

Highlights of Union Budget 2011 – Indirect Taxes

The Union Budget 2011-12, has made an impressive statement and promises to be very dynamic in its operations. The best feature of this budget is that, the budget is all pervasive in its nature, that is, it looks at all sides of development. Not only on the direct tax zone but also in the indirect taxation zone, it has made certain vital changes. Some of them are highlighted below:

- The indirect tax proposal is set to go with the Goods and Service Tax (GST).
- The service tax area has been broadened with an amendment which has included two other sectors in its purview, namely, services provided by air-conditioned licensed for serving alcohol beverages and accommodation provided by hotels, etc., for less than three months.
- Coaching or commercial training has also been brought under the purview of service tax.
- Arbitration services between an organization and individuals have also been brought under the purview of service tax, but however, individual to individual service will not perform a part of it.
- SEZs have been provided with a simplified scheme which reduces the problem of tax-free receipt of services that are consumed within the SEZ zone.
- In case of 'Transport of goods through coastal and inland shipping service', an abatement of 25% will be available from the taxable value provided.
- The rate of service tax has also been increased on air travel. All domestic tickets will now be costlier by Rs. 50 and all international flights will now cost more by Rs. 250. Both of these shall be applicable for economy class, but whereas the other classes are concerned other than the economy class, a standard rate of 10% shall be applicable for the passengers.
- The custom duty which previously used to prevail at various rates of 2%, 2.5% and 3% has now been done with and a single rate of 2.5% is likely to prevail as a uniform rate.
- As for as central excise is concerned the concessional rate of 4% has been now replaced with the new rate of 5%. The same rate shall be applicable for items like pastry and cakes, sugar confectionary, etc.
- Garments that are branded now face an excise levy of 105% with CENVAT facility.
- Individuals and proprietors whose total annual turnover is upto Rs. 60 lakhs need not get their accounts audited.

These were perhaps one of the most highlighted issues of the Union Budget 2011-12 which made a huge buzz all over the country as far as the issue is in relation with indirect taxation. Some areas of indirect taxation has been changed dramatically and the rates have been lifted but there are still some areas which has been left untouched such as the rate of service tax, etc.

Union Budget 2011 Highlights Income Tax

Every taxpaying person has certain expectation from the Union Budget every year and like every year the Union Budget 2011-12 had certain expectations. The salaried class person wished to receive a in exemption limit of the taxation limit, whereas others wanted an exemption in some other forms. Mr. Pranab Mukherjee, the Finance Minister of India, did gave it a positive thinking and today the Union budget has somewhat tried on acting upon the grievances of the taxpayer, that is, the assessee. The income tax slab of all the taxpaying section has certain gone certain changes apart from the women section. Following is an attempt to opt out the differences among the tax slab earlier and now.

MALES:

Then: The pre-budget period witnessed that the basic exemption limit was Rs. 1, 60, 000, where the total income of the assessee was in between Rs. 1.6 lakhs to Rs. 5 lakhs; tax levied on total income was 10%, in case the total income fell in between Rs. 5 lakhs to Rs. 8 lakhs; tax levied was 20% and whereas the total income was above Rs. 8 lakhs, the applicable rate of taxation was 30%.

Now: After the Union Budget 2011-12, there has been some amendments with respect to the figures. The limit has been raised by Rs. 20, 000. The basic exemption limit is Rs. 1, 80, 000, where the total income of the assessee is in between Rs. 1.8 lakhs to Rs. 5 lakhs; tax levied on total income will be 10%, in case the total income falls in between Rs. 5 lakhs to Rs. 8 lakhs; tax levied will be 20% and whereas the total income is above Rs. 8 lakhs, the applicable rate of taxation will be 30%.

FEMALES:

Then: The pre-budget period witnessed the basic exemption limit for women to be at Rs. 1, 90, 000, where the total income of the assessee was in between Rs. 1.9 lakhs to Rs. 5 lakhs; tax levied on total income was 10%, in case the total income fell in between Rs. 5 lakhs to Rs. 8 lakhs; tax levied was 20% and whereas the total income was above Rs. 8 lakhs, the applicable rate of taxation was 30%.

Now: The post budget of such exemption limit remains unchanged and the same shall be applicable as per the Union Budget 2011-12. The reason behind such ignorance is the new direct tax code which is likely to prevail from 1st April, 2012, which aims at abolishing the gender distinction system in terms of payment of tax.

SENIOR CITIZENS:

Then: The pre-budget period witnessed the basic exemption limit for senior citizens to be at Rs. 2, 40, 000, where the total income of the assessee was in between Rs. 2.4 lakhs to Rs. 5 lakhs; tax levied on total income was 10%, in case the total income fell in between Rs. 5 lakhs to Rs. 8 lakhs; tax levied was 20% and whereas the total income was above Rs. 8 lakhs, the applicable rate of taxation was 30%.

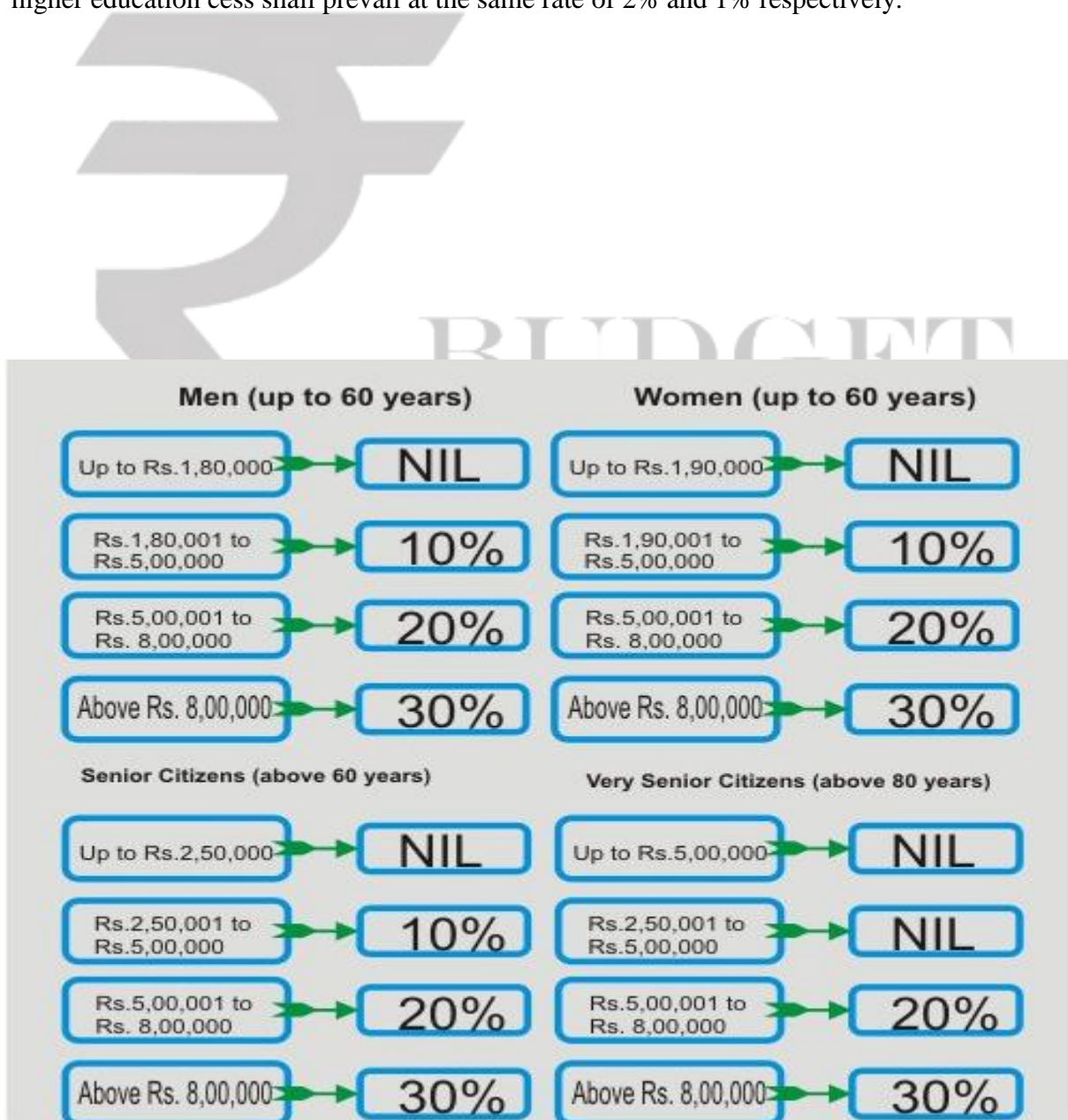
Now: After the Union Budget 2011-12, there has been some amendments with respect to the figures. The limit has been raised by Rs. 10, 000. The basic exemption limit is Rs. 2, 50, 000,

where the total income of the assessee is in between Rs. 2.4 lakhs to Rs. 5 lakhs; tax levied on total income will be 10%, in case the total income falls in between Rs. 5 lakhs to Rs. 8 lakhs; tax levied will be 20% and whereas the total income is above Rs. 8 lakhs, the applicable rate of taxation will be 30%.

VERY SENIOR CITIZENS:

A new concept of very senior citizens has been introduced where people who have attained the age of 80 or more will fall. For this category, the assessee will get an exemption upto Rs. 5, 00, 000, earlier as these people fell under the senior citizen category, there limit was also restricted to Rs. 2, 40, 000. The rest of the part shall be similar to the present position of senior citizens, that is, from Rs. 5, 00, 000 to Rs. 8, 00, 000, 20% of the income shall be taxable and incase the income exceeds Rs. 8, 00, 000, 30% of the total income shall be taxable.

It shall be noted that in every case, the application of education cess and secondary and higher education cess shall prevail at the same rate of 2% and 1% respectively.



The Equilibrium Zone in Tax Planning

Today tax planning has become a major part in every taxpayer's life where the individual uses various methods to reduce his tax liability and enhance his growth. Tax savings and tax planning are very closely associated with each other and both of them aim at the same end purpose, which is, reducing the tax liability of the assessee. Tax planning is the systematic way of planning of investment of your funds with a view to reduce your total tax liability whereas tax savings relates savings that is generated by the assessee as a result of such investment. Moreover, both these measures are not merely a high scientific technique but rather it is an art which is based on common sense and diligence.

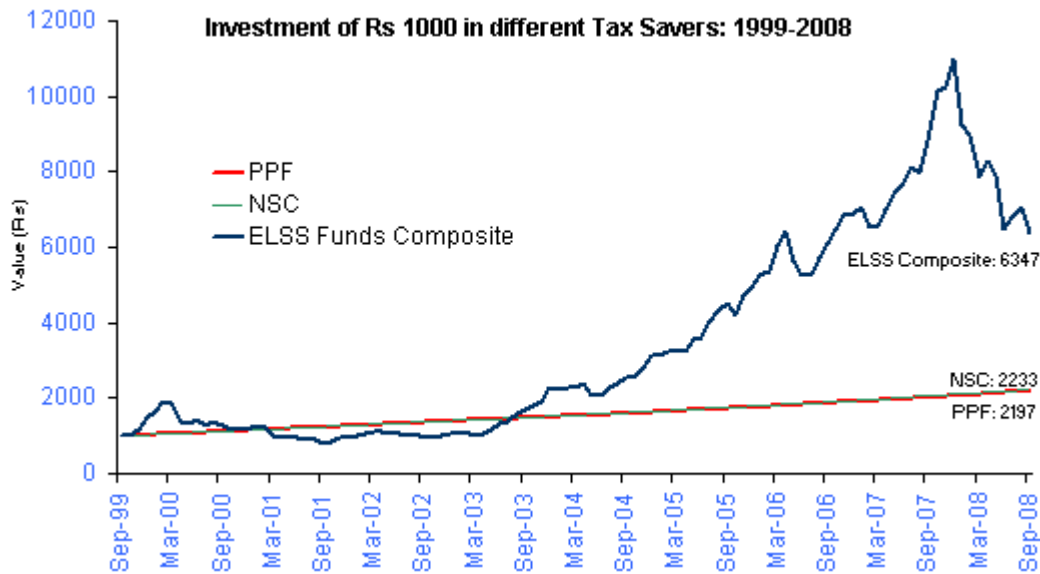
Key to save taxes:

Only overall idea in the amount of deduction available to an assessee on certain investment does not enhances and makes the tax planning system efficient, it is the application of right knowledge at the right place that matters. Successful people and market makes believe that there should be equilibrium in investments of an assessee. To be very precise, there should be proper balance among the investment of an individual and the balance can be attained by way of investing in both forms of investment, namely, the long term investment and the short term investments. The dual zone investment will not only provide the assessee with the benefit of flexibility but will also provide the cushion of a sound investment program along with providing tax benefits to the assessee.

Where to look for?

The best available option to all is the deduction provided under section 80C of the Income Tax Act of India. The section contains various sub sections which provides an assessee a deduction on the investments made by them on areas like life insurance, employee provident fund (EPF), public provident fund (PPF), equity linked saving scheme (ELSS) etc. All these relates to investment by an assessee for securing some future benefits. This kind of investment is very much essential in everybody's life and hence such have been kept outside the purview of taxation. Added to it, the areas which require investment have also been kept under the deduction zone, so that assesses can invest freely into them and get fruitful results. National Savings Certificate (NSC) is an example of such investment.

If an in-depth analysis of such investments is made, one can observe that the categories which are kept under the purview compromises of both, the short term as well as long term investments, hence, one can also figure out the department too has supported the policy of balanced investment. Investment in areas like life insurance and five year investment are example of long term investments whereas other areas like NSC and post office savings are form of short term investments. Hence, both sides of investments shall be focused upon.



Sources: ELSS data - Verity Analytics. PPF, NSC Data - Indian Public Finance Statistics 07-08, Ministry of Finance (Department of Economic Affairs).

“About 79% of the people prefer life insurance vis-à-vis other tax-saving instruments. It is as high as 92% in Delhi, 88% in Mumbai and 57% in Chennai,” the report said. A *consumer behaviour survey by IMRB for ICICI Prudential Life has revealed.*

How much can I save?

Most common terms of investments have been clubbed together under a single section of 80C. It is the area where most common forms of investments are kept together. A maximum of Rs. 1, 00, 000 can be obtained under this section. But the situation of less than Rs. 1, 00, 000 is present, that is, where the total deduction available under the section 80C is below Rs. 1, 00, 000, then the same amount shall be taken as a deduction under section 80C and such shall be deducted from the total income of the assessee. There are also other sections in form of 80D to 80U where separate deductions can be obtained and that will not be included in Rs. 1, 00, 000 under the section 80C.

As said earlier, there are also some other options of saving taxes, deduction under section 80D can be obtained for medical expenditure by way of Mediclaim insurance and such amounts upto a maximum of Rs. 15, 000. On the other hand, section 80DD also provides a separate deduction of Rs. 50, 000 to Rs. 1, 00, 000 depending upon the degree of the disability. Infrastructure bonds, educational loan and home loan can also be used as a tool for tax savings.

What are the additional benefits?

There are also some other benefits of investing in such form of investments. The prime benefit of these kind of investment is that the income from such investments in form of interest from employee provident fund (EPF) and public provident fund (PPF) is also tax free and such income shall not be taken into consideration for the purpose of computing tax liability of

an assessee. In connection to investment in equity linked saving scheme, one can easily save the amount invested and the amount earned as it is the best form of long term investment.

There are numerous opportunities to invest and save taxes but ability lies in realizing proper sources and channelizing the funds from such proper sources. One should not forget the importance of maintaining equilibrium in the ratio between long term and short term investments. There are several tax consultancy firms which can provide exclusive ideas and innovative methods to save taxes, make sure such considerations are taken into thought before making any form of investment, but it should always be remembered that the tax liability is true and no untrue measures shall be adopted as it can be defamatory and can lead you into serious troubles.

The best way of investment is by doing it in dual form, so that proper balance is maintained and the assessee shall also enjoy the flexibility involved in such investments. Long term investments provides a secured future but short term investments acts as a cushion in day to day ups and downs, therefore, both are important. Only long term investment will make things inflexible for the assessee and only short term investments will mark opportunities lost in investment. A good friendly advice of a tax consultant or a tax expert is always a boon to the taxpayer and his ideas in relation to tax planning and tax savings.

