Eye on 2019 polls, government may woo middle class with tax sops

Ahead of what may be its final full Budget before next year's general elections, the NDA government is looking to offer fresh benefits to middle class taxpayers, which are seen as a key constituency of BJP.

While discussions on a possible package have begun, a section in the government wants to ensure the vocal segment is rewarded although the fiscal costs will be weighed.

Among options being talked about are an increase in the tax exemption limit, a return of standard deduction in some form as well as additional benefits for health insurance and even bank fixed deposits, which have become less attractive following the recent surge in stock markets coupled with sops for investment in mutual funds.

In the past, finance minister Arun Jaitley said the government believes in leaving more funds for people to spend and invest. But given the tight fiscal situation due to weaker-than-expected corporate tax collections as well as the impact of GST, where the revenue gains may accrue only in the next fiscal, the Centre has to find resources to make up for the outgo.

Sources said that a section within the government is backing the re-introduction of long term capital gains tax on stock market transactions with riders that it will apply to new transactions above a certain value of, say Rs 5 lakh. In addition, the levy can be lower at around 10%. The proposal is in line with the NDA government's stance of being seen to be pro-poor and middle class with the demonetisation being part of that strategy, along with recent decisions to pare GST on over 200 items that were in the top bracket of 28%.

"It will impact 5,000 investors but will benefit five crore families," said a source, who did not wish to be identified. In November, during a meeting with the finance ministry brass, Bombay Stock Exchange (BSE) had suggested the introduction of long term capital gains tax, arguing it will end friction in the market and also tackle the problem of manipulation in penny stocks.

Sources, however, said that BSE had made this suggestion in the past too. Some market players believe that Securities Transaction Tax (STT) has also lost its utility and long -term capital gains tax makes sense now.

"The debate on whether the capital gains exemption on listed shares should be removed comes up before every budget as it's one of the options available with the government to mobilise revenues.

To some extent, with the amendments to the tax treaties (such as Mauritius and Singapore) in 2017, it is now only the long-term capital gains that are exempt and more so with the changes and limitations introduced in the Budget 2017, much of the misuse of this exemption has been plugged.

Looked at from a perspective of incentivising investment and creation of capital, both private and listed shares should be treated alike. There is a large amount of domestic savings as well as private and international capital going into the creation of capital through private companies and it will augur well if a calibrated approach of providing some relief to such shares is also considered," said Abhishek Goenka, direct tax partner at consulting firm PricewaterhouseCoopers.

Sources said that the "tax package" will be a political call that will be taken by PM Modi after detailed deliberations with Jaitley. If the government finally moves ahead, an increase in the exemption limit will be calibrated in a way that it does not leave the government short of resources for flagship programmes or to bolster public investment.

Currently, there is no tax up to Rs 2.5 lakh with investments of up to Rs 1.5 lakh in public provident funds or bank deposits of five years or more enjoying benefits under section 80C of the Income Tax Act. While health insurance premium is outside the ambit, a Rs 25,000 benefit is seen to be too low given the surge in costs over the last two-three years.

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