# Income Tax Rates for FY 2020-21

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During Budget 2020, the Government rolled out a new tax regime to offer considerable relief to taxpayers and streamline the income tax law. Another to remove the dependency of taxpayers on tax consultants and to file their returns independently.

The ITR filing season has set in. This is the first year to choose, between the old tax regime with deductions and exemption and new tax regime without deductions and exemption but with lower slab rates, while filing your ITR. With the initiation of a new tax regime, comes the confusion of which one is suitable for you. You, as the taxpayer, may find it challenging to identify which one of the two regimes is better and relevant to your income.

Here another question arises, what is your income source? Are you a salaried individual, running your business or an entrepreneur or professional? With alterations in existing sections, many of you are trying to evaluate the difference between the old tax vs new tax. Though there is no custom-fit approach for all taxpayers, through this article, we elaborate the new tax vs old tax regimes and the best suitable way forward for your income structure.

Let's begin with the

**New tax regime.**

The option of new tax regime is available to all individuals and HUFs. This is optional. It offers six tax slabs with prevailing rates reduced on income up to Rs. 15 lakh. Due to the income slabs and the various tax rates, multiple exemptions and deductions are not applicable here. Please note that the tax rates in the New tax regime is the same for all categories of Individuals, i.e Individuals & HUF upto 60 years of age, Senior citizens above 60 years upto 80 years, and Super senior citizens above 80 years. Hence no increased basic exemption limit benefit will be available to senior and super senior citizens in the New Tax regime.

The New Tax regime has its pros and corns

**The Pros**:

- The current tax regime is still in place, and you as a taxpayer have the option to choose the best suitable one for you, that is either the old tax regime or the new tax regime. The Government has not enforced compulsion to switch to the new tax regime.
- The new tax regime offers the flexibility to the taxpayer to invest their money as they prefer. With the new scheme, there is no obligatory requirement to

invest in tax saving schemes and insurance plans which may not be in alignment with their financial goals.

- With multiple tax slabs, you as the taxpayer will fit into the tax slab that best meets your yearly income.

**The Cons**:

- Gradually, the present exemptions will be reviewed and slowly erased from the new tax regime.
- With no exemptions, your total taxable amount will be higher as compared during the old tax regime.
- Though there are six tax slabs, it may not be beneficial for all taxpayers if the income-tax authorities decide to do away with the old regime completely.
- You also will not be able to set off any brought forward losses against current income under new scheme.

**Exemptions that remain prevalent in the new system, that you can claim:**

- Interest received on Post Office Savings Account under Section 10(15)(i) the maximum amount of Rs. 3,500.
- Gratuity received from employer up to a maximum amount of Rs. 20 Lacs.
- Amount received from Life Insurance Policy on maturity under Section 10(10D).
- Employer contribution in NPS or EPF up to 12% of salary and interest on EPF up to 9.5% p.a.
- Income from Life Insurance.
- Income from agricultural farming.
- Standard reduction on rent.
- Retrenchment compensation.
- Leave encashment on retirement.
- VRS proceeds up to Rs 5 lacs.
- Retirement cum death benefit.
- Money received as a scholarship for education.
- Interest and maturity amount of PPF or Sukanya Smriddhi Yojna.
- Commutation of Pension. The new tax regime offers you to claim deductions u/s 80CCD(2) (employers contribution in notified pension scheme) and 80JJAA (for new employment).

The new tax regime is only useful for those who have liquidity problem and are not able to avail full benefits of Section 80 C and who do not have any health insurance as well as do not have any home loan running. The new regime may be suitable for only a handful of self-employed or an HUF for which rebate under Section 87A is not available.

**Old Tax Regime.**

To continue to pay taxes under the existing tax rates the assessee can avail rebates and exemptions by staying in the old regime and paying tax at the existing higher rate. In the existing tax regime the basic exemption income slab in case of a resident individual who is 60 years or more (senior citizen) and resident individual of the age of 80 years or more (very senior citizens) at any time during the previous year, continues to remain the same as before at Rs 3 lakh and Rs 5 lakh, respectively.

**The Pros**

- The old income tax regime by enforcing investments in specified tax-saving instruments, over the period inculcated the savings culture in individual and led to savings for any future eventuality like marriage, education, purchase of house property, medical, etc.
- India's gross savings rate was approximately 30 per cent in March 2019 and domestic savings by individuals is a significant contributor to the overall savings rate. If more individuals will opt for the new regime, the savings rate would decrease, nevertheless the consumption cycle and demand would be revived.

**The Cons**

- The tax benefits under the old regime are available on investments in specified instruments and also there is a specific lock-in prescribed for most of the instruments from three-five years. This may not be not a suitable tax-saving option for millennials, who prefer to spend than save, and senior citizens, as they would prefer having liquidity in their hands and investing in instruments which have a flexible and open-ended tenure.
- The investor cannot opt for any other star-rated funds, which may be performing better than the specified instruments, which are mostly risk-averse in nature and may not provide significant returns over the period of investments.
- In case of assessment proceedings before the tax authorities, documentation and proof of investments is required to be retained in the old regime, which may not be required in the new regime.

**Exemptions that remain prevalent in the Old system, that you can claim:**

Below is a comprehensive list under the category of a salaried individual or business or professional.

- Salaried individuals could claim a standard deduction of Rs 50,000.
- Leave Travel Allowance
- House rent allowance depending upon salary structure and rent paid
- Professional tax paid by a maximum of Rs. 2,500/-
- Deductions available under Section 80TTA and 80TTB that is interest from Savings Account/Deposits
- Tax deduction on entertainment allowance and deduction on professional tax For government employees
- The interest amount payable on home loan for a self-occupied or any vacant property u/s 24 maximum deductions of Rs. 2 lakh
- Deduction of Rs 15,000 allowed from family pension under clause (ii) (a) Section 57
- Special Allowances that are provided under Section 10(14) except:
- Transport allowance granted to a

disabled employee

- Conveyance allowance
- Any allowances granted for meeting the cost of travel on tour or transfer of an employee
- Daily allowance
- Perquisites
- Business owners and professionals will lose the exemption to Special Economic Zones under Section 10AA.
- Deductions under Section 32AD, 33AB, 33ABA, 35(1)(ii),35(1)(ii( (a), 35(1)(iii), 35(2AA), 35AD and 35CCC of the Income Tax Act.
- Options of additional depreciation under Section 32(ii) (a) of the Income Tax Act
- The option to carry forward or unabsorbed depreciation of earlier years

Tax-saving investment deductions under Income Tax Act , Chapter VI-A 80C, 80D, 80E, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, etc. These tax-saving investment options include ELSS, NPS, PPF tax relief on mediclaim insurance premium, FDR, dependents who are differently-abled, expenses for specified medical treatments, interest on education loan and many more.

**Income Tax Slab Old vs New:**

| me Tax Slab | Existing Regime Slab Rates for FY 19-20 and FY 20-21 | | | New Regime Slab Rates for FY 20-21 |
|---|---|---|---|---|
| | Resident Individuals & HUF < 60 years of age & NRIs | Resident Individuals & HUF > 60 to < 80 years | Resident Individuals & HUF > 80 years | Applicable for All Individuals & HUF |
| Rs 0.0 – Rs 2.5 Lakhs | NIL | NIL | NIL | NIL |
| Rs 2.5 – Rs 3.00 Lakhs | 5% (tax rebate u/s 87a is available) | NIL | NIL | 5% (tax rebate u/s 87a is available) |
| Rs 2.5 – Rs 3.00 Lakhs | | 5% (tax rebate u/s 87a is available) | NIL | |
| Rs. 5.00 – Rs 7.5 Lakhs | 20% | 20% | 20% | 10% |
| Rs 7.5 – Rs 10.00 Lakhs | 20% | 20% | 20% | 15% |
| Rs 10.00 – Rs. 12.50 Lakhs | 30% | 30% | 30% | 20% |
| Rs. 12.5 – Rs. 15.00 Lakhs | 30% | 30% | 30% | 25% |
| > Rs. 15 Lakhs | 30% | 30% | 30% | 30% |

## Time of Selection of option of ols vs new regime?

| Nature of Income | Time of Selection of option of old vs new regime |
|---|---|
| **Income from Salary or any other head of income attracting TDS** | An employee can opt to choose for the new tax regime and intimate their employer at the beginning of FY 2020-21. Employees can change the option of selecting the tax regime every year<br>However if new tax slab regime is opted at the begning of the year, it cannot be changed anytime during the year for TDS purpose, however the option can be changed at the time of filing of Income-tax return. |
| **Income from Business & Profession** | In case of Business or profession income , the option to choose between the tax regimes is available only once for a particular business. |

## New Tax regime Slab rates for domestic companies – FY 2020-21

| Particulars | Existing / Old regime Tax rates | New Regime Tax rates |
|---|---|---|
| **Company opts for section 115BAB (not covered in section 115BA and 115BAA) & is registered on or after October 1, 2019 and has commenced manufacturing on or before 31st March, 2023.** | **-** | **15%** |
| Company opts for Section 115BAA , wherein the total income of a company has been calculated without claiming specified deductions, incentives, exemptions and additional depreciation | - | 22% |
| Company opts for section 115BA registered on or after March 1, 2016 and engaged in manufacture of any article or thing and does not claim deduction as specified in the section clause. | - | 25% |
| Turnover or gross receipt of the company is less than Rs. 400 crore in the previous year 2018-19 | 25% | 25% |
| Any other domestic company | 30% | 30% |

Additional Health and Education cess at the rate of 4 % will be added to the income tax liability in all cases.

Surcharge applicable for companies is as below:

1. 7% of Income tax where total income > Rs 1 crore
2. 12% of Income tax where total income > Rs.10 crore
3. 10% of income tax where domestic company opted for section 115BAA and 115BAB

Income tax rate for Partnership firm or LLP as per old/ new regime.

A partnership firm/ LLP is taxable at 30%.

* 12% Surcharge is levied on incomes above Rs 1 crore. Health and Education cess at the rate of 4 % Note- There are no concessional rates introduced for firms / LLPs in new tax regime.