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Budget 2019 proposes CPSE ETFs on lines of ELSS; mutual fund advisors call for caution

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The finance minister Nirmala Sitharaman announced to launch CPSE ETFs on the lines of Equity Linked Savings Scheme or ELSS. In her maiden budget speech, she said, "ETFs have proved to be an important opportunity for retail investors and have turned out to be a good instrument of Government of India's disinvestment programme. To expand this further, GOI will provide an investment option in ETFs on the line of equity linked savings schemes (ELSS)."

Though it increases the options to save tax under Section 80C, mutual fund advisors ask investors to be cautious as government ownership does not ensure capital protection in equity instruments. Investments in ELSS or tax saving mutual funds qualify for tax deductions of up to Rs 1.5 lakh under Section 80C of the Income Tax Act.

“CPSE ETFs to be included under ELSS for tax purposes. Investors will have more choices for deciding how they wish to save tax, but should make careful choice. Government ownership does not equal better returns or capital protection in equity instruments,” says Vishal Dhawan, founder, PlanAhead Wealth Advisors, a wealth management firm based in Mumbai.

The finance minister said the move would encourage long-term investment in CPSEs. “For bringing better public ownership of PSUs and also bring greater commercial and market orientation of the listed PSUs, the government will take all necessary steps to meet public shareholding norm of 25 per cent for all listed PSUs and raise the foreign shareholding limit to maximum permissible limits for all PSUs companies which are part of emerging market.”

The finance minister also said that strategic disinvestment of select CPSEs would continue to remain a priority for the government. Government is setting a target of Rs 1,05,000 crore of disinvestment receipts for the financial year 2019-20. The government will take strategic sale of PSUs. The government will also continue to do consolidation of PSUs in the non financial space as well.