Budget 2023 I No big-bang announcements, incremental changes are biggest strengths

The Budget gives relief to investors by sticking to capital gains tax rates, discourages the use of insurance as investments and of Liberalised Remittance Scheme for investing abroad. On the other hand, it helps senior citizens with additional exposure to savings scheme.

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As our lives get busier, we seem to need more and more stimulus to react. Anything which is a small change is often dismissed as a non-event. When one looks at the Budget presented today, one may actually have a similar feeling – there is probably a little bit in it for everyone – some tax slab changes, some push to capex and infrastructure spending, some changes in taxes on instruments like traditional insurance policies amongst other changes, but no big-bang announcements. However, this could actually be the biggest strength of this Budget – it moves things forward, albeit slowly and without radical changes.

Capital gains steady

The Budget sticks to the present capital gains tax rates, for both equity and debt investors, which means that whilst it continues to be complicated with different holding periods and different rates for different assets, it avoids any changes for now, thereby preventing any knee-jerk reactions for financial markets. Attention for equity investors will move back to the Federal Reserve meeting planned for this week, and the direction of global interest rates and inflation arising from there. Premium equity market valuations in India, relative to other emerging markets and developed markets, continue to be an overhang.

Fixed income kept simple

The government borrowing program, at a gross level of Rs 15.4 lakh crore, and fiscal deficit targeted at 5.9 percent of GDP for FY24, along with a future glide path and controlled spending, point to inflation trends remaining similar to what they were before the Budget. Thus there is no need for fixed-income investors to make radical changes to their fixed-income strategy, and instead wait for the RBI MPC meeting next week. However, senior citizens may find it attractive to consider additional exposure to the Senior Citizen Savings Scheme, with the enhanced limit of Rs 60 lakh for a couple, from Rs 30 lakh earlier.

The changes in tax rates are more likely to impact investors in Market Linked Debentures (MLDs) wherein investors were getting the benefit of long-term capital gains rates at 10 percent, which will start getting taxed at the short-term capital gain tax rate from next year, making them less attractive as an instrument for investors, who were in effect doing NBFC lending through these instruments. Keeping your investments simple helps.

Separating insurance from investment

Additionally, income from insurance policies (non-ULIPs) that will be issued from April 1, 2023, which have aggregate premium exceeding Rs 5 lakh will now become taxable, for the income received on premium exceeding Rs 5 lakh (excluding the amount received on death). Thus separating your insurance from your investments continues to be a good strategy.
Investors who were investing using the Liberalised Remittance Scheme (LRS) overseas will now have to deal with a Tax Collection at Source (TCS) of 20 percent, instead of 5 percent earlier, which means that they will need to claim back a higher refund. Thus, investing in Fund of Funds or international funds domiciled in India may become more attractive, as the amount available for immediate investments is larger. For your overseas education or healthcare-related goals though, there are no changes, with the tax collection at sources rules continuing to be at 5 percent above Rs 7 lakh.

New tax regime

The new tax regime has been given an impetus in the Budget, by making it the default option. This nudge, along with tax slab changes for investors opting for the new tax slab, will need individuals to check with their tax advisors on the more suitable option for them, and then opt for either the old tax regime with its benefits under Section 80C, HRA, etc, or the new tax regime. For individuals in the highest income bracket above Rs 5 crore, the surcharges have been reduced to 25 percent, effectively making the highest tax rate for them 39 percent, instead of 42.7 percent but only if they opt for the new tax regime. Additionally, section 54 and section 54F benefits for investing in residential property have been capped at Rs 10 crore. REIT income taxation has also been changed, for certain types of income distribution from REITs.

As I read through the Budget documents, I was reminded of a statement from the famous book – Atomic Habits, wherein James Clear makes the case for a change in habits 1 percent improvement each day for a year resulting in a 37 times improvement in habits. The same 1 percent number is what the equity markets in India did from the last Budget eve to this Budget's eve. Nothing to write home about, until you find that US equity markets are down 10 percent-plus over the same period. This Budget will probably help us become just a little better, and nudge us towards keeping things simple.

VISHAL DHAWAN is a certified financial planner and founder of Plan Ahead Wealth Advisors, a SEBI registered investment advisory firm