GMS Flash Alert

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India - Budget Contains Mixed Bag of Measures for Individuals

India's budget for 2018-2019 was presented on 1 February 2018[1], with no changes to individual income tax rates, but changes to deductions and cesses (or levies). 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") 2018-19.

WHY THIS MATTERS

It is important to note that the changes affecting individuals in the budget represent a mixed bag of new deductions, credits, and incremental cess (i.e., levy). Some existing deductions from salary income have now been removed. The impact will depend on each taxpayer's particular set of circumstances. In those cases where an assignee's tax burden increases, the employer's international assignment-related costs could rise accordingly, and vice-versa.

Key changes include the new Health and Education Cess, the standard deduction, the taxability of termination payments, reintroduction of tax on Long-Term Capital Gains on financial securities, removal of tax-free medical reimbursement, and the exemption of conveyance allowance. It is essential to prepare for these changes and to communicate quickly and clearly with key stakeholders, so that they can properly plan, budget, and make necessary adjustments.

Highlights of Budget's Personal Tax Measures

- **Income tax slabs and rates**: remain unchanged for individuals.[2] (More details in the table below.)

- **Existing Education Cess and Higher Education Cess (aggregating 3 percent)**: applicable to an individual, to be replaced by a new Health and Education Cess at 4 percent.

- **Exemption on withdrawals from the NPS**[3]: of up to 40 percent, to be extended to non-salaried assessees.

- **Standard deduction**: of INR 40,000 per annum from salary income to be made available in lieu of the withdrawal of tax-free reimbursements of medical expenses (currently INR 15,000 per annum) and the exemption for transport allowance (currently INR 1,600 per month).

- **Deduction limits for health insurance premium and medical expenditure for senior citizens**: to be increased from INR 30,000 per annum to INR 50,000 per annum. For single premium policies where coverage exceeds one year, deduction for premium to be allowed on a specified proportionate basis.

- **Deduction limits for medical expenditure**: in respect of specified critical illnesses to be increased from INR 60,000 per annum for senior citizens, and INR 80,000 per annum for very senior citizens to INR 100,000 per annum.

- **Deduction of interest earned by senior citizens from savings accounts with banks/post offices/co-operative societies**: to be increased from INR 10,000 per annum to INR 50,000 per annum and interest on time and recurring deposits also to be made eligible within this limit. Consequently, the threshold for tax deducted at source ("TDS") on such interest income is also to be increased to INR 50,000 per annum.

- **Termination payments**: any compensation or payment due to or received by any person in connection with the termination of his/her employment or the modification of its terms and conditions expressly to be made taxable.

- **Funding by the government of the employer contribution of 12 percent of wages in relation to new employees to EPF**[4]: currently available for employers in specified sections to be extended to all sectors for the next three years under a scheme to be announced.

- **The EPF and new women employees**: under a new scheme to be announced, employee contributions to the EPF by new women employees is to be reduced from 10/12 percent to 8 percent of wages for the first three years of employment with the employer contribution remaining unchanged.

- **Government Savings Certificate Act and Public Provident Fund Act**: to be repealed and specified savings schemes such as Post Office Savings Bank, National Savings Certificate, Kisan Vikas Patra, Public Provident Fund etc. to be amalgamated under a scheme to be announced.

Additional Detail on Key Rates/Slabs

These rates, for the financial year ("FY") 2018-19, are subject to enactment of the Finance Bill 2018.

Income Tax Rates

For Individuals, Hindu Undivided Families, Association of Persons, Body of Individuals and Artificial Juridical Persons

Total Income	Tax Rates
Up to INR 250,000	Nil
INR 250,001 to INR 500,000	5%
INR 500,001 to INR 1,000,000	20%
INR 1,000,001 and above	30%

INR 1 = USD 0.0154 | INR 1 = EUR 0.01246 | INR 1 = GBP 0.011 | INR 1 = ZAR 0.1814

- For resident individual aged between 60 and 80, the basic exemption limit is INR 300,000.

- For a resident individual aged 80 or above, the basic exemption limit if INR 500,000.

a. Rebate from tax of up to INR 2,500 or 100 percent of the tax whichever is less available for a resident individual whose total income is below INR 350,000.

b. Tax rates further need to be increased by the applicable surcharge and cess.

Surcharge and Cess

For Individuals, Hindu Undivided Families, Association of Persons, Body of Individuals, and Artificial Juridical Persons:

Total Income	Surcharge
More than INR 5,000 but less than INR 10,000,000	10%
Exceeds INR 10,000,000	15%

Health and education cess at 4 percent is applicable on income tax (inclusive of surcharge, if any).

Securities Transaction Tax (STT)

STT in the range of 0.05 percent to 0.125 percent is payable by purchases/seller as the case may be on the value of taxable securities transactions.

Next Steps

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

FOOTNOTES:

1 For the budget speech and related budget documents, see the Ministry of Finance website, click here.

2 For 2017-2018 income tax slabs and rates, see *Taxation of International Executives: India*, a publication of KPMG International.

3 National Pension Scheme (NPS) is a defined contribution scheme wherein individuals can decide where to invest their money. It is a market-linked product and therefore offers returns based on the fund performance.

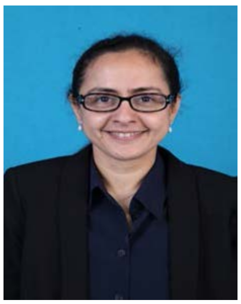
4 EPF, or the Employees' Provident Fund, is a social insurance scheme that applies to businesses with at least 20 employees. Contributions to the EPF may be obligatory or voluntary depending on the salary amount paid to the employee in respect of the employee's and the employer's contributions.

RELATED RESOURCE:

For more publications, Webinars, and other materials on the Union Budget 2018-2019, published by the KPMG International member firm in India, click here.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in India:



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