is the reduction of the time limit for filing of belated returns and revised returns of income. Till 2016, such returns could be furnished up to one year from the end of the assessment year, i.e. for a return due on 31 July or 31 October 2015, the return could be filed till 31 March 2017.

Till last year, such returns could be filed up to the end of the assessment year, i.e. a return due by 31 July or 31 October 2019, could be filed up to 31 March 2020. Now, the time limit is being reduced further by 3 months. Therefore, for a return due by 31 July or 31 October 2021, the returns need to be filed by 31 December 2021.

This really leaves taxpayers very little time in cases of genuine difficulties, such as in obtaining information required to file their returns, or due to illness, etc. The consequences of not filing the belated or revised return in time are serious—it can attract a penalty for non-disclosure of income, besides potential prosecution. This is one aspect that the government needs to seriously consider—permit belated filing of return or revised return under certain extenuating circumstances.

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