Six income-tax changes the Narendra Modi government needs to bring

The fact of the life is that rising inflation and relatively static income levels have caused havoc to the budget of households across the country. The cost of goods and services for day to day consumption has gone up drastically over the last few years and has adversely impacted a large section of our population. In this backdrop, it is but natural for households to expect some significant relief in the current year's budget from the new government. Even amid difficult macro-economic situation, there is a lot of expectation from Modi government's first budget. Here are 6 such expectations from the new government.

1. Revise Taxable Income & deduction limits: Currently, the maximum amount not chargeable to tax for individuals is Rs 2 lakhs, which is quite low. This limit should be revised at least to Rs 3 lakhs and should be linked to the inflation index, so that it is revised automatically on an annual basis. The highest tax rate of 30 per cent is triggered at an income exceeding Rs. 10 lacs. This should be enhanced as well to Rs. 20 lakhs. Also, the Rs. 1 lakh annual tax deduction allowed under Section 80C of the Income-tax Act has not kept pace with the rising inflation and needs revision. Popular investments such as employees' provident fund, public provident fund, life insurance premiums, etc., serve twin purpose. First, it helps household's build-up funds for their retirement and contingencies in life. Second, it provides long-term funds to the government and its different agencies to meet larger socio-economic objectives of the country like infrastructure investments that have a long gestation period. Considering this, the limit should be enhanced.

2. Special Deduction for Education: Education has become extremely expensive. Moreover, we are moving towards being a manufacturing and services society and the education and skills required for these sectors vary considerably. Therefore, to encourage people to skill or re-skill themselves adequately and also to lower the economic burden on parents, a deduction should be given for expenses incurred towards education and vocational skills. Currently, this deduction is clubbed along with various options available under the section 80C. Instead, a separate deduction of at least Rs 1 lakh per year specifically for this purpose should be allowed for expenses incurred on education of self and/or family (spouse, children, and grand-children).

3. Many exemptions need reconsideration: The two popular non-taxable components in your salary—medical reimbursement (up to Rs. 15,000 per year) and conveyance expenses (Rs. 800 per month) have outlived their utility. Either these limits should be enhanced substantially, say, medical expense reimbursement limit increased to Rs 50,000 per year and conveyance allowance limit to Rs. 3,000 per month or these should be discontinued and instead clubbed in the form of a standard deduction / exemption of Rs. 1 lakh per annum.

4. Increase deduction for home loans: Owning a house is still a distant dream for a large majority of the population in our country. To reduce the burden on households for the interest paid on housing loan for a self-occupied house property a deduction of up to

Rs 1.5 lakh is allowed. This has not has not kept pace with the rising housing and loan costs. It needs to be increased to Rs 5 lakh per year. Besides encouraging people to buy a house, it will also provide a boost to the many industries linked to housing sector like construction, cement, iron and steel etc. Needless to add, it will also have a huge positive effect on the employment opportunities including the unskilled workers.

5. A Smarter Refund Process: At present, there is no specific provision whereby an individual can adjust the refund granted in a particular year against the tax payable in the subsequent year. As a result, the individual pays tax for subsequent year, while he simultaneously claims refund from the tax authorities for the earlier year. This results in cash flow issues for the individuals. As a matter of procedural relief any tax refund to be granted by the tax authorities may be allowed to be offset against the tax payable in the following year.

6. Bring NPS under the 'EEE' tax model: One of the key reasons why New Pension Scheme (NPS) has not been well received by the private sector is its taxation model. At present, the NPS works on exempt, exempt, tax (EET) model. Therefore, amount received at the retirement is liable to tax. In contrast, other retirement schemes like Provident Fund work on exempt, exempt, exempt ('EEE') model. To popularize this investment channel, the EEE model should be extended to NPS as well.

Though some of these limit enhancements may appear to be quite high, however, two underlying facts need to be taken into account. First, most of these limits have been fixed long back albeit with minor changes and have not kept pace with the current economic reality. Second, the need of the hour is to widen the tax net. Currently, only a small percentage of the population files its income-tax return and pays taxes. This must change. Once a large section of the population starts paying income-tax, the effective tax rates would come down. To begin with, let the honest tax payers be rewarded with higher exemption / deduction limits.

While the list of expectations could go on, the government will also have lot of constraints and divergent expectations to match in the current year's Budget. There are larger macro-economic issues like containing the fiscal deficit, controlling inflation, bringing in stability in the currency fluctuations etc., which would require a fine balancing act in the budget. Therefore, taking few steps now and few in the next budget may be a good recipe to convince the households those optimism post-election results is for real!

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