Relooking Alternative Tax Regime

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The Finance Minister in the Budget 2023 revised the tax slabs and rates under the new regime and announced it as the Default Tax Regime for the taxpayers from FY 2023-24 onwards under section 115BAC of the Income Tax Act 1961. This statement is particularly relating to individual tax payers.

However, Alternative Tax Regime is introduced in the country first time for the corporate sector from the assessment year 2017-18 and later for the individuals and HUF from the assessment year 2021-22.

The new regime comes with reduced income tax rates with slab of Rs.2,50,000 upto Rs.15 lakhs. The new tax regime removes rebates, exemptions, and deductions keeping in view the progressive taxation in the country.

An attempt is made here to analyse the implications of new tax regime in the country. In this article, I am trying the analyse the impact of Alternative Tax Regime in respect of Individuals, i.e., personal taxation.

The Need for ATR

The Alternate Tax Regime may be beneficial to those assesses belong to lower income groups without any tax planning for future life. Since the tax rates are lower as compared to the maximum marginal rate of tax. However, it is true upto a certain level of income category only.

The purpose of alternative tax regime is introduced with an intention to increase the Tax Base under personal taxation.

The tax base in respect of tax revenue from Individuals, is in respect of income under the head salaries. The employees and the work force in the country is the major source of tax revenue under personal taxation.

The work force in the country is around 18% of the world population as per UN. Out of 1.4 billion population in the country. Only 1.5% of our population pays income tax in our country. This is in spite of that the worker population in our country is around 50 to 55% of the total population. But still the tax revenue from the income tax as compared to the total tax revenue is very less.

Any changes in the system of taxation is made keeping in view the tax revenue to the government. The tax revenue to the government depends upon the Tax Base. More the size of the tax base, results in increased revenue. In respect of individual taxation, major tax base is under salary income. The increased work force in the country should result in increase in income tax revenue but that is not happening and the income tax base remains narrow.

Total number of Income Tax Returns filed upon 31st July 2023 relating to the assessment year 2023-24 is 6.82 crores as per the data published by the income tax department. It is hardly 5% of the total population of the country of 1.40 billion.

Impact of ATR

Provisional figures issued by the Ministry of Finance showed that the net collection for the Financial year 2022-23 are at 16.61 lakh crore rupees, representing an increase of 17.63 percent, as compared to preceding Financial Year 2021-22, which was stood at 14.12 lakh crore rupees.

The gross Personal Income Tax collection for 2022-23 is at 9,60,764 crore rupees and has shown a growth of 24.23 percent over the gross Personal Income Tax collection of 7,73,389 crore rupees of the preceding year.

The above is after introduction of Alternative Tax Regime in non-corporate sector.

However, India's new tax regime has struggled to gain acceptance among taxpayers though it was introduced in the union budget three years ago. On analysis of the Income Tax Returns filed for the assessment year 2023-24, approximately 85% of the tax payers opted and filed the returns under Old Tax Regime.

As a result of most of the exemptions and deductions are taken out in the new tax regime, the scope for investment decreases in the country slowly. When exemptions are removed, the tax-saving investments losing their relevance, the urge to save for the future – even if it is for tax breaks – could go away.

The shift to the new tax regime could spell other potential effects on ground investments – for instance, regarding ELSS funds.The removal of deductions takes away the allure for investments.

The new tax regime does not require any elaborate tax planning and enables easy tax payments. The tax saving investments under Section 80C will loose its importance. There is no need to make any tax planning under the ATR.

- The old regime suits taxpayers in the low and middle-income group, provided the taxpayer makes sufficient tax-saving investments.

- With the application of deductions, the old regime saves substantially on the tax outgo.

- High-income taxpayers with an annual gross income of Rs.15 Lakhs and above gain over the tax outgo, and hence, the new regime appears beneficial.

The introduction of Section 115BAC with reduced tax slabs indicates life without any savings for future. However, without the deductions and exemptions, your tax liability computation is much more easy. On the other hand, low and middle-income taxpayers reap the benefits of old slab rates as they patronize tax savings investment by default.

Currently, as per the provisions, individuals can voluntarily decide which tax regime they would like to avail themselves of. Taxpayers with an annual income between Rs 5 lakh and Rs 10 lakh are taxed at 20 per cent under the old regime, and in the new regime, they are taxed at half that rate, i.e., 10 per cent.

However, deductions under Section 80C and Section 80D of the Income Tax Act make the old tax regime more attractive for many. Some of the issues are discussed that arrises under ATR :

- **No need to lock in funds in the prescribed instruments for the specified period:**

Under the new regime, the benefit of deduction/allowances would not be the criteria for availing the tax exemption. This may be helpful for those categories of taxpayers who may not subscribe to the specified modes of investments, as most of the investments have a lock-in period, before which it cannot be withdrawn. They can invest in open-ended mutual funds/instruments/deposits, which provides them with good returns as well as the flexibility of withdrawal as well.

- **Increased liquidity in the hands of the taxpayer:**

    - The reduced tax rate would provide more disposable income to the taxpayer, who could not invest in specified instruments due to certain financial or other personal reasons.

- The flexibility of customizing the investments:
  - The existing tax regime restricts the investment choices for the taxpayer as they have to make the investments only in the instruments specified. However, the new regime provides taxpayers with the flexibility of customizing their investment choices.

Selection of suitable tax regime:

The selection depends upon on the total taxable income of a tax payer and also whether the tax payer plans savings and claim deductions under Section 80C, 80D, Contribution to New Pension Scheme, HRA exemptions and deduction of interest under section 24 relating to the housing loan and the house is self occupied.

How to Select the Alternative

The Budget 2023 has made the new tax provision more attractive by extending the deduction of Standard Deduction of Rs.50,000 to the salaried class. Also the benefit of Sec.115BAC has also been extended to AOP.

Analysis of Old Vs. New Tax Regime

If an assessee has total gross income of Rs.10,00,000 for the financial year 2023-24 (Assessment year 2024-25) allowed standard deduction of Rs.50,000 and deduction under the new tax regime in respect of an Assessee who is below 60 years

For analysis of deductions that can be allowed under Chapter VIA under old tax regime is assumed as follows:

Deduction	Amount – Rs.
Sec.80C – Specified Savings	1,50,000
Sec.80TTA – Interest on SB Account	10,000
Sec.80D – Medical Insurance Premium	25,000
Sec.80CCD (IB) – Contribution to Pension Scheme	50,000
Total	2,35,000

As per Sec.115BAC the assessee gets standard deduction of Rs.50,000 and the Net Income is Rs.9,50,000 who is an employee. The Tax Liability amounted to Rs.54,600. Under old tax regime, the total total deduction is Rs.2,85,000 and the net income is Rs.7,15,000. The tax liability is Rs.57,720. Tax saving is marginal amounting Rs.3,120. Almost this level seems to be break even both under new and old tax regime.

In respect of assessee who is not employee it makes a difference of Rs.10,000 tax only on account of absence of standard deduction.

Another case of Gross Total Income of Rs.15,00,000 under both the tax regime in respect of Individual assesse is given below:

				New				Old
Gross Total Income				1500000	Gross Total Income			1500000
Less: Standard Deduction (salary income)				50000	Chapter VI A Deductions			285000
Net Income				1450000				1215000
Income		Amount	Rate	Tax	Income	Amount	Rate	Tax
Upto Rs.3 lakhs		300000	0%	0%	Upto Rs.2.50 lakhs	250000	0%	0%
Rs.3 lakhs to Rs.6 lakhs		300000	5%	15000	Rs.2.50 lakhs to Rs.5 lakhs	250000	5%	12500
Rs.6 lakhs to Rs.9 lakhs		300000	10%	30000	Rs.5 lakhs to Rs.10 lakhs	500000	20%	100000
Rs.9 lakhs to Rs.12 lakhs		300000	15%	45000	Rs.10 lakhs and above	215000	30%	64500
Td.12 lakhs to Rs.15 lakhs		250000	20%	50000				
	Total			140000		Total		177000
	Add: 4% HEC			5600		Add: 4% HEC		7080
	Total Tax payable			145600		Tax Payale		184080

In this case, there is benefit by opting for new tax regime as there is tax saving of Rs.38,480. But upon considering HRA exemption under old tax regime, the old is beneficial. However, any increase in come beyond this level, and the tax rate applicable is maximum marginal rate of tax at 30%, and with other deductions, the old tax tax regime is still attractive. Considering other deductions like interest on Home Loan in respect of self occupied property, a senior citizen claiming interest on deposits under section 80TTB amounting to Rs.50,000, Donations under section 80G. etc., the old tax regime is advantages and one can have better tax planning.

The selection of the provisions depends upon case to case situations and the tax payer is required to seek the advise for a better tax planning.

To conclude, the tax payer on a majority, patronize old tax regime until such time both the systems are continued to be available. This will also result in the savings economy of the country.

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