

How the Union Budget 2010-11 will Impact Families

By: Ranjeet S. Mudholkar, CFP^{CM}
Principal Advisor and Member-Board of Directors, FPSB India

The Union Budget proposals for FY 2010-11 intend to soothe the nerves of the Indian household, who suffered in the previous year due to double-digit food inflation apart from other inflationary and recessionary trends which affected family finances adversely. From the perspective of Financial Planning, a larger disposable income is channelized to long-term asset creation and meeting financial goals of a family. The Budget proposes to leave more funds with family for effective Financial Planning.

A household with a net taxable income of Rs. 5 lakh can save additional Rs. 20,600 in Income Tax in FY 2010-11. This increases to Rs. 51,500 if this taxable income is Rs. 8 lakh. The recent downturn has driven families to manage their finances prudently, keeping in check their discretionary spends. The additional disposable income in family should be deployed towards achieving long-term financial goals, taking a cue from the Government's resolve to implement Direct Taxes Code (DTC) with effect from 1st April, 2011. [Please see Table below]

It is noteworthy that the impending Exempt-Exempt-Taxed scenario should propel families to invest their savings and liquidity not for the sole purpose of saving income tax. The implementation of DTC could redefine the taxation structure in savings instruments, rationalize tax sops for home loans, etc. It is only imperative that the individuals now plan their finances with respect to their needs and not as just a function of tax savings. The goals like retirement should be given a holistic view of long-term asset creation by employing a strategic asset allocation and a proper risk management regime. The additional tax savings avenue to the extent of Rs. 20,000 in infrastructure bonds to be notified by the Government should be seen in this perspective where the lock-in period and impact of tax on redemption needs a careful study. The post-tax return from such bonds also needs to be evaluated keeping inflation in mind.

The Budget has targeted an excess Rs. 46,500 crore by way of Indirect Taxes while giving benefit of Rs. 26,000 crore by way of lower Direct Taxes. This calls for fiscal prudence on the part of families for additional disposable incomes. However, the prices of some goods like petroleum products may go up due to higher Indirect Taxes. The fiscal consolidation stance of the Government may contain inflation going forward.

The Budget further consolidates on the roadmap charted for a sustained high GDP growth of 9%, with emphasis on harnessing the economic growth to make development more inclusive and restructuring the Government delivery mechanism. The determination of the Government to have greater financial inclusion, financial literacy and inter-regulatory cohesion would aid the process of a sustainable investment scenario, which will equally benefit investing public and the industry. We only expect the roadmap to the decade 2010-20 opening up more avenues for a holistic Financial Planning of Indian household.

Table: The Impact on additional savings in Income Tax due to change in IT slabs

| | Males | Females | Senior Citizens |
|--|--------------|----------------|------------------------|
| I. For Net Taxable Income up to Rs. 5 Lakh p.a. | | | |
| Previous slab | 55,620 | 52,530 | 47,380 |
| New slab | 35,020 | 31,930 | 26,780 |
| Benefit | 20,600 | 20,600 | 20,600 |
| II. For Net Taxable Income up to Rs. 8 Lakh p.a. | | | |
| Previous slab | 148,320 | 145,230 | 140,080 |
| New slab | 96,820 | 93,730 | 88,580 |
| Benefit | 51,500 | 51,500 | 51,500 |

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