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BUDGET 2011-12

Implications on Individual Income Tax and Specified Asset Classes

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With the focus of the Union Budget for 2011-12 being on fiscal consolidation and infrastructure development, initiatives relating to personal finance have been rather limited.

A mild palliative has been provided to individuals through income tax relief as well as simplification of tax-return filing procedures.

Calculations assumed on a taxable income of Rs 1,000,000.

Individuals Other than Women, Senior Citizen and Very Senior Citizen					
AY 2010-2011 Below 65			AY 2011-2012 Below 60		
Slabs	Rates*	Liability	Slabs	Rates*	Liability
0-160,000	Nil	Nil	0-180,000	Nil	Nil
160,001-500,000	10.03%	35,020	180,001-500,000	10.03%	32,960
500,000-800,000	20.06%	61,800	500,000-800,000	20.06%	61,800
Above 800,000	30.09%	61,800	Above 800,000	30.09%	61,800
Savings due to Budget 2011					**2,060**

Women					
AY 2010-2011 Below 65			AY 2011-2012 Below 60		
Slabs	Rates*	Liability	Slabs	Rates*	Liability
0-190,000	Nil	Nil	0-190,000	Nil	Nil
190,001-500,000	10.03%	31,930	190,001-500,000	10.03%	31,930
500,000-800,000	20.06%	61,800	500,000-800,000	20.06%	61,800
Above 800,000	30.09%	61,800	Above 800,000	30.09%	61,800
Savings due to Budget 2011					**0**

Senior Citizen					
AY 2010-2011 Above 65			AY 2011-2012 Above 60-Below 80		
Slabs	Rates*	Liability	Slabs	Rates*	Liability
0-240,000	Nil	Nil	0-250,000	Nil	Nil
240,001-500,000	10.03%	26,780	250,001-500,000	10.03%	25,750
500,000-800,000	20.06%	61,800	500,000-800,000	20.06%	61,800
Above 800,000	30.09%	61,800	Above 800,000	30.09%	61,800
Savings due to Budget 2011					**1,030**

Very Senior Citizen					
AY 2010-2011 Above 65			AY 2011-2012 Above 80		
Slabs	Rates*	Liability	Slabs	Rates*	Liability
0-240,000	Nil	Nil	0-500,000	Nil	Nil
240,001-500,000	10.03%	26,780	500,000-800,000	20.06%	61,800
500,000-800,000	20.06%	61,800	Above 800,000	30.09%	61,800
Above 800,000	30.09%	61,800			
Savings due to Budget 2011					**26,780**

* Rates adjusted for education cess

- An annual effective tax relief of Rs. 2,060 has been given to male taxpayers aged below 60 years, with senior citizens being given an annual relief of Rs 1,030 through this Budget. However, lowering the qualifying age of senior citizens to 60 years will enable a higher population of pensioners to migrate to the next tax slab and thus get the benefit of higher tax savings, which could range from Rs. 6,000 to Rs. 9,000 approximately.
- A new category of Very Senior Citizens has been created for citizens born before 1931 with income upto Rs 5 lakh per annum being exempted from income tax resulting in monthly savings of approximately Rs. 2,200.
- The annual tax exemption of Rs. 20,000 available to individual taxpayers for investment in infrastructure bonds will continue during the financial year 2011-12.
- Under the New Pension Scheme, only employee contribution will be considered within the qualifying limit of Rs. 100,000 for claiming Sec 80 C deduction.
- Another measure aimed at reducing the compliance burden on small taxpayers is the exclusion of salaried taxpayers who do not have other sources of income and whose incomes are subject to TDS, from filing returns. The exemption comes into effect from the assessment year 2011-12 and a notification specifying the salary income threshold and other modalities is expected to be released shortly. It is expected that the Form 16 issued by the employer will be treated as tax return for this segment of taxpayers and if the taxpayer has other sources of income like dividend and interest and does not want to file a separate tax return, the same can be disclosed to the employer to ensure the necessary tax deduction.
- Introduction of a new simplified return form "Sugam" to reduce the compliance burden on small taxpayers who fall within the scope of presumptive taxation is also on the anvil.

Impact on Mutual Funds

- KYC-compliant foreign investors can now directly invest in equity schemes of SEBI-registered mutual funds. This move is expected to increase the inflow of funds to this industry, with AMCs having to design products and establish distribution channels to access these markets. While foreign investors were hitherto allowed to invest through the FII route, the incremental impact of this measure will be determined by the reach and product portfolio of the domestic mutual funds to this class of investors. Also, the process of ensuring KYC compliance for foreign investors as well as measures to hedge currency volatility would need to be worked out. This move is expected to emerge as a source of funding of India's current account deficit.

- Budget 2011 has increased the dividend distribution tax (DDT) from 25 % to 30% (excluding surcharge and cess) on dividends distributed by liquid and debt MF schemes to corporate investors, thus reducing the tax arbitrage between investing in bank deposits vs mutual funds. The higher rate would come into effect from June 2011. While mutual funds would still score over bank deposits on the liquidity front, it is likely that the inflows from corporates to these fund categories may be impacted. This announcement may have an adverse impact on AUMs for certain categories of debt schemes especially liquid and liquid plus schemes. The DDT on debt schemes for other investor classes (individual/HUF) remains at the current rate of 25% (excluding surcharge and cess). The budget continues to exempt distribution of income by an equity-oriented fund from tax.

Impact on Insurance Industry

- Amongst the long-pending legislative proposals expected to be taken up by Parliament, the Insurance Bill is one and it seeks to raise the FDI limit in the insurance sector from 26% to 49%. With many foreign partners keen to increase stake in their Indian operations; raising FDI limits could deliver a growth push to the Indian insurance industry, thereby benefitting customer.

- The modification proposed to be brought about in the service tax levied on fund management charges may increase the charges for some guaranteed ULIPs.

Impact on Bond Market

- Issue of tax-free infrastructure bonds worth Rs. 30,000 crore, raising of the ceiling for FII investments in infrastructure bonds, permitting of FII investments in unlisted bonds with a minimum lock-in period of three years, and the creation of Infrastructure Debt Funds with a lower FII withholding tax rate of 5% should enable deepening of the bond market in India.

- Any interest income received by a non-resident Indian from such notified infrastructure debt funds shall be at the rate of 5%.

Impact on Equity Market

- The disinvestment target of Rs. 40,000 crore is expected to open up more investment opportunities in the Indian equity market.

- Increasing participation of foreign investors in equity schemes of SEBI-registered mutual funds and the higher limits for FII investments in bonds should reduce the volatility in the Indian equity market.

- In term of sectors, the focus of the budget has been on infrastructure, education and agriculture.

Impact on Gold

- The imposition of 1% central excise duty on jewellery and articles of gold, silver and precious metals sold under a brand name is expected to make this category of assets slightly more expensive.

Summary

While Budget 2011-12 may have a low impact in the short term with investors being constrained to make any significant investment choices based on its pronouncements, some of the initiatives announced may have far-reaching positive implications for the Indian economy. Thus, while the retail Indian investor may not find much cause to cheer in the latest measures, the comprehensive implementation of all the initiatives announced should lead to the creation of a more vibrant investment environment in future.

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