



GES NewsFlash

India – Highlights of the Finance Bill 2010

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Budget Proposals on Personal Taxation

Background

The Finance Minister of India presented the Union Budget ('the Budget') before Parliament on February 26, 2010.

This alert lays out the key proposals that impact employers, employees and individual income earners.

These proposals will acquire legal status once approved by both the Houses of Parliament, and the assent by the President of India. Once approved, the provisions will apply to the India tax year 2010-2011 (April 1, 2010 to March 31, 2011), unless otherwise stated.

Employee Taxation

Proposed changes in the tax rates and exemption limits regarding individuals

Though the basic exemption limit remains unchanged, the slab structure has been expanded. There is no change in education cess, which remains at 3% of total tax payable.

The following table summarizes the tax rates as currently applicable to individual tax payers, and as applicable as per the budget proposals:

Tax Rate (including education cess)	Current slabs (INR)	Proposed slabs as per Finance Bill 2010 (INR)	Proposed benefit (INR)
Nil	Up to 160,000 *	Up to 160,000*	Nil
10.3%	160,001 – 300,000	160,001 – 500,000	20,600

20.6%	300,001 – 500,000	500,001 – 800,000	30,900
30.9%	> 500,000	>800,000	Nil

* Basic exemption limit of INR 190,000 for resident females under 65 years and INR 240,000 for resident senior citizens (65 years and above) remains the same.

Tax Concessions

- Deduction up to INR 20,000 for investment in long-term infrastructure bonds (This deduction is over and above the existing limit of INR 100,000 available for investment in saving instruments/ for specified expenditure.)
- Payment of health insurance premium to the Central Government Health Scheme is eligible for tax deduction as in the case of contribution to other approved insurance institutions

Deemed Gift

Under the current law, recipients of a gift of immovable property value being more than INR 50,000 are required to pay tax on the stamp duty value of such property if such gift is received from a person other than specified relatives. The law also provides for payment of tax on the differential amount when the actual transaction value is lower than the stamp duty value thereby taxing the inadequate consideration. The budget proposes to eliminate tax liability on transactions involving inadequate consideration in the recipient's hand.

Employer Compliances

Interest for non/delayed deposit of withholding taxes

Under the existing provisions, interest at 1% per month is levied for non/delayed deposit of withholding tax. It is now proposed to levy higher rate of interest at 1.5% per month, where the deductor has deducted the taxes but has failed to deposit the same into the Government Treasury. The interest rate (1% per month) for late deposit of withholding tax on account of non deduction remains unchanged.

Issuance of withholding tax certificate

The Government has decided to continue with the requirement for issuance of withholding tax certificates, which was proposed to be dispensed with earlier.

Other Aspects

- Simplified, Saral II tax return form to be introduced.
- New Direct Taxes Code likely to come into place from April 1, 2011.

Deloitte's View

Due to the global economic recession, financial year 2009-10 was a challenging

year for India. Yet the country appears to have weathered the economic crisis well, and the Finance minister was guardedly optimistic in his budget speech about the economic outlook of the country in the year to come.

The amendments to personal taxation proposed in the Budget are not major, and will not have a significant impact on the taxes of the globally mobile population based in India. With the proposed widening of the slab rates, tax costs will be reduced to some extent.

On receipt of approval by the Parliament and the President, the proposed bill will receive legal status. Employers have to modify the withholding calculations starting from April 2010, taking into account the proposed changes. .

The current format of the India tax return is fairly complicated, and the reintroduction of the 'Sarl-2" form is a welcome initiative.

To sum up, Budget 2010 did not bring any major surprises to the individual taxpayer in India.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

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