DHANAVRUKSHA
FINANCIAL SERVICES

The Union Budget- Beyond the visible

Rate Cut by RBI

Your Gateway To Financial Wellness

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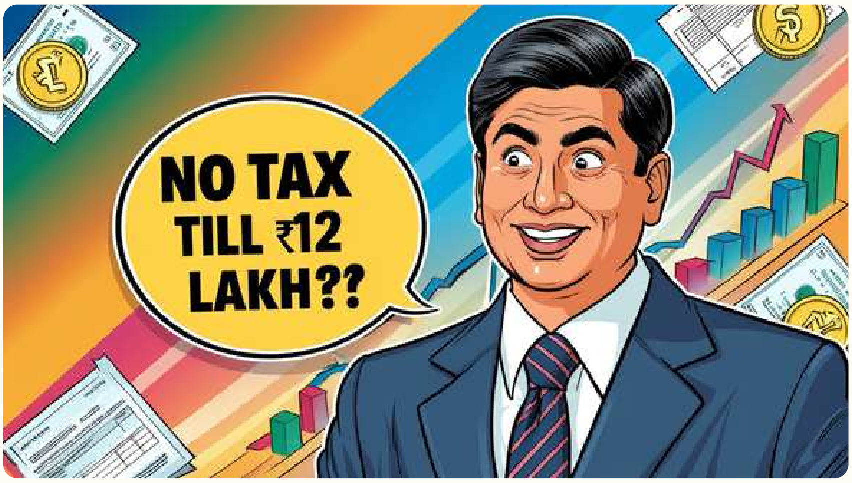
CHANGES IN INCOME TAX

ALL IN THE UNION BUDGET FOR PERSONAL FINANCE

- The Union Budget increased the tax free income limit to 12 lacs in a year which is a big boost for the middle class, leaving more money in hand for consumption, savings and investment.
- For the salaried class the tax free income limit would be 12.75 lacs including Standard Deduction.
- The income tax slabs have gone for a total rejig, bringing down the income tax liability for those at all levels of income.



NEW TAX REGIME- EARLIER VS REVISED

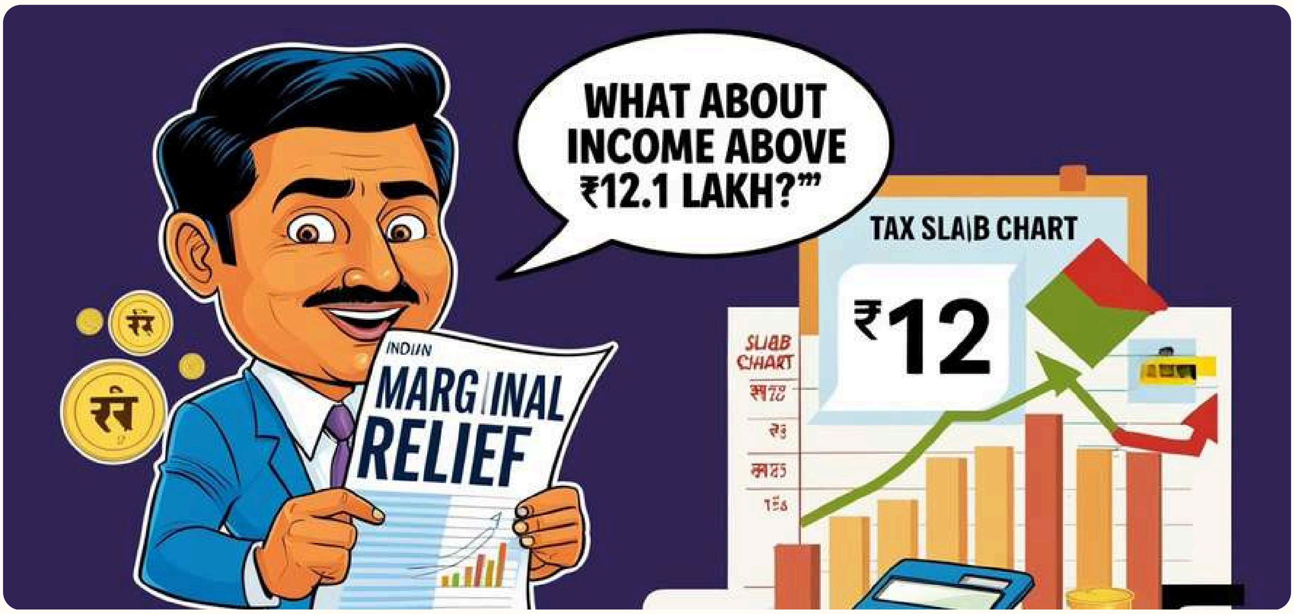
Income tax slabs (OLD)	Rate %	Income tax slabs (NEW)
0 to 3,00,000	0	0 to 4,00,000
3,00,001 to 7,00,000	5%	4,00,001 to 8,00,000
7,00,001 to 10,00,000	10%	8,00,001 to 12,00,000
10,00,001 to 12,00,000	15%	12,00,001 to 16,00,000
12,00,001 to 15,00,000	20%	16,00,001 to 20,00,000
-	25%	20,00,001 to 24,00,000
15,00,001 and above	30%	24,00,001 and above

MARGINAL RELIEF

EXTENSION IN TIMELINE FOR FILING UPDATED RETURNS U/S 139(8A)

Section 139(8A) of the Income Tax Act, 1961 (hereinafter referred to as 'the IT Act') allows taxpayers to file an updated return to voluntarily disclose omitted or underreported income. Currently, such return can be furnished within 24 months from the end of the relevant Assessment Year (AY).

To further encourage voluntary compliance, Budget 2025 proposed to extend the time limit from 24 months to 48 months from the end of the relevant assessment year.



MARGINAL RELIEF FOR INCOME ABOVE 12 LACS

Though the income slab begins from 4 lac of income onwards, **Marginal Relief** comes as a saviour. Marginal relief ensures that the maximum tax outgo on income that marginally exceeds Rs. 12 lakh is capped at the increase in income. According to the tax slab rates, the tax liability at Rs.12 lakh income would be 60,000. But, thanks to the rebate , you won't actually have to pay any tax.

For Example : If the income reaches 12.1 lakh, your tax liability as per the new slab rates would work out to Rs.61500 . But with marginal relief, the actual tax outgo will be only 10,000(equal to the increase in your income). The calculation behind this is

Tax Payable as per tax slab - Rs.61500
Income above 12 lacs - Rs.10000
Marginal Relief - Rs.51500 (Rs.61500 - 10000(Income above 12 lacs)
So income tax payable would be only Rs.10000 (61500-51500) plus cess

ENHANCED SAVINGS- DEBT MF & NPS

REBATE UNDER SEC 87A FOR DEBT MF CAPITAL GAINS

Capital gains from Debt Mutual Funds can be used to claim a rebate against section 87A. But it only applies if the investment was made after April 2023.

Consider a person who is retired and has no other income. If he sold a part of her debt MFs and booked Rs.12 lakh capital gains. Under previous rules, he would have paid Rs.83,200 as tax. But if he sells after April 2025, when the budget announcement takes effect, he will not have to pay any tax. Thanks to section 87A where taxes paid up to Rs.12 lakh income comes back through the rebate.

ENHANCED TAX SAVINGS IN THE REVISED NEW REGIME

The New Regime still has some exemption leeway through NPS. Contribution to the NPS through the employer, upto 14% of the basic salary gets exemption under Sec 80CCD(2) in the New Regime also, widening the scope of tax savings further. A salaried person stands to get exemption for more than ₹12.75 lacs of income income by using this. Appended below is the illustration

Annual Salary(₹)	Basic*	NPS^ contribution	Taxable Income#	Tax Payable with NPS	Tax Payable without NPS
13,70,000	6,85,000	95,900	11,99,100	Nil	74,250
24,00,000	12,00,000	1,68,000	21,57,000	2,39,000	2,81,250

*-50% of basic

^- NPS offers good long term returns with max 75% in Equity & 60% of maturity is tax free

#- After Standard Deduction and NPS contribution

OTHER EXEMPTIONS, ULIPS

OTHER EXEMPTIONS ALLOWED IN NEW REGIME

- EPF(Employee Provident Fund) remains partially EEE, with exemptions for employer contributions, interest earned, and withdrawals (subject to thresholds)
- Gratuity (upto a maximum of Rs.20 lakh)^
- Leave encashment on retirement* (upto Rs.25 lakhs)
- Voluntary retirement (upto Rs.5 lakhs)^
- ^Subject to prescribed limits
- Income from House Property

1)Interest on home loan can be set-off against rental income but not used as a loss against other heads of income.

2)30% standard deduction applicable on rental income.

- The limit for TDS (tax deducted at source) for interest earned by senior citizens (other than interest earned on securities) has been increase from its previous limit of Rs 50,000 to Rs 1,00,000

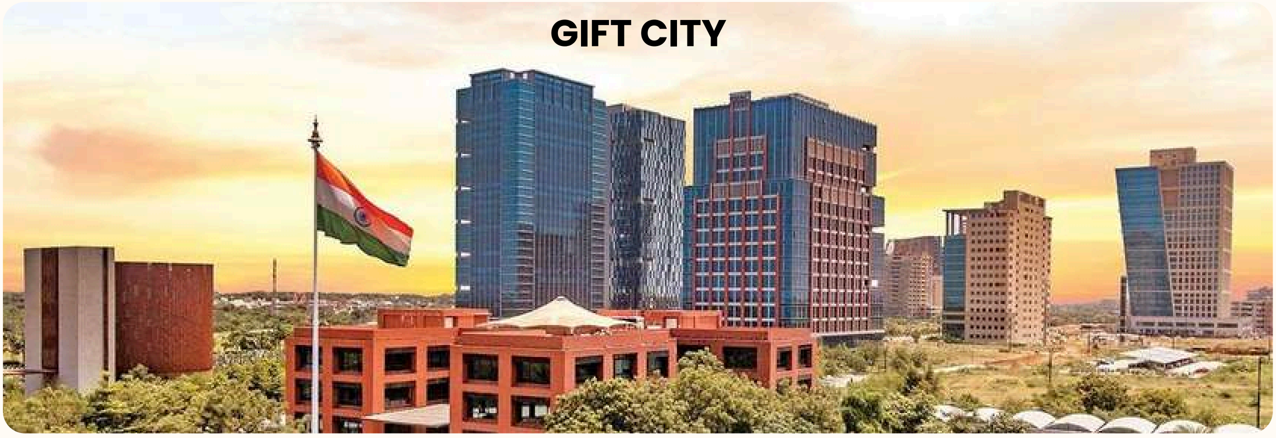
CHANGE IN TAXATION OF ULIPS

- ULIPs(Unit Linked Insurance Plans) had an edge in taxation earlier over other market linked investment products like Mutual Funds.

- Until 2021 the maturity proceeds of ULIPs were completely tax free under Section 10(10D) irrespective of the premium amount. In 2021 this benefit was brought down limiting the tax waiver only for annual premiums paid upto 2.5 lacs.

- Budget 2025 has brought ULIPs on par with Mutual Funds for taxation. With retrospective effect even maturity amount of ULIP policies bought after 1st Feb 2021 will be taxed as capital gains on withdrawals from 1st April 2025, even if the annual premium is under ₹2.5 lakhs. Earlier ULIPs would boast of giving a life cover which also gives the benefit of tax free returns which goes off now.

RESIDENTIAL PROPERTY & GIFT CITY



FILLIP TO GIFT CITY

- To provide a fillip to Gujarat's GIFT City, the FM announced several measures to further incentivise investment in GIF City. These include a slew of incentives aimed at promoting investment, employment and off-shore funding at GIFT's International Financial Services Centre (IFSC).

- To increase off-shore funds relocation to ISFC, the government has proposed to extend the existing relocation regime to Exchange Traded Funds (ETFs), which track market indices such as the Sensex and Nifty, and retail schemes which are willing to relocate from off-shore locations such as Mauritius and Singapore to GIFT City. The relocation of an original fund to a resultant fund will also be considered a tax-neutral transaction.

- While ULIPs have been made unfavourable in the budget, Life Insurance policies availed by NRIs from IFSC-based insurance offices will be tax free, benefiting from existing Clause 10D of Section 10, set to take effect on 1 April 2025.

REDUCTION IN TAX LIABILITY ON RESIDENTIAL PROPERTY

- Earlier TDS(10%) was applicable on annual rent exceeding ₹2.4 lacs and this threshold has been increased to annual rent of ₹6 lacs.

- With regards to Residential Property until now only annual value of one Self Occupied Property was treated as Nil and for the second one to be treated so it was to be proven to be used purely for residential purposes and not for any other purpose like business or any commercial reasons. But the budget 2025 relaxed this and without such conditions upto 2 Residential Properties can be claimed as Self Occupied Properties and their annual value would be zero. This is equivalent to exempting the notional income from the second property.

CHANGES IN TCS ; GLOBAL EQUITY

INCREASE IN THRESHOLD FOR TCS ON REMITTANCES

- The Budget has raised the threshold for tax collected at source (TCS) on remittances under the Liberalised Remittance Scheme (LRS). The limit has now been increased from ₹7 lakh to ₹10 lakh, affecting those sending money abroad for travel, education, and other expenses.

- TCS has been removed on education remittances made through loans from specified financial institutions. If money is sent abroad for education without a loan, a 5% TCS applies above ₹10 lakhs. For medical expenses, the 5% TCS rule remains unchanged.

CHANGE IN TCS & INVESTING IN GLOBAL EQUITIES

- Investments, gifts, and other remittances abroad will attract 20% TCS for amounts above ₹10 lakh. With the recent momentum in US markets, there is elevated interest among Indian investor to invest in foreign equity particularly the US. Though the increase in threshold for TCS has increased from 7 lacs to 10 lacs, there is more one need to know before taking the plunge.

- Taxation too is higher for foreign Equity investing. The Short Term Capital gains(STCG) Tax on investment in Mutual Funds investing in foreign Equities and directly in foreign shares is on applicable income tax slab(upto 30% plus surcharge) upto 2 years and long term capital gains(LTCG) tax of 12.5% post 2 years. The STCG tax is only 20% within 1 year for domestic Equities and 12.5% of LTCG tax over 1 year.

- Foreign Equity investing has to deliver extra alpha over domestic Equity to cover up the higher capital gains tax and the TCS even to match the net returns. That said for Medium and High Net worth individuals foreign Equity investing gives a good diversification impact.

- For small investors Domestic Equity Funds which take 10 to 20% of opportunistic exposure in foreign Equities might be a better option. In the case of these Funds the same favourable taxation of domestic Equity fund is applicable.

RATE CUT BY RBI

OUTCOME OF THE RPI MPC MEET

- The Reserve Bank of India reduced the key interest rate by 25 basis points to 6.25% on February 7.
- RBI had kept the repo rate (short-term lending rate) unchanged at 6.5% since February 2023. This is the first hike by the RBI in 5 years.
- The rate cut would reduce the interest on existing floating rate loans like home loans and make fresh loans cheaper. On a 1 Crore home loan of 15 years tenure a cut of 0.25% in the interest rate would translate into a savings of Rs.1459 on the monthly EMI.
- The Deposit rates would also drop following this announcement . But the rate cut would be a positive for bonds and debt mutual Funds as their prices and NAVs would go up. As there are further repo rate cuts likely, for fresh debt investments Bonds and Debt Funds are expected to yield more than deposits.
- The Standard Deposit Facility and the Marginal Standing Facility have both been adjusted by 25 basis points each.
- The CRR(Cash Reserve Ratio) was left unchanged.
- The RBI Governor highlighted that the Income tax cut would not have major impact on inflation.
- MPC voted unanimously to maintain 'neutral' policy stance. The Governor said this will give the RBI flexibility to respond to the environment around.
- Jul-Sept GDP growth forecast revised to 7.0% from 7.3%; Jan-Mar CPI inflation forecast revised to 4.4% from 4.5% earlier.
- Malhotra projected the inflation figure for the current financial year at 4.8% and 4.2% for the financial year 2026.

TIPS FOR EFFECTIVE USAGE OF TAX SAVINGS

- **Recheck which Tax Regime suits you better**
- **Increase your Home Loan EMI for significant savings on interest**
- **Enhance your SIP contribution to accumulate more wealth**
- **Utilise full 14% of basic as NPS contribution through employer to optimise tax savings**
- **Dont ignore Term Insurance, Health Insurance & Savings as New Tax Regime doesn't incentivise exemptions**

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