Aventus Partners Knowledge Series

Implications of Union Budgets (2014 & 2015) on Employee Compensation

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Table of Contents

1 INTRODUCTION

India is set to become the world's fastest growing major economy by 2016, as stated by the International Monetary Fund in their latest forecast. The International Monetary Fund and the World Bank in a joint report, have forecasted that India will register a growth of 6.4% in 2015, due to renewed confidence in the market brought about by a series of economic reforms introduced by the Government in recent months.

Since coming to power last year in 2014, the Government has presented two budgets; one in July of 2014 and another in February of 2015, the latter being the first full year budget. This document highlights the introductions made in both the budgets (with particular focus on Budget 2015) and their subsequent impact on employee compensation.

This document also makes recommendations in light of these changes for employees and employers.

2 BUDGET 2014 & 2015: HIGHLIGHTS

Financial Year 2014- 2015 has seen two budgets within a span of 7 months. Both have introduced subtle policy changes that encourage savings without directly altering the tax slabs and rates of taxation for individuals. This assumes significance as changes brought about in both these budgets together impact taxes that are paid/ payable by an employee in FY 2015 and 2016.

The key highlights of Budget 2014 and 2015 are:

1. Tax slabs remain unchanged for both FY 2014-15 and FY 2015-16
2. Investments have been encouraged through increased limits for deductions in
   - *Investments made under Sec 80C (Budget 2014)*
   - *Interest on Housing Loan (Self Occupied) under Sec 24 (Budget 2014)*
   - *Investments made by an individual (employee) in National Pension Scheme under Sec 80CCD (1B) (Budget 2015)*
3. Increased limit for deduction on Health Insurance Premium under Sec 80D (Budget 2015)
4. Increase in exemption on Transport Allowance under sec 10(14)) (i) (Budget 2015)

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Investments

Section 80C: Limits on contributions ** towards retirements and long term savings like PF/PPF/Pensions/Principal on housing loans etc. Increased from INR 1 lakh to INR 1.5 lakhs*

Section 80 CCD (1B): Additional deduction of up to INR 50,000 introduced for contributions made by the individual (employee) towards National Pension Scheme (NPS)

Section 24: Deduction limit on Interest on Housing Loan for self-occupied property increased to INR 2, 00,000 *

Others (Health and Transportation)

Section 80D: Increase in the limit of deduction under Section 80D towards Health insurance premium from INR 15,000 to 25,000.

Section 10 (14) (i): Increase in exemption of transport allowance from INR 800 per month to INR 1600

**Changes were introduced in Budget 2014-15*

***Contributions towards Children's education also covered under the overall cap of Section 80 C*

The table below helps compare the increase in deductions progressively offered under both the budgets - 2014 and 2015:

The total deduction limit has been increased by INR 1, 69,600 post changes proposed by both budgets.

INVESTMENTS	MAXIMUM LIMITS			INCREASE IN LIMITS	
	FY 2013-14 (a)	FY 2014-15 (b)	FY 2015-16 (c)	FY 2014-15 (b-a)	FY 2015-16 (c-b)
Deductions under Section 80 C	1,00,000	1,50,000	1,50,000	50,000	0
Deductions under Section 80 CCD (1B)- NPS	-	-	50,000	-	50,000
Deduction on health Insurance Premium under Section 80D	15,000	15,000	25,000	0	10,000
Exemption of Transport Allowance Under Section 10 (14) (i)	9600	9600	19200	0	9600
Deduction on Interest on Housing Loan (Self Occupied) for Self Occupied property under Section 24	1,50,000	2,00,000	2,00,000	50,000	0
Total increase in Deduction /exemption limits post Budget				**1,00,000**	**69,600**

These changes have a direct impact on taxability of income of employees across salary levels resulting in a reduction in tax payable of approximately

- INR. 10,300 for employees in the lowest tax bracket (10%) and of up to INR. 30,900 (approx.) for employees falling in the highest bracket (30%) in 2014-15 and
- INR 7,100 (approx.) for employees in the lowest tax bracket (10%) and of up to INR 21,500 (approx.) for employees falling in the highest bracket (30%) for the FY 2015-16.

A table to help draw comparisons between potential for reduction in tax payable on income for FY 2015 and FY 2016 if investments are made fully as per the prescribed limits is given below:

	POTENTIAL FOR REDUCTION IN TAX PAYABLE					
	2014-15			2015-16		
INVESTMENTS MADE FULLY	Highest Tax Bracket	Middle Tax Bracket	Lowest Tax Bracket	Highest Tax Bracket	Middle Tax Bracket	Lowest Tax Bracket
Deductions under Section 80 C	15,450	10,300	5,150	0	0	0
Deductions under Section 80 CCD (1B)- NPS	-	-	-	15,450	10,300	5150
Deduction on health Insurance Premium under Section 80 D	0	0	0	3,090	2,060	1030
Exemption of Transport Allowance under Section 10 (14) (i)	0	0	0	2966	1977.6	988.8
Deduction on Interest on Housing Loan (Self Occupied) under Section 24 for self-occupied property	15,450	10,300	5,150	0	0	0
Total Tax Savings	**30,900**	**20,600**	**10,300**	**21,506**	**14,338**	**7,169**

3 RECOMMENDATIONS FOR EMPLOYEES

In order to derive maximum benefit from the proposed Budget, an employee must increase his/ her savings and investments.

1. Increase investments in all permissible savings under Section 80c which includes Provident fund, Public Provident Fund, National Savings Certificate, Life Insurance premiums etc. up to INR 1,50,000. This will also include the principal repaid for housing loan.
2. Invest in National Pension Scheme (this is in addition to investments in any other pension scheme offered by private or government owned insurance companies). If already enrolled, ensure you are contributing a total sum of INR 50,000 per annum by way of individual (employee) contribution in addition to the employer's contribution that is being made. If not, enroll and start investing.

3. Invest in Health Insurance with a premium of up to INR 25,000 (as against INR 15,000in the previous year). If you are a senior citizen, you can further invest in Health Insurance of up to INR 30,000
4. Invest in house property which allows you a deduction of INR 2,00,000 on interest paid in terms of self-occupied house property

4 RECOMMENDATIONS FOR EMPLOYERS

1. Restructure the compensation package to factor in the increased exemption for transport allowance.
2. Educate employees across tax brackets on the potential for savings provided for by Budgets 2014-15 and 2015-16 through planned Investments
   - In the National Pension Scheme
   - In Public Provident Fund, National Savings Certificate, Life Insurance premiums, Equity Linked Saving Schemes and in other permissible investments under Section 80c
   - In a personal medical insurance over and above what is currently provided for by the employer (If required)
3. Educate employees on the tax benefits of investing in house property in addition to the other benefits that this investment provides.

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