

NEW PERSONAL INCOME TAX REGIME HERALDS SIGNIFICANT RELIEF, ESPECIALLY FOR MIDDLE CLASS TAXPAYERS

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Ministry of Finance

New Personal Income Tax Regime heralds significant relief, especially for Middle Class Taxpayers

New tax regime to be optional for the taxpayers

New rates entail estimated revenue forgone of Rs 40,000 Crore per year

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In order to provide significant relief to the individual taxpayers and to simplify the Income-Tax law, the Union Budget proposes to bring a new and simplified personal income tax regime wherein income tax rates will be significantly reduced for the individual taxpayers who forgo certain deductions and exemptions. While presenting the Union Budget 2020-21 in Parliament today, the Union Minister for Finance & Corporate Affairs, Smt Nirmala Sitharaman said, "The new tax regime shall be optional for the tax payers." She further said that an individual who is currently availing more deductions and exemptions under the Income Tax Act may choose to avail them and continue to pay tax in the old regime.

The New personal Income tax regime proposes the following tax structure:

Taxable Income Slab (Rs.)	Existing tax rates	New tax rates
0-2.5 Lakh	Exempt	Exempt
2.5-5 Lakh	5%	5%
5-7.5 Lakh	20%	10%
7.5-10 Lakh	20%	15%
10-12.5 Lakh	30%	20%
12.5-15 Lakh	30%	25%
Above 15 Lakh	30%	30%

In the new tax regime, substantial tax benefit will accrue to a taxpayer depending upon exemptions and deductions claimed by him. For example, a person earning Rs 15 lakh in a year

and not availing any deductions etc. will pay only Rs, 1,95,000 as compared to Rs, 2,73,000 in the old regime. Thus his tax burden shall be reduced by 78,000 in the new regime. He would still be a gainer in the new regime even if he was taking deduction of Rs 1.5 lakh under various sections of Chapter VI –A of the Income Tax Act under the old regime.

The new tax regime will be optional for the taxpayers. As per the Memorandum explaining the provision in the Finance Bill, the option shall be exercised for every previous year where the individual or the HUF has no business income and in other cases the option once exercised for a previous year shall be valid for that previous year and all subsequent years. The option shall become invalid for a previous year or previous years as the case may be if the individual or HUF fails to satisfy the conditions and other provisions of the Act shall apply.

The new personal income tax rates will entail estimated revenue forgone of Rs 40,000 crore per year. Smt Sitharaman said, “We have also initiated measures to prefill the income tax return so that an individual who opts for the new regime would need no assistance from an expert to file his return and pay income tax.” The Finance Minister said that in order to simplify the income tax system, she has reviewed all the exemptions and deductions incorporated over the past several decades.”

In the Budget, around 70 of the existing exemptions and deductions of different nature (more than 100) have been proposed to be removed. Remaining exemptions and deductions will be reviewed and rationalised in the coming years with a view to further simplifying the tax system and lowering the tax rate.



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