

Budget 2025: New Regime - Analysing The Proposed Amendment

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In Depth Analysis Of Tax Impact On Income Up To And Above Rs. 12 Lakh In Hands Of Resident Individual

The Hon'ble Finance Minister ('FM'), presented the Finance Bill, 2025 ('the Bill') on February 1, 2025.

In the Bill, the FM proposed to amend the slab & tax rates prescribed in the default new tax regime under section 115BAC of the Income Tax Act, 1961 ('the Act') to be applicable from Assessment Year 2026-2027. Amendments also proposed in Section 87A (Rebate) whereby applicability of such rebate is extended to the income upto Rs 12 lakh from existing Rs 7 lakh.

Key Tax Implications of amendments proposed in slab rates for new tax regime and amendments proposed in section 87A applicable for Resident Individual in summarised form are as under:

- **No Tax payable if income earned is upto Rs 12 Lakh** for a person earning income **other than salary income** like business income, professional income, rental income, other source income etc. Rebate u/s 87A will be available in such case.
- **No Tax payable if income earned is upto Rs 12.75 Lakh** for a person **earning salary income** as well as other incomes like business income, professional income, rental income, other source income etc. because of standard deduction of Rs 75000 allowed from salary income.
- **Rebate u/s 87A shall not be available if total income exceeds Rs 12 Lakh (excluding income taxable at special rate** i.e. special rate income will not be clubbed in the other income for purpose of calculating limit of Rs 12 lakh for rebate purposes). In such case, total income (other than special rate income) shall be chargeable to tax as per applicable slab rates subject to marginal relief.
- **Marginal Relief** - Marginal relief available if income (other than special rate income) exceeding Rs 12 Lakh is lower than tax applicable on total income (other than special rate income). Tax payable in such case will be restricted to income (other than special rate income) exceeding Rs 12 lakh.
- **Rebate u/s 87A shall not be available on the income taxable at special rate** like STCG

taxable @20%, LTCG taxable @12.5% etc. Applicable tax at special rate income has to be paid even if total income including special rate income is within Rs 12 lakh limit. However, no tax on other income in such case due to rebate u/s 87A. Full list of special rate income is provided in table at page no. 6 below.

New Regime for Resident Individual - Tax Rate Comparison (Section 115BAC):

Proposed Slab Rate (Amt in Rs.)	Proposed Tax Rate
Up to 4 Lakh	Nil
4 Lakh - 8 Lakh	5%
8 Lakh - 12 Lakh	10%
12 Lakh - 16 Lakh	15%
16 Lakh - 20 Lakh	20%
20 Lakh - 24 Lakh	25%
Above 24 Lakh	30%
Existing Slab Rate (Amt in Rs.)	Existing Tax Rate
Up to 3 Lakh	Nil
3 Lakh - 7 Lakh	5%
7 Lakh - 10 Lakh	10%
10 Lakh - 12 Lakh	15%
12 Lakh - 15 Lakh	20%
Above 15 Lakh	30%

- **Rebate u/s 87A increased** - It has also been proposed to amend the provisions of section 87A so as to extend the existing rebate limit of Rs. 25,000 (i.e., for income up to Rs. 7 lakh) to Rs. 60,000 (i.e., for income up to Rs. 12 lakh) in case a resident individual opting for taxation under section 115BAC of the Act.
- **87A rebate will not be available against special rate income specified in Chapter XII** - Considering the ambiguity in current provisions regarding allowability of rebate u/s 87A against income chargeable at special rates, it is proposed to amend section 87A to provide that w.e.f. AY 2026-27, rebate u/s 87A shall not be available against income chargeable at special rate, in the hand of a resident individual, as specified in Chapter XII of the Act.
- Accordingly, proposed rebate of Rs. 60,000 will be available to a resident individual opting for taxation under section 115BAC and not having net taxable income exceeding Rs. 12,00,000 during the FY. However, no rebate shall be available against income chargeable at special rate as provided in the table below even though the net taxable income does not exceed Rs. 12 Lakh during the FY.

Income Chargeable at Special rate (Chapter XII):

Section	Section Title	Tax Rate
111A	Tax on short-term capital gains on equity shares, units of business trust or equity oriented mutual fund (STT paid)	20%
112	Tax on long-term capital gains (other than referred in 112A)	12.50%
112A	Tax on long-term capital gains on equity shares, units of business trust or equity oriented mutual fund (STT paid)	12.50%
113	Tax on income from block assessment (search cases)	60%
115ACA	Tax on income from Bonds or GDR purchased in foreign currency or capital gains arising from their transfer in hands of resident employee	10%/ 12.5%
115B	Tax on profits from life insurance	12.50%

	business
115BB	Tax on winnings from lotteries,30% games, horse races
115BBB	Tax on income from units of an10% open-ended equity-oriented fund of the UTI or of a MF
115BBE	Tax on unexplained income u/s60% 68/69/69A/69B/69C/ 69D
115BBF	Tax on royalty income from patent10% developed and registered in India
115BBG	Tax on income from transfer of10% Carbon Credit
115BBH	Tax on income from Virtual Digital30% Asset
115BBJ	Tax on winnings from online30% games

Practical Analysis of proposed amendment:

- Scenario 1: Individual having salary Income alongwith interest/PGBP/HP income but not special rate income

Particulars	Case 1	Case 2	Case 3	Case 4	Case 5
			12,75,000	13,35,580	13,40,000
1. Salary Income (A)	12,00,000	12,75,000			
2. Interest/PGBP/HP Income (B)	-	-	10,000	10,000	10,000
Total (C)	12,00,000	12,75,000	12,85,000	13,45,580	13,50,000
Tax Computation					
Less: Standard Deduction* (D= Lower of Salary income or 75,000)	75,000	75,000	75,000	75,000	75,000
Net Taxable Income (E = C - D)	11,25,000	12,00,000	12,10,000	12,70,580	12,75,000
Tax on normal income u/s 115BAC as per proposed tax rates (F)	52,500	60,000	61,500	70,587	71,250
Rebate u/s 87A (G = Lower of Normal tax or Rs. 60,000)	52,500	60,000	-	-	-
Marginal Relief-u/s 87A# (H)	-	-	51,500	7	-
Gross Tax-Liability (I= F - G - H)	-	-	10,000	70,580	71,250
Cess @ 4% (J= I*4%)	-	-	400	2,823	2,850
Total Tax-Liability (K = I+J)	-	-	10,400	73,403	74,100

Notes:

*Standard Deduction is available against salary income u/s 16 subject to lower of Rs. 75,000 or salary income earned during the FY.

Marginal Relief u/s 87A will be available in Case 3 & 4 in above table

• **Scenario 2: Individual having salary alongwith Interest/PGBP/HP income and also special rate income**

Particulars	Case 1	Case 2	Case 3	Case 4	Case 5
1. Salary Income (A)	11,50,000	12,15,000	12,75,000	13,35,580	13,40,000
2. Interest/PGBP/HP Income (B)	10,000	10,000	10,000	10,000	10,000
3. Capital Gain u/s 111A (Special Tax @ 20%) (C)	50,000	50,000	50,000	50,000	50,000
Total (D)	12,10,000	12,75,000	13,35,000	13,95,580	14,00,000
Tax Computation					
Less: Standard Deduction (E = Lower of Salary income or 75,000)	75,000	75,000	75,000	75,000	75,000
Net Taxable Income (F = D - E)	11,35,000	12,00,000	12,60,000	13,20,580	13,25,000
Tax on normal income u/s 115BAC (G)	48,500	55,000	61,500	70,587	71,250
Tax on special income u/s 111A (H = C*20%)	10,000	10,000	10,000	10,000	10,000
Rebate u/s 87A (I = Lower of Normal tax or Rs. 60,000)	48,500	55,000	-	-	-
Marginal Relief u/s 87A# (J)	-	-	51,500	7	-
Gross Tax Liability (K = G + H - I - J)	10,000	10,000	20,000	80,580	81,250
Cess @ 4% (L = K*4%)	400	400	800	3,223	3,250
Total Tax Liability (M = K+L)	10,400	10,400	20,800	83,803	84,500

Notes:

*Rebate u/s 87A will not be available against special rate income, earned by a resident individual, as specified in Chapter XII of the Act. (Refer Case 1 to Case 5)

Marginal Relief u/s 87A will be available in Case 3 & 4 in above table

- Scenario 3: Individual having business/HP/ Interest Income but No salary and No special rate income

Particulars	Case 1	Case 2	Case 3	Case 4	Case 5
			12,50,000	12,60,580	12,90,000
1. Business Income (A)	11,00,000	12,00,000			
2. Interest/HP Income (B)	-	-	10,000	10,000	10,000
Total (C)	11,00,000	12,00,000	12,60,000	12,70,580	13,00,000
Tax Computation					
Net Taxable Income (D = C)	11,00,000	12,00,000	12,60,000	12,70,580	13,00,000
Tax on normal income u/s 115BAC as per proposed tax rates (E)	50,000	60,000	69,000	70,587	75,000
Rebate u/s 87A (F = Lower of Normal tax or Rs. 60,000)	50,000	60,000	-	-	-
Marginal Relief u/s 87A# (G)	-	-	9,000	7	-
Gross Tax-Liability (H = E - F - G)	-	-	60,000	70,580	75,000
Cess@ 4% (I = H*4%)	-	-	2,400	2,823	3,000
Total Tax-Liability (J = H+I)	-	-	62,400	73,403	78,000

Notes:

Marginal Relief u/s 87A will be available in Case 3 & 4 in above table

- Scenario 4: Individual having business/HP/ Interest income and special rate income

Particulars	Case 1	Case 2	Case 3	Case 4	Case 5
1. Normal Business Income (A)	10,90,000	11,90,000	12,50,000	12,60,580	12,90,000
2. Interest Income/HP (B)	10,000	10,000	10,000	10,000	10,000
3. Capital Gain u/s 111A (Special Tax @ 20%) (C)	50,000			50,000	
Total (D)	11,50,000	12,50,000	13,10,000	13,20,580	13,50,000
Tax Computation					
Net Taxable Income (E = D)	11,50,000	12,50,000	13,10,000	13,20,580	13,50,000
Tax on normal income u/s 115BAC (F)	50,000	60,000	69,000	70,587	75,000
Tax on special	10,000	10,000	10,000	10,000	10,000

income u/s 111A
(G = C*20%)

Rebate u/s 87A*50,000 (H = Lower of Normal tax or Rs. 60,000)	60,000	-	-	-
Marginal Relief- u/s 87A# (I)	-	9,000	7	-
Gross Tax10,000	10,000	70,000	80,580	85,000
Liability (J= F + G - H - I)				
Cess @ 4% (K = 400 J*4%)	400	2,800	3,223	3,400
Total Tax10,400	10,400	72,800	83,803	88,400
Liability (L = J+K)				

Notes:

*Rebate u/s 87A will not be available against special rate income, earned by a resident individual, as specified in Chapter XII of the Act. (Refer Case 1 to Case 5)

Marginal Relief u/s 87A will be available in Case 3 & 4 in above table

For details, please refer the following:

Finance Bill, 2025 dated 01.02.2025

https://www.indiabudget.gov.in/doc/Finance_Bill.pdf

Memorandum to Finance Bill, 2025

<https://www.indiabudget.gov.in/doc/memo.pdf>

Frequently Asked Questions ('FAQs') dated 01.02.2025

<https://incometaxindia.gov.in/Documents/Budget/budget-2025/faqs-budget-2025.pdf>

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