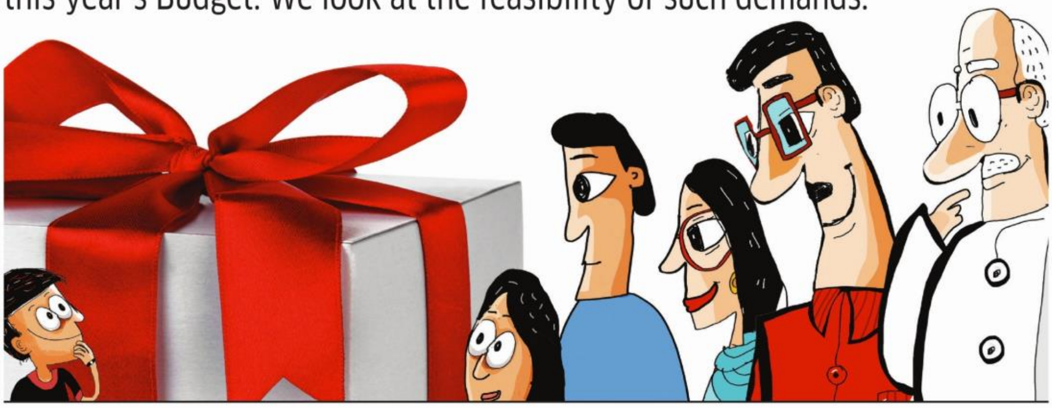
Image: 1 / 6


BUDGET
2019
WHAT TO
EXPECT
There are rumours of big tax cuts in this year's Budget.
We look at what taxpayers and experts want. P2
FINANCIAL PLANNING / Q&A / TECH / AND MORE...

BUDGET 2019 WHAT TO EXPECT

Taxpayers and experts are expecting big tax cuts and other benefits from this year's Budget. We look at the feasibility of such demands.



ANIRBAN BORA

These 10 tax benefits cost the exchequer over ₹75k cr in 2017-18

TAX INCENTIVE	IMPACT ON REVENUES (₹ CR)
Tax saving investments under Sec 80C	58,933
Rebate for incomes below ₹3.5 lakh under Sec 87A	6,598
Medical insurance under Sec 80D	2,347
Contributions to NPS under 80CCD	1,955
Higher exemption to senior citizens	1,369
Rebate to saving bank interest	1,250
Deduction for illnesses, disabilities	1,176
Education loan deduction under Sec 80E	692
Exemption to rent if not receiving HRA	569
Higher exemption to very senior citizens	363
TOTAL	**75,252**

Figures are budget estimates

#10yearchallenge for taxpayers

You are not paying more tax now

The effective tax rate has not changed much in past 10 years, except for those earning above ₹50 lakh.

When incomes are adjusted for inflation, the tax for lower incomes has stayed within narrow bands.

The effective rate for low-income taxpayers has actually come down.

MONTHLY SALARY		2009-10	2013-14	2018-19
₹50,000	Annual taxable income*	3,17,143	4,71,429	6,00,000
	Tax payable**	17,952	25,897	33,800
	Tax as % of income	5.7	5.5	5.6
₹1 Lakh	Annual taxable income	6,34,286	9,42,857	12,00,000
	Tax payable	97,115	1,22,128	1,79,400
	Tax as % of income	15.3	13.0	15.0
₹5 Lakh	Annual taxable income	31,71,429	47,14,285	60,00,000
	Tax payable	8,81,092	12,81,615	18,44,700
	Tax as % of income	27.8	27.2	30.7
₹10 Lakh	Annual taxable income	63,42,857	94,28,570	1,20,00,000
	Tax payable	18,61,063	27,38,328	40,81,350
	Tax as % of income	29.3	29.0	34.0

* Incomes for previous years have been deflated using the Cost Inflation Index
** Taxable income is net taxable income after all deductions and exemptions

By **Babar Zaidi**

Even though this is an interim Budget, the NDA government may offer big tax cuts to woo the middle class before the general elections. *ET Wealth* reached out to taxpayers and financial experts to know what they want or expect to see in the Finance Bill 2019. However, matching these expectations will be a challenge. Already, as per the Budget estimates, the top 10 tax incentives will result in a revenue loss of ₹75,252 crore this year (*see graphic*).

Will people's expectations burn a big hole in the exchequer? Many people want the basic tax exemption for general taxpayers to be raised to ₹3 lakh. This would also require hiking the basic exemption for senior citizens to at least ₹3.5 lakh. In a way, the basic tax exemption is already ₹3 lakh for roughly 2.7 crore taxpayers with incomes up to ₹3.5 lakh by way of the ₹2,500 rebate under Sec 87A. Of the 5.7 crore people who file their tax return, almost 1.5 crore have an income of over ₹3.5 lakh. If their basic exemption is hiked by ₹50,000, roughly ₹75,000 crore will escape the tax net, resulting in a tax loss of ₹3,750 crore (5% of the amount). Add the higher exemption to senior citizens and both measures could jointly cost the exchequer upwards of ₹4,000 crore.

Then comes the call for a higher limit under Sec 80C, with the argument that the limit was last enhanced five years ago in 2014. This is correct, but don't forget that the tax saving limit was enhanced in 2016 by ₹50,000 for NPS contributions under Sec 80CCD(1b). So, the overall limit is already ₹2 lakh. Hiking the limit by ₹50,000 would put pressure on revenues. Even if we assume that only one crore taxpayers will avail of the higher limit, a gigantic ₹50,000 crore will escape the tax net, resulting in a tax loss of ₹15,000 crore.

Some experts have demanded the removal of tax on dividends. They say that companies pay taxes and pay dividends out of post-tax profits, so it is unfair to tax this dividend again when it reaches the taxpayer. While the government needs to review the dividend distribution tax on mutual funds, doing away with dividend tax on corporates may not be feasible. Tax collections from dividends was ₹43,410 crore in 2016-17. Of this, ₹41,417 crore came from company dividends and ₹1,993 crore from mutual fund dividends.

Fiscal prudence rules out big tax cuts. *ET Wealth* did some number crunching and found that the effective tax rate for incomes below ₹50 lakh has not changed much since 2009-10 (*see graphic*). Most taxpayers are not paying more than what they did 10 years ago.

(With inputs from Riju Mehta, Narendra Nathan, Shipra Singh, Sanket Dhanorkar, Vinay Dwivedi and Preeti Kulkarni)

Seniors need deduction for medicines

Vinay Nangia
68 years, Dehradun
Retired IIT professor

WHAT HE WANTS

Senior citizens should be provided a deduction or reimbursement for medical expenses (purchase of medicines), which is more important than the deduction for medical insurance premium under Section 80D. I also want the interest income exempt under Section 80TTB, from bank savings accounts, fixed deposits and post office deposits, to be raised to ₹1 lakh for senior citizens, up from ₹50,000 now.

OUR ASSESSMENT

Introduction of a separate deduction limit for medical expenses is real need for senior citizens as they incur huge expenses on medicines and are typically not covered by health insurance.

WHAT EXPERTS EXPECT

Higher Section 80C limit

The Sec 80C limit could be raised to ₹2.5 lakh or even ₹5 lakh. If it is ₹5 lakh, other asset classes may get included within the limit. It could become a permanent retirement account from which investments across multiple asset classes can be made annually.

OUR ASSESSMENT

Considering inflation, a hike in limit for tax deductible savings is justified, but would result in a big tax loss. Even if limit is hiked by ₹50,000 and only one crore taxpayers avail of it, a gigantic ₹50,000 crore will escape tax net.

VIKAS GUPTA
CEO, Omniscience Capital

Increase in standard deduction

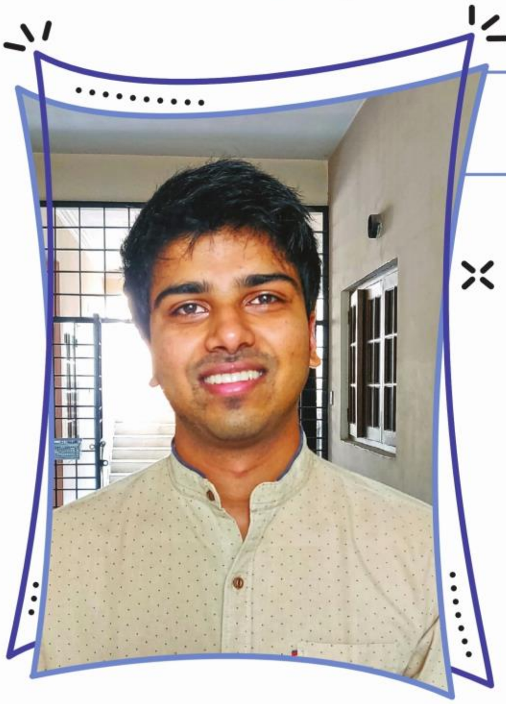
ARCHIT GUPTA
CEO, Cleartax.com

There could be an increase in standard deduction from ₹40,000 to ₹50,000. This move will benefit 80-90% of salaried taxpayers. Removal of tax exemption for medical and transport allowances nullified the impact of standard deduction last year. Hiking it will made the deduction more meaningful.

OUR ASSESSMENT

This is a valid demand. Someone drawing transport and medical allowances got a net benefit of ₹5,800. Taxpayers earning ₹5 lakh a year saw their tax cut by only ₹300.

Extend tax holiday for startups to 5 yrs



Rahul Varma
24, Hyderabad
Entrepreneur

WHAT HE WANTS

The tax holiday of three years, currently accorded to startups under the Central government's Startup India Scheme, to be raised to five years because that is the time a startup usually takes to stabilise itself. I also want the number of government-sponsored incubators and accelerators in metro cities to be raised and taken to lesser known private colleges.

OUR ASSESSMENT

With 1,200 new startups and $4.2 billion of funding in 2018, an extension of the tax holiday period will spur a further growth among startups.

Revised tax slab rates

The 20% tax rate could be cut to 15%. The income slabs may be changed so that those earning ₹2.5- 7 lakh would be taxed at 5%, ₹7-12 lakh at 20% and above ₹12 lakh at 30%.

OUR ASSESSMENT

A rate cut and widening of tax slabs will reduce your tax outgo. If your net taxable income after deductions is ₹8 lakh, at the current rates you are paying ₹75,400 in taxes. If the rate is reduced to 15%, the tax outgo will become ₹59,800. If the income slabs are widened, the tax outgo will be ₹44,200.

ADHIL SHETTY
CEO, BankBazaar

Lowering the LTCG cut off limit

G. PRADEEP KUMAR
CEO, Union Mutual Fund

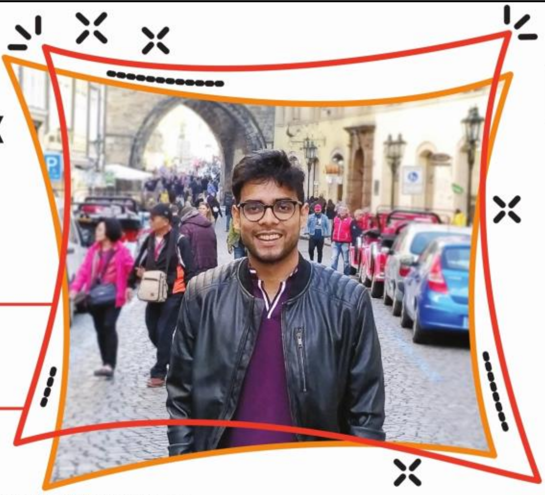
The government is expected to bring down the long term capital gain cut off limit of debt funds from three to one year. This will align debt funds' long-term capital gain time limit with that of other capital market securities. This will mean tax relief for debt investors.

OUR ASSESSMENT

Since revenue loss from this action will be much less compared to other possible measures like removing capital gains tax on equities, or removing STT, the government may settle for this one.

Extend tenure of tax breaks on education loans

Ankit Aggarwal
27, Bengaluru
Entrepreneur



WHAT HE WANTS

An MBA degree can set you back by ₹25-30 lakh. This cost will only increase, making it difficult for anyone to fund their higher education without a loan. The interest paid on education loan can be claimed as deduction only for the first eight years. A tenure of eight years means very high EMIs. The government should extend this tenure to 12 years or more to ease the EMI burden.

OUR ASSESSMENT

This tenure has remained unchanged since 2006 whereas tuition fees of top B-schools has risen sharply since. Fees of IIM Ahmedabad have risen from ₹1.77 lakh in 2006 to ₹22 lakh in 2019. Given the spike, it is time the government extended the tax benefit to at least 12 years.

WHAT EXPERTS EXPECT

Extension of NPS tier II benefits

Last December, the government announced that contributions by government employees in the Tier II account of NPS with a lock in of three years will be eligible for tax deduction under 80C. The government is expected to extend this benefit to private sector employees.

OUR ASSESSMENT

Extending this benefit to all salaried taxpayers will bring NPS on par with ELSS. Earlier, only investments in Tier I account qualified for deduction under Sec 80C.

KULDIP KUMAR
Partner and Leader, Personal Tax, PwC

Hike in tax exemption threshold to ₹4 lakh

The income tax exemption threshold could be raised from ₹2.5 lakh to ₹4 or 5 lakh. In case of change in the exemption bracket, the tax rates for the slabs may also change. There can be some tinkering with deductions under Section 80C to incentivise savings.

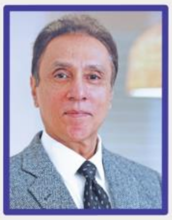
OUR ASSESSMENT

Increase in tax exemption limit will mean more disposable income for taxpayers. This could lead to consumption driven economic growth. However, loss of revenue may create pressure on bond yields and interest rates.

ARUN THUKRAL
MD & CEO, Axis Securities

WHAT EXPERTS EXPECT

Home loan deduction at ₹5 lakh



RAJ KHOSLA
Founder and MD,
Mymoneymantra.com

There was a time when you could buy a house worth ₹30 lakh with a home loan of ₹20-22 lakh. At 9%, the interest worked out to around ₹2 lakh a year which got covered by the deduction under Sec 24. Now, the same house costs more than ₹60 lakh and needs a loan of ₹50 lakh. The interest is more than ₹5 lakh. The Budget should hike the deduction limit to at least ₹5 lakh to make housing affordable.

OUR ASSESSMENT
Hiking the deduction limit would cut cost of capital, stimulate demand and give the much needed fillip to the real estate sector.

Scrap all forms of dividend tax

A dividend distribution tax on distribution of tax paid income of companies and then further tax in hands of recipients of dividend over ₹10 lakh amounts to taxation of same income at multiple levels. These need to go.

OUR ASSESSMENT
Companies pay dividend distribution tax at 15% on dividend. Equity funds also pay 10% tax on dividend paid to unit holders. This amounts to double taxation and can be scrapped. However, doing away with all forms of dividend tax may not be feasible.

AASHISH SOMAIYAA
MD & CEO,
Motilal Oswal AMC

Tax deduction for home insurance

RIKHIL SHAH
Chief Financial Officer,
SBI General Insurance

To avoid situations like what happened during the recent floods in Kerala, the government should incentivise home insurance by providing tax deduction and I expect this to happen in the coming Budget. There is no need to club this in Section 80C. The government should create a separate section for home insurance.

OUR ASSESSMENT
This is a genuine demand. Taxpayers may not get much benefit if this is also clubbed in 80C. However, the government may do so to avoid any tax loss from this new initiative.

Separate tax bucket for term plans

We hope for a separate bucket for pure protection term insurance offering tax benefits of up to ₹25,000. The government could also create a separate protection basket, clubbing the existing tax break on health insurance premium and the new term insurance premium deduction.

OUR ASSESSMENT
A separate tax-saving limit for pure protection term plans is a reasonable ask. However, a poll-bound government might focus more on direct, eyeball-grabbing tax benefits.

VINEET ARORA
MD and CEO, Aegon
Life Insurance

Raise home loan interest deduction

Samarth Sharma
34 years, Gurgaon
Entrepreneur

WHAT HE WANTS
The tax benefit on home loan interest under Section 24 should be raised to ₹3 lakh, especially for those in metro cities, given the higher cost of living. Currently, individuals with a home loan for self-occupied property get a deduction of up to ₹2 lakh.

OUR ASSESSMENT
Tax deduction on home loan interest was last raised from ₹1.5 lakh to ₹2 lakh in 2014-15, and given the rising cost of living in the ensuing five years, it is time that this limit was raised.

Create a new section for ELSS funds

WHAT HE WANTS
ELSS investments should be excluded from the Section 80C deduction list and made into a separate option under a new section. It will encourage retail investors to move a chunk of their savings into equity as most savings remain debt-oriented. Considering inflation-adjusted returns on our debt savings like the PPF or five-year fixed deposits, one should have a reasonable equity exposure in mutual funds for good overall returns.

OUR ASSESSMENT
Most people exhaust the Section 80C investment limit of ₹1.5 lakh in debt instruments like the PPF, EPF and tuition fees. This will encourage people to invest in equity funds.

Bal Govind
45 years, Noida
Entrepreneur

Separate deduction for term plans

Divya Shah,
29, Ahmedabad,
HR professional

WHAT SHE WANTS
Life insurance is an important part of financial planning and hence it should have a separate deduction limit of up to ₹20,000. This move will also make space in Sec 80C for other investments.

OUR ASSESSMENT
An average salaried taxpayer can easily exhaust the ₹1.5 lakh 80C limit through a mix of EPF contributions, home loan principal payments and tuition fees. This may not leave much room to claim deduction on life insurance premiums. A separate deduction limit for term plan will increase penetration.

WHAT EXPERTS EXPECT

Increase in 80D limit

The government could revise deductible limits for health insurance premiums under Sec 80D to ₹50,000 for self and family.

OUR ASSESSMENT
Family floater plan premiums depends on the age of the eldest member in the family. While ₹25,000 is enough for families where the age of the eldest member is less than 45 to buy health insurance worth ₹10 lakh, it become insufficient when the age of the eldest member crosses 45.

SHREERAJ DESHPANDE
Principal Officer, Future Generali India

Wider Sec 80C umbrella

PRABLEEN BAJPAI
Founder and Managing Partner, FinFix Research & Analytics

Currently, only equity-linked saving schemes (ELSS) are eligible for tax deduction up to ₹1.5 lakh under Section 80C. This should be extended to all mutual funds that complete a 3-year lock-in period including debt funds which are favoured by conservative investors.

OUR ASSESSMENT
While debt instruments such as PPF get Sec 80C benefits, including debt funds will provide investors greater choice. Also, singling out just a few equity schemes with a 3-year lock-in for tax benefits seems arbitrary.