

INTERIM BUDGET 2019: AN ANALYSIS OF THE BREAKTHROUGH CONCEPTS IN ANUTSHELL

Arun Mohan¹ & Sumi Alex²

¹Assistant Professor, Department of Commerce, St Gregorios College, Kottarakkara, Kerala, India

²Assistant Professor & HOD, Department of Commerce, St Gregorios College, Kottarakkara, Kerala, India

Received: 16 May 2019

Accepted: 22 May 2019

Published: 29 May 2019

ABSTRACT

The highly awaited Finance Bill, 2019 was presented on 1st February 2019 and it became an Act following Presidential assent on 21st February 2019. From a direct tax perspective, the Act mainly places its impetus on the needs and wants of the common man. Even though the issues like corporate taxation, change in the accounting year, etc. were the issues common to everyone's interest, the Government refrained from making any sweeping changes to the aforesaid prevailing provisions and has rightly left the same to be dealt in the full financial budget to come. The interim budget bears the indisputable stamp of careful analysis and deliberations from the policymakers so as to cater to the specific needs of the needed and also taking into account the interests of all concerned.

KEYWORDS: *Interim Budget 2019, Finance Bill 2019, Tax Reliefs*

INTRODUCTION

In the atmosphere of the Elections, the union Budget 2019 was extremely-anticipated, being considered as the performance pointer of the present government. The interim budget was presented on 1st February 2019 by the interim Finance Minister Shri Piyush Goyal. This budget is claimed to be the only a starting point of the “Dream Budget” by the BJP government to be. This being an interim budget, no key policy changes could have been proclaimed. Nevertheless, remaining within the four corners of the code of conduct, it seems that the government has moved to great lengths to delight the common man and the farmers to a great extent. As of the direct tax outlook, there are some, considerable reliefs granted to the common man.

CHANGES IN DIRECT TAXES- AN ANALYSIS

This being the pre-election Budget, their stood prospects of change in tax slabs, which have not turned out to be true. In Budget 2015, Hon'ble Finance Minister had guaranteed that the basic rate of Corporate tax would be reduced from 30% to 25% over the next five years. Once again, the corporate sector has been let dejected, as the Corporate tax rates also remain untouched. This puts Indian domestic industries in an uncompetitive position as equated to the other key Asian economies.

Provisions Contemplating Relief to the Ordinary Man

Change to Section 87A

Even though there is no change at all in the prevailing slab rates, a rebate under section 87A of the Act in respect of entire tax has been granted to the individual taxpayers, having taxable income up to INR 5lakhs, after deductions. This means effectually, an individual having a gross income of INR 6.5lakhs or even more, may be qualified for the full rebate of tax, with effective tax planning. This gross income can be even higher in the case of individual's expending their income as interest on housing loan taken for acquisition/building of house property. Therefore, a significant relief has been granted by way of a tax rebate, to individuals falling inside the income range of INR 2.5 lakhs to INR 5 lakhs per annum. However, it is to be noted that the rebate under section 87A has been constrained to INR12,500 or the amount of tax on income whichever is lesser. To explain, if the whole income of INR 5 lakhs comprises of short-term capital gains taxable at the rate of 15%, the gross tax payable will be INR 37,500 and the rebate will be limited to INR12,500/- only. The drive behind giving such rebate, instead of increasing the least threshold limit of income chargeable to tax, is to curb the benefit only to the middle class and, therefore, the individuals making a taxable income of more than INR 5 lakhs would not get any benefit, even in the form of a reduction in tax. Another aim behind not increasing the threshold limit is that the government does not wish to grant any relaxation as of the obligation of filing returns. Therefore, even if there is no tax payable by taking advantage of rebate u/s 87A, a person will still have to file the return of income where total income tops the basic threshold limit of income chargeable to tax.

No Marginal Relief at All

A point to be noted here is that there is no provision for marginal relief wherever the taxable income surpasses the limit of INR 5 lakhs even by a small amount. For example, in case of surcharge which is leviable at prescribed rates if the taxable income exceeds prescribed limit, there is a provision for marginal relief whereby, the surcharge is to be limited to the amount by which, income exceeds the prescribed limit. However, we may note that a like provision does not exist for conceding relief from levy of tax, where taxable income is slightly higher than INR 5 lakhs. Admittedly, although there was no provision for marginal relief prior to the proposed amendment as well, the rebate itself was minor. Now, with the rebate being as high as INR 12,500/-, the squeeze will be felt. As a consequence, it may so happen that a person earning taxable income of INR 5,00,000/- would not be obligatory to pay any income tax on his income, whereas, a person earning taxable income of say INR 5,01,000/- would be mandatorily required to pay a tax of INR 12,600/-. Consequently, net disposable income, after paying taxes, in his hands would only be INR 4,87,400/-. Thus, by earning an incremental income of INR 1,000/-, he is truly put in a worse off position as compared to a person earning INR 5 lakhs.

Modification to Section 16

Another handout to salaried individuals has been approved by way of an amendment to Section 16 of the Act, whereby, the standard deduction offered while computing income under the head Salaries has been amplified from INR 40,000/- to INR 50,000/-

Increase of Tax relief with Respect to Gratuity

As we may recall, as per the endorsement of the Seventh Pay Commission, the maximum limit on gratuity billed to government employees was revised from INR 10 lakhs to INR 20 lakhs in 2016. Further, on like lines, Payment of

Gratuity (Amendment) Act, 2018 was also brought in force on 29th March 2018 whereby, maximum limit of gratuity billed to other than government employees have been taken at par with the government employees, i.e. INR 20 lakhs. It may be noted that this variation to Payment of Gratuity Act will also have an influence on the income tax, and will provide higher tax relief to those individual employees who become eligible to receive higher gratuity under the Payment of Gratuity Act.

A Rise in Threshold Limit for Deduction of TDS under Section 194A and Section 194I

The new brushed up threshold limit for TDS, as per the amendment to Section 194A in respect of interest (other than interest on securities) besides to Section 194I in respect of rent, are as follows:

Table 1

	Previous Threshold Limit	Revised Limit as per Finance Act, 2019
Interest under section 194A from bank deposits / post office deposits	10,000	40,000
Rent under section 194I	1,80,000	2,40,000

Real Estate Related Provisions

There are some noteworthy amendments in the Finance Act, having a great potential bearing on real estate transactions.

Modification to Section 54

By means of an amendment to Section 54 of the Act, the Finance Act, 2019 there has been an increase in the number of properties qualified for investment under the said Section from one to two residential house properties, on condition that the quantum of capital gains does not surpass INR 2 crore. As all are aware, numerous taxpayers were facing a practical difficulty that where one residential house is sold in order to acquire another, it is not always possible to find another single residential house which is appropriate to assist the needs of an entire family. In such cases, although on account of genuine grave difficulty, if the taxpayer invests in two residential houses, earlier, he was not able to gain the benefit of Section 54 in respect of investment in the second residential house. The amendment will absolutely address the real-world difficulty faced by the taxpayers where they may wish to invest the capital gains in two houses for a variety of reasons. Nevertheless, it is important to note that this choice of investing in two residential house properties would be available only once in a lifetime. Once this option is chosen, the advantage of the same cannot be availed over for same or any other assessment year, and subsequently, any calculation of capital gains would be ruled by the prevailing provisions, allowing a deduction in respect of investment in one property alone.

Sections 23(4) and 24 Amended to include the concept of Notional Rent

In tune with the amendment to Section 54, the Finance Act, 2019 amends Section 23(4) and Section 24 of the Income-tax Act, 1961 in order to encompass the benefit of 'zero notional rent' in respect of Self Occupied Property (SOP) to two properties instead of one. Doubts are being put forth in this regard by taxpayers, that where the assessee possesses two house properties, whether it will be obligatory to treat the second house property as Self Occupied Property, or is it likely to freely treat one property as deemed let out in order to claim higher deduction of interest under section 24(b). The matter, however, is not free from doubt. From the examination of Section 23, it appears that if the properties fall under either clause (a) or clause (b) of sub-section (2), then the annual value has to be taken as nil; and the choice, to select which

property/ properties should be treated as SOP and which property/properties should be considered as deemed let out, would come into the scene only where there are more than two Self Occupied Properties as per the proposed provisions. There surely exists avagueness on this issue and diverse interpretations of the section may also be possible. In this scenario, it may be relevant here to note that, with effect from 1-4-2018, set-off of losses from house property against any other head of income is limited to INR 2 lakhs.

Amendment to Section 23(5)

The subsequent modification as per the Finance Act, 2019 linking to real estate transactions is in Section 23(5) of the Income-tax Act, 1961 wherein, it has been decided to outspread the period of exclusion from levy of notional rent in respect of unsold house properties held as inventory, from one year to two years from the end of the financial year in which the erection is completed. Taxability of deemed rent on unsold flats which are in turn held as stock in trade has always been one of the vastly litigated issues. By virtue of Finance Act, 2017, sub-section (5) was announced in Section 23 to offer that for a period of one year from the end of the financial year in which construction is finished, no deemed rent would be chargeable to tax. The supposed amendment made by Finance Act, 2017 seems to specify the legislative intent that, beyond one year deemed rent would be prone to tax, even in respect of the property held as stock-in-trade. Even though in respect of previous years the debate still lasts, from AY 2018-19 onwards, it appears that beyond one year from the end of the financial year in which erection is finished, deemed rent on unsold properties will be taxable even in hands of builders/developers. Currently, the amendment further extends this period of one year to two years, taking into consideration that there may be practical glitches in selling off properties within a year of construction. On account of numerous changes that took place in recent past together with demonetisation, introduction of The Real Estate (Regulation & Development) Act 2016 (RERA) and GST etc. presently, the real estate sector is fronting a trouble whereby builders/ developers are not able to dispose of the erected properties within a year from completion of construction, and the same is resulting in unsold flats being exposed to tax in respect of notional rent thereon. Bearing in mind this position, it is certainly a wanted move which will provide a key relief to builders/developers. Needless to say, all the three amendments as stated above, will surely give a boost to the real estate sector, which, however, would also mean that prices of the real estate are probable to move upward. In this background, while one may say that this may cause some anxiety for the general public particularly in metro cities, it will bring optimism to the depressed real estate sector.

Amendment to Section 80IBA

In the wake of the concern of real estate prices going up as stated above, when the affordable housing projects are going to be prime important to the urban middle class than ever before, the extension of one year for sanction of an affordable housing project under section 80-IBA feels insufficient and it is felt that the same should have been prolonged even further.

Promotion of E-governance

In pursuance of government's maxim of endorsing e-governance, it has been assured in the budget speech that, the government is dedicated to transforming the Income Tax Department into a more assessee-friendly one, through a ground breaking, technology-intensive project. Further, it has also been assured that all returns will now be administered with in twenty-four hours and refunds will be dispensed simultaneously. Also, within the next two years, the assessments are planned to be steered electronically through the anonymized back office without any personal crossing point between the

taxpayer and the tax officer. Even though the concept of complete electronic governance is a welcome idea, the ground reality is that, due to numerous technical glitches, even today, the taxpayers are in front of extreme difficulties in proceedings with e-assessments. Even when filing online rectifications or replies to intimations etc., taxpayers are facing various technological restrictions. Keeping the same in view, as an alternative of taking such steps all at once, the schema of introducing fully electronic assessments should be instigated in a phased way, by first eradicating the issues currently being experienced by the taxpayers.

CONCLUSIONS

In the words of the eminent jurist, late Shri Nani Palkhivala, “*An enterprise casts its accounts and takes stock at the end of its financial year. A democracy must do stocktaking at the time of elections when a new batch of lawmakers is to be out in power.*”

To quantify, a complete review of the direct tax changes in the Finance Act, 2019 would pinpoint to the fact that the same are highly focused on the middle-class individual taxpayers, and with effective tax planning, they will surely be able to substantially reduce the tax burden on a fruitful basis.

REFERENCES

1. *Moneycontrol.com/business/ahead-of-budget-2019*
2. *Economictimes.indiatimes.com/news/economy/finance/budget-2019-key-highlights*
3. *Rbi.org.in/scripts/Publication Reports*
4. Suresh A. S, *Risks and Uncertainties in Capital Budgeting Decisions, International Journal of Financial Management(IJFM), Volume 4, Issue 4, June-July 2015, Pp 15-28.*
5. *The Hindu Budget 2019*
6. *financialexpress.com/budget/finance-bill-2018*
7. J. Gayathiri & L. Ganesamoorthy, *A Study on the Impact of Union Budget 2018 on Indian Stock Market with Reference to BSE, IMPACT : International Journal of Research in Humanities, Arts and Literature(IMPACT : IJRHAL), Volume 6, Issue 6, June 2018, Pp 129-138.*
8. *Ndtv.com/opinion/lok-sabha-elections-2019-why-arvind-kejriwal-and-rahul-gandhi-must-deliver-an-alliance-2019877*

