**NEW TAX REGIME FOR PERSONAL TAXATION**

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**BACK GROUND:**

The Finance Act, 2020, had introduced the new tax regime for Individuals and HUF by inserting new Section 115BAC in the Income tax Act. This was effective from A.Y. 2021-22 (F.Y.2020-21). Under this new tax regime an Individual or HUF was given benefit of reduced tax rates if certain specified deductions were not claimed. Again, the eligible assessee was required to exercise option to avail the benefit of the reduced tax rates under the new tax regime by filing the prescribed form before the due date for filing the Return of Income under section 139(1) of the Income tax Act. This new tax regime is applicable upto A.Y.2023-24 (F.Y. 2022-23).

The Finance Act, 2023, has amended Section 115BAC effective from A.Y. 2024-25 (F.Y. 2023-24). By this amendment the above provisions are further liberalized and the benefits of this modified new tax regime are now applicable to Individuals, HUF, Association of Persons (other than Co-Operative Societies), Body of Individuals and Artificial Juridical Person. In the modified new tax regime, while computing total income, certain deductions are now permitted. There is now no need to file the prescribed form for exercising the option for claiming benefit under the modified new tax regime. On the contrary, the eligible assessee will now have to file the prescribed form for exercising option to pay tax under the normal provisions of the Act (i.e. old tax regime) for A.Y. 2024-25 and onwards. New clause (6) of Section 115BAC provides that in the case of an assessee having income from business or profession, if the option is exercised in any year, it can be withdrawn only once in any subsequent year. Thereafter, he will not be eligible to exercise the above option in any year. The eligible assessee having no income from business or profession, can exercise the above option by filing the prescribed form with the return of income under section 139 (1) in any year and can withdraw the same in any year. He can exercise the option again in any year.

In this Article the provisions of the modified new tax regime which are applicable from A.Y. 2024-25 (F.Y. 2023-24) are discussed.

**RATES OF TAXES:**

The rates of taxes applicable to an Individual, HUF, AOP, BOI etc., under the old regime, new regime and the modified new tax regime are as under:

|  |  |  |  |
| --- | --- | --- | --- |
| Total Income | Tax Rate  Old Regime | Tax Rate New  Regime upto  A.Y.2023-24 | Tax Rate Modified  New Tax Regime  A.Y. 2024-25 onwards |
| Upto Rs.2,50,000 | Nil | Nil | Nil |
| Rs.2,50,001 to Rs.3,00,000 | 5% | 5% | Nil |
| Rs.3,00,001 to Rs.5,00,000 | 5% | 5% | 5% |
| Rs.5,00,001 to Rs.6,00,000 | 20% | 10% | 5% |
| Rs.6,00,001 to Rs.7,50,000 | 20% | 10% | 10% |
| Rs.7,50,001 to Rs.9,00,000 | 20% | 15% | 10% |
| Rs.9,00,001 to Rs.10,00,000 | 20% | 15% | 15% |
| Rs.10,00,001 to Rs.12,00,000 | 30% | 20% | 15% |
| Rs.12,00,001 to Rs.12,50,000 | 30% | 20% | 20% |
| Rs.12,50,001 to Rs.15,00,000 | 30% | 25% | 20% |
| Above Rs.15,00,000 | 30% | 30% | 30% |

It may be noted that under the modified new tax regime the benefit of higher exemption limit of Rs.5,00,000/- given to Very Senior Citizens under the old regime is not available.

The rates of Surcharge under the old regime and under the new regime are the same i.e. on total income exceeding Rs.50 Lakhs ranging from 10% to 37%. However, under the modified new tax regime from A.Y. 2024-25 surcharge on total income exceeding Rs.5 Cr., will not exceed 25%. The rate of Surcharge on Dividend Income and capital gain under sections 111A, 112 and 112A is restricted to 15% in the old regime, the new regime and the modified new regime. In case of AOP having only corporate members, the rate of surcharge is restricted to 15%. Rate of Health and Education Cess on tax and surcharge continues to be 4%.

**CONDITIONS TO BE COMPLIED WITH:**

As stated above, the benefit of New Tax Regime is available if the eligible assessee complies with certain conditions. One of the conditions relate to forgoing certain deductions while computing total in come. Under the New Tax Regime applicable for A.Y. 2020-21 to A.Y. 2023-24 the deductions under Section (1) 10(5) – Leave Travel Concession, (ii) 10(13A)- House Rent Allowance, (iii) 10(14)-Dealing with special allowance granted to employees, (iv) 10(17) – Allowances to MPS and MLAS, (v) 10(32) – Deduction of clubbed income of Minor Child upto Rs.1,500/-, (vi) 10AA – Deduction of Income of SEZ Unit, (vii) 16 – Standard Deduction of Rs.50,000/-, Deduction for entertainment expenses in specified cases, Deduction for Professional Tax etc., available to salaried employees, (viii) 24(b) – Interest on borrowed funds for Self Occupied Property, (ix) 32(1) (iia) – Additional Depreciation, (x) 32AD – Investment in New Plant and Machinery in notified areas in Certain States, (xi) 33AB – Deposits in Tea, Coffee and Rubber Development Account, (xii) 35(1) (ii), (iia), (iii) and (2AA) – Specified deduction for donation or expenses for Scientific Research, (xiv) 35AD – Deduction of Capital Expenditure for specified business, (xv) 35CCC - Weighted deduction for specified expenditure on Agriculture Extension Project, (xvi) 57 (iia) – Standard deduction for Family Pension, (xvii) Chapter VIA – deductions under Chapter VIA – excluding deduction under Section 80CCD (2) – Employee’s Contribution in notified Pension Scheme, 80CCH dealing with deduction for amount deposited in Agniveer Corpus Fund, Section 80JJAA – Expenditure on employment of new employees and Section 80 LA (1A) – dealing with deduction in respect of certain income of International Financial Services Centre (IFSC), (xviii) Section 71 – Set off carried forward loss from House Property against income from other heads, (ixx) Section 32 – Deprecation under Section 32 (other than Section 32(1) (iia) will be allowed in the prescribed manner, (xx) No exemption or deduction for allowances or perquisites allowable under any other law can be claimed, (xxi) Provisions of Alternate Minimum Tax and for Credit under Section 115JC / 115 JD will not be available.

However, under the modified New Tax Regime applicable from A.Y.2024 – 25 (F.Y. 2023 – 24) some relief is given and the eligible assessee can claim the deductions under sections (i) 16(ia) – Standard Deduction of Rs.50,000/- from Salary Income, (ii) 80CCD (2) – Contribution by employer to Pension Scheme of the Central Government and (iii) Deduction under Section 57 (iia) from Family Pension Income. All other deductions stated earlier cannot be claimed under the modified new tax regime.

**REBATE FROM TAX:**

Section 87A granting relate from tax to a Resident Individual has been amended from A.Y. 2024-25 (F.Y. 2023-24). Under the Old Tax Regime in the case of a resident Individual whose total income does not exceed Rs.5 Lakhs rebate of tax equal to 100% of income tax or Rs.12,500/-, whichever is less, is allowable.

By amendment of section 87A it is now provided that a Resident Individual who opts for modified new tax regime from A.Y. 2024-25 if the total income does not exceed Rs.7,00,000/- a rebate of tax equal to 100% of the tax or Rs.25,000/-, whichever is less, will be allowable. Effectively, a Resident Individual will not have to pay any tax if his total income is Rs.7 Lakhs under the modified new regime.

**ILLUSTRATION:**

The benefits under the modified new tax regime can be explained by an illustration relating to income of an Employee for the Financial year 2023-24 as under:-

Mr. ABC has following income for F.Y. 2023 – 24 (A.Y. 2024-25).

|  |  |
| --- | --- |
| Salary and perquisites | 30,00,000 |
| Interest Income | 5,00,000 |
| Dividend Income (TDS. 40,000) | 4,00,000 |
| LIC Annuity | 1,00,000 |
|  | **Rs. 40,00,000** |

He has contributed Rs.1,50,000/- in PPF A/c and made donations to approved Charitable Trusts (Sec.80G) Rs.1,00,000/-. The computation of Total Income and tax liability under the old tax regime and under the new tax regime will be made as under:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Old Tax Regime** | **New Tax Regime**  **Upto A.Y. 2023-24** | **Modified New**  **Tax Regime A.Y. 2024-25** |
| Salary Income  Less**:** Standard  Deduction | 30,00,000  50,000 | 30,00,000  ------ | 30,00,000  50,000 |
|  | ----------- |  | ------------- |
|  | 29,50,000 |  | 29,50,000 |
| Interest, Dividend  And LIC Annuity | 10,00,000 | 10,00,000 | 10,00,000 |
|  | ------------ | - - --------- | ------------ |
|  | 39,50,000 | 40,00,000 | 39,50,000 |
| **Less**: PPF u/s 80C and  Donation u/s 80G  (150000 + 50000) | 2,00,000 | ------ | -------- |
|  | ------------ | ------------- | ---------- |
| **Total Income Rs**. | **37,50,000** | **40,00,000** | **39,50,000** |
|  | ======== | ======== | ======= |
| Tax on above (excluding Cess) | 9,75,000 | 9,37,500 | 8,85,000 |

Considering the above provisions of the modified New Tax Regime, the Individuals having salary income will benefit by reduction in rates of taxes. In other cases the benefit will be marginal. If deduction for PPF Contribution, LIP etc., under section 80C, donations under Section 80G, deduction for Mediclaim Insurance, Medical expenses etc., under Section 80D etc., had been allowed, the modified new tax regime would have become more popular. The declared policy of the Government is to encourage. people to make savings, spend on healthcare, engage in philanthropic activities etc. Therefore, if deduction is not allowed for investment in tax saving instruments, mediclaim insurance, donation for public charities etc., assessees will not be encouraged to undertake these activities.