Fiscal discipline, tax rationalisation in budget '24 indicate glide path towards a new India

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Budget 2024 was focused on simplicity and a glide path towards a new India, with a focus on the long term. Multiple measures (such as a lower deficit, rationalised taxation, etc) were laid out to make India a developed country by 2047, and become a net-zero emission economy by 2070

While the focus on certain states which are key NDA allies was probably the result of election outcomes, a good balancing act aided by the record dividend inflow from the RBI (Reserve Bank of India) a few weeks ago was evident. This impacts multiple aspects of your monies, such as:

Fixed income and EMIs

The biggest positive takeaway from the budget was the path of fiscal discipline that the government continues to tread, with the fiscal deficit projected at 4.9 percent of GDP in FY24-25, followed by a target of 4.5 percent in FY25-26, and progressively lower thereafter.

We need to remember that this comes at a time when governments globally continue to struggle to rein in their deficits and borrowing plans. The gross borrowing for FY24-25 stands at Rs 14.01 lakh crore, while the net borrowing figure of Rs 11.63 lakh crore continues to be aligned with the interim budget. This puts to rest worries that the budget might be populist because of the election outcomes, with a focus on state elections that are likely soon.

Inflation has been one of the biggest beneficiaries of this fiscal prudence roadmap, with both the CPI (consumer price inflation) and core inflation remaining well within control, unlike other parts of the world where inflation has been a huge challenge.

The combination of controlled inflation and a well-managed government borrowing programme is good news for debt market investors, as interest rates could trend downwards over a period of time, ensuring capital gains for them.

Unfortunately, debt fund taxation remains unchanged at the marginal rate, but the fact that tax is only payable at the point of sale continues to make it an attractive asset for long-term investors with fixed income as a core part of their portfolio. Additionally, loan rates could also head south gradually, helping reduce the pressure of higher EMIs (equated monthly instalments) on borrowers.

Equities

Both listed and unlisted equities, as well as listed REITs (real estate investment trusts), have been brought on par for tax purposes, though the holding period to avail of the lower LTCG (long-term capital gains) is still one year for listed equities and REITs, and two years for unlisted equities.

The short-term capital gains (STCG) tax on equities has been hiked to 20 percent from 15, while the LTCG has been hiked from 10 to 12.5 percent. This increase in the differential between STCG and LTCG from 5 to 7.5 percent should encourage equity players to stay invested for the long term, which is ideal, instead of carrying out speculative shorter-term trades.

This may only be the start though, and over a period of time, both STCG and LTCG rates may continue to head north.

Other asset classes

Gold, real estate, and international investments have seen a rationalisation in tax rates and simplification of holding periods, with LTCG tax rates being rationalised to 12.5 percent and holding periods being standardised to two years.

However, the removal of indexation benefits on real estate for properties purchased post 2001 could have a significant impact on realty, especially for properties that have been held for long periods, as the indexation benefit would have been significant. Whether it will be beneficial to have a lower rate of 12.5 percent, or 20 percent with indexation, will depend on the vintage of your real estate as well as the cost and sale price. Unfortunately, one of the side-effects of this action could be the re-emergence of black money in real estate transactions, to minimise tax.

Impact on income and goal planning

Tax slabs have been lowered and standard deduction has been increased from Rs 50,000 to Rs 75,000 for those opting for the new tax regime. Additionally, deduction for the employer's contribution to the NPS (national pension scheme) has been enhanced to 14 percent of the basic salary plus DA (dearness allowance), from 10 percent earlier. From this, it does seem that there is a nudge towards the new tax regime and long-term savings. A new scheme, Vatsalya, to support investments in NPS by parents for minor children, has also been proposed.