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BUDGET 2023 WISHLIST

What investors, consumers and taxpayers want in the coming budget. P2

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By **Team ET Wealth**

After weeks of consultation with industry bodies and financial experts, the Finance Ministry has started work on Budget 2023-24. The Budget is expected to give a big push to capital expenditure, but Finance Minister Nirmala Sitharaman is confident that the buoyancy in tax collections in 2022-23 can fund the additional spending. Gross tax revenue collections in the first half of the year (April-September) were up 18% compared to the previous year.

At the same time, the financial services industry, investors and taxpayers are seeking more tax deductions and lower tax rates. "Health insurance is not just a risk mitigation tool but also helps in overall economic development by spreading protection across a larger population. The deduction under Section 80D should be raised from the current ₹25,000 to ₹1 lakh," says Tapan Singhel, Managing Director & CEO, Bajaj Allianz General Insurance. "Pension and annuity income should be made tax-free in the hands of policyholders, or a deduction for the prin-

Hiking 80C limit will allow higher tax savings

Current limit of ₹1.5 lakh has been stagnant for last nine years.

	Tax savings for different limits (₹)		
TAX SLAB	**1,50,000**	**2,00,000**	**2,50,000**
5%	7,800	10,400	13,000
20%	31,200	41,600	52,000
30%	46,800	62,400	78,000

Figures include 4% cess on income tax.

cipal component should be allowed," says Satishwar B, Managing Director & CEO, Aegon Life Insurance.

Though it will be difficult for the government to give out so many tax sops, *ET Wealth* believes there are some areas that need fixing. For instance, the ₹1.5 lakh deduction limit under Section 80C was last revised more than eight years ago in 2014. Since then, the cost inflation index has risen by over 50%, pushing up the sum required for future goals. For many Indians, tax saving is a key driver of investments. But the stagnant Section 80C deduction limit means they have not seen any reason to save more.

Experts feel there is a compelling case to hike the 80C limit. Though a new deduction for NPS contributions under Section 80(CCD1b) and a ₹50,000 standard deduction were added in recent years, the deduction limit needs to be raised to at least ₹2.5 lakh to provide some relief to taxpayers. A deduction of ₹2.5 lakh will result in higher tax savings of up to ₹78,000 a year, compared to ₹46,800 now. "The incentive for savings has to go up. Besides, there are more instruments in the 80C basket today than there were a decade or so ago," says Vidya Bala, Head–Research, *Primeinvestor.in*.

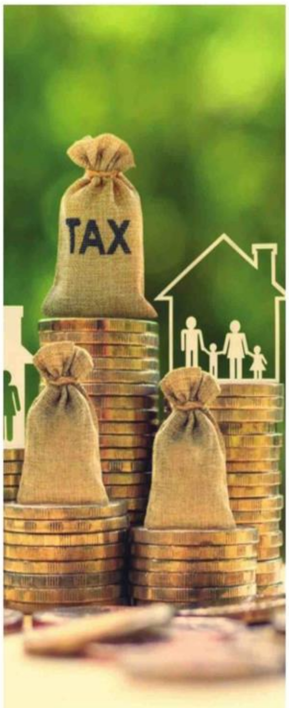
Parity in capital gains tax

The prevailing tax regime for different assets is a complex web, with multiple rates and different rules for various asset classes. For instance, long term capital gains from listed stocks and equity funds are taxed at 10% without indexation after one year. But unlisted stocks and foreign equities are taxed differently—shares held for more than 24 months are considered long-term and taxed at 20% without indexation. Meanwhile, gains from international equity funds qualify as long term only after three years and are taxed at 20% after indexation—the same as non-equity funds. But listed bonds are again treated differently from bond funds. Capital gains from listed bonds are regarded as long term if held for over one year and taxed at 20% without indexation. In gold, gold ETFs and gold funds are taxed differently than sovereign gold bonds. In real estate also, REITs are taxed differently from physical property.

Experts say the budget should bring parity in tax rules. At the very basic level, tax rates and holding period criteria within each asset class should be uniform. Taxation of high-value Ulips with annual premium of more than ₹2.5 lakh (completely tax-free earlier) only partially brought them at par with listed stocks and equity funds last year. But Ulips still enjoy preferential treatment. Juzer Gabajiwala, CEO, Ventura Securities, questions, "Why should a switch transaction in a mutual fund incur tax liability even as similar switch in Ulips is tax free?" More anomalies persist. Amol Joshi, Founder, PlanRupee Investment Services, argues, "Within asset classes, wherever one product is given preferential tax treatment over another, it may not be in investor's interest. One should not have to deal with three different set of tax rules for the same vehicle." However, some say the disparity in tax rules is needed. "Even within asset classes, there is a variation in risk profile depending on the instrument. Maintaining that distinction with differentiated tax rules is apt," says Bala.

Further, some feel that tax rates across asset classes also need to reflect commonly accepted financial wisdom. For instance, it is said that bond investments are best held for the short term and equities are ideal for the long term. But the holding period criterion for the two asset classes encourages quite the opposite. Joshi feels that the varied holding period thresholds (ranging from 1, 2 and 3 years) should be done away with and a common holding period of say, two years, should be introduced across all asset classes.

The tax on long term capital gains from equities introduced two years ago was long overdue. As is evident from the market mood, it has not dampened the investors' sentiment. Even so, there is a need to give equities the benefit of indexation on long term capital gains. Indexation adjusts the



Capital gains tax regime is very complex

There are different rates and threshold periods for different assets.

	STCG TAX RATE (%)	LTCG TAX RATE (%)	HOLDING PERIOD FOR LTCG	INDEXATION BENEFIT
Listed stocks, equity funds	15%	10% for gains in excess of ₹1 lakh	1 year	No
International equity funds	Slab rate	20%	3 years	Yes
Debt funds	Slab rate	20%	3 years	Yes
Listed bonds	Slab rate	10%	1 year	No
Real estate	Slab rate	20%	2 years	Yes
REIT/InvIT	15%	10% for gains in excess of ₹1 lakh	3 years	No
Gold ETFs/ gold funds/physical gold	Slab rate	20%	3 years	Yes
Sovereign gold bonds	Slab rate	20%, else tax free if held till maturity of 8 years	5 years	Yes

"There should be a separate bucket for life insurance policies. A separate section for term insurance policies would be helpful given the huge protection gap in the country."

VIGHNESH SHAHANE
MANAGING DIRECTOR & CEO, AGEAS FEDERAL LIFE INSURANCE

Term plans need budget push

Traditional plans have very high premiums and offer very low cover.

	GUARANTEED SAVINGS PLAN	TERM PLAN
Tenure of plan	20 years	30 years
Insurance cover (₹)	12.22 lakh	1 crore
Annual premium (₹)	1.2 lakh	11,352
Cover as multiple of premium	10.18 times	880 times

Premiums for Max Life Guaranteed Savings Plan and Online Term Plan.

"Pension and annuity income should be made tax-free in the hands of policyholders, or a deduction for the principal component should be allowed. This will encourage purchase of pension plans."

SATISHWAR B.
MANAGING DIRECTOR & CEO, AEGON LIFE INSURANCE

Separate deduction for plans with 200x cover

Even plans bought by older people would be eligible.

AGE OF BUYER	30 YEARS	40 YEARS	50 YEARS
Annual premium for life cover of ₹1 crore	11,352	17,907	42,476
Cover as multiple of premium	880 times	558 times	235 times

Premiums for Max Life Online Term Plan.

purchase price of the asset for the inflation rate, reducing the taxable gains and therefore, the actual tax liability. The ₹1 lakh exemption on long term gains from equities somewhat compensates equity investors, but that only helps small investors. It is a better idea to bring in the indexation benefit and remove the exemption.

Deduction for pure term plans

Life insurance is a popular tax saving instrument because it is sold that way by insurance agents. But given the large crowd of options under Section 80C, the industry wants a separate deduction for life insurance. "Our paramount interest has always been to insure more citizens and ensure they have sufficient coverage. Our efforts will be augmented if the government introduces a separate tax deduction limit exclusively for life insurance premiums," says Tarun Chugh, Managing Director and CEO, Bajaj Allianz Life.

As mentioned earlier, for many investors, tax savings is the primary factor defining investment choices. A separate deduction will certainly push more people to buy insurance, but this deduction should be only for pure protection term plans. Just like tax benefits under Section 10(10D) are available only if the cover is 10 times the annual premium, the new deduction should be given only for policies where the cover is at least 200 times the annual premium. "A separate section for term policies would be helpful given the huge protection gap in the country," says Vighnesh Shahane, MD & CEO, Ageas Federal Life Insurance.

Benefits for pension products

The insurance industry also wants more tax benefits on pension products. High on the wishlist is something that has the potential to radically change the way annuity products are seen in India. "The pension premium is already paid through taxable income, so pension should be made tax-free in the hands of the customer. This will increase the penetration of pension and make India a pensioned society, especially since we don't have any social security cover," says Shahane of Ageas Federal Life Insurance. "Pension and annuity income should be made tax-free in the hands of policyholders, or a deduction for the principal component should be allowed," concurs Satishwar B.

But making annuity tax free will burn a big hole in government finances. Instead, a more feasible option would be to increase the deduction under Section 80CCD(1b) from ₹50,000 to ₹1 lakh. The NPS has seen massive inflows since the new tax saving option was introduced in 2016. According to a Crisil study, the AUM of the scheme has registered annual growth of 33.7% in the past five years. Insurance companies also want their pension plans to get the same tax benefits as the NPS. "There could be a separate bucket for pensions of ₹50,000-75,000 to level the playing field with NPS," says Shahane.

Health insurance deduction

The surge in health insurance costs and the need for higher covers after the pandemic mean the current deduction limit of ₹25,000 under Section 80D is woefully inadequate. As per a LocalCircles survey between August 2021 and August 2022, among 10,000 respondents, nearly 38% saw a premium rise of over 50% in a year, while 24% experienced a 25-50% increase. For senior citizens, this amount almost doubled in a year.

Besides, the premium cost is higher in metros and tier 1 cities, as is the cost of hospitalization, which necessitates a higher cover. So, while a cover of ₹5-10 lakh would have been sufficient for an individual in a metro two years ago, he will now need to have a ₹15-20 lakh cover.

"Increasing the limit to claim tax deductions under Section 80D will enhance affordability and encourage more people to opt for health insurance for their family and elderly parents," says Krishnan Ramachandran, MD and CEO at Niva Bupa Health Insurance.

More sops for home buyers

Real estate is reviving, leading to an increase in housing prices. This, along with the possibility of an increase in interest rates of home loans, is making it difficult for many people to buy a house. To give a boost to them, especially first-time homebuyers, the government should offer some tax sops. One way to do this is to increase the current tax rebate of ₹2 lakh on home loan interest repayment under Section 24 to at least ₹5 lakh.

"Home loans are usually large loans as even a reasonably-priced house costs more than ₹50 lakh. As almost two-third of your loan repayment goes towards paying off the interest in the first few years of the loan, borrowers pay way more than ₹2 lakh interest on loans every year. Enhancing the exemption to at least ₹5 lakh can help to reduce the cost of purchase for home buyers," says Vivek Rathi, Director Research, Knight Frank India.

The Budget should also consider revising the price bandwidths for homes to qualify as affordable housing. "A price band of ₹45 lakh or below is far too low in a city like Mumbai, where it should be increased to ₹85 lakh or more. In other major cities, the qualifying price band should be increased to ₹60-65 lakh," says Anuj Puri, Chairman, Anarock. He suggests that the government can also give a push to affordable housing by giving higher rebates to home loans taken for houses that cost less than ₹85 lakh.

"The government can make a classification index and then assign an affordability section, taking into account the differential in the average price in urban cities along with the cost of living there. This will be easy to implement and will give a boost to the mid-segment housing," says Samantak Das, Chief Economist and ED, Research and REIS, JLL India.

Health insurance costs are up ...

ANNUAL PREMIUM

Apr 2021
₹8,265

Dec 2022
₹12,088

Rise (%)
46.2%

Premiums for Care Health Insurance for a 30-year-old male in Delhi

... and also the need for it

Pre-pandemic cover needed in metro/tier 1 cities in 2019
₹5-10 lakh

Post-pandemic cover needed in metro/tier 1 cities 2022
₹15-20 lakh

> **"Health insurance helps in overall economic development. The deduction under Section 80D should be raised from the current ₹25,000 to ₹1 lakh."**
>
> TAPAN SINGHEL
> MANAGING DIRECTOR & CEO, BAJAJ ALLIANZ GENERAL INSURANCE

> **"Borrowers pay way more than ₹2 lakh interest on home loans in a year. The deduction should be enhanced to ₹5 lakh to give some relief to home buyers."**
>
> VIVEK RATHI
> DIRECTOR - RESEARCH, KNIGHT FRANK INDIA

Home loan customers need relief

As property prices soar and loan amounts get bigger, deduction of ₹2 lakh on the interest is not enough. Here's the math for a ₹50 lakh loan at 9% for a borrower in 30% tax bracket.

BALANCE LOAN TENURE	INTEREST PAID PER YEAR (₹)	UNCLAIMED PORTION OF INTEREST (₹)	TAX SAVINGS IF DEDUCTION HIKED TO ₹5 LAKH
19 years	4,45,498	2,45,498	76,595
15 years	4,04,798	2,04,798	63,897
12 years	3,63,121	1,63,121	50,894
7 years	2,63,158	63,158	19,705

Please send your feedback to
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5 ways to make your personal budget work

Making a budget is easy, but adhering to it is hard. But with some simple tweaks, you can ace all these woes with ease.

By **Ira Alok Puranik**

Do you find it impossible to stick to the budget you so meticulously chalk out? Apart from unexpected situations, your budget goes awry owing to bigger than planned outlays on shopping, vacations, parties, eating out, etc. And once the budget goes off track, it feels difficult to find a way back. But a few simple tweaks can help you stay on top of your household budget. Here are five ways you can improve your commitment to your financial plan in the next year:

Let your budget breathe free

Do not treat your budget as set in stone. That is a surefire recipe to losing your grip over it, and finally, your patience to persist with it. Let the budget evolve as you go through every stage of your life. Your income and life goals at any given point should guide your savings and expenses. As Pune-based financial planner Sanjeev Dawar asserts, save and spend in line with how you visualise your long and short-term financial aims. As your income grows, your lifestyle expenses are bound to go up. Your household expenses after having a second child will shoot up. You may intermittently incur some unforeseen expenses related to health, travel or such. At such times, don't stress over your stretched budget. Adjust and adapt to the circumstances, and plan to rein in spends when the situation permits.

Make your budget, your own!

The internet is full of thumb rules you can adopt to create a budget. There is a '50-30-20' rule, 'save at least 33% of your income' rule, and many more. But in the end, your budget should reflect your unique needs and priorities, rather than echo some general financial guidelines. Don't fix arbitrary limits you cannot work with sustainably. These can at best serve as a starting point for you to plan your finances. If your present income is modest, it is likely that expenses will take a bigger bite. While making a conscious choice for savings, allow for some intermittent fluctuations. In the same vein, as your income grows, and your capacity to save rises, don't be married to some 'ideal' savings number you picked up earlier. If your situation allows, go beyond that number.

Identify and cut the bloat

Eating every day is essential to survival, but a daily take-out is not, right? That is the difference between a need and a want. A healthy, realistic budget identifies and accounts for both. Make separate provisions for your basic necessities and indulgences. Get a firm grip over the latter. You don't realise it, but the little things add up to quite a hefty sum. The regular Zomato or Swiggy takeaways bring your favourite dishes to your doorstep, but eat away a chunk of your income. The multiple OTT subscriptions may occasionally entertain, but cause a leak in your budget. Monitor these spends like a hawk and scale back reasonably if needed, without depriving yourself. After all, it is necessary to let your hair down, once in a while! As Sonesh Dedhia, a financial planner, points out, "It helps to have a separate kitty for all your major wants. Plan separately for your vacations and purchases beyond a certain limit, so that you don't overshoot the determined amount."

Track, track, track

Finally, if you want your budget to work, monitor and track your progress regularly. A periodic review and reallocation of your savings and expenses can serve you well. This is necessary to identify what is working for you, and what is not. Tracking every rupee spend is not necessary, as long as you have a sense of broader outlay on different items. You may use spreadsheets to keep track of certain expenses. Nowadays, there are mobile applications like Wallet, Jupiter, Axios and more that you can use to do this.

Involve the family

If your household budget is to truly work, you need to involve your loved ones in every part of the process. Bring every member of your household along as you identify and plan for various expenses. For instance, sit together and identify the size of the pot for family activities like weekend getaways, movies, vacations and eating out. Take the kids into confidence and show them the trust to work within the contours of your budget. Reward them with fun activities or a top-up on their pocket money for sticking to the planned outlay. If someone is straying far, try getting them on the same page with a light touch. Further, it is critical that you keep your spouse in the loop regarding all your investments.