



PRE-BUDGET MEMORANDUM 2020-21

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HIGHLIGHTS

There are some such groups which deserve more tax relief and accordingly suggestions are being submitted before the Hon'ble Union Minister of Finance to consider these while preparing proposals for Union Budget 2020-21.

Senior Citizens

- **Providing suitable investment options**
Suitable investment options should be provided to Senior Citizens to keep their savings in, where not only their hard earn money is safe, but it gives them reasonable return too.
- **Limit on Mediclaim Insurance premium / Medical Expenses**
Existing limit of Rs. 50,000/- u/s 80D towards deduction against payment of Mediclaim Insurance Premium or of Medical Expenses, needs to be increased to at least Rs.1.00 Lac.
- **Deduction in respect of Interest on Deposits**
The sum up to Rs. 50,000 deductible u/s 80TTB out of interest earned from Savings or Fixed Deposit Account with Banks/Post Office is suggested to be increased to Rs.1.00 Lac.

Pensioners

Return on deposits in National Pension Scheme, which is not assured at present, needs to be assured at 9%, while keeping the upper end variable as per market conditions.

Assessees who, or whose dependents, are handicapped or suffering from serious diseases

- **Deduction in respect of maintenance of a handicapped dependant**
Amount of deduction of Rs.75000/- allowed u/s 80DD in respect of maintenance including medical treatment of a handicapped dependant with specified disability and Rs.1.25 Lac in case of severe disability, needs to be increased to Rs.1.00 Lac & Rs.2.00 Lac respectively.
- **Deduction in respect of Medical Treatment**
Expenditure by Assessee on medical treatment of specified diseases of self or dependents exempt u/s 80DDB up to Rs.40,000/- and Rs. 1.00 Lac in case of a Senior Citizen, needs to be increased to Rs.2.00 Lac & Rs. 3.00 Lac respectively and specified diseases also needs to include all serious diseases requiring huge amount of money for medical treatment.
- **Deduction in case of a person with disability**
Deduction u/s 80U to Assessees suffering from certain disabilities of Rs.75,000 & Rs.1.25 Lac in case of severe disability, needs be raised to Rs.1.00 Lac and Rs.1.50 Lac respectively.

House owners earning Rental Income

Flat deduction @ 30% of gross rent allowed u/s 24(a), needs to be increased by 5% for next every 5 years after first 10 years of construction of house, subject to maximum 50%.

Salaried Class

Salaried class, in spite of being the most regular payer of Income Tax, is not getting their due. Hence, in order to bring some relief to this class, some measures are being suggested here below –

- **Deduction against conveyance expenses**
Deduction against expenses incurred by employees on commuting between place of their residence and work should be allowed @ 5% of salary subject to maximum of Rs.50000 for big cities and @ 2.5% of salary subject to maximum Rs.25000 for smaller cities.
- **Deduction against House Rent Paid**
The condition of payment of HRA by employer for allowing deduction towards house rent paid by the employee should be removed as taking a house on rent near work place is incidental to employment and getting an allowance from the employer is not in the hands of an employee.
- **Notional value of housing accommodation provided by the employer in certain cases**
Accommodation is provided to employees in or near the workplace to make their services instantly available. Hence notional value of such facility should not be added in their taxable income, if there is no additional income to them by occupying it or the income so generated is separately subjected to tax.
- **Review of monetary ceilings determined under various provisions**
In cases where a monetary ceiling is fixed for allowing exemption of or a deduction from income chargeable to tax etc., it may lose relevance, if not reviewed for long. Hence these may be linked with certain parameters to ensure suo-moto revision thereof.
- **Elimination of multiple categories of employees**
Employees have been divided into various categories, prescribing different criteria for taxing their income, making computation of tax a complicated affair and giving rise to dissatisfaction among employees. Hence same criteria should be prescribed for all employees.
- **Allowing deduction for amount recovered by employer from an outgoing employee**
Provision should be made to give credit of recovery made from the outgoing employees, while calculating their tax liability, if notice given by them for leaving employment falls short of the stipulated period.

Other Suggestions –

- Concept of ‘Previous Year’ and the ‘Assessment Year’ needs to be replaced by ‘Financial Year’, as in case of other tax laws, in order to remove confusion.
- Threshold limit of income exempt from tax, which is Rs.2.50 Lac for general assesseees and Rs.3.00 Lac for Senior Citizens, needs to be revised to Rs.3.00 Lac and Rs.4.00 Lac respectively.
- Rates of Income Tax which are 5% from exemption limit to Rs.5.00 Lac, 20% after it to Rs.10.00 Lac and 30% after that may be revised to 5% from exemption limit to Rs.5.00 Lac, 10% after it to Rs.10.00 Lac, 20% after it to Rs.15.00 Lac and 30% after that to make these rational.
- Deduction up to Rs.1.50 Lac allowed u/s 80C for investment made by the Assesseees in specified schemes needs to be increased to Rs.2.00 Lac.

SUGGESTIONS

Taxes are necessary to run the Government of any Country. However, while Indirect Taxes are levied irrespective of the bearing capacity of the target payers, Direct Taxes (to be more specific Income Tax, the governing provisions related to which in India are contained in the Income Tax Act, 1961 and the Income Tax Rules, 1962, hereinafter referred to as the 'Act' and the 'Rules' respectively), are levied on those who can bear and in proportion to their capacity. Hence, it seems justifiable that a lenient view is taken while taxing certain vulnerable groups, who are prone to become silent sufferers, so that justice is done with them. Accordingly, suggestions are being submitted for consideration of the Hon'ble Union Finance Minister, in respect of the Union Budget 2020-21.

Senior Citizens

In most of the developed countries, people use to get benefit of various Social Security Schemes when they cross a certain age. Hence they need not worry about their future. However, in our country, such schemes either do not exist or are not sufficient to offer Senior Citizens a carefree '*after retirement life*'. Moreover, they have to continue paying taxes on their income in the same manner, as earlier, without providing sufficient additional relief, they seem to become entitled to. Here are some relief measures, Senior Citizens should get –

1. Providing suitable investment options

Senior Citizens gradually lose their regular source of earning. So they want to keep their savings in such investments where, not only their hard earn money is safe, but it gives them reasonable return too. Though by investing in Shares, Mutual Funds etc. they may get good return but if they don't understand intricacies of Share Market, it may turn out to be a risky affair. If they invest in some property, the risk is still high as considering recent fall in real estate, not only they are no longer sure to earn good capital appreciation on investment, rentals have also come down drastically. Moreover, complexities of present day tenancy laws also discourage them to choose the rental income as regular source of their livelihood.

Hence the only safe option before them is to keep their savings in a Government Scheme or with Banks, Post Office etc. But the rates of interest have now come down to such a low level that they cannot earn reasonable return from these. Though some extra interest, over and above the normal rate, is being allowed to Senior Citizens, by Banks and Post Office etc., it is still not sufficient. The Schemes like 'Pradhan Mantri Vaya Vandana Yojana (PMVVY), announced for Senior Citizens, also needs certain modifications to provide some relief to them, as suggested below –

- a) Special schemes for deposit of money by Senior Citizens like PMVVY, should be open for them at all the times and not for a specified period so that any person who turns out to be a Senior Citizen later, does not have to wait for re-opening of the scheme.
- b) Period of deposit in such schemes should be extendable at the option of the depositor.
- c) Maximum limit of investment under such schemes should be increased to Rs.50.00 Lac.
- d) Rate of interest in such schemes, which is 8% at present, should be increased to 9%. Likewise, extra rate of interest allowed by Banks or Post Office should be such, to make the rate 9% in totality for them. Though a ceiling for Gross total Income of target Assesseees may be fixed for it, say up to Rs.10.00 PA.

2. Limit on Mediclaim Insurance premium / Medical Expenses

At present, senior Citizens are entitled to claim deduction against payment of Mediclaim Insurance Premium, or if no such Insurance Policy is taken, on Medical Expenses, to the tune of Rs.50,000/- PA u/s 80D of the Act. However, considering the cost of medical treatment nowadays in India, it needs to be increased to at least Rs.1.00 Lac PA in case of Expenses.

3. Deduction in respect of Interest on Deposits

Senior Citizens are entitled for a deduction up to Rs.50,000 u/s 80TTB out of interest on their deposits in Saving or Fixed Deposit Account with Banks/Post Office. However, this limit should be increased to Rs.1.00 Lac.

Pensioners

An additional deduction of Rs.50,000/- is allowed u/s 80CCD for payment of contribution to National Pension Scheme (a portion of deduction allowed u/s 80C may also be used for this purpose within the overall limit of Rs.1.50 available under that Section) by a salaried or self employed person. Since at present, provision for payment of pension in most of the jobs has been scrapped and the persons engaged in self employment also need assured income in their old age, the return on such schemes should be assured to a reasonable minimum.

At present, the amount of return on this scheme varies as per share market conditions. Hence it needs to be modified in a manner so as to provide a minimum assured return, say at 9%, while keeping the upper end variable as per market conditions.

Assessee who, or whose dependents, are handicapped or suffering from serious diseases

Persons who are handicapped or are suffering from some serious disease not only need special care but medical treatment as well, which is a costly affair. Though the Government should frame certain schemes to help out such people but till it is not done, at least they or their guardians, as the case may be, should not be deprived of the money in their hands, in the form of taxes which they could have spent on the treatment of their self or such dependants. Some suggestions may be given in this regard –

1. Deduction in respect of maintenance of a handicapped dependant

A fixed deduction of Rs.75000/- is allowed u/s 80DD in respect of maintenance (including medical treatment) of a handicapped dependant with specified disability and Rs.1.25 Lac in case of dependents with severe disability. As we know, how costly it has become to take care of such persons, it needs to be increased to Rs.1.00 Lac and Rs.2.00 Lac respectively to provide a meaningful relief to the guardians of such persons.

2. Deduction in respect of Medical Treatment

Expenditure by an Assessee for medical treatment of self or dependents for specified diseases is exempt u/s 80DDB up to Rs.40,000/- & Rs. 1.00 Lac in case of a Senior Citizen. However, deduction needs to be increased to Rs.2.00 Lac & Rs. 3.00 Lac respectively, as one cannot get the treatment of serious diseases in such a meager amount nowadays. Moreover, the list of diseases specified for this purpose does not include even heart bypass surgery, accidental injuries of serious nature etc., which have become common now. Hence the list should include all type of serious diseases/injuries requiring huge amount of money for medical treatment.

3. Deduction in case of a person with disability

Fixed Deduction is available u/s 80U to an Assessee suffering from certain disabilities, the amount of which is Rs.75,000 in case such disability is 40% & above and Rs.1.25 Lac in case of disability of 80% & above. Here again the quantum of deduction needs to be raised to Rs.1.00 Lac and Rs.1.50 Lac respectively.

House owners earning Rental Income

While calculating the taxable rental income, a flat deduction @ 30% of gross rent is allowed u/s 24(a), irrespective of the amount incurred by the Assessee over maintenance of house. Though during initial few years of the construction of house, this quantum of deduction may be found sufficient to meet out such expenses like on white washing, painting etc. but as soon as the house becomes older, it starts demanding more expense on this count like plastering of walls/ floors, replacing wooden doors etc. Hence the existing rate of 30% may be restricted to the age of house up to first 10 years. Thereafter, it may be increased by 5% for next every 5 years of construction of house, subject to maximum 50% of the gross rent, to make it realistic.

Salaried Class

Salaried class, in spite of being the most regular payer of Income Tax in India (may be primarily due to the stringent provisions of TDS as well as transparent nature of their source of income but they also by nature abide by rules and pay taxes willingly), is not able to get their due. Hence, in order to bring some relief to this class, following measures are being suggested –

1. Deduction against conveyance expenses –

Most of the employees have to incur expenses on commuting between place of their residence and work. However, no deduction is allowed to them for this. Previously, if an employee was getting any payment from his employer as Transport Allowance to meet out such expenditure, a sum up to Rs.1600/-PM was exempted out of it u/s 10 (14) read with Rule 2BB. But if he was not getting any amount from his employer as such, he was not entitled for any exemption on this score. However, deduction against conveyance expenses should not be linked with paying of an allowance by an employer, as employees have to incur these expenses irrespective of the fact whether their employers pay anything to them on this score or not. Even the exemption referred to above was withdrawn from the A.Y. 2019-20, apparently as an offset against restoration of Standard Deduction from that year.

Hence, an additional deduction, over and above the Standard Deduction allowed u/s 16 (i), should be allowed to all such employees who do not reside in the precincts of their work place and have to travel to it from their residence, whether in public transport or by an owned vehicle, unless conveyance facility is provided by the employer. In the past also, both of these benefits, namely exemption against Transport Allowance u/s 10 (14) and the Standard Deduction u/s 16 (i) were being allowed simultaneously up to the A.Y. 2006-07.

In fact, deduction against conveyance expenses should be allowed in the ratio of salary as the amount incurred by an employee for this purpose normally varies in proportion to it. According to a rough estimate, about 5% part of salary is spent by employees on conveyance which is purely linked with their employment. Even if they have to maintain a vehicle mainly for this purpose, they are not entitled to claim depreciation. Hence, a deduction at above rate percent of salary, with a ceiling, say of Rs.50000 for those residing in big cities and Rs.25000 for those residing in smaller ones may be considered for this purpose.

2. Deduction against House Rent Paid –

Deduction against House Rent paid is allowed under any of the two provisions, namely –

A. To the employees who are getting House Rent Allowance (HRA)

An employee who is getting allowance from his employer for making payment of rent in respect of residential accommodation occupied by him, can claim exemption u/s 10 (13A) read with Rule 2A, whether he owns any residential accommodation or not, to the least of a) an amount equal to 50% of salary, where the residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% thereof in other cases, b) HRA received by the employee for the relevant period, and c) the excess of rent paid over 10% of salary.

B. To other employees/assesseees

An employee, not getting any such allowance, or any other assessee, residing in a rented accommodation, would get a deduction u/s 80GG of the Act in respect of rent paid, if he or his specified relatives do not own any residential accommodation at the place of his work, the least of a) Rs.5000/- per month, b) 25% of his total income (excluding specified sums), and c) excess of rent paid over 10% of total income (excluding specified sums).

Though the deduction allowed u/s 10 (13A) seems to be more in comparison to that allowed u/s 80GG, the former still needs some modification. Since taking a house on rent near work place is incidental to employment and getting an allowance from the employer is not in the hands of an employee, the criteria of HRA being paid to the employee should be removed for calculating the amount eligible for exemption, though the limit of salary which is equal to 50% and 40% respectively at present may be revised at a slightly lower level, to rationalize the deduction under this section, if required. Moreover, full amount of rent paid should be exempt instead of reducing it by 10% of salary.

3. Notional value of housing accommodation provided by the employer in certain cases

In case, an employer provides housing accommodation to his employees in or near the workplace to make their services instantly available for the job, the employees have to live in it as a condition of their employment. However, notional value of such accommodation is determined and taxed in the hands of employees which does not seem justifiable, especially in undernoted circumstances –

- i) Where, before occupying such accommodation, the employee was residing in an owned house which is now left vacant, no deemed income from vacant house property should be considered by virtue of the provisions of section 23(2)(b) and as such there is no additional income to such employee from occupying the new accommodation.
- ii) In case such owned house is then let out, giving rental income to employee, it is subjected to tax as Income from House Property. Hence the notional value of occupied accommodation should not be added in his income and taxed again.
- iii) In cases, when he owns a residential house but was residing in a rented house and could not vacate it due to some reason. Since he still continues paying rent for it, he does not get any monetary benefit by occupying the house provided by the employer. Accordingly, in such cases, perquisite value of house should be proportionately reduced for the period during which the rent is continued to be paid for rented house.

iv) In case he does not own any house and was also not residing in a rented house (e.g. living with his parents) and starts living in the accommodation provided by the employer, then also perquisite value should not be added in his income on the same ground.

In fact, the views expressed in clause no. 3 and 4 above are correlated. The logic is that since living near the work place is incidental to employment, if employee has to pay rent for that, it should be exempt from tax. But if the employer himself provides such accommodation, it should also not be taxed as a perquisite.

4. Review of monetary ceilings determined under various tax provisions –

There are several provisions wherein a monetary ceiling is fixed in the Act and the Rules for the purpose of allowing exemption of some income from tax or some deduction from income chargeable to tax etc. Such ceilings may be logical in the year when these are fixed but gradually lose their relevance, if not reviewed for a long time. A list containing some such ceilings fixed in respect of salary taxation, is being given here below to explain the position –

A. Exemption for certain allowances paid by the employer u/s 10 (14) read with Rule 2BB -

Children Education Allowance and an allowance granted to an employee to meet the hostel expenditure on his child are exempt from tax @ Rs.100 and Rs.300 respectively per month per child up to a maximum of 2 children under above Rules, the amount of which was last revised from 01-08-1997. As everybody knows, cost of education has gone manifold during the last two decades, these amounts of exemption have lost relevance. Hence these need to be suitably increased, say to Rs.1000/- and 3000/-, otherwise there is no use of continuing this exemption which has now turned out to be merely symbolic.

B. Exemption for Leave Salary

The amount of leave salary exempt u/s 10(10AA) (ii) in case of an employee other than of the Central or of a State Government is Rs.3.00 Lac w.e.f. 2-04-1998 and has not been revised since last about 21 years.

C. Exemption for Compensation received at the time of voluntary retirement or separation

Amount of exemption u/s 10(10C) for Compensation received at the time of voluntary retirement or separation fixed as Rs.5.00 Lac w.e.f. 1-04-1993, has not been revised since last about 26 years.

D. Exemption for compensatory allowances

There are certain allowances, normally paid to government employees, like High Altitude Allowance, Difficult Area Allowance etc., the nomenclature of which indicates that these are not being paid to increase their income but to compensate them for the loss suffered due to their posting in difficult areas/conditions. Though such allowances are exempt from tax to the extent provided u/s 10(14) read with Rule 2BB, these limits need to be modified with every revision in allowances. But in most of the cases, present exemption limits were revised between the years 1997-2001, though the amount of these allowances might have been revised after that. Hence there should be a blanket exemption of such allowances in case of government employees so that there is no need to frequently review these and for employees in other sectors posted in similar areas/conditions, it may be confined to the amount applicable for government employees.

E. Standard Deduction

In order to offset the expenses incurred by salaried class assesseees to earn their salary income (like purchasing of books and periodicals, obtaining membership of professional bodies, joining certain courses to move forward in career, attending seminars to update their knowledge, making payment to placement agencies to find a new job etc.) a flat deduction of Rs.50,000 is allowed as 'Standard Deduction' u/s 16 (i) of the Act. However, since this deduction is not linked with any parameter, it often remains unrevised for long, as has been in the past.

F. Definition of 'Specified Employees'

Section 17(2)(iii) defines certain employees whose income chargeable under the head Salary exceeds Rs.50000/- PA, as 'Specified Employees' for determining taxability of perquisites, namely services of sweeper, gardener, watchman or personal attendant, supply of gas, electricity or water, education facility to family members, leave travel concession, medical facility, car etc. It looks paradoxical that when the threshold limit for income exempt from tax is itself Rs.2.50 Lac at present, what relevance can be given to the annual income above Rs.50000/-!

Actually, it also seems to be the result of fixing independent ceilings without linking these to some parameters and then not reviewing these later. In fact, when this ceiling was fixed in the year 2002-03, the amount of income exempt from tax was also Rs.50000/- which meant that if the income of a person, before adding value of perquisites, was below the threshold limit of income exempt from tax for that year, no such perquisite value was to be added in his income so as to make it taxable. Accordingly, this amount should have been automatically increased to Rs.2.50 Lac at present.

Hence wherever a monetary ceiling is fixed, it should be subject to revision from time to time, say after every 5 years, instead of fixing it for once and then forgetting about it for the decades to come. Or else, it may be linked with some parameters like a percentage of the threshold limit of income exempt from tax so that it is automatically revised with every revision in such threshold limit.

5. Elimination of multiple categories of employees

Under existing provisions, employees have been divided into various categories, prescribing different criteria for each such category for exempting certain income from tax or valuation of perquisites etc., like employees engaged with government, local authorities, statutory corporations, private and other sectors. Even these categories have not been put in same class all the times but are treated differently for different purposes, making calculation of their tax liability a complicated affair. Some such areas are –

A. Tax treatment of Gratuity

Any death-cum-retirement gratuity received by employees of the Central or of a State Government or local authority (excluding employees of statutory corporation) is fully exempt from tax u/s 10(10) (i) of the Act, whereas limits have been placed for exemption in other cases u/s 10(10) (ii) and (iii).

B. Tax treatment of commutation of Pension

Commutated pension received by an employee of Central or of a State Government, local authority or statutory corporation after his retirement, is wholly exempt from tax u/s 10(10A)(i) of the Act. However, limits have been placed for exemption in other cases.

C. Tax treatment of Leave Salary

Full amount received as cash equivalent of salary in respect of the period of earned leave at his credit at the time of retirement/superannuation is exempt from tax in case of employees of Central or of a State Government u/s 10(10AA) (i) of the Act. However, in case of other employees, any amount so received is exempt subject to limitations prescribed u/s 10(10AA) (ii).

D. Perquisite value of rent-free unfurnished accommodation

In case of employees of Central or of a State Government, value of perquisite for rent free unfurnished accommodation is equal to the license fee determined by the respective government as per rules. However, in case of other employees, the amount is to be calculated under Rule 3 (1), as a percentage of their salary income, depending on the city where the accommodation is situated which comes to on much higher side. Moreover, since rental value of accommodation is not considered in it, in case accommodation located at the same place but different in terms of space or facilities is provided to two employees earning equal salary, perquisite value will be the same for both of them.

In fact, the reason of treating different class of employees in a different manner seems to be based on a notion that the employees working in some sectors, especially in private sector, may get some benefits in such a manner which may escape tax liability, hence tax exemption should be allowed to them in a restrictive manner. This position may have been true earlier, but now, comprehensive rules for valuation of perquisites and strict provisions of TDS have made it sure that no benefits or amenities can be provided by an employer to its employees, which can escape tax. Even then, if it is apprehended that employers in any sector may plan the benefits given to their employees to unduly bring down their tax liability, the tax benefit for such items of income to the employees in that sector may be restricted, up to the extent available to government employees but criteria should be the same for all classes of employees for taxing their salary income.

6. Allowing deduction for amount recovered by employer from an outgoing employee

In some cases employers make a recovery from outgoing employees, if the notice given by them for leaving employment falls short of the stipulated period. Since income of the concerned employees is reduced to that extent, credit of such recovery should be given while calculating their taxable income.

However, since there is no such provision under the present Income-Tax Law, the employers cannot do that. On the other hand, in case any reimbursement is made to concerned employees against such recovery, by their succeeding employers, it is added to the salary income of such employees and taxed as such.

To remove this anomaly, a provision should be made to give credit of the amount recovered from outgoing employees, in lieu of notice period, if any, while calculating their income tax liability. Also, in case after giving credit for the amount so recovered, the net salary from previous employer shows negative income for that year (such a situation may arise when the employee leaves job at the beginning of a financial year), it should be adjusted against his salary income from next employer. Of course, if the succeeding employer reimburses something towards such recovery, it should continue to be subjected to tax.

Other Suggestions –

1. The concept of dual periods of ‘Previous Year’ and the ‘Assessment Year’ was created when there was a choice of multiple tax periods, like Calendar/Diwali/Dusherra/Vikrami Samvat Year etc. But since as per existing tax provisions, there can be only one tax period namely, F.Y. starting from 1st day of April to 31st day of March every year, this concept should be done away with by replacing the words ‘Previous Year’ and the ‘Assessment Year’ with ‘Financial Year’, as in case of all other tax laws, in order to remove confusion.
2. The existing threshold limit of income exempt from tax, which is Rs.2.50 Lac for general assesseees and, Rs.3.00 Lac for Senior Citizens, needs to be revised to Rs.3.00 Lac and Rs.4.00 Lac respectively.
3. Present Rate of Income Tax is 5% after respective exemption limit to Rs.5.00 Lac, 20% after Rs.5.00 Lac to Rs.10.00 Lac and 30% over this amount. It seems that one more slab of 10% may be inserted so as to make the existing rate structure rational wherein first slab of 5% is straightaway increased to 20%. Accordingly, it may be revised to 5% after respective exemption limit to Rs.5.00 Lac, 10% after this amount to Rs.10.00 Lac, 20% after this amount to Rs.15.00 Lac and 30% over this amount.
4. Presently, a deduction up to Rs.1.50 Lac is allowed u/s 80C for investments made by the Assesseees in specified schemes like Life Insurance Premium, contribution to PF/PPF, NSC etc. Since such investments are made by them to secure their future, the quantum of this deduction should now be increased to Rs.2.00 Lac now.