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New I-T regime to curb investments, will impact market negatively: Experts

The Union Budget for 2020-21 has proposed new income tax slabs and reduced the tax rate for different slabs

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Tax experts and analysts on Saturday said the optionality clause in the new income tax budget proposal is a big disincentive for investment in tax-saving instruments, which will dampen the markets and have ripple effects across all asset classes, including housing.

The Union Budget for 2020-21 has proposed new income tax slabs and reduced the tax rate for different slabs, with lower payouts provided the taxpayer foregoes all the existing exemptions/deductions.

Under the proposal, a person with an annual income of Rs 5-7.5 lakh will have to pay a lower tax rate of 10 per cent; Rs 7.5-10 lakh at 15 per cent; Rs 10-12.5 lakh at 20 per cent; Rs 12.5-15 lakh at 25 per cent; and above Rs 15 lakh 30 per cent tax will be applied.

The proposal will lead to a revenue sacrifice of Rs 40,000 crore per annum, if all the taxpayers opt for the new structure.

It can be noted that household savings have been steeply declining over the years. According to government data household savings have dropped to 17.2 per cent of GDP in FY18 from 23.6 per cent in FY12.

The move to tax dividend at the hands of the investors will also have a deep negative impact on the markets as it will force investors to look for other asset classes like fixed deposits.

"With the optional new regime, taxpayers will have to evaluate what works better for them. Those committed to long-term savings and investing via 80C may be discouraged and this may likely de-motivate them from investing in tax-saving asset classes," said Archit Gupta, founder of Cleartax.

However, he said shifting of the dividend distribution tax from the companies to the individual investor is a good step as it increases dividend received in the hands of the taxpayer. Those above 20 per cent tax slab will now face more tax on their dividend income.

Biocon CMD Kiran Mazumdar Shaw tweeted that removal of exemptions and DDT will hurt individual tax payer and affect consumer spending.

Ajit Mishra of Religare Broking said the widely expected personal income tax cuts have come in with lots of caveats, leaving no major impacts.

Similarly, Dhiraj Relli of HDFC Securities said the proposals on the tax front will not stimulate positive sentiments for the capital markets.

RK Gurumurthy of Lakshmi Vilas Bank said tinkering with the personal tax and some structural changes in Dividend Distribution Tax (DDT) will work are cosmetic benefits that the small and medium investor will like.

However, Vivek Gambhir, head of Godrej Consumer Products said reduction in personal income tax slabs will provide some relief to the middle class, which in turn will increase disposable income and drive demand.

Similarly, Tapan Singhel of Bajaj Allianz General Insurance said the new personal income tax regime will help put more money in the hands of people, which should boost consumption.

Vijay Chandok of ICICI Securities also supported the view saying rationalisation of personal income tax rates is likely to be key catalyst for consumption pickup.

Kamlesh Rao of Aditya Birla Sun Life said the income tax relief will improve public sentiment and augur well for the economy.

SOTC managing director Vishal Suri said the new personal income tax regime will put more disposable income in the hands of individuals leading to more consumer spends and help consumption, especially tourism," he added.