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flash Alert

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India – 2015 Budget Presented, Higher Taxes on High Income Earners

by KPMG, India (a KPMG International member firm)

India's government presented its union budget[1] on 28 February 2015, which includes measures to increase the surcharge on high income earners, abolish the wealth tax, and introduce more stringent rules to curb "black money."[2]

Why This Matters

The higher surcharge to be levied on high income earners and the non-adjustment of individual income tax brackets and cess in line with inflation could mean a heavier tax burden for international assignees subject to tax in India. This could have the result of increasing employers' international assignment costs.

The tax changes described in this *Flash Alert* may affect cost projections for future assignees and budgeting for international assignments to India or from India where the assignee will be subject to Indian taxation. Furthermore, any resultant tax differentials may impact tax equalizations. Finally, where appropriate, adjustments by payroll administrators to withholdings should also be made once these rules are enacted.

The Finance Minister has proposed the following amendments in the Budget 2015 that concern individuals -- including those on international assignment -- and their employers.

Tax Rate Changes

No change in the income tax brackets, tax rates, and cess for individuals.

The surcharge for taxpayers with income greater than INR 10 million per annum is to be increased from 10 percent to 12 percent.

Abolition of Wealth Tax

Currently wealth tax is levied on an individual and Hindu Undivided Families ("HUF"), if the net wealth of such person exceeds INR 3 million on the last day of the prior year. The government is proposing to abolish the wealth tax.

The government aims to recover the loss of revenue from this step by way of a simultaneous increase in the rate of surcharge applied to high income bracket taxpayers. The information regarding a taxpayer's assets -- currently required to be furnished in the wealth tax return -- will be captured in the income tax returns.

Exemption for Transport Allowance

The exemption for transport allowance is to be increased from INR 800 per month to INR 1,600 per month. The allowance is an amount granted to an employee towards his or her expenditures for the purpose of commuting between his/her place of residence and place of work. It can be granted to all employees of the company.

Contribution to New Pension Scheme (NPS) and Notified Pension Schemes

- The deduction allowed for contributions to NPS and notified pension schemes by taxpayers will be increased from INR 100,000 per annum to INR 150,000 per annum, subject to conditions and overall limits in respect of specified investments.
- An additional deduction of INR 50,000 per annum is to be available in respect of the individual's contribution to NPS.

Tax Deducted at Source on "Premature" Withdrawals from Provident Fund ("PF")

- Tax is to be withheld at the rate of 10 percent at source on taxable PF withdrawals, where the pay out is INR 30,000 or more.
- In case a PAN is not furnished by the employee, tax is to be withheld at the maximum marginal rate of 30 percent.[3] ("PAN" stands for "Permanent Account Number" and it is a unique 10-digit alpha numeric number issued by the India tax authority and mandatory to quote it in every correspondence with the authority.)

Deductions

Health Insurance Premium

- The deduction for health insurance premiums paid on behalf of members of HUF is to be increased from INR 15,000 per annum to INR 25,000 per annum. For senior citizens (60 years of age or above), the deduction for their health insurance premiums is to be increased from INR 20,000 per annum to INR 30,000 per annum.
- For senior citizens (80 years of age or above) not covered under a health insurance plan, any qualifying medical expenditure incurred may be deducted from taxable income up to a limit of INR30,000 per annum.

Persons with Disability

Taxpayers with disabilities and taxpayers with disabled dependents may claim an increased deduction of INR 75,000 (up from INR 50,000) per annum, and in cases of severe disability (as defined by law) from INR 100,000 per annum to INR 125,000 per annum.

Dependent Person with Specified Diseases

A deduction for chronic diseases (as defined by law) for senior citizens (80 years of age or above) is to be available up to INR 80,000 per annum.

Deposits Made under Sukanya Samriddhi Account Scheme (SSAS)

- Investments made in the Sukanya Samriddhi Scheme are to be eligible for deduction up to a limit of INR 150,000 per annum (similar to investments such as insurance premiums, Public Provident Fund, etc.).
- Interest accruing on deposits in SSAS and withdrawals from SSAS are to be exempt from tax.

Other Measures and Plans

Determination of Residency Status of an Indian Citizen Working on a Foreign Ship

New rules are planned regarding the manner and conditions for determining the residency status of Indian citizens who are members of a crew on foreign ships leaving India.

Documentation for Providing Deduction from Salary Income

Employers will be required to obtain specified documents from employees with respect to business-related expenses/losses claimed for purposes of computing the tax to be deducted at source from the employee's salary.

New Stringent Laws for "Black Money"

- New rules are to be announced to tackle the issue of "black" money, which are expected to include punitive measures such as high taxes, penalties, and prosecution. Black money is considered any income on which appropriate taxes have not been paid to India's tax authorities.
- Various measures are to be proposed to curb black money. Among the measures the government is considering are: the Benami Transactions (Prohibition) Bill, amendments to the Indian exchange control law ("FEMA"), high monetary penalties, and prosecution. The amendments proposed to FEMA aim to tackle any foreign exchange, foreign security, or any immovable property held in contravention of India's laws and will allow seizure and eventual confiscation of assets of equivalent value situated in India.

Next Steps

The Finance Bill will go through all its Parliamentary stages in the coming weeks. Once approved by both houses of the parliament and by the President of India, the legislation will immediately come into force immediately.

Footnotes:

1 For the budget speech and related budget documents, see the Ministry of Finance Web site at: http://indiabudget.nic.in/ .

2 Also see the following videos, Webcasts, and commentary regarding the budget from the KPMG International member firm in India at: http://www.kpmg.com/in/en/services/tax/unionbudget2015/Pages/default.aspx .

3 In addition, a surcharge (now proposed to be increased to 12 percent of tax from 10 percent) in cases where total income exceeds INR 10 million per annum and education cess at 3 percent (on the taxes plus surcharge computed) shall be payable.

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For additional information or assistance, please contact your local GMS or People Services professional or Parizad Sirwalla (tel. +91 (22) 3090 2010 or e-mail psirwalla@kpmg.com), partner with KPMG in India in Mumbai.

The information contained in this newsletter was submitted by the KPMG International member firm in India. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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