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25 BUDGET IDEAS

As work begins on drafting the Finance Bill 2017, here are some suggestions from experts that are worth including in the draft.

YOGITA KHATRI

As North Block begun work on the Finance Bill 2017, *ET Wealth* reached out to experts from the financial services industry to know what they want to see in the coming Budget. We have shortlisted 25 suggestions for Finance Minister Arun Jaitley and his team. These ideas range from tax exemption for annuity income and higher deduction for home loans to removal of service tax on health insurance and more incentives for cashless payments. All of them impact your savings, investments and incomes in some way. We are sure that at least some of these suggestions will find their way into the draft bill.

However, managing the expectations of people will not be an easy task for Jaitley. After demonetisation, the annual clamour for tax cuts has become louder. The long-term benefits of the move are yet to be seen, so many taxpayers want a short-term balm. Almost everybody expects a big tax relief in the coming Budget. "Honest taxpayers who have diligently paid taxes all these years should be rewarded with a big tax cut. Either the tax rates should be lowered or the basic exemption limit should be raised," says the head of a mutual fund house.

The math of matching these expectations is scary. Even a minor concession has a huge impact on the exchequer. Increasing the basic exemption by ₹10,000 would translate into a loss of roughly ₹3,000 crore for the government. If the basic exemption limit is raised to ₹3 lakh, it would mean ₹15,000 crore foregone in tax. If it is raised to ₹4 lakh, the government coffers will lose an estimated ₹45,000 crore. This is 53% more than the ₹29,363 crore collected as tax under the Income Declaration Scheme this year.

Even as taxpayers expect a slew of concessions, analysts are worried that the government may turn populist in the budget proposals. Elections to five state Assemblies (Uttar Pradesh, Punjab, Uttarakhand, Goa and Manipur) are due in 2017. If the Budget is framed with an eye on these polls, the outcome may be very sweet in the short-term but could harm the economy in the long-term.

(With inputs from Sanket Dhanorkar, Narendra Nathan, Vinay Dwivedi and Babar Zaidi)

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Reduce the tax filing burden on retail traders

All gains, excluding those made through equity delivery trades such as intra-day equity or F&O, are considered to be business income. ITR 4 forms are required for filing these, which are a lot more complex than ITR 2 forms, which are used for declaring capital gains. In addition to this, for an ITR4, Section 44AD requires books to be audited if the profit made in a financial year is less than 8% of the turnover, or if total turnover exceeds ₹2 crore. These complexities cause unnecessary hassles and lead to non-compliance by most small retail traders and investors.

It needs to be noted that turnover generated while trading on the exchanges cannot be equated with gains made in a regular business. A small trader could have less than ₹1 lakh as trading capital and still have a turnover of several crores. An audit itself could easily cost ₹20,000 or more, and make trading seem like an unviable option because of tax compliance costs that are over and above other transaction costs incurred by a trader. Also, unlike other businesses, turnover and profits are not interrelated in trading. Over 99% of traders would typically earn less than 8% of the turnover generated.

As a result of this, as well as general ignorance about book-keeping and high audit fees, most traders refrain from declaring their trading activity when filing income returns. This exposes them to greater risks in the event of an IT scrutiny. Section 44AD is causing unnecessary burden to the retail, small investor, and trading community, as well as further shrinking the already minuscule retail participation in capital markets. By excluding trading in securities and derivatives market from Section 44AD, the government will not only increase tax compliance, but also help the retail trading community grow.

NITHIN KAMATH
Founder & CEO, Zerodha

Plug loopholes to improve income tax compliance

Tax compliance in India is dismal and most people use loopholes in the law to avoid tax. We need to streamline tax provisions to prevent this. To this end, the government can take a few steps pertaining to the stock market. First, there is no tax on long-term capital gains from listed securities. People take advantage of this through structures in small-cap shares. Sebi has been doing an excellent job in catching the culprits but the tax department should also punish the guilty in an exemplary manner to deter others from following suit.

Second, if a small entrepreneur sells his business, he has to pay tax on it. However, when a big industrialist sells his business through the transfer of listed shares, he doesn't have to pay any tax. The sale of businesses should not be treated differently just because one vehicle is listed and the other is not. The rich should pay his fair share of taxes.

Third, the cost of bonus shares is counted as zero, rather than as a proportionate part of the original cost. This creates a cottage industry of bonus stripping, causing thousands of crore of losses for the government. The government should widen the tax base and distribute the tax burden fairly. The benefits of better tax compliance should also be shared with taxpayers by increasing minimum tax exemption limits and lowering tax rates.

NILESH SHAH
MD and CEO, Kotak Mutual Fund

Make equity investing less cumbersome for new investors

There is a need to attract people to the equity market. It constitutes just 5% of the average Indian family's financial wealth, compared to more than 40% in the US. To enable mass outreach, entry barriers have to drop or disappear. The success of the Jan Dhan Yojana can be built upon for value addition and wealth creation.

At present, too much paperwork is required to open an equity account with a broker. The most practical alternative is to allow anyone with a bank account, including Jan Dhan accounts, to open a first-time equity account off-the-shelf, with no additional paperwork, if the annual investment is under ₹50,000. This should include a trading account and a demat account, which will be sold by all broking houses, using the same principles as sachets in FMCG. This way, someone could simply buy the package literally off-the-shelf from a physical store or a coupon on the internet, which can be registered via mobile or web and is ready to trade immediately.

JAYANT MANGLIK
President - Retail Distribution, Religare Securities

Mutual funds with lock-in period of 3-5 years should be provided exemption from capital gains tax under Section 54EC. This would give investors more options and help them realise long-term returns. It will also channelise money away from real estate and back into the capital markets.

A. BALASUBRAMANIAN
CEO, Birla Sun Life Mutual Fund

Clarify how NPS Tier II will be taxed

NPS Tier II is a voluntary add-on account to the NPS Tier I pension account. It offers the flexibility to invest and withdraw from schemes available in the NPS without a lock-in period or exit load. There are no account opening or maintenance charges, and the investment preferences can be completely different from the Tier I account. Thus, in effect, NPS Tier II is an investment account, similar to a mutual fund in characteristics. However, at present there is no clarity about taxation on withdrawals from it.

While it's clear that NPS Tier II is not eligible for any tax benefits on investments, currently all withdrawals from it, including the capital and returns, are considered as income, due to clubbing of withdrawal tax provisions in the NPS. Therefore, long-term capital gains tax or indexation does not apply to the investments. This is intuitively wrong, but since there is no mention of it in the Income Tax Act, it remains unclear. The taxation for NPS Tier-II should be clarified in the Budget. Since it is a voluntary investment account, only the returns should be taxable, and short-term and long-term capital gains tax with indexation should be made applicable to it.

MANOJ NAGPAL
CEO, Outlook Asia Capital

Simplify the RGESS for increased participation

In its present form, RGESS is too complicated for both–investors to understand and advisers to explain. To attract new investors into the equity markets, RGESS needs to be simplified and the entry gates should be widened. If the objective is to attract new investors, the eligible prospects shouldn't be bothered with so many conditions. Since these are new investors, the lock-in period shall be kept constant at one year. Also, all open-ended equity and balanced funds should be RGESS compliant schemes. Application forms should have the option "RGESS". Anyone who ticks on this shall be locked in for one year. This way the investment opportunity would be available for new investors throughout the year and not only during NFOs.

RENJITH RG
Associate Director, Geojit BNP Paribas