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TAX PLANNING UNDER OLD AND NEW TAX REGIME FOR SALARIED PERSON AND PROPOSED FINANCE BILL 2023

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ABSTRACT

Tax planning is one of the important decisions for tax payer. Tax planning is legal process and every tax payer has opportunity to reduce income tax liability through tax planning. Finance bill 2020 has made option to pay income tax called new tax regime. Now it becomes essential for tax payer to decide to opt tax regime. A comparison of selection of new tax regime and old tax regime is discussed with considering section 80C and 80 D.

Keywords: *Tax Planning, Tax Regime, Exemption, Deduction, Relief.*

Introduction

Tax collection from direct tax and specifically income tax collection is very important policy making decision for central government. Territory of income tax is not confined to corporate sector it is equally applicable to non-corporate sector including an individual. Every tax payer would like to reduce its own tax liability. For tax reduction different alternatives are used by the tax payers. First category of tax reduction is tax reduction within the legal frame work which includes tax planning and tax avoidance and second category is outside the legal frame work which includes tax evasion. First category specifically tax planning is associated with moral and ethics.

A new tax regime was introduced in Budget 2020 (section 115BAC) tax slabs were different against old tax regime and in new regime taxpayers were offered concessional tax rates. However, those who opt for the new regime were not allowed to claim several exemptions and deductions, such as HRA, LTA, 80C, 80D and more. Because of this, the new tax regime did not have many takers. The government in Budget 2023 introduced several modifications to encourage taxpayers to adopt the new regime.

As per published data of income departments total tax payers in the assessment year 2013-14 was 5,26,44,496 which increased to 9,37,76,869 in the assessment year 2022-23. Total tax payers include Individuals, HUF, Firm, Company, AOP, Other AOP/BOI, Local authority, AJP and others. Individual tax payers during the assessment 2013-14 was 4,97,76,555 and it was increased to 8,90,89,795 in assessment year 2022-23. The percentage of individual tax payers to total tax payers were 94.55% and 91.80% during the assessment year 2013-14 and 2022-23 respectively. The percentage wise proportion is reduced but number of individual tax payers are increased by 79.70% in 2022-23 against assessment year 2013-14. **(1)**

Keeping in mind significant quantum of individual tax payers (and further precisely salaried person) this paper is prepared. Tax planning for this category of tax payers plays vital role, because first

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problem is selection of tax regime new or old. Next question is, if assessee goes for old regime which deductions are to be used? If assessee goes for new tax regime how he will manage his savings from income? Because under old regime different deductions are available which are mandatory in nature to get benefit of tax reduction. Thus, under old regime tax payer will have indirect compulsory saving which is not available in new regime. For tax planning purpose three terminologies are important to understand and these are exemption, deduction and relief. The tax planning will be done with the consideration of provisions of respective finance bill in the context of exemption, deduction and relief.

"The recent Budget 2023 has caused a lot of confusion among taxpayers regarding the choice between the old and new tax regimes. The government has introduced various incentives in the 2023 Budget to encourage the adoption of the new regime. These changes show that the government's intention is to have taxpayers transition to the new regime and eventually phase out the old one. Though the new regime is now the default tax regime, the old tax regime will continue to exist." **(2)**

These changes are:

- Allowed standard deduction of Rs. 50,000
- Increase slabs of Rs. 2,50,000 to Rs. 3,00,000
- Limit of exempted income is increased to Rs. 3,00,000 from Rs. 2,50,000

Objectives

- To understand purpose of exemption, Relief and deductions of Income Tax Act 1961
- To understand the relevance about withdrawal, modification and introduction of new provisions.
- To examine the relevance new tax regime of finance bill 2020 in the reference of section 115 BAC in the context of finance bill 2023
- To undertake comparative and analytical study of old and new tax regime with fundamental arguments.

Scope

- Provisions of finance bill 2023 for new and old tax regime
- Application of provisions of finance bill 2023 to individual only
- A comparative analysis with application of section 80 C and Section 80 D of income tax act.
- A tax payer having age less than 60 years is considered.

Time Period

Previous year 2023-24 and Assessment year 2024-25.

Sources of Data

Secondary

Significance

- It will be helpful to understand comparative study of new and old tax regime
- It will be helpful to understand purpose of exemptions, deductions and Reliefs
- It will be helpful to an individual tax payer to select tax regime – New or Old
- It will be helpful to an individual to undertake tax planning

Before having discussion on section115 BAC let us see the philosophy of Exemption, Relief and deductions.

- **What is Exemption?**

The income tax department treats certain sources of income as being tax exempt, which means that you don't need to pay tax on such form of income.

"The word exempt means free from an obligation from doing something. In case of income tax exempt income refers to income which though is earned and received during the financial year is not taxable" **(3)**

Which section is applicable? Most income that is exempted from tax is listed under section 10 and 13 of the income tax act. This section contains a list of income that is deemed or considered to be free from taxation.

Why Exemptions?

- It is one kind of appreciation for services provided to the employee to the employer. E.g. (i) Gratuity u/s 10 (10), (ii) LTC u/s 10 (5) (iii) Leave encashment 10(10AA)
- It is one kind of financial support to the employee e.g., HRA
- It is due to national service or to promote weaker section of the society e.g. (i) Agricultural income, (ii) Allowances received by the government employee's u/s (10(7)

- **What is relief?**

To save tax payer from any additional burden of tax due to delay in receiving income, the tax law allows a relief under section 89(1). In simple words you do not pay more taxes, if there was delay in payment to you were in lower tax bracket for the year.

Which section is applicable? Section89 (1)

Why Relief?

- To eliminate injustice process of tax liability determination
- To synchronize between taxable income and tax rates of respective year.

When and where it is Applicable?

If an individual receives any portion of salary in arrears or in advance or family pension received in arrears.

- **What is Deduction?**

A tax deduction is deduction that lowers a person's tax liability by lowering his taxable income. Deductions are typically expenses or investments (e.g., u/s 80 C) that the tax payer incurs during the year that can be applied against or subtract from his gross income in order to figure out much tax is owed.

Which Sections are Applicable?

Sections from 80 C to 80 U, 24(b) and 16(i),(ii), (iii) are some important sections for salaried persons .

Why Deductions?

- To meet certain expenses incurred by the assessee e.g., section 80 D regarding mediclaim, section 80 E Interest on education loan
- To promote government prescribed investment opportunities like NSC, LIC premium etc
- To contribute in natural calamity or to perform social or religious responsibility e.g., section 80 G
- To promote residential facility e.g., section 24(b)

Provisions of section 115 BAC

The following are not available to the individual and HUF tax payer, if new tax regime is opted by them.

- Entertainment allowance (section 16(ii)) and Tax on Employment (section 16(iii))
- Interest on borrowed capital (section24(b)
- Section 80 C to 80 U
- And others.

Note: Standard deduction was not available under new tax regime but as finance bill 2023 it is available.

Applicability of Section 115 BAC

It is applicable to an individual and HUF tax payer.

Purposes of Section 115 BAC

- To simplify tax structure specifically to individual and HUF tax payers
- To reduce tax liability of lower income class of salaried employees
- To make tax payer as good tax planner with their own decisions.
- To create more liquidity in the hands of tax payer
- To get direct tax by the central government

- To make public sector units self dependent
- To make industry self dependent like housing industry
- To provide freedom to tax payers to explore their investment opportunities

Points to be Considered to Select New or Old Tax Regime

For New Regime

- It is simple to calculate tax liability
- Reduce the compliance requirements
- Not required to block the funds
- Good liquidity in hands of tax payers
- Freedom to undertake investment opportunities
- Flexibility for investment choice
- No need to take help of experts of the field
- Not to study provisions of each finance bill pertaining to exemption, deduction and relief
- Time savings of human capital of central government
- Easy to undertake assessment work by the income tax officers
- To make finance bill of each year in easy and understandable manner

For Old Regime

- Compulsory investment for tax payer
- Beneficial in future and specifically in old age
- Significant income to central government
- Meeting emergency financial requirement through section like section 80D for medical treatment
- Financial protection to family in case of death of assessee through Insurance and PF as per section 80C

"Those who claims high amount of exemptions are better off in old tax regime" **(4)**

Old regime is beneficial when tax payer has feasibility to get maximum benefit of exemptions and deductions.

Income tax slabs for an individual having age less than 60 for Previous year 2023-24 and Assessment year 2024-25

Income	Old Regime Tax Rate	Income	New Regime Tax Rate
Up to Rs. 2,50,000	NIL	Up to Rs. 3,00,000	NIL
Rs. 2,50,001 to Rs. 5,00,000	5%	Rs. 3,00,001 to Rs 6,00,000	5%
Rs. 5,00,001 to Rs. 10,00,000	20%	Rs. 6,00,001 to Rs. 9,00,000	10%
Rs. 10,00,001 onwards	30%	Rs. 9,00,001 to Rs. 12,00,00	15%
		Rs. 12,00,001 to Rs. 15,00,000	20%
		Rs. 15,00,001 onwards	30%

Applicable (i) Health and Education Cess: 4%.and (ii) surcharge and benefit of marginal applicable as provisions of finance bill 2023.

Indifference Point (IDP) of Old and New Tax Regime

Indifference point under old and new tax regime means it is that level of income where income tax liability of a tax payer remains identical

In case of indifference point selection decision regarding old or new structure remains irrelevant.

The happening of IDP varies tax payer to tax payer. For determination of IDP several factors are to be considered. Factors like Annual salary of tax payer, willingness of tax payer to avail benefit of different deductions, applicable deductions etc., are to be considered.

Let us examine different case where decision of tax regime is to be taken.

Analysis of Income and Tax Liability under Opted Tax Regime

- **When no deduction is applicable on total Income in such a case new tax regime is beneficial. Some income related status is as follows:**

Comparative Statement

Salary Income after standard deduction Rs.	Tax Under New Tax regime Rs.	Tax Under Old Tax Regime Rs.	Net Tax Saving Rs
8,00,000	36,400	75,400	39,000 Under New Tax Regime
12,00,000	93,600	1,79,400	85,800 Under New Tax Regime
15,00,000	1,56,000	2,73,000	Under New Tax Regime

- **When the benefit deduction of section 80 C is availed**.

Section 80C of the Act allows deductions from total income for payment of life insurance premium, contribution to provident fund and various other schemes. This scheme was introduced for the first time by the Finance Act, 1965, with effect from 1st April, 1965.

Why section 80 C?

The following are some probable reasons for introduction of section 80 C.

- To provide financial security to family members in case of death of head of the family. Refer Life insurance policy provisions
- To cultivate saving habit, subscription towards notified units of mutual fund or UTI, Public deposit scheme of HUDCO (Housing and Urban development Corporation Ltd)
- To acquire benefit of annuity plan, will be useful in future.
- Relaxation in payment of principal amount of loan acquired for hose acquisition or purchase or construction
- To provide finance to public company engaged in infrastructure including power sector in the form of investment in debentures and equity shares or units of a mutual fund proceeds of which are utilized for the developing, maintaining etc of a new infrastructure facility
- To provide subscription to any notified bonds of NABARD (National Bank for Agriculture and Rural development)
- For retirement benefits in the form PF
- Section 80 C is multipurpose provision because it performs activities like
- To develop or cultivate savings habits and these savings are future reward oriented
- Collecting small savings in different forms and to provide finance procurement resources to the different public sector units or notified units for economic development of the nation.

"Section 80C of the Income Tax Act prescribes several instruments that not only offer income tax saving benefits, but also provide financial returns throughout the policy period." **(5)**

Eligible assesses are an individual and HUF.

Quantum of deduction: Maximum Rs 1, 50,000 (w.e.f, assessment year 2015-16) It was Rs 1, 00,000 up to assessment year 201-15

Let us understand comparison with illustration. Assume salary of a person is Rs. 15,00,000.

A comparative study of old and new tax regime

Particulars	Old Tax regime (Rs.)	New Tax regime (Rs.)
Salary	15,00,000	15,00,000
Less: Standard deduction	50,000	50,000
U/S 80 C	1,50,000	NA
Total Deductions	2,00,000	50,000
Taxable salary	13,00,000	14,50,000
Tax liability	2,10,600	1,45,600

Tax saving under new tax regime Rs. 65,000		
Salary	15,00,000	14,50,000
Less: Investment U/C 80 C Tax Liability	(1,50,000) (2,10,600)	NA (1,45,600)
Liquidity on hand	11,40,000	13,04,400
Higher liquidity in case of new tax regime by Rs 1,64,400		

What is worth either old or new tax regime?

It is fight between indirect compulsory saving and voluntary saving.

Arguments in favour of old tax regime:

- It is indirect savings of Rs. 1,50,000.
- His investment under section 80 C is of Rs. 1,50,000 but he has reduced tax liability by Rs.46,800 (Rs 1,50,000 * 31.2%) On investment of Rs. 1,50,000. So practically his investment is of Rs 1,03,200 (Rs. 1,50,000 – Rs. 46,800) and he will get benefit on Rs.1,50,000 by having real investment of Rs.1,03,200
- This investment will be return back on maturity with interest and/or bonus.
- In case of financial needs loan can be obtained against credit balance of PF etc
- Life risk is covered by insurance for family. Policy can be taken for own life, life of the spouse or any child (Child may be dependent/Independent, male/female, minor/major, married/unmarried.)
- Motivation to acquired own house.
- Lower liquidity in present but it will increase in future.

Arguments in favour of new tax regime:

- It reduces tax liabilities
- It increases liquidity
- It allows to explore other profitable opportunities
- Certain deductions are limited in old regime in term of amount and purpose. E.g., Interest on borrowed capital of loan acquired for house purchase is confined to Rs 2,00,000 and on completion of loan payment no deduction will be available.

Risk Factor in new tax regime is deviation from planned opportunities. It is totally optional to tax payer. It is totally voluntary and it is possible that tax payer might skip it. In case of old regime certain deductions are done by the employer before giving any salary like PF, Insurance premium etc to the employee. Thus, it is indirect mandatory arrangement where chances of non investments are remote.

- **When the benefit deduction of section 80 D is availed**

  This deduction is in respect of health insurance premium

  - **Eligible Assessee:** Deduction is permissible under this section, only to an individual or HUF whether resident or non-resident.

Why Section 80 D?

The following are some probable reasons for introduction of section 80 D.

- The population is increasing at faster rate against which increasing rate in health facilities across the country is very low.
- Huge investment is needed for infrastructure, equipments, technology, laboratory arrangement, Human resource and many more.
- Government has limited resources and having economic problems like unemployment, poverty, regional imbalance, income imbalance and others.
- It provides facility of medical insurance and facility of health checkup.

Relevant data pertains to health facilities in India

Through a written reply in Rajya Sabha Minister of state (Health and Family Welfare) informed about hospitals in India.

No of Public Facilities

Particular	Primary Health CTRs (PHCs)	Community Health CTRs (CHCs)	Sub District/ Divisional Hospitals (SDHs)	District Hospitals (DH)	Total Hospitals	No of bed available for public facilities
Gujarat	1,770	385	44	37	2236	41129
India	29,899	5,568	1,255	1,003	37725	7,39,024

Number of Government hospitals and Beds in Rural and Urban areas

Particulars	Rural Hospitals		Urban Hospitals	
	No of Hospitals	No of Beds	No of Hospitals	No of Beds
Gujarat	364	11715	122	20565
India	19810	2,79,588	3,772	4,31,173

There is some hospital of Ayush hospitals, Hospitals of Ministry of defense, Hospitals of Railway, Hospitals of Employee state Insurance Corporations but all are limited in terms of hospitals and bed arrangement.

From the data it can be realized that medical facility for common public is not good. So, Government is promoting to get medical facility from other resources. Thus, government has introduced medical insurance facility.

“In India, most people don't have health insurance and rely on their own savings or borrowing money when they have medical emergencies. To encourage people to purchase health insurance policies, the government introduced tax benefits under Section 80D.” **(6)**

For example, annual salary of a person is Rs. 15,00,000. His age is less than 60 years. They are four family members. He avails benefit of this section up to Rs. 25,000. Medical insurance is covered by this policy of Rs. 5,00,000 for each member of family. Total risk is covered Rs 20,000,00 against premium of Rs. 25,000. But he is in tax bracket of 30% so he will get tax benefit of Rs. 7,800 (Rs. 25,000 * 31.2%) Thus actual insurance premium is Rs. 17,200 (Rs. 25,000 – Tax saving Rs 7,800) His monthly expense on it will be 17,200/12 = Rs 1433.33. He can cover the medical emergency of any family up to Rs. 5,00,000 at cost of Rs. 1433.33 per member. This facility keeps tax payer burden free for medical treatment of family members.

Arguments in favour of section 80D under old tax regime:

- It is useful for any unexpected medical expense.
- It can be used for all family members.
- All dependent and independent children are covered.
- It is highly recommended for senior citizen family members.
- It reduces tax liability.
- It gives mental peace.

It is expense and useful on happening of unexpected event and every year this expense is required to incur. But it is recommended to use under old tax regime. The continuity of this expense provides benefit of non claim bonus thus automatically value of policy is increase without extra premium.

Conclusion

The first objective of this work was “To understand purpose of exemption, Relief and deductions of Income Tax Act 1961”. These terminologies have specific meaning and utility therefore tax payer should understand meaning of them and should take benefits of them.

The second objective of this study was “To understand the relevance about withdrawal, modification and introduction of new provisions.” From the provisions of finance bill 2023 it can be concluded that central government is trying to promote new tax regime by providing incentives to tax payers. In finance bill 2023 government has provided,

- Allowed standard deduction of Rs. 50,000
- Increase slabs of Rs. 2,50,000 to Rs. 3,00,000
- Limit of exempted income is increased to Rs. 3,00,000 from Rs. 2,50,000

The third and fourth objectives are “To examine the relevance new tax regime of finance bill 2020 in the reference of section 115 BAC in the context of finance bill 2023” and “To undertake comparative and analytical study of old and new tax regime with fundamental arguments.” For tax planning decision several factors like age of assessee, income of assessee, saving status of assessee after considering his all-domestic needs, status of assessee means residential status, provisions of respective finance bill, sections applicable to the assessee etc. Every tax payer should undertake cost benefit analysis of new and old tax regime and final decision to be taken.

In same manner a comparative study of new and old regime can be done by applying other sections also. For selection of tax regime, a standardize format for tax planning cannot be developed. A customized format of tax planning is to be developed.

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