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Jan 24, 2017, 10.36 AM | Source: Moneycontrol.com

Budget 2017: Uniform taxation is a must for products used to plan retirement

Finance minister should listen to various demands of the tax payer and offer increased tax sops.

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Media in India today is abuzz with news ranging from the effects of demonetization to Donald Trump's presidential inauguration at the White House. Of course, amongst these news stories the most awaited for Indians would be the presentation of the Union Budget, which this year may be presented on February 1, 2017, almost a month earlier than the scheduled date.

So what are the average Indian investor's expectations from this year's Budget. Let's delve deeper.

Increase in the Section 80C limit – Given the increase in income levels, the average tax payer today has in most cases already exhausted the Rs. 1,50,000 per year limit. This limit is usually used up by investing in either the Public Provident Fund (PPF) or in insurance or by way of the deductions that happen to salary on account of Employee Provident Fund. Behaviorally, investors would naturally save more in instruments qualifying for section 80C such as Equity Linked Savings Scheme (ELSS) and others if they got a higher tax benefit. Therefore, as a nudge to help investors save more and also channelise their savings to more productive sectors, an increase in the 80C limit would help both the economy and the investor.

Increase in allowances for child education expenses – including part time college and other coaching fees – Indian families tend to spend considerable amounts of income on their children's school as well as college education. Currently, under Section 80C, the actual total full time school fees for two children are one of the items allowed to be claimed as a deduction under the section 80C. However, the maximum total deduction that is allowed under Section 80C is still limited to Rs 1,50,000. Assuming the limit of Section 80C is increased, part time college education fees and other coaching costs being included in this deduction would provide parents some more room to spend on educationrelated expenses.

Easier taxation for retirees and standardisation of taxation at maturity across retirement products – Currently, the average Indian investor is not inclined to use the NPS or the annuity/pension plans for generating a comfortable retirement income due to their adverse tax structure as compared to EPF /PPF. National Pension Scheme and the pension schemes from insurance providers are not so popular as their taxation rules are complicated and also because the EET rule applies to them. For example – in the NPS as per the EET rule, annuity received is taxable. In addition, investors can commute 60 percent of the corpus of which 40 percent is tax-exempt.

Availability of tax deductions for investments in infrastructure – A lot of fixed income investors would be interested in saving in infrastructure bonds for long tenures, provided these investments give tax benefits to investors. This kind of tax benefit was available under Section 80CCF in assessment years 2011-12 and 2012-13 when we saw long term infrastructure bond issues garner sizeable funds from the Indian public. This type of bonds if introduced, also dovetail well with the overall government focus of boosting infrastructure projects while providing some tax relief to the tax payer.

Availability of more growth oriented investment avenues for reinvesting gains from Real Estate (Section 54EC) – Currently if an individual tax payer wants to save tax on gains from real estate, the options available are limited to either reinvesting the gains back into real estate or to invest in 54EC bonds where returns stand at 5.5% per year with a lock in of period of three years. This makes investors shift their growth oriented portfolio to a more conservative style due to tax reasons. Provided that more growth oriented options such as ELSS were available under this section, tax payers could invest aggressively and simultaneously such participation inequities via ELSS could boost the Indian markets and businesses.

Increase in limits of deduction allowed in respect of interest payment on housing loan and principal repayment – The current real estate prices in most metros are at higher levels. Most individuals would purchase a home by availing home loans. This means that the limits of interest payment and principal payment available seem inadequate in the current scenario. The repayment of principal amount of home loan falls under deductions allowed under Section 80C and hence supports the argument that Section 80C limit needs enhancement. The interest payment on home loans falls under Section 24 and the maximum tax deduction allowed is Rs. 2 lakh for self occupied property and no limit for not self occupied property. Although interest rates are on a downtrend, for metropolitan cities, individuals do end up paying considerable interest payments over Rs. 2,00,000 especially in the initial years. Hence an enhancement in the limits would help increase home ownership which in turn could spur real estate and related sectors as well.

Overall the expectations list from the budget and the Finance Minister are always lengthy and the Indian government does have a balancing act to play to manage tax payer’s expectations on one side and enact tax reforms to boost the economy on the other.

Shalini is a member of The Financial Planners’ Guild , India (FPGI). FPGI is an association of Practicing Certified Financial Planners to create awareness about Financial Planning among the public, promote professional excellence and ensure high quality practice standards.