



A targeted approach

The Union Budget is focussed and intelligent, says **ROHIT SARIN**

Let us begin by looking at what Budget 2003 entails for everyone. Finally, we have a union budget that seems to be very focused and intelligent. It is focused as it seeks to percolate benefits to the targeted segments of our economy, like the middle class and the infrastructure, that could spur demand and therefore the economy.

It is intelligent as it seems to have done its balancing act fairly smartly by containing any further slippage on the fiscal front despite budgeting for lower revenue receipts on account of lower direct and indirect taxes.

Therefore, Budget 2003 is expected to achieve its goals. This is a clear indication that the people in power are becoming business oriented, which, surely, is great news for our economy.

What it entails for you? Following is the inventory of Budget provisions which may impact you directly or indirectly.

Investment related

- Seven per cent tax-free Government of

India bonds have been scrapped and may be replaced with a new series of bonds with a lower interest rate of 6 per cent per annum.

- Eight per cent Tax Free Relief Bonds have also been scrapped and may be replaced by a new series of bonds with a lower interest rate of 7 per cent with a limit of Rs 2 lakh.

- Interest rates on Public Provident Fund and other sovereign small saving instruments too have been reduced by 1 per cent.

- Dividend distribution tax on the equity mutual funds has been removed for one year. Further, dividends in the hands of the investors would be exempt from tax.

- Dividend distribution tax of 12.5 per cent on the debt mutual funds has been introduced. However, dividends in the hands of the investors would be exempt from tax.

- Long Term Capital Gains Tax on listed equity shares bought after March 1, 2003 has been scrapped.

- Dividend tax on equity shares in the hands of the shareholder has been removed with effect from April 1, 2003. However, a company

declaring the dividend would have to pay a withholding tax of 12.5 per cent.

- Any life insurance policy wherein the premium in any year during policy tenure exceed 20 per cent of the actual capital sum assured would now not be eligible for exemption under section 10(10D). This implies that the maturity proceeds of single premium policies and policies with short payout where the premium is in excess of 20 per cent of the actual capital sum assured in any year will not be eligible for tax exemption from financial year 2003-04. However, the payments in case of death of the policyholder benefit will continue to be exempt from tax.

What would this lead to? To sum up, these measures would boost the equity markets because while on one side interest rates have gone down further, the after tax returns on equity would improve — a clear indication that investors may increase their allocations towards equity at the cost of debt.

However, in case of debt, there would be an immediate positive impact with the net as-

set values (NAV's) of debt and gilt funds going up. Therefore, this is a good time to re-balance your portfolio.

Further, if you happen to be a business promoter, then your after tax earnings from the dividend income would now go up as it would be taxed at 12.5 per cent instead of the earlier 31.5 per cent.

Tax Related

- There has been no change in the individual and corporate tax rates.

- For individuals with an annual income upto Rs 5 lakh, the standard deduction has been raised to 40 per cent of the salary or Rs 30,000, whichever is lower.

- For individuals with an annual income between Rs 5 lakh and Rs 8.5 lakh, a standard deduction of Rs 20,000 has now been allowed.

- The 5 per cent surcharge has been removed for individuals with an income of upto Rs 8.5 lakh a year.

- However, a surcharge of 10 per cent has been slapped in the case of individuals earning more than Rs 8.5 lakh a year.

- For a corporate assessee, the surcharge has been reduced from 5 per cent to 2.5 per cent.

- Exemption under Section 88 for 15 per cent of the investments upto Rs 100,000 for individuals with income upto Rs 5 lakh still remains. Within this, education expenses upto Rs 12,000 per child for two children have also been allowed.

- Sops on housing loans continue.

- In case of authors, royalty income upto Rs 3 lakh a year will be fully exempt.

- For senior citizens, income upto Rs 1.53 lakh will be fully exempt. After including standard deduction, the effective exemption limit works out to Rs 1.83 lakh.

What would this lead to? These measures would leave more disposable income in the hands of sections of our society earning upto Rs 8.5 lakh a year. This would spur more demand in the economy that would then get manifested by the growth in stock markets on expectations of improved topline of the corporates. This would then indirectly benefit sections of the society earning more than Rs 8.5 lakh a year, as they could create more wealth from their equity investments.

Lifestyle related

- There will be a cess of 50 paise per litre on diesel.
- Excise duty in the case of white goods and cars has been reduced.

What would this lead to? The cost of travelling is bound to rise as both petrol and diesel have become dearer. However, there wouldn't be much change in the cost of other day-to-day household items.

However, lifestyle products like consumer goods and cars have become cheaper, which will spur the demand for these products. ●

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