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flash Alert

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India - 2016 Budget – Tax Proposals – Tax on Retirals
by KPMG, India (a KPMG International member firm)

India's budget for 2016-2017 was presented on 29 February 2016[1]. Below we highlight the key features, in terms of the direct tax measures affecting individuals and their employers. Unless otherwise indicated, the proposed amendments relating to direct taxes will apply from the assessment year ("AY") 2017-18.

KPMG in India has prepared a summary of the tax proposals (concerning direct and indirect taxes, customs duties, and other levies) in the budget. KPMG has also made available a "tax card" that provides a quick-at-a-glance look at the tax rates (for both direct and indirect taxes) as proposed in budget. For these budget publications and documents, please visit the website for the KPMG International member firm in India here.

Why This Matters

New taxation norms proposed on retirals, including tax on employer's contribution and withdrawals by the employees, would mean additional tax for all employees in India (including international assignees). In addition to the enhanced rate of surcharge, 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.

Tax Rate Changes

- There is no change in the income-slabs, tax rates and cess (additional levy for education) for individuals.
- Surcharge is proposed to be increased from 12 per cent to 15 per cent where income exceeds INR 10 million per annum.
- Rebate from tax is proposed to be increased from INR 2,000 to INR 5,000, for resident individuals with total income below INR 500,000.
- A new tax rate is proposed at 10 per cent on dividends received (except deemed dividend) by a resident taxpayer from domestic companies, where the aggregate dividend received exceeds INR 1 million in the tax year.

Changes in taxation of retirals

- Employer contributions to social security in the form of Recognised Provident Fund (RPF) in excess of INR 150,000 per annum will now be taxable. This was hitherto exempt from tax, if the amount was less than 12 per cent of the salary.

- Currently, withdrawal from RPF is exempt, subject to certain conditions, including condition of continuous contribution of at least 5 years. The tax exemption on withdrawal from RPF is now proposed to be limited to 40 per cent of the accumulated balance attributable to contributions made on or after 1 April 2016 by the employee. Salary limits are to be separately prescribed for employees excluded from tax on such withdrawal.
- Tax deduction at source that is triggered on RPF withdrawal is proposed to apply where the amount withdrawn exceeds INR 50,000 (earlier limit was INR 30,000). This provision is effective from 1 June 2016.
- Marginal relief from perquisite taxation in relation to employer contributions to Approved Superannuation Funds (SAF) has been proposed *via* an increase in the exemption limit from INR 100,000 to INR 150,000 per annum.
- Payments in lieu of or commutation of annuity (currently exempt), purchased out of contributions made to SAF on or after 1 April 2016, in excess of 40 per cent of the annuity, are now proposed to be taxable.
- Tax exemption is proposed for the National Pension Scheme (NPS) for 40 per cent of the amount payable at the time of closure or opting out of NPS.
- Tax exemption is proposed for transfer of entire balance from RPF or SAF to NPS.
- Any amount received by a nominee from NPS on death of assessee is to be considered wholly exempt from tax.

Further clarifications and FAQs are expected with respect to above provisions.

House property income / deductions

The following changes may be of interest to outbound assignees from India:

- The time limit to complete acquisition or construction of self-occupied house property for availing enhanced interest deduction is proposed to be increased from three years to five years from the end of the financial year (FY) in which capital was borrowed.
- An additional deduction of INR 50,000 per annum is proposed towards interest on housing loan, for loans up to INR 3.5 million (sanctioned during FY 2016-17), where the value of the house is less than INR 5 million and where assessee does not own any other house property on the date of sanction of loan.
- A deduction of 30 per cent is now proposed in respect of subsequent realization of unrealized rent at par with realization of arrears of rent.
- The limit for deduction of rent paid, where assesse does not own a house and does not receive any House Rent Allowance (HRA), is proposed to be increased from INR 24,000 per annum to INR 60,000 per annum.

Changes in relation to tax payments, tax return and assessment

- Duration to file a belated return is proposed to be reduced from 24 months to 12 months. Taxpayers can file a belated return only up to one year from the end of the relevant tax year or before assessment, whichever is earlier.
- A belated return would be permitted to be revised (not permitted previously).
- Taxpayers claiming exemption for long-term capital gains would be now required to file a return of income within the due date.
- The installments for advance tax payments are proposed to be revised from three to four installments (15 per cent by 15 June, 45 per cent by 15 September, 75 per cent by 15 December and 100 per cent by 15 March).

(There are other measures related to corporate taxation. Please refer to the budget summary produced by the KPMG International member firm in India referred to above.)

Next Steps

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

Footnote:

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

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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 the India.

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