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Budget 2021: 20 tax, investing and other personal finance ideas for the Finance Minister

By Babar Zaidi, Sanket Dhanorkar & Narendra Nathan, ET Bureau • Last Updated: Jan 23, 2021, 12:26 PM IST

Every year, as the Finance Ministry starts work on the Union Budget, ET Wealth reaches out to the industry and taxpayers for ideas and suggestions. Predictably, many of the suggestions are taxpayer-friendly measures. But this year, one should brace for higher taxes as the government tries to pull the economy out of the Covid-induced recession. "If the government keeps giving tax sops or spending to stimulate the economy, it won't be able to maintain fiscal discipline," says Raamdeo Agrawal, Chairman, Motilal Oswal Financial Services.

That's true. Global rating agencies keep a hawk's eye on fiscal slippages by emerging economies like India. At Rs 8.7 lakh crore, the fiscal deficit has already overshot the annual target of Rs 7.96 lakh crore estimated in the Budget, but higher spending by the government seems the only way to grow now. Finance Minister Nirmala Sitharaman declared last week that higher spending in the coming Budget will lay the foundation for strong growth in 2021-22 and in the following years.

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Here we have 20 ideas from across the industry and a cross-section of taxpayers. Most of these are measures that taxpayers want to see in the upcoming Union Budget. For instance, indexation benefit on capital gains from equity investments will certainly make investors happy. A higher deduction for medical insurance premium will encourage people to buy an adequate cover for themselves. As hospital bills of Covid patients show, even a Rs 10 lakh cover may be inadequate.

But some of the ideas, like lowering the TDS exemption threshold on interest income to prevent tax avoidance, may not exactly please taxpayers. Even so, we hope that some of these suggestions will find their way into the Finance Bill 2021.

1. Give indexation benefit to equity funds:

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Radhika Gupta, CEO, Edelweiss Mutual Fund
Indexation makes a fair assessment of gains based on the real value of investments and not the nominal value. This allows retail investors to create real wealth and safeguards the value of their investments. Indexation benefit is available for investments in real estate, debt mutual funds and gold but equity investments are not eligible. Till 2018, there was no tax on long-term capital gains (LTCG) from equities so indexation was not a concern. However, LTCG beyond Rs 1 lakh from equities is now taxed at 10% without indexation.

The flat exemption of Rs 1 lakh per year is not very useful in most cases. Instead of a Rs 1 lakh exemption, equity investments should be given indexation benefit. Let us assume Rs 10 lakh is invested for 10 years and grows at a CAGR of 12%. After 10 years, the investment would be worth Rs 31.05 lakh. Since LTCG of Rs 1 lakh is tax free, the gains would attract a tax of around Rs 2 lakh. But if the Rs 1 lakh exemption is replaced with indexation benefit (assuming 4% annual growth in the Cost Inflation Index during the period), the tax would be lower at Rs 1.62 lakh (surcharge & cess not considered). Considering equity investments are for the long term and investors don't redeem every year, the indexation benefit would be more useful for investors than the Rs 1 lakh exemption per year.

ET Wealth view: There is a need for simplifying the disparate tax treatment for different asset classes and also within asset classes. Allowing indexation for LTCG in equities will be a step in that direction. The current exemption of Rs 1 lakh per year also gives the wrong kind of nudge by incentivising investors to book profits every year simply to avoid paying more tax later.

2. Extend NPS taxsaver option to general investors:

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Amit Maheshwari, Partner, AKM Global
Investments in the Tier I funds of NPS enjoy tax deduction under Sec 80C, but the money gets locked up till retirement. Last year's budget had introduced a new tax saving option within the Tier II of the NPS with a shorter lock-in of three years. It is comparable with ELSS funds but open only to government employees. The Budget should extend this option to general subscribers as well. The rules of the scheme also need changing. Although subscribers can choose a pension fund manager at the time of investing, they can't fix the asset allocation. The scheme puts 10-25% in equity funds and the remaining in bond funds. Investors should be allowed to choose their allocation and even change it based on their reading of the market.

ET Wealth view: This should be easy because there are no financial implications. NPS will also gain wider acceptance among investors while taxpayers will benefit from its low costs.

3. Remove tax on dividends:

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Sandeep Nayak, CEO, Centrum

Till last year, up to Rs 10 lakh dividend received on listed equity shares and equity funds was exempt from tax. This meant that the retail investor was spared the tax while ensuring that rich investors and promoters paid tax on dividends. But last year's Budget removed the exemption and made all dividends taxable. For India's demographic dividend to play out, the emerging retail investor class needs to be encouraged to deploy savings in equities. Removing the tax on dividends will go a long way in bolstering the equity culture amongst millennials. The softening of interest rates is weighing against investments in fixed income. Equity shares with a strong payout history provide a solution to this problem. Removing the tax on dividend will not only give further fillip to investment in stocks but also help sustain the market momentum.

ET Wealth view: While making dividend taxable for all investors, the government also scrapped the dividend distribution tax (DDT), which led to a revenue loss of roughly Rs 25,000 crore. Reverting to the old rule will, therefore, regain this loss to the exchequer.

4. Clarify tax rules for futures and options:

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Feroze Azeez, Deputy CEO, Anand Rathi Private Wealth Management

There is no clarity on how income from futures and options (F&O) is to be taxed. It is taxed either as business income or as capital gains. Many small traders face hardships due to turnover calculation being high or when they make losses – both of these call for a tax audit and change in the ITR form. The loss from F&O, if carried forward, can be adjusted only against business income. The Budget should simplify the tax rules relating to F&O. For FIIs, it was decided that they can only be investors and not traders and hence income from derivatives was to be treated as capital gains. The Budget should spell out rules for other categories of assessees as well. Certain assessees should be allowed to treat gains from F&O as capital gains if they don't exceed 25% of total income.

ET Wealth view: Taxation of income from F&O has always been a grey area with no consistency in the tax authority's approach. A clearly laid out criteria to distinguish business income from capital gains is the need of the hour.

5. Offer exemption to tax-free portion put in annuity:

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Niraj Shah, CFO, HDFC Life

Annuity plans ensure financial security by providing a guaranteed income for life and allow one to live without compromising the standard of living after retirement. Under Section 10(10A), there is no tax on the lump sum amount that can be commuted when a pension plan matures. At present, 60% commutation is allowed. However, if an individual does not commute any amount and opts to put 100% in annuity, the pension received is fully taxable. The Budget should remove this anomaly. Income generated from the exempt amount of commutation should be made tax free. This will bring parity in the treatment of the amount invested, whether one opts for commutation or otherwise, to purchase an annuity plan.

ET Wealth view: The tax is on the income from the investment. Even if the individual commuted the amount, he would have to deploy it somewhere to earn a return that would be taxable. Besides, segregating the pension between the commuted and remaining amounts will not be easy.

6. Tax benefits for vehicle purchase:

Sunitha S., IT professional, 25 years

The economy needs a demand stimulus. There are already tax benefits for buyers of homes and electric vehicles. The Budget should provide similar tax incentives for the purchase of two- and four-wheelers. The auto sector has a multiplier effect on the economy and such a measure could help in reviving demand to some extent.

ET Wealth view: Tax benefits are offered on loans for buying electric vehicles. If the same sops are extended to non-electric vehicles, demand may be revived.

7. Separate deduction for pension plans in line with NPS:

Rushabh Gandhi, Deputy CEO, Indiafirst Life Insurance Company

Pension plans offered by life insurance companies and NPS are meant to provide retirement income. Under the old tax regime, NPS is allowed an additional deduction of up to Rs 50,000 under Sec 80CCD(1b), over and above the Rs 1.5 lakh deduction under Sec 80C. But pension plans from life insurance companies do not qualify for this additional deduction. Bringing pension plans under Sec 80CCD(1b) will make them tax friendly in line with the NPS and boost long-term savings for retirement.

ET Wealth view: It is true that the Section 80C basket is too cluttered and doesn't give a wide enough berth for incentivising savings. Offering the benefits enjoyed by the NPS to pension plans from insurance companies will ensure a level-playing field in retirement savings.

8. Remove restriction on setting off home loan interest:

Ramesh Nair, CEO & Country Head (India), JLL
The 2017 Budget put a Rs 2 lakh cap on loss from house property that can be set off against other heads of income in a year. Unadjusted losses can be carried forward and set off against income from house property for up to eight subsequent years. This provision restricts taxpayers from claiming deduction for a large portion of the interest paid on the housing loan in case of purchases for investment purposes. It severely dampens the investment sentiment and disincentivises second-home buyers. If the restriction is removed, a homebuyer will be able to claim the entire interest on let-out property, resulting in higher post-tax returns.

ET Wealth view: Removing the cap on set off of loss from property will spur investment demand in the struggling realty market. But, given the government's strained finances, it might introduce a higher threshold (say Rs 4 lakh) instead of removing the cap.

9. Deduction of expenses on maintenance of self-occupied house:

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Archit Gupta, Founder and CEO, Cleartax
There are tax benefits available for a home loan taken for the construction or purchase of a house. This benefit is available even if the house has been given on rent. However, once the loan is squared off, there are absolutely zero tax benefits. Every property, whether big or small, requires maintenance, including whitewashing, repairs and general upkeep. Families that sustain on salary or pension are strained to carry out repairs because they take up a significant portion of their monthly budget. Homeowners should be allowed to claim a fixed sum every year or every alternate year for home maintenance expenses. This benefit may be restricted to just one property to ease the burden on the exchequer.

ET Wealth view: Such a tax deduction would be too radical a move. More than the revenue foregone and the compliance, there are chances of tax leakage and fraud on account of fake maintenance claims.

10. Remove sub-limits on HRA exemption:

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Abhishek Jain, 40 years, IT professional, Mumbai
Due to sub-limits, many salaried professionals are not able to claim HRA exemption for the full rent paid by them. As per HRA rules, the lowest of three options is exempt. The first option (rent paid above 10% of the basic salary) works against persons with a high basic pay. The second (HRA exemption capped at 40-50% of basic) works against persons with a low basic component. The idea is to minimise chances of misuse. However, this is better achieved by insisting on digital or cheque payments and submission of the landlord's PAN. If the landlord's PAN is given, it will be easy to check if the rent is reported in ITR.

ET Wealth view: This will certainly simplify the HRA rules as also plug the leaks in the tax due to fake rent payments. This idea is worth considering because it will augment revenues due to reduction in tax leakage. But the compliance requirements for the taxpayer will go up.

11. Offer incentives to create demand in auto and housing sectors:

Bal Krishna Piparaiya, Senior Director, Brickwork Ratings
Revival of demand is necessary for the economy to get back on track. The Budget can do this by providing a GST set-off for optionally scrapping vehicles

that are more than 15 years old and simultaneously buying a new vehicle. The set-off should be equivalent to the GST on a vehicle with a similar engine capacity. The buyer of the new vehicle should get the scrap value as well. The Budget can also allow margin money loans of up to 5-10% of the price of the home to help borrowers buy their first house. Such loans should be guaranteed by the credit guarantee corporation to cover for risks due to a higher LTV.

ET Wealth view: Though it will bring down the cost of a new car, the GST set-off may not be enough to get people to buy. Similarly, bigger loans may not help in times of pay cuts, job losses.

12. Widen definition of affordable housing:

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Subhankar Mitra, MD, Advisory Services, Colliers International India

Last year's Budget had given first-time buyers an additional deduction of up to Rs 1.5 lakh for interest on loans for affordable houses. This was over and above the Rs 2 lakh deduction available to all. But there was a restriction. Only houses valued at less than Rs 45 lakh were eligible to get this additional deduction. This limit should be extended to Rs 75 lakh to align with the market prices of houses. Likewise, the definition of affordable housing under 80IBA also needs to be looked into. The eligibility limit must be extended up to 90 sq m from the existing 60 sq m, so that buyers of MIG housing also get benefitted.

ET Wealth view: Housing for all is a priority for the government. Also, buying a new house can have multiplier effect on the economy, so this measure may be taken up.

13. Don't mask fiscal slippage, accept it:

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Raamdeo Agrawal, Chairman, Motilal Oswal Financial Services

If the government keeps giving tax sops or spending to stimulate the economy, it will not be able to maintain fiscal discipline. Since tax collections are low, fiscal targets are already challenged. Governments usually hide the fiscal slippage by transferring expenses from one year to the next. For example, instead of paying contractors and transferring subsidies in 2020-21, the payments will be made in 2021-22. So, these expenses will get counted in 2021-22. Such steps constrict the income stream of businesses and would be be disastrous at this juncture. The government should instead cite Covid and accept fiscal slippage.

ET Wealth view: Global rating agencies are harsh on fiscal slippages. However, the world is increasing fiscal and monetary deficits. So, increasing the deficit is a viable option.

14. Lower the TDS exemption threshold to capture interest income:

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Sudhir Kaushik, Co-founder, Taxspanner

The interest earned on bonds, deposits and some small savings schemes is fully taxable but three out of four taxpayers do not report it in their tax returns. Last year's Budget raised the TDS threshold from Rs 10,000 to Rs 40,000. So, interest up to Rs 40,000 does not attract TDS and possibly escapes the tax net. The TDS threshold should, in fact, be lowered to Rs 5,000 (or removed altogether) so that interest income gets taxed. Once TDS is deducted, the income shows up in the taxpayer's Form 26AS, making it difficult for the investor to evade tax on it.

ET Wealth view: This might be unpopular with taxpayers but the government should seriously consider it. A lower TDS threshold will lead to higher withholding of tax, forcing individuals to file their tax returns.

15. Include deduction for life insurance in new tax regime:

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Prashant Tripathy, MD & CEO, Max Life Insurance
The new tax regime introduced in last year's Budget lowered the tax rates. However, an assessee has to forego many of the exemptions and deductions, including the deduction for life insurance premium under Sec 80C. This tax benefit should be retained under the new tax regime. The tax advantage of life insurance plays a major role in increasing coverage. Insurance penetration in India is abysmal and till there is financial awareness, the tax incentives should continue.

ET Wealth view: Life insurance is an important aspect of financial planning. If there is no tax benefit, a lot of people might not buy life cover. Therefore, the tax incentive should be retained.

16. Introduce Covid bonds to fund economic stimulus:

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Raj Khosla, Managing Director, Mymoneymantra.com
The 7.5% GDP contraction in the second quarter was not as bad as previously forecast. But more needs to be done to lift economic growth back into positive territory. The Budget should introduce Covid bonds to fund the economic stimulus. This could be a global issuance, since global liquidity is very high. With government-bond yields in many countries dipping below zero, there is robust demand for low-risk paper that pays well. Alternatively, there could be a domestic issue of Covid bonds along the lines of infra bonds. A separate tax deduction for these bonds will attract retail investors, even if the interest rate offered is low.

ET Wealth view: The country's public debt to GDP ratio is already at a high of 89.3%, making India the most indebted emerging market after Brazil and Argentina. Covid bonds would only add to the public debt. But given the state of government finances, this seems an option worth considering.

17. Raise deduction limit for medical insurance:

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Mayank Bathwal, COO, Aditya Birla Health Insurance

The pandemic has not only underlined the need for health insurance, but also shown that the cover should be big enough. To encourage taxpayers to take adequate health insurance cover, the deduction limit for health insurance premium under Section 80D should be raised to Rs 50,000 for self and family. This will bring it at par with the Rs 50,000 deduction limit for insuring parents. The Budget should also reintroduce the tax exemption for medical reimbursements with a higher limit of Rs 50,000.

ET Wealth view: Though awareness about health insurance has increased, people still buy very low covers. Increasing the deduction limit might encourage buyers to take a bigger cover.

18. Tax deduction for maternity expenses of working women:

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Nishant Kohli, Founder, Mudra Portfolio Managers

Most health insurance plans do not cover maternity expenses. Even those that do usually give cover after 2-4 years. There are also numerous exclusions attached, which means the actual payout is low compared to the actual expense. Typically, maternity expenses are incurred out of pocket and are huge. If full tax deduction of maternity expenses is allowed, it will be a big support for working women. This deduction should be limited to two children so that the exchequer is not burdened.

ET Wealth view: Working women will benefit if they get full tax deduction for maternity expenses. This impacts a large percentage of workers, so government should consider it.

19. Allow employers to claim GST credit for group health cover:

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Gopal Balachandran, CFO, ICICI Lombard General Insurance
Covid has made people realise that health insurance is necessary, but the penetration of health still remains low. Health insurance will get a big fillip if companies are encouraged to offer medical cover to employees. Companies should be allowed to claim input tax credit for the GST paid on group health insurance covers. This is not available under the current GST laws.

ET Wealth view: Group health insurance is a cost-effective medical cover, but all companies do not offer it. If companies get credit for the GST paid, it will bring down the overall cost of group insurance.

20. Hike exemption limit of interest income for senior citizens:

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Shrikant Badkas, Retired manager, 62, Nagpur
Up to Rs 50,000 interest is tax free for senior citizens under Sec 80TTB. Under the prevailing low interest rates, retirees have seen their incomes fall. Therefore, the tax exemption limit should be enhanced to Rs 1 lakh to provide some relief to thousands of retirees who depend solely on interest income.

ET Wealth view: Senior citizens are grappling with lower incomes due to rate cuts. Keeping in mind the interest rate environment, the government should consider giving relief for a few years.

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