SUMMARY OF TAX CHANGES IN BUDGET 2023

Summary of important changes and their impact analysis

Paresh Sarda & Company
Chartered Accountants

1. The summary of important changes proposed by the budget and their impact are as under:

SN	Proposal for	Existing Provisions	Changes made in Budget	Impact Analysis
1.	Income Tax Rebate under New Regime	Currently, the rebate limit is Rs. 5 lacs for both old and new tax regimes.	Now, increased to Rs. 7 lacs but only for new tax regime. For old regime it is still 5 lacs.	Effectively people with income lower than 7 lacs are exempt from tax. This is a tax discount. Technically called as "Rebate" It does not mean income up-to 7 lac is exempt for people earning more than 7 lacs.
2.	Income Tax Rebate under Old Regime	Currently, the rebate is allowed only if total income is up-to. 5 .	No change made in budget.	It means under old regime the tax-free income is only for those having total income up-to 5 lacs.

<table>
<tr><th>SN</th><th>Proposal for</th><th>Existing Provisions</th><th>Changes made in Budget</th><th>Impact Analysis</th></tr>
<tr><td>3.</td><td>Income Tax Slab rates for new tax regime</td><td><table>
<tr><th>Income Slab</th><th>Tax Rate</th></tr>
<tr><td>0 to 2.5</td><td>Nil</td></tr>
<tr><td>2.50 – 5.00</td><td>5%</td></tr>
<tr><td>5.00 – 7.50</td><td>10%</td></tr>
<tr><td>7.50 – 10.00</td><td>15%</td></tr>
<tr><td>10.00 – 12.50</td><td>20%</td></tr>
<tr><td>12.50 – 15.00</td><td>25%</td></tr>
<tr><td>Above 15.00</td><td>30%</td></tr>
</table></td><td><table>
<tr><th>Income Slab</th><th>Tax Rate</th></tr>
<tr><td>0 to 3.00</td><td>Nil</td></tr>
<tr><td>3.00 – 6.00</td><td>5%</td></tr>
<tr><td>6.00 – 9.00</td><td>10%</td></tr>
<tr><td>9.00 – 12.00</td><td>15%</td></tr>
<tr><td>12.00 – 15.00</td><td>20%</td></tr>
<tr><td>Above 15.00</td><td>30%</td></tr>
</table></td><td>Tax rates are effectively reduced.

This change can yield tax benefit of Rs. 52,500 to salary income with more than 15,50,000 a year.

Further the New Tax regime is now default tax regime. This means if you are opting for Old Tax Regime you need to file an intimation that you are opting for Old regime. It was the other way round previously, and opting to New regime was required to be intimated.</td></tr>
</table>

SN	Proposal for	Existing Provisions	Changes made in Budget	Impact Analysis
4.	Standard Deduction, Tax on Employment and Family Pension	There is no deduction of standard deduction, Family Pension, and tax on employment available to person opting for New Tax Regime.	Standard deduction of Rs. 50,000, tax on employment of Rs. 2,500 and Family pension deduction up to Rs. 15,000 are now available for person opting New Tax Regime too.	Standard deduction is not an investment or expenditure-based deduction. This change provides flat exemption to new regime also. This will make the new regime more attractive to taxpayers.
5.	Surcharge Rate for income more than 5 crore	Highest surcharge rate is 37% for income above Rs. 5 crores for both old and new tax regime.	Highest surcharge rate is now reduced to 25% for income above Rs. 2 crores, but only for new tax regime.	This benefit is restricted to taxpayers opting to new regime.
6.	Leave Encashment on retirement of non-government employees	The limit for tax exemption on leave encashment on retirement of non-government	Now, proposed to increase the limit to Rs. 25 lacs	This will be relief especially to bank employees who usually receive substantial amount under this heading.

SN	Proposal for	Existing Provisions	Changes made in Budget	Impact Analysis
		salaried employees is of Rs. 3 lacs.		
7.	Deduction u/s 43B for payments to MSMEs	No such clause before.	To assist MSMEs in receiving payments on time, new clause (h) in Sec 43B is proposed to insert to allow 43B deduction for expenditure incurred on payments made to MSMEs only when the payment is made.	This will indirectly boost the sales recovery of MSME businesses. Businesses with tax audit will now be mandatorily required to make payment to MSME suppliers before filing their ITR. If not, they will be paying higher income tax. Intention seems good, but this change can potentially backfire on MSMEs - businesses may not deal with MSME if this

SN	Proposal for	Existing Provisions	Changes made in Budget	Impact Analysis
				proves to be an accounting & tax audit headache.
8.	TDS on cash withdrawal for Co-operative societies u/s 194N	Limit for TDS deduction on cash withdrawal for co-operative societies is above Rs. 1 crore.	Now, the limit increased to Rs. 3 crores.	Given the increase in banking transactions, this move will benefit many co-operatives.
9.	Concessional Tax to promote new manufacturing co-operative societies	No such concessional Tax Rate available	A new section 115BAE is proposed to be inserted, which provides for reduced rate of tax of 15% (plus surcharge of 10% and cess) for Manufacturing co-operative societies established on or after April 1st, 2023, and commencing production on or before	Specific benefit for co-operative societies to make them competitive with private limited model of business.

SN	Proposal for	Existing Provisions	Changes made in Budget	Impact Analysis
			March 31st, 2024 [provided that specified incentives or deductions are not availed].	
10.	Presumptive Taxation schemes	Threshold limits for presumptive scheme of taxation for eligible businesses is Rs. 2 crores and for profession Rs. 50 lacs	Threshold limits for presumptive scheme of taxation increased for eligible businesses to Rs. 3 crores and for profession Rs. 75 lacs. For this at-least 95% of sales should be by cashless modes.	Increased relaxation to taxpayers who are opting digital payment.
11.	Presumptive Schemes for Non-residents: Set off & carry forward of losses	It is allowed to carry forward and set off losses computed as per books of account with presumptive income.	With respect to presumptive schemes for non-residents, it is proposed to disallow carried forward and set off of loss computed as per books	It was a kind of loophole in the law. A welcome move to avoid confusion.

SN	Proposal for	Existing Provisions	Changes made in Budget	Impact Analysis
			of account with presumptive income.	
12.	For online games, TDS at the time of withdrawal of net winnings, lottery, crossword puzzles, etc	Threshold limit of Rs. 10,000. There is no TDS deduction on such winnings, lottery, etc up to Rs. 10,000.	Now, for winnings, TDS would be without the threshold of Rs.10,000. For lottery, crossword puzzles games, etc threshold limit Rs.10,000 for TDS shall continue but shall apply to aggregate winnings during a financial year.	
13.	Sec 54 and 54F: Exemption limit for Investment in Residential Property	There is no such limit.	This is proposed to be capped at Rs. 10 crore. Thereby, capital gain exceeding Rs. 10 crores will	Tax exemption for high value transactions will be restricted.

SN	Proposal for	Existing Provisions	Changes made in Budget	Impact Analysis
			not be eligible for tax exemption.	
14.	Life Insurance policy (other than ULIP) Maturity Exemption in sec 10(10D)	The entire amount receive as a maturity benefit from a life insurance policy is tax-free.	If the annual premium exceeds Rs. 5,00,000, the maturity proceeds will be taxable. Applicable for policies issued on or after 1st April 2023.	The "tax-free" structure of insurance maturity amount is now limited. Detrimental to insurance industry.

2. Other propositions:

I. **Amendments for Charitable organizations registered under Section 12A:**

1. At present the form for accumulation / deemed application can be filed along with ITR. It is now to be filed 2 months before ITR filing due date. It is worthwhile to note that Tax audit report is presently filed a month before ITR due date.
2. For every Rs. 100 given by one organization to another, only Rs.85 will be treated as "applied for charitable purposes".
3. The trusts and institutions that have commenced the activities shall make the application directly for regular registration instead of provisional registration.

II. Common ITR form is proposed to be introduced.

III. Limit of Senior Citizens Saving Scheme increased from Rs.15 Lakhs to Rs.30 Lakhs which may provide relief to such Senior Citizens.

IV. TDS Credit rationalisation:

Representations have been received that in many instances, tax is deducted by the deductor in the year in which the income is actually paid to the assessee. However, following accrual method, the assessees may have already disclosed this income in earlier years in their return of income. This results in TDS mismatch, since the corresponding income has already been offered to tax by the assessee in earlier years, however, TDS is only being deducted much later when actual payment is being made. The assessee cannot claim the credit of TDS in the year in which tax is deducted since income is not offered to tax in that year. It may also not be possible to revise the return of past year in which the corresponding income was included, since time to revise the return of income for that year may have lapsed.

This results in difficulty to the assessee in claiming credit of TDS. In order to remove this difficulty, it is proposed to insert a new sub-section (20) in section 155 of the Act. This new sub-section applies where any income has been included in the return of income furnished by an assessee under section 139 of the Act for any assessment year (hereinafter referred to as the "relevant assessment year") and tax has been deducted at source on such income and paid to the credit of the Central Government in accordance with the provisions of Chapter XVII-B in a subsequent financial year.

V. TCS Changes:

a. Overseas Tour Packages now would attract TCS @ 20% without any threshold limit as against 5% without any limits.

b. Any other remittances like Gift, Overseas Investments etc. now would attract TCS @ 20% without any threshold limit as against 5% of the amount or the aggregate of the amount in excess of Rs.7 Lakhs.

c. Such TCS collected can be claimed as prepaid taxes while filing return of income as per the provisions of the Income Tax Act 1961 and based on determination and the ascertainment of the total income, tax to be determined as per the provisions of the Income Tax Act 1961.

d. Applicable from 1st July 2023.

3. Concluding remarks

a. **Restriction Tax exemptions:**

For last few years, the approach of the government has been to tax the exempt incomes above certain limits. For example, previously interest on Provident Fund more than Rs. 2.50 lacs was made taxable. On the same lines this budget has restricted tax benefits for high amounts. For example, life insurance maturity amount will be taxable if the premium is of Rs. 5 lac a year.

b. **Efforts to make "New Tax Regime" lucrative:**

For past few years the tax proposals are in direction to popularise the new tax regime. The tax changes offers few benefits for people opting to new regime. But the side effect is many people will not invest unless it gives tax benefit like the old regime. Many people invest in PPF just to fulfil their 1.50 lacs target. With new regime these people will look away from PPF like investments and may invest in high-risk modes of investments like the equity share market.

*** End ***