# Budget 2017-18 : Why taxation of salaried income needs a makeover?

Come Feb 1st, and Finance Minister Arun Jaitley presents the Union Budget 2017-18. The middle class, especially the salaried, which stood by the government's big bang demonetization plan despite all the trouble is expecting a set of measures enabling them to reduce their tax outgo. Analysts too are of the view that the upcoming budget should provide for relief to common man and contain the resentment and pain caused by the note ban. The salaried taxpayer who currently has limited avenues to save tax is anticipating a complete overhaul and rationalization of the existing framework. Some of the key expectations are mentioned below:

**Revision of Tax slab rates**

An upward revision in the income tax slabs and increase in the minimum exemption limit will be of immense relief to the individual tax payers. Given the burgeoning direct tax collections in the backdrop of Income Disclosure Scheme and PMGKY, experts are of the opinion that the exemption limit can be raised to Rs. 4 Lakhs while the subsequent slabs could be as under:

| Range of Total Income | Rate of Tax |
|---|---|
| Above Rs. 4 Lakhs to 10 Lakhs | 10% |
| Above Rs. 10 Lakhs to 20 Lakhs | 20% |
| Above Rs. 20 Lakhs | 30% |

Alternatively, relief can be provided by reducing the rates of tax without changing the slab.

**Raise exemption limit on allowances**

Salaried assesses enjoy a plethora of exemptions from tax against several allowances/perquisites that the employer provides such as children's education, hostel, transport, conveyance, house rent and leave travel. The allowance limits were fixed decades ago and needs to be aligned with the current economic reality factoring inflation. Alternatively, the budget can withdraw the aforesaid exemptions and seek to reintroduce the erstwhile standard deduction at a fixed percentage of gross salary. This would reduce administrative burden both on the part of employee and employer, facilitate tax computation, and avoid associated litigation.

**Increase deduction under section 80C and 80D**

Deduction u/s 80C should be increased to Rs. 3 Lakhs from the current threshold of Rs. 1.5 Lakhs to boost household savings. This will in turn help capital formation, availability of funds in the market and fuel growth. Similarly, the limit u/s 80D needs to be revised given the increasing cost of health insurance schemes and further promote the same.

**Reimbursement of Medical Expenditure**

Any sum paid by the employer in respect of any expenditure incurred by the employee on the medical treatment of self/ family is currently exempt from tax, to the extent of Rs. 15,000. This limit needs to be revisited in the light of rising medical and hospitalization cost and should be increased to Rs. 50,000.

**Deduction on Interest earned on savings bank account**

Section 80TTA was introduced in Assessment Year 2013-14 to promote savings by providing for deduction on interest income earned on savings bank account. Currently deduction can be availed up to maximum of Rs. 10,000. The budget should increase the scope of the section to include interest earned on time deposits and increase the limit to Rs. 25,000 per year.

**Re-introduce deduction in respect of investment in Infrastructure bonds**

Section 80CCF should be restored with an increased investment limit in infrastructure bonds from erstwhile Rs 20,000 to Rs 50,000 to boost infrastructure development.

**Higher deduction for interest paid on housing loan**

Currently, the deduction available on interest on home loan is up to Rs 2,00,000. Keeping in view the government's agenda of housing for all, the limit should be increased further. This will also provide an immediate market to the banking sector for investing their surplus funds post demonetization windfall.

**Deduction of rent paid where no House Rent Allowance is paid by the organization**

Salaried assesses who do not receive HRA are being allowed a deduction of Rs. 5,000 per month u/s 80GG of the Income-tax Act. Considering inflation and high cost of living, there is a need to increase this limit to Rs. 15,000 for metro cities and Rs. 10,000 for non-metro cities.

Source courtesy:caclubindia.com