

## **Budget 2018: Section 80C limit may be increased**

In the upcoming budget, the government may announce certain measures that can increase your take-home pay which will allow you to save more.

Although there are several measures that the government may introduce, one way of doing this could be increasing the section 80C limit of the Income-tax Act, 1961. Out of the various deductions available under the Act, section 80C is primarily an investment-led tax avenue that helps in reducing one's tax liability. Further, it helps in increasing savings of individuals that can help them meet their financial goals. "We expect Budget 2018 to increase the Section 80C investment limit for tax saving from the current Rs 1.5 lakh to Rs 2 lakh," says Sonu Iyer, tax partner and people advisory services leader, EY. "The increase in the limit is warranted to account for inflation. These increases would entail loss of revenue for the exchequer but they were also needed to keep the limits in line with inflation, she explained.

In Budget 2018, section 80C could see an increase in its limit from the existing Rs 1.5 lakh a year to Rs 2 lakh or possibly even higher. However, the increase may be restricted to one or two specific tax-saving products within the section 80C basket. The exemption limit was last raised in the 2014-15 budget where it was increased from Rs 1 lakh a year to Rs 1.5 lakh.

### **Current 80C basket**

Currently, section 80C allows deduction from gross total income (before arriving at taxable income) of up to Rs 1.5 lakh per annum on one or more eligible investments and specified expenses. Eligible investments includes life insurance, equity-linked savings schemes (ELSS), Public Provident Fund (PPF), National Savings Certificate (NSC), five-year notified tax-saving bank deposits, five-year post office time deposits, Senior Citizens' Savings Scheme (SCSS), Sukanya Samriddhi Account, Employees' Provident Fund (EPF) etc., while expenses and outflows can include tuition fees, principal repayment of home loan, among others. One can invest the entire amount of Rs 1.5 lakh in one investment or diversify across more than one.

### **Why the limit should be increased**

The section 80C cap of Rs 1.5 lakh may not be enough for several taxpayers and many may not be in a position to use it fully and optimally.

If the limit gets exhausted involuntarily through a mix of EPF contributions, tuition fees and home loan principal repayments, the additional incentive to save through investments like PPF, ELSS or term life insurance may not be much unless an individual tax payer is financially savvy enough to manage his financial planning properly.

For instance, salaried individuals with high basic salary may see a major portion of section 80C get exhausted by the EPF contributions itself. Then there are those taxpayers paying children's tuition fees and/or paying equated monthly instalments on a home loan; for such people there could see little room left to make use of the section 80C tax benefits, after claiming for these expenses. So, if the limit is increased, taxpayers would be able to save more tax and plan their finances better.

## How much extra savings

If the section 80C limit is increased from Rs 1.5 lakh to say, Rs. 2 lakh, the additional tax saved will be Rs 2,575, Rs 10,300 and Rs 15,450 for those in the 10, 20 and 30 percent tax bracket, respectively. On an investment of Rs 2 lakh, the total tax saved would then be Rs 61,800 for the highest tax rate (see below).

<b>Increase in section 80C - Impact</b>			
	<b>Current</b>	<b>Proposed</b>	<b>Additional tax saving</b>
<b>Section 80C limit</b>	<b>1,50,000</b>	<b>2,00,000</b>	
<b>Tax Rate - 5%</b>	<b>7,725</b>	<b>10,300</b>	<b>2,575</b>
<b>Tax Rate - 20%</b>	<b>30,900</b>	<b>41,200</b>	<b>10,300</b>
<b>Tax Rate - 30%</b>	<b>46,350</b>	<b>61,800</b>	<b>15,450</b>
<b>Includes surcharge of 3 percent</b>			

If the section 80 C limit is raised, the corresponding increase may either be a blanket increase or may just be restricted to few tax-saving products. Here are few such tax savers that may see a separate limit within the overall cap of section 80C.

## Home loan

With the government's push on the housing front and the ordeal faced by many home buyers in recent times, there could be some incentives for home buyers. The tax benefit on the principal amount repaid on a home loan could see an additional benefit of Rs 50,000. While the existing home loan takers can use the prepayment feature to benefit out of it, new borrowers will get an additional incentive to take home loans.

## ELSS

If not home loan, the increase in section 80C limit may be restricted only for investments in ELSS - equity mutual funds schemes with 3 year lock-in and tax benefits. With the equity culture showing signs of promising growth as seen by increasing systematic investment plans (SIPs) folios and volume, the government may want to take this opportunity and provide additional tax incentives for equity investors to plan for their long-term needs.

## Term insurance plans

The penetration of life insurance has always been talked about in terms of premium to gross domestic product (GDP) of a country. The true measure of life insurance coverage is from the sum assured (the amount that an insurer is legally bound to pay on occurrence of an event like maturity or death). And according to some estimates and reports, it is insurance coverage is abysmally low for majority of the population. Illustratively, a Rs 3 lakh - Rs 5 lakh (sum assured) policy that one holds, falls several times short of what you will actually need. Most financial planners suggest life insurance cover of at least 10 times one's annual income with a review every five years.

If Budget 2018 increases the section 80C limit for term insurance plans it could help increase insurance coverage (in terms of sum assured) in the country. This could also help surviving members of families to maintain their standard of living after the death of household earner.

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