Business Standard

Consumption, Employment, Growth: Three-point agenda for Budget 2017

It is an opportune time to boost consumption demand, which thinned post demonetisation

Suresh Soni | Mumbai January 27, 2017 Last Updated at 09:36 IST

The Budget 2017-2018 is not only being advanced by a month but also amalgamates the Railway budget with the Union Budget. Coming in the backdrop of impending election in the states of UP and Punjab and in the aftermath of demonetisation, we believe consumption, employment and growth could be key themes of the budget this year.

While demonetisation has made a bold start by channelizing the idle cash in the economy into the banking system, it needs to be followed through with measures to improve tax compliance and initiatives to boost the digital payment economy.

We believe it is an opportune time to boost consumption demand and business sentiment, which has shown some weakness following demonetisation. A hike in the personal tax limits can be a measure which helps towards this end. The government has rightly focused on boosting the low cost housing segment with interest subsidies and we believe that some tax exemptions on interest for home loans will provide greater thrust to this segment. This can also help in employment generation as the housing sector is one of the largest employment generators.

In the past, the Government had spoken about its intention of bringing down corporate tax rates. This year, the corporate sector is expecting some relief from the budget on this front.

From the perspective of the Mutual Fund industry we believe demonetisation will accelerate the move from physical assets to financial assets. The mutual fund industry is ideally placed to channelize the savings of retail investors into the capital markets. Over the last few years there has been a welcome increase in the participation of investors into mutual funds, especially through SIPs.

Indian retail investors have shown remarkable resilience in the last few years and have emerged as a good counter-balance to volatile FII flows into India's capital markets. This nascent trend needs to be encouraged. We have seen good investor interest in Equity Linked Savings Schemes (ELSS), which qualify for tax benefits under Section 80 C of the Income Tax Act up to an investment limit of Rs 1.5 lakh in a financial year. However, a large number of investors are not able to take advantage of this, as ELSS competes with a number of other tax saving instruments within the 1.5 lac ceiling. Having an exclusive tax exemption for ELSS schemes will help broaden the investor base.

The mutual fund industry body, AMFI has also pushed the case for extending Sec 54 EC benefit for mutual fund schemes with lock-in period of, say three to five years. One of the biggest contributors to the growth of the MF industry in the U.S. has been the 401(K) plans. AMFI has proposed a Mutual Fund Long Term Retirement Plan (MFLRP) — along similar lines. Under this plan, investors would get to invest in the MFLRP based on their risk-taking appetite and would get to redeem the full investment in their 60s. If this investment comes with a tax incentive then it will help in channelizing household savings to capital markets specifically for the long term.

The author is CEO, DHFL Pramerica Asset Managers

Disclaimer*: The views expressed above are the author's personal views.*