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Budget
Ideas
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20 Budget Ideas

As work begins on the Budget 2022, here are a few suggestions from experts, taxpayers and investors.

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By **Babar Zaidi, Sanket Dhanorkar and Riju Mehta**

As Finance Minister Nirmala Sitharaman and her team start work on the Union Budget 2022, there's some good news about the economy. After dipping to a multi-year low, the GDP growth rate has bounced back. The Indian economy grew 8.4% in the July-September quarter. According to a survey of analysts, India's economy is likely to grow at 9.4% this year.

But analysts also point out that this robust growth is aided by the base effect from the year ago, when the economy contracted 7.4%. The recovery, they have cautioned, is fragile and high global commodity prices and domestic coal shortages, could act as a drag.

ET Wealth reached out to financial services companies, investment experts and even common taxpayers for some ideas and suggestions for the coming Budget 2022. The Budget wishlist of taxpayers, investors and even the financial services industry has not changed much in the past few years. Taxpayers want lower taxes, investors want more reforms and the industry wants more tax deductions for the services it offers. However, meeting these expectations will be difficult for a government struggling to bring the economy back on track.

Government finances have deteriorated due to the disruption caused by covid and tax cuts will only make things worse. If anything, taxpayers should brace for higher taxes in the coming budget. Last year's budget removed the tax exemption to interest earned by contributions of more than ₹2.5 lakh a year to the Provident Fund. It also brought Ulips with a premium of more than ₹2.5 lakh a year into the tax net. Taxpayers should get ready for more such measures, instead of expecting tax breaks.

At the same time, some relief measures are sorely needed. For instance, the outbreak of covid made everyone realise the utility of health insurance. However, the high GST rate on health insurance pushes up the premium. "The 18% GST on health insurance premiums raises the total cost of insurance which becomes a deterrent for sufficient coverage. The GST rate should be reduced from 18% to 5%," says Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance. This will put pressure on government finances. The annual health insurance premium is close to ₹60,000 crore and cutting GST from 18% to 5% would burn a ₹7,800 crore hole in government coffers. Even so, it is a measure the government should seriously consider.

Some other ideas can bring relief without affecting tax collections. Falling interest rates have hurt fixed income investors but retirees and senior citizens are the worst hit. The investment limit of the Senior Citizens' Savings Scheme remains fixed at ₹15 lakh. At the prevailing rate of interest, this means a retiree can get a maximum pension of ₹27,750 per quarter. Similarly, the Pradhan Mantri Vaya Vandana Yojana (PMVVY) also has a ₹lakh limit per individual.

"The investment limit for the SCSS and the PMVVY should be raised to ₹25 lakh per individual to make the pension reasonable," says Prableen Bajpai, Founder of Finfix Research and Analytics. We hope that this and some other suggestions will find a place in the Finance Bill 2022.

Don't tax principal portion of annuity pension

Annuity products are purchased to secure life after retirement, but there is inequality in the tax treatment of pension from annuities. In case of other saving products such as fixed deposits, mutual funds and stocks, only the accretion is taxed and not the principal. But the pension from an annuity is fully taxable. In the absence of social security benefits in India, pensions should not be subjected to this unequal tax treatment. Policyholders who opt for commutation of pension get up to 60% of the corpus tax free, whereas those who don't opt for commutation of pension (and are actually buying a true pension product) get penalised with a tax. The inequality in tax treatment drives different consumer behaviour, wherein the exemption provided at the time of commutation induces a policyholder to go for commutation instead of receiving regular pension. To fix this asymmetry, the Budget should exempt the principal amount in the pension.

TARUN CHUGH
MD AND CEO, BAJAJ ALLIANZ LIFE INSURANCE

ET Wealth view

This is a long standing demand. The tax on pensions is a major reason why people avoid buying annuities, even though they are the most suitable instrument for retirement. Exempting the principal portion will be a big push towards a pensioned society.

Level playing field for global investments

Investing in global stocks is no longer a fad, but a necessary diversification for all equity investors. But global investments don't get the same tax treatment as Indian equities. Currently, foreign investments have to be held for 24 months to be deemed long term and capital gains are taxed at a hefty 20%, compared to a 1-year holding period and a 10% rate on domestic equities. The long-term capital gains on foreign equities should get the same treatment that domestic equity investments enjoy.

Secondly, the TCS (an upfront tax on remittances abroad) is a hindrance for smooth flow of capital. Given that the money moved to offshore brokerage accounts is post-tax income, and is done through recognized banks after following proper KYC norms, a TCS on transfers doesn't deem merit. Currently remittances over ₹7 lakh are charged a 5% TCS. This should be removed or the threshold limit should be raised to ₹1 crore so that only large transactions come within its ambit.

VIRAJ NANDA
CEO, GLOBALISE

ET Wealth view

If global equities don't enjoy the same benefits it is because the government wants to promote domestic equities. It is unlikely that this preferential treatment to Indian stocks will be diluted. The TCS is a hindrance but gets adjusted against the tax liability of the individual.

Expand Sec 80C basket

The ELSS category should be expanded to include not just equity schemes, but fixed incomes and hybrid schemes. If other mutual fund categories (debt and hybrid funds) are included under Section 80C, investors will get more choices. In fact, the ELSS should have a separate limit of ₹5 lakh over and above the current limit of ₹1.5 lakh under Section 80C.

SANTOSH JOSEPH
FOUNDER AND MANAGING PARTNER, GERMINATE INVESTORS SOLUTIONS

ET Wealth view

Adding other fund categories under ELSS can serve the purpose as long as the holding period criterion is met. The demand for a separate, bigger deduction for ELSS is not feasible as it can create distortions with other savings vehicles.

Bring parity in capital gains tax rules

Currently, for every asset class, the capital gains tax structure – both for short-term capital gains (STCG) and long-term capital gains (LTCG) – is myriad and complicated. The Budget should simplify this and make it uniform, say 15% STCG and removing LTCG tax altogether. Also, the definition of LTCG (minimum holding period) varies across asset classes. This should also be made consistent. In order to incentivise long-term investing, the minimum holding period to be eligible for long-term capital gains should be three years for all asset classes.

ANKUR MAHESHWARI
CEO, WEALTH MANAGEMENT, EQUIRUS CAPITAL

ET Wealth view

Parity in taxation rules is desirable. However, the government is unlikely to forego tax revenues at this point so don't expect a change in LTCG tax rates and applicability.

Reduce GST on health insurance to 5%

The outbreak of Covid has led to awareness about the need for health insurance in India. We are truly in times when health insurance has become an everyday need in order to be adequately protected against medical uncertainties. However, the premium of the cover plays a critical role in the purchasing decision for customers. With the 18% GST applied to health insurance premiums, the total cost of insurance goes up which becomes a deterrent for sufficient coverage. The GST on health insurance premium should be reduced from 18% to 5% which will encourage people to opt for better health coverage rather than lower coverage owing to premium pricing.

TAPAN SINGHEL
CEO & MD, BAJAJ ALLIANZ GENERAL INSURANCE

ET Wealth view

Health insurance is vital and reduction of GST might encourage buyers. But this will put pressure on government finances. The annual health insurance premium is close to ₹60,000 crore and cutting GST from 18% to 5% would burn a ₹7,800 crore hole in government coffers.

Increase deduction for health insurance premium to ₹50,000

Health insurance premiums have increased in recent times due to inclusion of serious diseases by the insurance regulator in the policy coverage, rise in covid claims and medical inflation. Amid this backdrop, it is recommended to increase the limit for deduction under Section 80D. The current deduction of ₹50,000 (₹25,000 for self and family and ₹25,000 for parent below 60 years) should be raised to ₹1 lakh. For senior citizens above 60, the deduction limit is currently ₹50,000. This should be raised to ₹75,000.

BHARGAV DASGUPTA
CEO & MD, ICICI LOMBARD GENERAL INSURANCE

ET Wealth view

The tax breaks on health insurance premiums bring down the overall cost of insurance for the buyer. At the same time, any increase in the deduction will benefit only those seeking a higher cover. Premiums of basic covers of ₹5-10 lakh are within the existing limits.

Float REITs for govt-owned property

The government can monetise the housing and commercial real estate it owns by floating real estate investment trusts (REITs). This would not only help raise cash but also give investors an opportunity to grow their wealth in an instrument with sovereign backing. The move would also boost the infrastructure sector and job creation.

DILSHAD BILLIMORIA
MANAGING DIRECTOR, DILZER CONSULTANTS

ET Wealth view

The government owns prime real estate in cities across the country, but it may not try to monetise these assets. Selling state owned housing will displace millions of government employees.

Feroz Mehmood, 52 with son, Delhi NCR

Link tax deductions and exemptions to inflation or per capita GDP

Every year, various stakeholders from different sectors seek revisions in deduction and exemption limits. Instead of keeping everyone guessing, the Budget should lay down a formula that links the basic exemption with some objective criteria. The basic tax exemption can be benchmarked with the inflation, per capita GDP, house price index or even the education and healthcare expense per household as per the latest NSSO survey. This will make the taxation structure more equitable and end the annual speculation over exemption limits before the Budget is tabled.

AMIT GUPTA
FUND MANAGER, ADROIT FINANCIAL SERVICES

ET Wealth view

This is a radical suggestion but could be very useful if implemented. It will align the tax structure with incomes more closely and end the speculation surrounding Budget proposals.

Give tax exemption to savings for education

Saving for children's education is every parent's key financial goal. While retirement savings are eligible for tax breaks, there is no tax benefit on investments for education. The Budget should introduce a new section of investments for education savings. Even if it can't offer a deduction on these investments, at least they should be exempt from capital gains tax as long as the money remains invested in any other instrument. The maturity and redemption proceeds can be sent directly to education institutes to ensure there is no misuse.

ET Wealth view

This can be a useful move. Some instruments for education savings, such as insurance policies and the Sukanya scheme offer tax breaks, but others do not. A section dedicated to education savings will help investors.

Hike NPS deduction limit to ₹1 lakh

For Indians, tax is a major reason that drives investment decisions. The investments under Section 80C force taxpayers to save for the future, thus nudging them in the right direction. For the same reasons, the new tax regime under Sec 115BAC giving the taxpayer the option to not claim any deduction was a bad idea.

India has no social security so individuals must save enough for their sunset years. The NPS helps one save, but the tax incentive under Sec 80CCD(1b) is limited. Investing ₹50,000 a year will not take a person anywhere close to the sum he would require 10-20 years down the line. This deduction should be enhanced to ₹1 lakh to make the corpus more meaningful.

ET Wealth view

If the government wants a pensioned society, it must push more and more Indians to choose pension products such as the NPS. Tax incentives can attract investors to an investment option. But given its precarious finances, the government is not in a position to offer an additional deduction that would lead to a tax loss.

Increase the standard deduction

For the common man, unforeseen expenses, especially medical expenses, have increased in the past two years. Furthermore, pay cuts and unemployment have led to a dip in the overall household income, resulting in additional financial stress. Therefore, a substantial increase in the standard deduction from ₹50,000 to ₹1 lakh to provide some relief to the working class will be a welcome move.

HARSH JAIN
CO-FOUNDER & COO, GROWW

ET Wealth view

The standard deduction was introduced in 2018 in lieu of the exemption of transport and medical allowances. It was hiked from ₹40,000 to ₹50,000 two years ago. With the government keen on moving towards a newer, simpler tax regime devoid of individual deductions, the standard deduction will need to be raised.

Increase tax deduction on housing loan interest

The purchase of a house is figuring prominently in the spending pattern of millennials. With demand on the rise, property prices have risen sharply in recent months. This has, in turn, pushed up the demand for bigger housing loans. The average ticket size of a housing loan in urban areas is now more than ₹35 lakh and is expected to rise further. With loans getting bigger, the existing tax exemption of ₹3.5 lakh has lost its relevance. It should be raised to ₹5 lakh to align with the rise in housing prices. With the benefit going directly to the consumer, such a measure could revive the entire cycle of credit and real estate. It could have a snow-ball effect because the real estate and auto sectors are the primary contributors to the uptick in the economy.

DINESH ROHIRA
FOUNDER & CEO, 5NANCE.COM

ET Wealth view

The deduction for home loan interest was revised almost seven years ago. It should be revised to reflect the reality of property prices and average home loan ticket sizes. To begin with, the higher deduction for affordable housing should be extended to all home loans.

Bring petrol and diesel under GST

Petrol and diesel prices have risen sharply in the past 1-2 years, unleashing the inflation demon in the economy. This has become the biggest challenge before the government right now. In the past, the GST council met several times to discuss the possibility of bringing petroleum products under the ambit of the indirect tax regime but the issue has not been resolved yet. If fuel is brought under GST, the price of petrol could come down by more than 30% from the present ₹95-100 levels to ₹66-70 levels. This is inclusive of the other duties and commission paid to dealers.

RAJIV KAPOOR
VICE PRESIDENT, TRUSTLINE SECURITIES

ET Wealth view

Such a measure is desirable but may not be easy to implement. The Centre and states get substantial revenue from the tax on petroleum products. Under GST, this would reduce to 28% and dent the revenues.

Raise investment limits for SCSS, PMVVY

Falling interest rates have hurt fixed income investors but retirees and senior citizens are the worst hit. The investment limit of the Senior Citizens' Savings Scheme remains fixed at ₹15 lakh. At the prevailing rate of interest, this means a retiree can get a maximum pension of ₹27,750 per quarter. A couple can invest up to ₹30 lakh, but even then the monthly pension will be no more than ₹18,500. This is reduced to half if a person is single or widowed. Similarly, the Pradhan Mantri Vaya Vandana Yojana (PMVVY) also has a ₹15 lakh limit per individual. Given the current interest rates and the high inflation, the pension is quite inadequate to meet the need of the average middle-class senior citizen couple.

The investment limit for the SCSS and the PMVVY should be raised to ₹25 lakh per individual to make the pension reasonable. This will raise the combined investment in the two schemes by a couple to ₹1 crore, which can yield a monthly pension of roughly ₹62,500.

PRABLEEN BAJPAI
FOUNDER, FINFIX RESEARCH & ANALYTICS

ET Wealth view

This is a very pertinent suggestion given the prevailing high inflation and low interest rates. The government should not have any problem because it is a revenue neutral measure that will not affect tax collections.

Remove customs duty on gold

The high customs duty on gold distorts domestic prices and leads to a significant differential between domestic and international gold prices. It also encourages illicit gold imports, which further distorts the market. We need a free market, which allows easy imports and exports of gold and brings domestic prices on a level with international prices. This will help find the true price of the commodity. For this, the additional taxes, duties and levies need to be abolished. Furthermore, the government should try to use the gold savings in India for productive purposes. Price distortions will hinder any real chances of bringing gold into circulation. If the motive is to generate revenues, the government could apply an annual fee on foreign bullion players trading in Indian markets and raise revenues through the fees charged on them. The customs duty collected helps reduce the deficit by a negligible proportion. The government should look at the bigger picture to develop the gold market which can make India the gold trading capital of the world.

JIMMY PATEL
CEO, QUANTUM MUTUAL FUND

ET Wealth view

The customs duty on gold was cut to 7.5% last year. This could be rationalised further to make the grey market for gold imports unattractive. But a complete removal is not likely for now.

Rationalize capital gains tax on gold

One way to incentivize holding gold in both digital and physical forms would be to rationalize the capital gains rates for profits on the sale of gold with profits on the sale of stock shares. Right now, the long-term capital gains from the sale of gold are taxed at 20% compared to 10% flat tax on long-term gains from shares. Besides the difference in tax rates, gold (both physical and paper gold) has to be held for three years to be eligible for long-term treatment while stocks have to be held for only one year. A reasonable alignment among the tax regimes for investments would give investors greater flexibility in choosing the assets that best fit their needs as a store of value and foundation for wealth creation.

ASHRAF RIZVI
FOUNDER AND CEO, GILDED

ET Wealth view

The Budget can bring in beneficial taxation on par with other tax-efficient avenues. Sovereign gold bonds are currently the only tax-efficient alternative.

Relax GST on CSR

Given the disruption by Covid, the Budget should relax the GST on CSR spending. Indian companies spend 2% of their profits on CSR projects, of which a large portion is spent on improving education and livelihood, health and sanitisation, among others. While the CSR budgets are treated as donations by the receiving and NGOs, many initiatives taken to benefit society remain outside the GST exempt list.

NEETI SHARMA
SENIOR VICE-PRESIDENT, TEAMLEASE SERVICES

ET Wealth view

This may not affect individual finances, but will remove the asymmetry in taxation. Aid to underprivileged sections should not be treated as a supply of services and charged GST.

Akhil Jain, 31
Delhi

Introduce inflation-adjusted bonds to beat price rise

Inflation has touched double digits and is expected to go up further due to massive printing of money. Inflation is a real worry for investors. The loss of wealth due to inflation has made me liquidate all my fixed income investments because they were generating post-tax returns of 4-5%. I am forced to invest in the stock market, which for now is keeping pace with inflation. To help investors stay ahead, the Budget should introduce inflation-adjusted bonds. Inflation-adjusted bonds will prevent unnecessary risk-taking close to a goal if one falls short of the goal value due to high inflation. Through I-Bonds, people can meet their goals without having the goal post shift due to much higher outflows.

ET Wealth view

Inflation-indexed bonds introduced in 2013 didn't prove successful. They were linked to wholesale inflation which turned negative after the bonds were launched. Right now wholesale inflation is at a 12-year high of 14.23% so such bonds can be useful.

Give incentives to rental housing

Rental housing represents a huge potential for institutional investment, given that a REIT like structure would be created. The Budget should include steps that will provide an opportunity for such institutional investments, including defining incentives and tax benefits for such REIT-like investment models for rental housing. For retail investors, enhanced tax benefits and steps to provide low-cost credit to buy such homes will make a difference. This will also help those looking for investment options that provide for their retirement.

NIRANJAN HIRANANDANI
VICE-CHAIRMAN, NAREDCO & MANAGING DIRECTOR, HIRANANDANI GROUP

ET Wealth view

The Model Tenancy Act ushers in much needed structure and transparency to this segment, but targeted tax relief measures will help unlock inventory for renting purposes.

Reduce tax rate of partnership firms

At present the tax rate for most corporates is 25%, whereas other assessees like partnership firms, LLPs and individuals are taxed at the highest rate of 30%. In India, SMEs contribute a large chunk of the GDP but most of them are partnership firms, LLPs or proprietorship firms. Due to the small size of businesses, high cost of compliances and lack of adequate knowledge of laws, it is not feasible for them to adopt the corporate structure. Cutting the tax rate to 25% for non-corporate assessees would reduce their tax burden and make their products more competitive.

RAJ LAKHOTIA
FOUNDER & CEO, DILSEWILL.COM

ET Wealth view

It is only fair that partnership firms are taxed at the same rate as corporate entities. This will help SMEs which are struggling due to the disruption caused by demonetisation and spread of Covid.