

Dear Employees,

We are in a new financial year and it is time for tax planning for year 2020-2021. However, unlike previous years, there is a new dimension to the tax calculation.

This year government has introduced a new tax structure while also retaining the old tax structure. The option is with the tax payers to decide which tax structure they wish to use and pay taxes. Below are details of the new tax structure.

New tax structure :

Upto 2.5 Lakhs -no tax

2.5 – 5.0 Lakhs – 5% of amount exceeding 2.5 Lakhs

5.0- 7.50 Lakhs -10 % of amount exceeding 5 lakhs +Rs 12,500

7.50-10.0 Lakhs- 15% of amount exceeding 7.5 Lakhs +Rs 37,500

10.0-12.50 Lakhs- 20% of amount exceeding 10 Lakhs + Rs 75,000

12.50-15 Lakhs-25% of the amount exceeding 12.5 Lakhs +Rs 1,25,000

15.0 Lakhs and more – 30% of the amount exceeding 15 Lakhs +1,87,500

*** Surcharge and Cess additional.**

If Total income is less than 5 Lakhs, then there is Rebate under 87A applicable and hence no tax

To avail the new tax slab, the tax payer will have to **forego** the benefits of all exemptions (listed below)

- Exemptions under section 10 allowances such as HRA, LTA, Children Education, Uniform, Research/ Professional /Books etc
- Investment under section Chapter VI-A Section 80C, 80CCC, 80CCD such as PF, PPF, LIC, Mutual Fund, NPS, FD of more than 5 years, ULIP, Home loan Principal etc
- Other deductions under chapter VI such as 80D (Mediclaime), 80 E (Repayment of Education loan), 80U (Self Disability), 80 DD (Medical expense on specified disease of dependent), 80G (Donation), 80TTA (interest on savings account)
- Interest on home loan (section 24)
- Standard Deduction
- Professional Tax

Old tax structure:

Up to 2.50 Lakhs – no tax

2.5- 5.0 Lakhs- 5% of amount exceeding 2.5 Lakhs. If Taxable income is less than 5 Lakhs, then no tax.

5.0- 10.0 Lakhs -20 % of amount exceeding 5 lakhs +Rs 12,500

10.0 Lakhs and more – 30% of the amount exceeding 10 Lakhs +1,12,500

*** Surcharge and Cess additional**

How to decide which tax regime is better :

In order to decide which tax regime is better will depend on several factors and hence every tax payer will need to spend some time and follow the below steps.

New tax regime

1. Add (+) all expected allowances, incentive, bonus and other income from bank interest, rental income from house etc for the financial year. (your previous year's total earning can be starting point).

See the below tax liability **without surcharge and cess** for few sample income cases:

Case 1. Total Income 6 Lakhs

Low	High	Rate	Tax amount
250000	500000	5	12500
500000	600000	10	10000
Tax			22500

Case 2. Total Income 9 Lakhs

Low	High	Rate	Tax amount
250000	500000	5	12500
500000	750000	10	25000
750000	900000	15	22500
Tax			60000

Case 3. Total Income 12 Lakhs

Low	High	Rate	Tax amount
250000	500000	5	12500
500000	750000	10	25000
750000	1000000	15	37500
1000000	1200000	20	40000
Tax			115000

Case 4. Total Income 15 Lakhs

Low	High	Rate	Tax amount
250000	500000	5	12500
500000	750000	10	25000
750000	1000000	15	37500
1000000	1250000	20	50000
1250000	1500000	25	62500
Tax			187500

Case 4. Total Income 20 Lakhs

Low	High	Rate	Tax amount
250000	500000	5	12500
500000	750000	10	25000
750000	1000000	15	37500
1000000	1250000	20	50000
1250000	1500000	25	62500
1500000	2000000	30	150000
Tax			337500

Case 5. Total Income 40 Lakhs

Low	High	Rate	Tax amount
250000	500000	5	12500
500000	750000	10	25000
750000	1000000	15	37500
1000000	1250000	20	50000
1250000	1500000	25	62500
1500000	4000000	30	750000
Tax			937500

Old tax regime

Please take out your tax computation sheet for FY 2019-20 which will show you the details of your tax liability on the basis of your investments.

1. Add (+) all expected allowances, incentive, bonus and other income from bank interest, rental income from house etc for the financial year. (your previous year's total earning can be starting point).
2. Subtract (-) home loan interest maximum of 2 Lakhs if you have repaying home loan
3. Subtract (-) Exemptions of HRA, LTA etc
4. Subtract (-) deduction under 80D, 80U, 80E, 80DD, 80G etc
5. Subtract (-) Professional tax for the year
6. Subtract (-) standard deduction Rs 50000
7. Subtract (-) Investment in PF, PPF, LIC, ELSS, FD, Home loan Principal, etc maximum Rs 1.5 Lakhs
8. Subtract (-) NPS contribution maximum Rs 50000

The sum of 1 to 8 is the net taxable income on which tax is to be calculated. Please note that in New tax regime, the total income itself is the taxable income while in old tax regime, the total income is gross income and tax is calculated on income derived after

Now use the old tax slab to calculate the tax liability **without surcharge and cess.**

Example:

- Gross taxable Income 15 lakhs
- Staying in own house – Interest on home loan- 2 Lakhs
- Investment in PF, PPF, LIC, MF- Rs 1.5 Lakhs
- Investment in NPS – Rs 50,000/-
- Net taxable income= 15,00,000-2,00,000-1,50,000-50,000=11,00,000/-

Tax liability under old regime **without surcharge and cess.**

Low	High	Rate	Tax amount
250000	500000	5	12500
500000	1000000	20	100000
1000000	1100000	30	30000
Tax			142500

You can use below link to compare your tax liability with cess (without surcharge) in new and old tax regimes.

https://www.incometaxindiaefiling.gov.in/Tax_Calculator/