

CBDT notifies certain exemptions to employees opting for lower I-T regime

The Central Board of Direct Taxes, apex policy body for personal income tax and corporate tax, has notified amendment in rules for eligible exemptions for opting lower personal income tax regime.

This new alternative regime will be applicable for Assessment Year 2012-22 (Current fiscal year FY 2020-21) and subsequent assessment years.

Finance Minister Nirmala Sitharaman, in her budget speech this February, announced an optional system wherein income tax rates would be significantly lower for the individual taxpayers provided they forgo deductions and exemptions such as investment in the insurance policy, NSC, PPF etc. Anyone opting this will be required to pay at the reduced rate of 10 per cent for income between ₹5 Lakh to ₹7.5 Lakh against the current rate of 20 per cent. Similarly, for income between ₹7.5 Lakh to ₹10 Lakh, rate of tax would be 15 per cent as against 20 per cent, for the income between ₹10 Lakh to ₹12.5 Lakh, rate of tax would be 20 per cent against the current rate of 30 per cent, and for the income between ₹12.5 Lakh to ₹15 Lakhs, rate of tax would be 25 per cent as against 30 per cent. There will not be any change if income is more than ₹15 Lakh, and the rate of tax would continue to be 30 per cent.

Now, to make this system more employee-friendly, CBDT issued a notification for Income-tax (13th Amendment) Rules, 2020. Accordingly, a new sub-section has been added in rule 2BB for entitlement of a particular set of exemptions. These include: 1.) any allowance granted to meet the cost of travel on tour or on transfer, 2.) any allowance, whether granted on tour for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence for his/her normal place of duty, and 3.) any allowance granted to meet the expenditure on conveyance in performance of duties or an office or employment of profit. Here is one condition which says the employer does not provide free conveyance.

The notification also includes an exemption related with transport allowance granted to an employee, who is blind or deaf and dumb or orthopaedically handicapped with disability of lower extremities, to meet his expenditure to commute between the place of his residence and the place of his duty. Rule sets a limit of ₹3,200 per month for exemption.

However, the notification made it clear that while determining the value of perquisite, no exemption will be available in respect of free food and non-alcoholic beverage provided by employer through a paid voucher.

The tax department has already made it clear that employees can opt for a lower tax regime before filing the Income Tax Return. Based on the declaration by the employees and exemptions notified, the employers can go for Tax Deducted at Source (TDS) and accordingly pay salary under the alternative tax regime. This will ensure no mismatch between TDS and the Income Tax Return and reduce the hassle for employees. Earlier, it was said that new assesseees could opt for the new regime at the time of filing the return.

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