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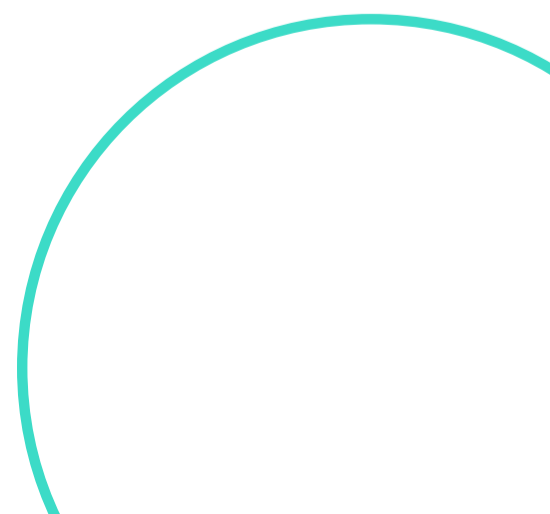
UNDERSTANDING
Old **v/s** New
Tax Regimes

A guide for HRs



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Preface

In the Union Budget of 2020-2021, the Finance Minister introduced a new income tax regime. As per this, individuals can now choose to pay tax at lower rates. However, it is not as simple as it sounds. There is a catch. By choosing the new tax regime one has to forgo certain exemptions and deductions or employee tax-saving benefits, which he/she could have otherwise claimed under the old tax regime. The good news is that the new tax regime will run in parallel with the old one. This means taxpayers will now have an option to choose the tax structure that suits them best.

This e-book draws a comparison between the two regimes. It is a ready reckoner for HR professionals and decision-makers, who would like to help their employees understand the best possible tax-saving options. It also highlights popular tax-saving benefits available for employees and addresses key questions around the old and new tax regimes.

CHAPTER 1

Tax rates: Understanding the difference

The new tax regime is optional. Taxpayers can either choose to opt for the new regime or they can continue with the existing tax regime. To highlight the changes that have come into effect, let us take a look at the table below:

Income tax rates under the old tax regime v/s the new tax regime

Old tax rate	Income slabs	New tax rate
Nil	Up to ₹2.5 lakh	Nil
5%	₹2.5 - ₹5 lakh	5%
20%	₹5 - ₹7.5 lakh	10%
	₹7.5 - ₹10 lakh	15%
30%	₹10 - ₹12.5 lakh	20%
	₹12.5 - ₹15 lakh	25%
	Above ₹15 lakh	30%

Note: Health and Education Cess plus Surcharge on Income Tax payable in the new regime remain the same as in the old tax regime.



Though the new regime proposes lower tax rates, **one can avail these only if s/he is willing to give up exemptions and deductions provided under the Income-tax Act, 1961.** These exemptions were designed to help salaried individuals bring down their taxable income.



CHAPTER 2

Old v/s new: What goes out, what stays on

Under the new tax regime, salaried individuals **will have to give up around 70 exemptions and deductions. As mentioned earlier, these incentives (in effect) help to save tax. One can claim all of the above if they choose to continue with the old tax regime. Not just this, the old tax regime also allows employees to claim allowances and perquisites.** Companies can offer these to their employees to save additional tax. These are easy to avail and can be introduced as part of the pay structure without making any major alterations to the CTC (cost-to-company).



Popular exemptions/deductions	Old tax regime	New tax regime
● Provident fund	✓	✗
● Leave travel allowance	✓	✗
● House rent allowance	✓	✗
● Deductions for life and medical insurance	✓	✗
● Tax savings on mutual funds	✓	✗
● Standard deduction of ₹50,000	✓	✗
● Deduction towards family pension	✓	✗
● Other deductions under Chapter VI-A*	✓	✗

*Housing loan premiums, interest on education loan, donations, house rent paid when HRA is not available and more.

What is common between the old and the new tax regime?

- NPS (National Pension Scheme) deduction under Section 80CCD (2)
- Section 80JJAA (i.e. for new employment)
- Transport allowance granted to *divyang* (person with disability) employee
- Conveyance allowance to meet the expense on commute for official work/duties
- Any allowance to meet the cost of travel on tour/transfer
- Income tax exemption on gratuity
- Leave encashment

But, these benefits are in few numbers in comparison to the exemptions/deductions that are allowed under the old tax regime.

In the following chapters, we will look into the role of these exemptions/deductions along with top employee tax-saving benefits with respect to the old v/s new tax regimes. Also, we will understand how these can maximise an employee's take-home salary and minimise his/her tax burden.



CHAPTER 3

Understanding the tax calculation

To put things in perspective, let us evaluate the below profiles as per salary slabs of — ₹7,50,000, ₹10,00,000 and ₹15,00,000 (for individuals under the age of 60 years)

Income tax calculation

	7,50,000		10,00,000		15,00,000	
	Old	New	Old	New	Old	New
Gross income	7,50,000		10,00,000		15,00,000	
HRA	1,50,000	-	2,00,000	-	3,00,000	-
Net salary	6,00,000	7,50,000	8,00,000	10,00,000	12,00,000	15,00,000
Standard deductions	50,000	-	50,000	-	50,000	-
Income chargeable under the head 'Salaries'	5,50,000	7,50,000	7,50,000	10,00,000	11,50,000	15,00,000
Section 80C (LIC, pension fund, etc.)	1,50,000	-	1,50,000	-	1,50,000	-
Total taxable income	4,00,000	7,50,000	6,00,000	10,00,000	10,00,000	15,00,000
Tax payable	0	37,500	32,500	75,000	1,12,500	1,87,500
0 - ₹2,50,000	0	0	0	0	0	0
₹2,50,001- ₹5,00,000	0	12,500	12,500	12,500	12,500	12,500
₹5,00,001- ₹7,50,000	0	25,000	20,000	25,000	50,000	25,000
₹7,50,001- ₹10,00,000			0	37,500	50,000	37,500
₹10,00,001- ₹12,50,000					0	50,000
₹12,50,001- ₹15,00,000					0	62,500
Choice	Old tax regime		Old tax regime		Old tax regime	

Note: The above calculation does not include deduction under Professional Tax of ₹2,500 p.a. available under the old tax regime.

Tax saving is as simple as cited above. Evaluating the scenarios one can state the following:

- If an individual's gross income is above ₹6 lakh and s/he is availing exemptions and deductions then it is best to continue with the old tax regime
- The old tax regime allows taxpayers to claim multiple deductions and pick from a range of tax-friendly avenues to make investments
- If taxable income after claiming deductions does not exceed ₹5 lakh, then the benefit of rebate under Section 87A can be claimed (limited to ₹12,500). This means, if the total tax payable is less than ₹12,500, then one will not have to pay any tax (as indicated in the illustration above, where no tax is payable on taxable income of ₹4 lakh)
- Despite paying a lower tax rate, the final tax liability is higher under the new regime

CHAPTER 4

Popular allowances and perquisites

Beyond the earlier-mentioned exemptions/deductions, salaried employees can also avail additional tax-saving benefits and save up to ₹80,000, under the old tax regime. These benefits can be introduced as part of the pay structure without any major alterations to the CTC (cost-to-company). However, these tax-saving benefits are subject to certain conditions such as the company's policy and the benefits an employee chooses to avail.

Below is a list of the top six popular allowances and perquisites, which are available under the old tax regime. These are easy to claim and provide maximum tax savings:



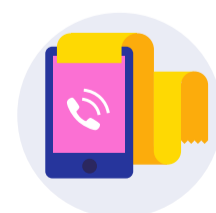
Meal/food cards

These are non-transferable prepaid cards that employees can avail every month



Gift

Refers to gift cards from an employer to an employee, which are tax-exempt



Communication

This includes telephone, mobile bill reimbursements and can also cover broadband/data card expenses



Fuel, vehicle maintenance & driver's salary:

It includes petrol/diesel reimbursements. Besides, it could also include a driver's salary reimbursement, as well as reimbursements for expenses related to vehicle maintenance



LTA

This benefit is extended by an employer to an employee for domestic travel, subject to certain conditions. Under this, the cost of travel of an employee and his/her family is tax-exempt



Gadget

This is provided to employees for the purchase of gadgets like laptops, tablets or mobile phones

Note: Tax rules for perquisites are subject to change, once rules are notified.

The analysis here is simple. If you offer a few of the above-mentioned deductions/tax-free perquisites, then the old tax regime will work as a better choice for your employees. This way, employees can reduce their taxable income, increase their take-home salary and have more money to save.



CHAPTER 5

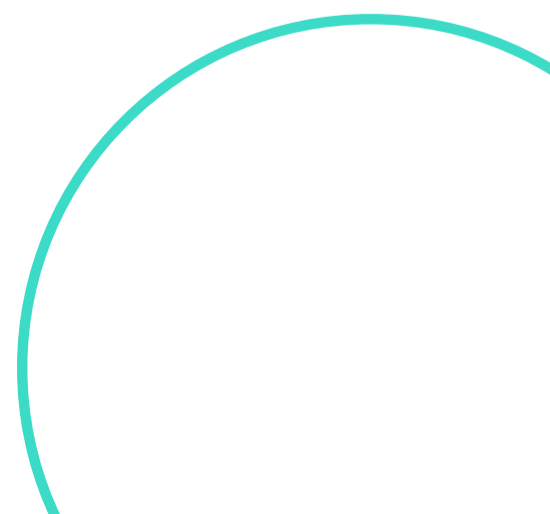
Frequently asked questions by employees on the two tax regimes

1 Will my employer allow me to change my choice at the end of the financial year?

No. Once you have made the choice, the employer can not permit any changes at the time of making final investment declarations in January or February.

2 Does that mean I will not be allowed to change my mind later?

You can, but not through your employer. You can exercise your choice at the time of filing your returns. However, you need to be careful, should you wish to move back from the new regime to the old one. This is because certain exemptions like LTA (leave travel allowance) can only be claimed through employers and not at the time of filing returns.



3 So, when is the best time to make this choice?


It is best to make this choice at the beginning of the year. But do your homework well. If you are already claiming deductions like provident fund contributions, insurance premium, PPF, tuition fee for children's education under 80C and more, the old tax regime is more favourable for you.

4 Which tax regime can help me to save more tax?

The existing tax regime allows taxpayers to claim more than 70 deductions and exemptions, unlike the new tax regime. This will bring down the overall taxable income and will help to save more tax.

5 What are the advantages of opting for employee tax benefits?

Popular tax-saving benefits like meal cards, fuel, communication and more are a hassle-free way to reduce net taxable income and increase the take-home salary. This way, employees will have more money in their hands that they can save or choose to invest in order to achieve their long term goals.



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