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Vishav - 05 July 2019

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People earning above Rs 2 crore per annum would have to shell out more tax as the government on Friday announced a surcharge hike of 10 to 22% on rich Indians, effectively increasing their tax liability by 3 to 7%.

“I propose to enhance surcharge on individuals having taxable income from Rs 2 crore to Rs 5 crore, and Rs 5 crore and above so that effective tax rates for these two categories will increase by around 3% and 7% respectively,” said Finance Minister Nirmala Sitharaman while presenting her first Union Budget.

Currently, all individuals earning above Rs 1 crore have to pay a surcharge of 15% on their payable tax. After the proposed change is implemented, while those earning between Rs 1 crore and 2 crore would continue to pay a surcharge of 15%, those earning between Rs 2-5 crore would have to pay a surcharge of 25%.

For those who earn above Rs 5 crore per annum, the surcharge rate would be 37%, an increase of 22% over the current rate. So the actual tax rate to be paid by them would come to 41.1%, and may even go above 42.5% after including various cesses.

For those with incomes between Rs 2-5 crore, the effective tax rate would be around 37.5% excluding cesses.

“We have taken several measures in the past to alleviate the tax burden on small and medium income-earners as those having annual income up to Rs 5 lakh are not required to pay any income-tax. We are thankful to the taxpayers who play a major role in nation building by paying their taxes. However, in view of rising income levels, those in the highest income brackets, need to contribute more to the nation’s development,” Sitharaman said.

While welcoming the overall Budget, Sameer Mittal, Managing Partner, Sameer Mittal & Associates LLP and President, International Trade Council in India, said the increase in surcharge on Individual assesses is surely going to increase the burden on the creamier layer.

Niranjan Hiranandani, National President, Naredco and Senior VP, Assocham, said, "We believe that though the surcharge on people earning a higher income is on the negative part, it would be needed to fund some of the government schemes."

Rajesh Cheruvu, Chief Investment Officer, Validus Wealth, strongly criticizes the move and calls it "a Robin Hood moment" of the new Finance Minister.

"Taxing of income over Rs 2 crore is yet again a robinhood moment of the new Finance Minister. This is another measure she announced to increase tax revenues. However, in quantum this might not contribute significantly to revenues. As individuals falling under this category are few, so to prevent any negative political fallout, this might help the ruling establishment to shed any perception of being pro rich," he said.

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