

The Union Budget 2003

Salient Features of the Finance Bill 2003 - Direct Tax Proposals for Individuals

1 Rates of taxes

No change is proposed in the rate structure.

In case of individuals, HUFs, AOPs, and BOIs having incomes of Rs.8,50,000/- or below, no surcharge would be payable. However, in cases of persons having total income exceeding Rs.8,50,000/- the tax payable would be enhanced by a surcharge at the rate of 10% of the tax payable.

Marginal relief to ensure that the additional amount of income-tax payable, including surcharge, on the excess of income over Rs.8,50,000/- is limited to the amount by which the income is more than Rs.8,50,000/-.

2 Standard deduction for salaried tax payers

Salary Income Rs.	Present Limits	Proposed Limits	Tax savings before surcharge
1,50,000	33 1/3% or 30,000 whichever is less	40% or 30,000 whichever is less	Marginal upto Salary of Rs.1,33,000
1,50,001 to 3,00,000	25,000	40% or 30,000 whichever is less	Maximum Rs.1,500
3,00,001 to 4,99,999	20,000	40% or 30,000 whichever is less	Rs.3,000
5,00,000 or more	0	20,000	Rs.6,000

3 Exemption of long term capital gains on transfer of listed equity shares

Any income arising from transfer of a long term capital asset, being equity shares listed in India and acquired on or after 1st March 2003 but before 1st March 2004 shall be exempt from tax.

However, it needs to be clarified that in case transfer of such equity shares results into a long term capital loss, the same shall be permitted to be set-off against other taxable capital gains in view of provisions of section 14A of Income tax Act.

4 Exemption of capital gains on transfer of US 64

Any income arising from transfer of a long term capital asset, being units under US 64 shall be exempt from tax, where such transfer takes place on or after 1st April 2002.

However, it needs to be clarified that in case transfer of such units of US 64 results into a long term capital loss, the same shall be permitted to be set-off against other taxable capital gains in view of provisions of section 14A of Income tax Act.

As has been the situations with most investors in US 64, such transfers are generally likely to result in capital loss. If such capital loss during the previous year 2002-03 is not allowed to be set-off against other capital gains, the tax payers may be required to pay the advance tax by 15th March 2003 and/or to pay interest on delay/default.

5 Abolition of tax on dividends and levy of additional income-tax on distributed profits

The amounts declared, distributed or paid on or after 1st April 2003 by a domestic company by way of dividends or income distributed by Mutual Funds shall be charged to additional income tax (dividend distribution tax) at the flat rate of 12.5%.

Simultaneously, the receiver will be exempt from income tax, dividends received from domestic companies on or after 1st April, 2003.

In view of the exemption of dividend income, the deduction of interest on borrowed funds invested in such shares & units will not be permitted in accordance with section 14A of Income tax Act.

6 No TDS in case of filing of self declaration (Form 15H)

In the case of an individual resident in India, who is of the age of 65 years or more at any time during the previous year and is entitled to a deduction from the amount of income-tax on his total income referred to in section 88B, no deduction of tax shall be made, if such individual furnishes a declaration to the person responsible for paying the specified income to the effect that the tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be nil.

7 Rebate for tuition fees paid for the education of any two children

The existing limit of Rs.70,000 to include any sum paid upto Rs.12,000/- per child upto maximum of two children, as tuition fees whether at the time of admission or thereafter, to any university, college, school or other educational institution situated within India for the purpose of their full-time education. However, the eligible amount shall not include any payment towards any development fees or donation or payment of similar nature.

8 Increasing the amount of rebate of income-tax in case of individuals of sixty-five years or above

With a view to provide tax relief to the senior citizens in the age group of sixty-five years or more, it is proposed to enhance the limit of tax rebate from Rs.15,000/- at present to Rs.20,000/-. Accordingly, a senior citizen having income upto Rs.1,53,000/- and where such senior citizen is a pensioner or a salaried taxpayer having income upto Rs.1,83,000/-, shall not have to pay any income tax.

9 Increase in the deduction in respect of interest on certain securities, dividends, etc

It is proposed to increase the limit of deduction from Rs.9,000/- to Rs.12,000/-. The existing additional deduction of Rs.3,000/- in respect of interest on securities of the central government or a state government shall continue.

10 VRS compensation allowable even if it is receivable or received in installments

The proposed amendment relaxes the condition that the entire VRS amount of upto Rs.5,00,000/- will be exempt even when even if received in installments instead of one lump sum at the time of termination of the

employment. However, there are no changes in the total amount eligible for exemption or the condition that the VRS scheme should be in accordance with the guidelines laid down.

11 Insurance policies having the amount of premium more than 20% of the actual capital sum assured

The insurance policies with high premium and minimum risk cover are similar to deposits or bonds. With a view to ensure that such insurance policies are treated at par with other investment schemes, it is proposed to rationalise the tax concessions available to such policies. It is therefore, proposed to substitute the clause (10D) of section 10, so as to provide that the exemption available under the said clause shall not be allowed on any sum received under an insurance policy in respect of which the premium paid in any of the years during the term of the policy, exceeds twenty per cent. of the actual capital sum assured. However, any sum received under such policy on the death of a person shall continue to be exempt. It is also proposed to clarify that the value of any premiums agreed to be returned or of any benefit by way of bonus or otherwise, over and above the sum actually assured, which is to be or may be received under the policy by any person, shall not be taken into account for the purpose of calculating the actual capital sum assured under this clause.

The new provision also provides that the amounts received under sub-section (3) of section 80DD, shall not be exempt under this clause.

It is also proposed to insert a new sub-section (2A) in section 88 which seeks to provide that the deduction in respect of the sums paid or deposited as premium under an insurance policy shall be available only on so much of the premium or other payment made on an insurance policy, other than a contract for a deferred annuity, as is not in excess of twenty per cent. of the actual sum assured.

It is also proposed to clarify that the value of any premiums agreed to be returned or of any benefit by way of bonus or otherwise, over and above the sum actually assured, which is to be or may be received under the policy by any person, shall not be taken into account for the purpose of calculating the actual capital sum assured under this clause.

12 Medical treatment of a dependant being a person with disability or a person with severe disability

The present rules under section 80DD which are at variance with the rules for defining disability under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995, are proposed to be harmonized to align the criteria for defining disability as existing under the Income-tax Rules with the criteria prescribed under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 and to increase the amount of deduction to Rs.50,000/- Rs.40,000/- at present.

The proposed amendment also provides for a deduction of an amount of rupees fifty thousand under this section, for the medical expenditure, etc. incurred in respect of a dependant being a person with disability, as defined under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995.

It is also proposed to provide that a higher deduction of rupees seventy-five thousand shall be allowed, where such dependant is a person with severe disability under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 having any disability over 80%. It is also proposed to define the term 'dependant' so as to include in the case of an individual, the spouse, children, parents, brothers and sisters and in the case of a Hindu Undivided Family, a member thereof, who is wholly or mainly dependant on the assessee and has not claimed any deduction under section SOU in the computation of his income.

For claiming the deduction, the assessee shall have to furnish a copy of the certificate issued by the medical authority under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 along with the return of income filed under section 139. Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

13 Deduction in the case of a person with disability or a person with severe disability

The amendment proposes to substitute the existing section 80U with a view to harmonize the criteria for defining disability as existing under the Income-tax Rules with the criteria prescribed under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 and to increase the amount of deduction to Rs.50,000/- from Rs.40,000/- at present. It also proposes to provide that a higher deduction of Rs.75,000/- shall be allowed in respect of a person with severe disability under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995, having any disability over 80%.

For claiming the deduction, the assessee shall have to furnish a copy of the certificate issued by the medical authority under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 along with the return of income filed under section 139. Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

14 Deduction in respect of medical treatment etc. of specified diseases to be linked to the expenditure actually incurred on such treatment

The amount of deduction under this section shall be equal to the amount of expenditure actually incurred or Rs.40,000/-, whichever is less, in respect of the previous year in which such expenditure was incurred. The new provision also proposes to define the term 'dependant' to include in the case of an individual, the spouse, children, parents, brothers and sisters of the individual, and in the case of a Hindu undivided family, a member of the Hindu undivided family. It is also proposed to provide that no such deduction shall be allowed unless the assessee furnishes with the return of income, a certificate in such form, as may be prescribed, from a neurologist, an oncologist, a urologist, a hematologist, an immunologist or such other specialist, as may be prescribed, working in a Government hospital. The term "Government hospital" will also include approved hospitals for the treatment of Government servants. The deduction under the section shall be reduced by the amount, if any, received under insurance from an insurer, or reimbursed by an employer, for the medical treatment of the assessee or the dependant.

15 Royalty income, etc. of authors of certain books

Authors play a significant role in the development of any society by contributing to the flow of new ideas and creative streams of thought. Authoring a book is often a product of many years of hard work with associated costs, many of which are not allowable as a deductible expense from their income. On the other hand, the income stream of authors' is uncertain and unevenly spread. With a view to provide tax relief to the authors in respect of their income from their profession of author, it is proposed to insert a new section 80QQB under the Income-tax Act, 1961.

The new section 80QQB proposes to provide for a deduction up to Rs.3,00,000/- to an individual resident, being an author, in respect of any income derived from the exercise of his profession, on account of any lump sum consideration for the assignment or grant of any of his interests in the copyright of any book, or of royalties or copyright fees (whether receivable in lump sum or otherwise) in respect of such book.

Deduction shall be allowed in respect of any book, being a work of literary, artistic or scientific nature. However, it is proposed that the deduction shall not be available in respect of income from text books for schools, guides, commentaries, newspapers, journals, magazines, diaries, brochures, tracts, pamphlets, and other publications of a similar nature, by whatever name called. Where an assessee claims deduction under this section, no deduction in respect of the same income may be claimed under any other provision of the Income-tax Act, 1961. It is proposed to provide that for calculating the deduction under this section, the amount of eligible income shall not exceed 15% of the value of the books sold during the previous year. However, this condition is not applicable where the royalty or copyright fees, is receivable in lump sum in lieu of all rights of the author in the book.

For claiming the deduction, the assessee shall have to furnish a certificate in the prescribed manner in the prescribed format, duly verified by the person responsible for paying the income, setting forth details as may be prescribed. Where the eligible income is earned outside India, the deduction shall be allowed on so much of the income earned in foreign exchange, which is brought in India within six months from the end of previous year or within such further period as the competent authority may allow in this behalf. For this purpose, competent authority shall mean the Reserve Bank of India or such other authority as is authorized under any law for the time being in force for regulating payments and dealings in foreign exchange. It is proposed to provide that in order to claim deduction in such cases, a certificate in line with similar provisions existing in the Act to the effect that the deduction has been correctly claimed in accordance with the provision of this section would be required to be furnished.

16 Tax not to be deducted at source while making payments of fees for professional services for personal purpose

Under the existing provisions contained in the second proviso of sub-section (1) of section 194J, an individual or a Hindu undivided family, whose total sales, gross receipts or turnover from the business or profession carried on by him exceed the monetary limits specified under clause (a) or clause (b) of section 44AB of the Income-tax Act during the financial year immediately preceding the financial year in which fees for professional or technical services is credited or paid is required to deduct tax at source while making the payment.

It is proposed that no such deduction of tax at source will be required when such sum payable by way of fees for professional services is exclusively for personal purposes.

17 Tax clearance certificate to be required only in certain cases

No prior tax clearance certificate required except in respect of notified persons. Other persons domiciled in India at the time of departure will be required to furnish their PAN. If PAN not allotted or not subject to tax, a certificate in the prescribed form stating therein the purpose of visit and estimated stay.

In respect of persons who are not domiciled in India (generally a foreigner) and who have come to India in connection with their Business, Profession or Employment and have derived income from any source in India, an undertaking in the prescribed form will be required to be furnished at the time of departure. This undertaking will have to be issued by the employer or the person through the foreigner was in receipt of the income.

18 Change in the definition of 'not ordinarily resident'

A person would be "not ordinarily resident" (NOR) in India in any previous year if such person is an individual who has been a non-resident in India in 9 out of the 10 previous years preceding that year, or has during the 7 previous years preceding that year been in India for a period of, or periods amounting in all to, 729 days or less; or is a Hindu undivided family whose manager has been a non-resident in India in 9 out of

the 10 previous years preceding that year, or has during the 7 previous years preceding that year been in India for a period of, or periods amounting in all to, 729 days or less.

As a result of the above amendment, a person will lose the status of NOR if he is a resident in India for 2 consecutive years or has stayed in India for a period of 730 days (aggregating to 2 years) or more in last 7 years.

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