



What to expect from Mr. PC on the "B" Day?

The countdown to the Union Budget 2007 has begun. What the Finance Minister has in store for the common man is anybody's guess. Some key persons believe that the Budget will be oriented towards reforms spelt out in the common minimum program. There is also one section of experts who believe that this time the Finance Minister will focus more on revenues so as to fund the ambitious programs of the UPA Government.

While the exact provisions remain speculative, the Personal Finance desk at Karvy have tried to assess the "Pre Budget Pulse!".

1. **Qualifying age limit for senior citizens expected to be changed** : Budget 2007-08 is set to redefine senior citizens of the country by reducing their qualifying age to 60 from the existing 65 years. The IT Act has given special benefits like concessional slab rates, increased limit for deduction u/s 80D, 80DDB, etc for senior citizen. With a likely reduction in the age limit, more people can christen themselves as "senior citizens," and avail the associated benefits.
2. **Tax breaks for savings deposits** : The benefit of section 80L, where one could claim a deduction from gross total income to the extent of Rs.12,000 with respect to interest from bank deposits (savings and fixed) was withdrawn in 2005. However, we are of the view that the Finance Minister may reintroduce this benefit, with an increased limit of Rs.15,000. Though interest will be allowable as a deduction, it may still not get the status of "exempt income" u/s 10. This move may make bank deposits more attractive from the income tax angle. Currently, with interest income fully taxable, the returns generated by bank deposits are not attractive especially if one considers the effect of inflation.
3. **Tax treatment for infrastructure bonds** : Core sector bonds like infrastructure may continue to remain tax free. The Finance Ministry and the Reserve Bank of India are also exploring the possibility of allowing tax-exempt



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status to long-term infrastructure bonds raised by commercial banks. This tax exemption will apply to such bonds, which cover tenors of 10 to 20 years.

4. **Banking cash transaction tax :** This was a new addition by the finance minister during Budget 2006. This tax had attracted controversy. In this Budget, the expectations for the BCTT are divided. While some sections expect the BCTT to be abolished there is another opinion where individuals believe that this tax is here to stay. The main utility of the BCTT is not to raise resources but to keep a track of all the big bank transactions. BCTT is to be collected and paid by the scheduled banks @0.1% of the value of each such taxable banking transaction (deposits and withdrawal of cash exceeding Rs.25,000 in a single day). In the case of business accounts, the 0.1% tax would be applicable on any withdrawal beyond Rs.1 lakh on a single day.
5. **Enhancement of section 80C :** The limit u/s 80C (Rs.1,00,000) may be enhanced to Rs.1,50,000. Thus, retail investors can invest an additional Rs.50,000 to get increased tax benefit.
6. **Enhancement of section 80D :** The income-tax deduction limit for investment in health insurance may be enhanced to Rs.30,000 per year from the present Rs.10,000.
7. **Hike in education cess :** The government may increase the education cess as part of a plan to create corpus to provide cheap loans to students from low-income families. Currently, educational loans are available at interest rates of 10% to 15%. This is a move to enable the government to provide subsidies to banks to reduce interest on educational loans for low income families.
8. **Standard deduction for vacant houses may go :** Currently a standard deduction of 30% on gross annual value for repairs of the house property is available for all kind of house properties i.e., let out, self occupied, or vacant. The Finance Ministry may withdraw the standard deduction for repairs of unoccupied house properties.
9. **Hike in the rates of short term capital gains tax on sale of securities :** Short term capital gains on sale of securities and shares may go up to 15% from the existing 10%.



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10. **Fringe benefit tax likely to stay** : FBT was perhaps one of the most controversial proposals in the last Budget. Despite intense lobbying for the removal of FBT by India Inc., FBT is unlikely to be rolled back. The Finance Ministry is of the view that FBT is necessary to ensure the element of equity in the tax laws and hence will continue in its present form.
11. **EEE form of taxation may be left untouched** : In the last Budget, the Finance Minister had given a hint stating that he may introduce EET form of taxation. However, it is widely expected that EET may take some time, and for at least one more year, the present EEE method will continue.
12. **Removal of securities transaction tax** : In this Budget, we expect the Finance Minister to remove the securities transaction tax on mutual fund as it accounts for double taxation.
13. **Tax treatment for Fund of Funds** : As on date, the Fund of Funds are treated as debt oriented funds for the purpose of taxability. In this budget, there is a possibility that the Fund of Funds with more than 50% equity exposure will be treated as equity oriented funds, thus exempting longterm capital gains.
14. **Tax treatment for debt funds** : We at Karvy expect that in this Budget, the Finance Minister can put debt funds at par with equity funds, at least with respect to capital gains taxation, if not on withholding tax.

However, the actual package that the finance minister will have for us will be unveiled only on February 28th. Till then we will have to wait for the cat to be let out of the bag!

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