

Rajan for raising tax exemption limit on financial investments

Sec 80C now allows investments up to Rs.1.50 lakh

Days ahead of the Budget, Reserve Bank of India Governor Raghuram Rajan, on Wednesday, pitched for increasing the tax exemption limit on financial investments by individuals from Rs.1.50 lakh a year.

Acknowledging that there was a Rs.50,000 increase in the limit in the last budget to Rs.1.50 lakh a year, he said benefits of this instrument had been lost over time as the limit was anchored at Rs.1 lakh for a long time.

“Remember the government increased the limit for tax benefit in savings by Rs.50,000 in the last budget. The question is — is there room for more primarily because the real tax benefit has fallen over time because the limit was at Rs.1 lakh for a long time. Maybe what we have to do is increase that,” Dr. Rajan said on a call with analysts. Investments of up to Rs.1.50 lakh in public provident fund, provident fund, new pension scheme, insurance policies and equity-linked saving schemes are deducted from the taxable income under Section 80 C. This helps in financial savings. It can be noted that the national savings rate has dipped to the 30 per cent level from a high of over 36.9 per cent in 2007-08. Finance Minister Arun Jaitley, who increased the limit to Rs.1.50 lakh in his last budget, will be presenting the first full fiscal budget on February 28.

He also said the RBI would like to see quality fiscal consolidation with a shift to capital spending rather than on mistargeted subsidies.

“A movement of spending from mis-targeted or poorly targeted subsidies towards more capital investment would be a good move,” he said, clarifying that the RBI was not against subsidies and there were sections which needed to be given the benefits.

He said such a shift in spending would also help in inflation management as the supply side constraints would be removed with capital spending by the government.

The RBI had, on Tuesday, linked the future course of its policy action to fiscal consolidation.

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