



NEW SIMPLIFIED TAX REGIME

AN ANALYSIS

BDO INDIA
MARCH 2020



NOVARTIS P&O OPERATIONS TEAM WILL SEND A SEPARATE COMMUNICATION TO ALL ASSOCIATES ONCE THE PORTAL IS OPEN FOR TAX DECLARATIONS.

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ABOUT BDO

BDO Global Statistics 2019

€ 8.5 billion
US\$ 9.6 billion
€ +12.8% / US\$ +6.9%



10.1%
INCREASE
(at constant
exchange rates)



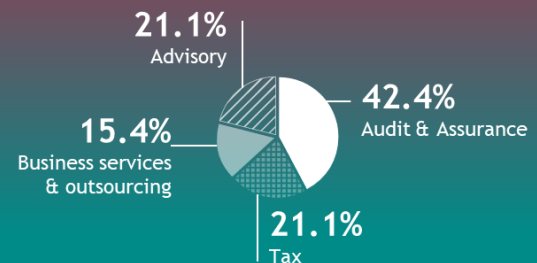
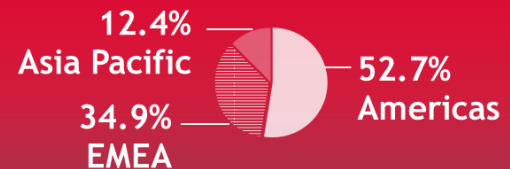
88,120 PEOPLE
up 10% from 80,087



167
Countries
& territories



1,809
offices



BDO IN INDIA

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INDIA UNION BUDGET 2020

Overview

- ▶ Budget 2020 was presented by Indian Finance Minister (FM) on Feb 1, 2020 in the Parliament.
- ▶ The following would be key tax changes that would be relevant for individual taxpayers:

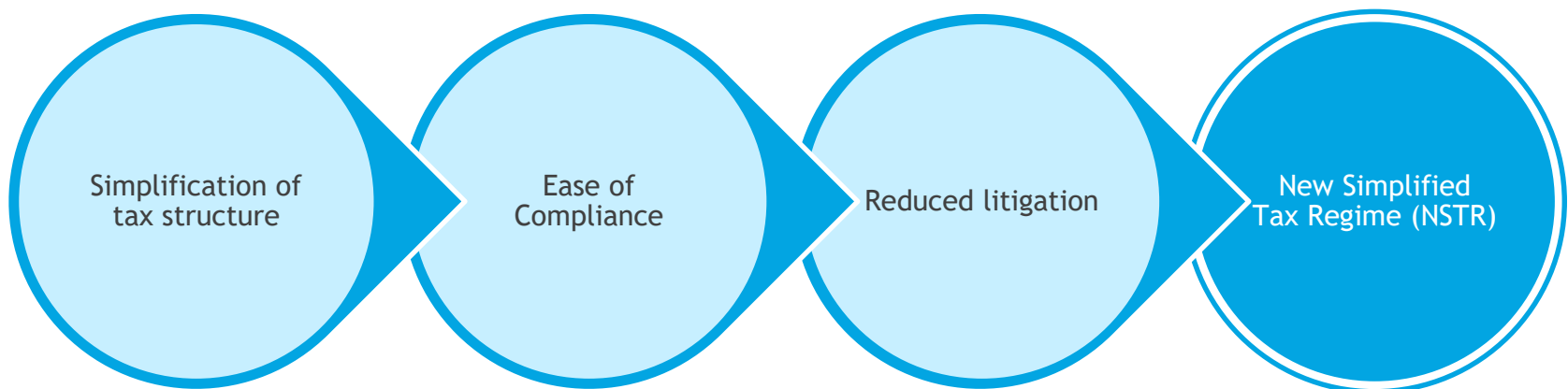
Amendments	Key Factors
New Simplified Tax Regime (NSTR)	New regime introduced. Existing Regime to still operate in parallel
Social Security/Retiral Benefits	Rationalization of employer's contribution to certain funds
Dividend	Transition from Dividend Distribution tax to taxation in the hands of individuals

- ▶ These changes will come into force from April 1, 2020 i.e. Financial Year (FY) 2020-21.

NEW SIMPLIFIED TAX REGIME

Background

- ▶ The FM tabled a proposal wherein an individual taxpayer could make an election between the two personal tax regimes - existing or new.
- ▶ Each individual needs to assess the regime which is more beneficial considering the cost of investments and the tax-savings.
- ▶ The election of the tax regime, i.e. existing or new, will have to be made by the individual taxpayer (not having business income) at the time of filing the annual tax return.



NEW SIMPLIFIED TAX REGIME

Background

What are the tax rates under both regimes?

Income (INR) for individual below the age 60 yrs.	Tax Rates (%)	
	Current regime	NSTR
Up to 250,000	Nil	Nil
2,50,001 - 5,00,000	5%	5%
5,00,001- 7,50,000	20%	10%
7,50,001 - 10,00,000	20%	15%
10,00,001 - 12,50,000	30%	20%
12,50,001 - 15,00,000	30%	25%
Above 15,00,000	30%	30%

Surcharge and education and health cess remain constant under both regimes. Rebate would also apply under both regimes.

When is NSTR applicable? Who can opt for NSTR?

The NSTR is proposed to be applicable from Apr 1, 2020 i.e. FY 2020-21 and onwards. NSTR is available to Individual or Hindu Undivided Family (HUF) taxpayers only

When does the election for the tax regime need to be done?

- in case of individuals who do not have business income, election needs to be made at the time of filing the annual individual tax return
- In case of an individual and HUF having income from business, the option can be exercised in the form and manner as may be prescribed, on or before the due date for furnishing of tax return

NEW SIMPLIFIED TAX REGIME

Background

Component	NSTR
Inflow/Earnings	
Basic Salary	Taxable Standard Deduction not available
Allowances and Perquisites (e.g.): <ul style="list-style-type: none"> ▪ Leave travel concession (LTA) ▪ House Rent Allowance(HRA) 	Taxable No Exemptions for LTA and HRA allowed
Outflow/Investments	
Profession tax	No Deduction Existing regime allows deduction upto INR 2,500 available per annum
Rent Paid/Leave Travel expenses	No Deduction
Contribution/Payments to (e.g.): <ul style="list-style-type: none"> ▪ Employee Provident Fund (EPF) ▪ National Pension Scheme (NPS) ▪ Life Insurance ▪ Child's School Fees ▪ Medical Premium ▪ Equity-linked savings scheme ▪ Public Provident Fund ▪ Charitable/Religious Organizations 	No Deduction No Deductions allowed
Home Loan Repayments - (Principal and Interest)	No Deduction in certain cases
Tax	Per proposed rates and tax slabs

TAX REGIMES FOR INDIVIDUALS

Illustrative Example

Particulars	With voluntary contributions		Without voluntary contributions	
	Current Regime	NSTR	Current Regime	NSTR
Basic Salary	720,000	720,000	720,000	720,000
HRA	80,000	80,000	80,000	80,000
Other allowances	200,000	200,000	200,000	200,000
Total Earnings	1,000,000	1,000,000	1,000,000	1,000,000
PF Contribution	86,400	86,400	86,400	86,400
Life Insurance	63,600	63,600	-	-
Mediclaim	25,000	25,000	-	-
Total Contributions	175,000	175,000	86,400	86,400
Net take-home(before tax)	825,000	825,000	913,600	913,600
Tax	63,960	78,000	82,389	78,000



Simplified Tax Calculator- By BDO India

TAX REGIMES FOR INDIVIDUALS

Comparison and considerations - Salary components and contributions (1/2)

Component	Section	Current Regime	NSTR	Comments
House Rent Allowance (HRA)	10(13)	Deduction Available	Taxable	There will still be a cash outflow but no corresponding deduction under NSTR
Leave travel concession (LTA)	10(5)	Deduction Available	Taxable	In case travel is undertaken, there will still be a cash outflow but no corresponding deduction under NSTR
Contributions to investment scheme/retiral Benefits				
Employee Provident Fund (EPF)	80C	Deduction Available	No Deduction	Mandatory application of income. There will still be a cash outflow but no corresponding deduction under NSTR.
National Pension Scheme (NPS) - Employee's contribution	80CCD(1)	Covered in the overall deduction limit u/s 80CCE (INR 150,000)	All deductions under Chapter VIA (Section 80C, 80CCE, 80D etc.) are excluded.	There will still be a cash outflow but no corresponding deduction under NSTR
NPS- Individual contribution	80CCD(1B)	Max Deduction of INR 50,000	No Deduction	Once opted in - a minimum contribution per year could be required
NPS- Employer's contribution	80CCD(2)	Deduction given for lesser of: <ul style="list-style-type: none"> • 10% of employee's (Salary + Dearness Allowance) • Actual amount deposited 		Treatment remains constant under both regimes

TAX REGIMES FOR INDIVIDUALS

Comparison and considerations - Salary components and contributions (2/2)

Component	Section	Current Regime	NSTR	Comments
Life Insurance premium	80C	Deduction Available Covered in the overall deduction limit u/s 80CCE (INR 150,000)	No Deduction	Contribution for future security. There will still be a cash outflow but no corresponding deduction under NSTR
Child's School Fees	80C		No Deduction	Inevitable cash outflow, but no corresponding deduction under NSTR
Equity-linked savings scheme	80C		No Deduction	Optional investment plan. There will still be a cash outflow but no corresponding deduction under NSTR
Public Provident Fund	80C		No Deduction	Secure investment option with annual accruals. There will still be a cash outflow but no corresponding deduction under NSTR
Medical Insurance Premium	80D	Deduction available per specified limits	No Deduction	Necessary payments for unforeseen medical expenses. There will still be a cash outflow but no corresponding deduction under NSTR
Charitable/ Religious Organizations	80G	Deduction available per specified limits	No Deduction	Optional Payment. There will still be a cash outflow but no corresponding deduction under NSTR
Interest on education loan	80E	Deduction available per specified conditions	No Deduction	Mandatory payments for loans. There will still be a cash outflow but no corresponding deduction under NSTR

TAX REGIMES FOR INDIVIDUALS

Comparison and considerations for House Property Owners

Component	Current Regime	NSTR	Comments
Self-occupied/Vacant House Property			
Standard Deduction @ 30% of Net Annual Value	Not applicable	Not applicable	There will still be a cash outflow but no corresponding deduction under NSTR.
Municipal Tax Payment	Not applicable	Not applicable	
Home Loan Repayments - Principal	Deduction u/s 80C	No Deduction	
Home Loan Repayments - Interest	Deduction u/s 24	No Deduction	
Let-out/Deemed Let-out House Property			
Standard Deduction @ 30% of Net Annual Value	Available	Available	Treatment remains constant under both regimes
Municipal Tax Payment	Available	Available	
Home Loan Repayments - Principal	Deduction u/s 80C	Deduction u/s 80C	
Home Loan Repayments - Interest	Deduction u/s 24	Deduction u/s 24	
Set-off of loss under House property on account of interest paid on home loan	INR 200,000 can be set-off against other heads of income	Cannot be set-off against other heads of income	Under NSTR, losses under house property, can be set-off only against house property income

INDIA UNION BUDGET 2020

Other Changes- Social Security

Rationalization of tax treatment of employer's contribution to certain funds

The Budget has put a cap on exemption available on employers contribution to such funds:

Fund	Employer's contribution in Current Regime	Employer's contribution changes as per Budget 2020
Employee Provident Fund	Taxation in the hands of employees: <ul style="list-style-type: none">Exempt up to 12% of salary of employeeTaxable if exceeds 12% of the salary of the employee	Taxation in the hands of employees:
Approved Superannuation Fund	Taxation in the hands of employees: <ul style="list-style-type: none">Exempt up to INR 150,000Taxable if exceeds INR 150,000	Combined annual upper limit [including any annual accretion to the said accounts (interest, dividend, etc)] during the fiscal year :
National Pension Scheme	Employee is allowed a deduction for employer's contribution (Lesser of the two): <ul style="list-style-type: none">10% of employee's (Salary + Dearness Allowance)Actual amount deposited	<ul style="list-style-type: none">Exempt up to INR 750,000Taxable if exceeds INR 750,000

INDIA UNION BUDGET 2020

Other Changes- Dividend

Taxation of Dividends

Taxpayer	Current Regime	Amendments
Corporate/Company	Dividend Distribution Tax (DDT) applicable	DDT abolished
Individual	Exempt up to INR 10,00,000 for resident taxpayer. Amount in excess of INR 10,00,000 taxed at concessional rate of 10%	No exemption. Taxed at applicable slab rates. TDS credit available.
Illustrative Example 1 Mr. A , a resident taxpayer, received a dividend of INR 50,000 from XYZ India Ltd.	<ul style="list-style-type: none"> XYZ India Ltd paid DDT on the dividend Mr. A can claim an exemption u/s 10(34) for INR 50,000 	<ul style="list-style-type: none"> XYZ India Ltd would not pay DDT on the dividend XYZ India Ltd withholds taxes @ 10% i.e. INR 5000 Mr. A to pay taxes per slab rates on INR 50,000 and to claim TDS credit for INR 5000 in tax return
Illustrative Example 2 Ms. B, a resident taxpayer, received a dividend of INR 12,00,000 from MNO India Ltd.	<ul style="list-style-type: none"> MNO Ltd paid DDT on the dividend Ms. B can claim an exemption u/s 10(34) for INR 10,00,000 Ms. B would need to pay taxes @ 10% on balance INR 200,000 	<ul style="list-style-type: none"> MNO India Ltd would not pay DDT on the dividend MNO India Ltd withholds taxes @ 10% i.e. INR 120,000 Ms. B to pay taxes per slab rates on INR 12,00,000 and to claim TDS credit for INR 120,000 in tax return



FAQS

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

Eligibility

1. When is NSTR applicable?

The NSTR is applicable from Apr 1, 2020 i.e. FY 2020-21 and onwards.

2. Who can opt for NSTR?

NSTR is available to Individual or Hindu Undivided Family (HUF) taxpayers only

3. Will NSTR also apply to expatriates?

Yes, it is applicable to all individual taxpayers in India

Timing

4. When do I need to submit my preference for the tax regime I have opted?

The selection of the tax regime by an individual taxpayer needs to be made at the time of filing the tax return provided he does not have any business income. However, you may need to inform your choice to your employer at the beginning of the FY since this would affect the quantum of tax to be deducted on a monthly basis from salary income. Further instructions from the Government are awaited on this aspect. Clarifications are sought from the Finance Ministry for the same.

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

Selection

5. Can I submit one regime to my employer and claim the other in my return?

The election needs to be made at the time of filing the tax return. While the employer would most likely be required to take a declaration from the employee on this front, practically it may still be possible to choose a different regime if the final election needs to be done at the tax return filing stage.

Clarifications are sought from the Finance Ministry for the same.

6. Can I opt for two different regimes for two different employers in a year i.e. NSTR with first employer and old regime with second employer?

While this could be practically possible, ultimately only one regime would need to be opted for a tax year at the time of filing the tax return

7. Can I switch regimes in the middle of the year?

The election needs to be made at the time of filing the tax return. However, most likely the employer would also take some declaration for the election in order to operate tax withholding. Clarifications are sought from the Finance Ministry for the same.

8. Does the selection of tax regime need to be made every year?

The selection would be based on the nature of income i.e. whether the individual has business income or not. If an individual has no business income, the option can be exercised freely every year at the time of filing the tax return.

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

Income

9. I have a House property, how does NSTR affect me?

In case an individual owns a house property:

Conditions/Type of house property	Self-occupied/Vacant	Let-out	Deemed to be let-out
Standard deduction at 30% of Net annual Value and deduction for municipal tax	Not Applicable	Allowed	Allowed
Deduction for interest on home loan/pre-construction interest	Not allowed	Allowed	Allowed
Loss under House property	Cannot be set-off against any other head of income.		

10. If I have income from capital gains from sale of shares/mutual funds/securities how that would be considered in NSTR?

There is no change in the determination of capital gains. However, capital gains being taxed as per slab rates, the rates under NSTR would apply.



NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

11. If I have Bank interest how does NSTR affect me?

There is no change for deductions for bank interest:

Individuals below 60 years can still claim a deduction of up to INR 10,000

Individuals that are 60 years and above can still claim a deduction of up to INR 50,000

12. If I club my child's income in my return how will NSTR affect me?

Currently, Indian tax laws entitle the parent under whom the minor child's income is being clubbed to avail exemption of INR 1,500 per child. Under NSTR, this exemption shall not be available.

13. My mother/father receives family pension, how is that considered under NSTR?

Currently under Indian tax laws, family pension paid to surviving family members by the employer of the deceased employee, had a deduction available of INR 15,000 or 1/3rd of the amount received whichever is lesser. Under NSTR, this exemption shall not be available.

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

14. Apart from salary income, if I also have business income how does NSTR affect me?

The following deductions would not be allowed:

- Additional depreciation
- Deduction in relation to the investment in new plant or machinery in notified backward areas in certain states
- Deduction in relation to the tea development account, coffee development account and rubber development account
- Deduction in relation to the site restoration fund
- Various deductions for donation for or expenditure on scientific research
- Deduction in respect of expenditure on specified business
- Deduction in relation to the expenditure on agricultural extension project

15. Will I be able to carry forward loss and depreciation if I have business income under NSTR?

The loss and depreciation shall be deemed to have been given full effect and no further deduction shall be allowed for any subsequent year in this regard. However, adjustment of the said depreciation allowance shall be made to the WDV of such block of asset as on 1 April 2020 in the prescribed manner. Also Alternate Minimum Tax provisions including carry forward and set-off the same will not apply under NSTR.

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

16.If I have business income when do I select which regime to opt for?

In case of an individual and HUF having income from business, the option can be exercised in the form and manner as may be prescribed, on or before the due date for furnishing of tax return and the option once exercised, shall apply to subsequent years. The option exercised by such individual / HUF can be withdrawn only once in a fiscal year other than the year in which it was exercised. Once the said option is withdrawn, the individual / HUF cannot re-exercise the option unless the individual / HUF ceases to have any business income

Exemption/Deduction

17. What type of deductions/ exemptions shall not be allowed, especially for salaried individuals?

Under NSTR, the following deductions/ exemptions shall not be allowed:

Leave Travel Concession

House Rent Allowance

Standard Deduction

Entertainment Allowance

Professional Tax

Deductions u/s 80C, 80CCC, 80E, 80D, 80DD, 80G, etc. (for e.g. Provident Fund (PF) contribution made by employee, Home loan repayment, school fees, LIC premium, Public Provident Fund contribution, Equity Linked Savings Scheme, self and parent's medical premium, donations to charitable organisations etc.)

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

18. What are the Deductions/ Exemptions that can be claimed under NSTR?

Following deductions/ exemptions can still be claimed

- Deduction for employer's contribution on to notified pension scheme
- Deduction for new employment
- Transport allowance granted to Divyang employee for commute between place of residence and duty
- Conveyance allowance for expenditure incurred in performance of duties of office.
- Allowance granted to meet cost of travel on tour /transfer.
- Daily allowance to meet charges incurred by employee on account of absence from normal place of duty.
- Share of profit as partner of a firm
- Commutation of pension

19. Will there still be a requirement to submit declaration to employers to claim exemption/deductions?

Employers may take necessary declarations from employees per the internal policy of the employer.

20. Brought forwards losses from house property cannot be set off in case I opt for NSTR. But would this lapse if opted for NSTR? In case in future year I opt for old regime, then can I claim such brought forward losses?

Such losses would lapse as it would be assumed that full effect has been given and no further deduction shall be available

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

21.What happens to my PF contributions, if I opt for NSTR?

PF rules remain unchanged under NSTR. However, the deduction for employee's contribution to PF would not be allowed in the tax return.

22.Can I discontinue my PF if I opt for NSTR?

You can opt out only when you join a new company. Once you choose to contribute to PF there is no option to opt out, unless you change your employer. If you are employed with the same employer and you choose NSTR, PF will continue, but you would not be able to claim the relevant deduction under section 80C in your tax return.

23.What happens to my Gratuity under NSTR?

Exemption for Death cum retirement gratuity remains unchanged as under:

- For Government employees: full amount is exempted
- For other employees - exemption is allowed up to INR 20,00,000

24.What happens to leave encashment on retirement under NSTR?

Exemption for Leave encashment on retirement remains unchanged as under:

- For Government employees: full amount is exempted
- For other employees - exemption is allowed up to INR 3,00,000

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

Calculation of Tax

25. What are the tax rates under both regimes?

Income (INR) for individual below the age 60 yrs.	Tax Rates (%)	
	Current regime	NSTR
Up to 250,000	Nil	Nil
2,50,001 - 5,00,000	5%	5%
5,00,001 - 7,50,000	20%	10%
7,50,001 - 10,00,000	20%	15%
10,00,001 - 12,50,000	30%	20%
12,50,001 - 15,00,000	30%	25%
Above 15,00,000	30%	30%

26. Would surcharge, education and health cess are rebate also be applicable under NSTR?

Yes

Cashflow

27. From a cashflow perspective is NSTR better?

The cashflow under each regime would be dependent upon an individual taxpayer's objective, obligations and salary structure.

NSTR- FREQUENTLY ASKED QUESTIONS (FAQS)

Tax Payment

28. If there is a balance tax payment because I chose a different regime from what I declared to my employer, how do I pay taxes?

Balance tax payment can be made at the time of filing the tax return. It can be paid as Self-Assessment Tax and is to be deposited to the credit of Government.

Tax return

29. What if I file my original tax return with NSTR but if I revise my return can I switch the regime?

The selection of the regime needs to be made along with the tax return filed as per the due dates applicable i.e. Jul 31, 2021. However, clarifications are sought from the Finance Ministry for the same.

30. What if I file my tax return after the due date? Can I still opt for NSTR?

Clarifications are sought from the Finance Ministry for the same.

31.If I have a HUF, can I opt for 1 regime in my personal tax return and the other in the HUF tax return?

Yes. The option to choose is given to individual and HUF taxpayers both. There is no restriction that the same regime needs to be applied under both tax returns since they are both separate taxpayers for tax authorities.



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