

Budget impact: Earn less than Rs 8 lakh? Your tax will go up

There is more bad news for taxpayers disappointed by the budget. Not only has the finance minister kept the tax-saving limit under Section 80C unchanged, but the deduction under Section 80CCF for [infrastructure bonds](#) has been removed. This will reduce the total tax saving from the current Rs 1.2 lakh to Rs 1 lakh and push up the payable tax for individuals.





Introduced two years ago, the deduction has to be extended every year through an amendment. Tax experts had feared the worst when the finance minister did not mention it in his budget speech this year. Finance Ministry sources now confirm that the Rs 20,000 deduction has been allowed to lapse this year.

Admittedly, the change will not impact those with an income of less than Rs 5-6 lakh a year. The taxpayers in this segment usually did not invest in infrastructure bonds in a big way because the tax benefit is lower for this slab. In many cases, these taxpayers failed to exhaust even their Rs 1 lakh deduction limit under Section 80C.

However, for investors with an income of up to Rs 8 lakh, the scrapping of Section 80CCF means that they will have to pay up to Rs 2,060 more tax next year. It will be tougher for female taxpayers, but the most severe blow is reserved for senior citizens and very senior citizens. These taxpayers will end up paying almost Rs 4,120 more as tax. Add the impact of the hike in service tax and you will see a bigger slice of your income going as taxes next year.

Curiously, the removal of the deduction coincides with the government's proposal to increase the funds to be raised by infrastructure lenders in 2012-13. This limit has been doubled to Rs 60,000 crore. This is the reason experts believe that the deduction should have been allowed to continue. Besides, it comes at a time when the government needs to raise money for the cash-starved infrastructure sector. According to a statement by Assocham secretary-general DS Rawat, "It is a blow to individual investors as it will actually push up their tax burden. The deduction should be restored immediately."

Small taxpayers will pay more next year

 Males below 60 yrs	 Females below 60 yrs	 Senior citizens	 Very senior citizens
Income			
₹9 lakh	₹9 lakh	₹9 lakh	₹9 lakh
Tax now			
₹87,550	₹86,520	₹79,310	₹53,560
Tax next year			
₹89,610	₹89,610	₹83,430	₹57,680
Increase in tax to be paid next year			
₹2,060	₹3,090	₹4,120	₹4,120

From deduction to exemption

Don't spend too much time worrying about the scrapped tax deduction. Instead, think about the exemption you can avail of through the tax-free infrastructure bonds. Unlike the tax-saving bonds under Section 80CCF, these bonds will not cut your tax outgo. However, the interest they earn will be tax-free. The interest earned on Section 80CCF bonds is fully taxable, which reduces the post-tax yield for investors. Also, the tax has to be paid every year, not on the maturity of the bond.

On the other hand, the income from tax-free infrastructure bonds is fully exempted. What's more, unlike the Rs 20,000 ceiling in the tax-saving bonds, there is no limit to the amount that a retail investor can park in these bonds. "While the tax-saving bonds under Section 80CCF gave better returns, even tax-free infrastructure bonds are a good option for investors in the highest income bracket," says Kamal Rampuria, senior vice-president, AUM Capital Market.

As our calculation shows, there is only a marginal Rs 300 difference in the net post-tax income for taxpayers in the 10% slab. The difference increases in the 20% slab and becomes significant in the 30% tax bracket.

Forget deduction, avail of exemption

Tax-saving bonds may offer higher savings than tax-free bonds, but for people in the 10% tax bracket, the difference is marginal.



	10% slab	20% slab	30% slab	
	Tax-saving Infra bonds (Sec 80CCF)			Tax-free bonds
Investment	₹20,000	₹20,000	₹20,000	₹20,000
Tax savings (first year)	₹2,060	₹4,120	₹6,180	Nil
Annual interest	₹1,700	₹1,700	₹1,700	₹1,700
Tax paid	₹1,751	₹3,502	₹5,253	Nil
Net income	₹17,309	₹17,618	₹17,927	₹17,000

Calculation for annual payout option for a bond held for 10 years.

(Economic Times)