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'Debt linked saving schemes and elimination of double STT, top expectations from Budget 2021'

By Dinesh Pangtey, ET CONTRIBUTORS Last Updated: Jan 27, 2021, 10:54 AM IST

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Synopsis

Mutual funds should be perceived as a longer-term investment vehicle at par with comparable investment avenues like gold and real estate with the investment horizon for 7 to 10 years especially the equity funds.



Investing in **Mutual funds** can make a significant contribution when it comes to the development of the Indian Economy. We believe the development of the capital markets enhances the four pillars of the financial system: efficiency, stability, transparency, and inclusion. Mutual fund industry has been at the forefront of this growth. The

Mutual Fund industry is still under-penetrated with a few impediments thwarting its growth, we need to address these hurdles which could help deepen investments in Mutual Funds and hence drive growth in capital markets. Mutual funds should be perceived as a longer-term investment vehicle at par with comparable investment avenues like gold and real estate with the investment horizon for 7 to 10 years especially the equity funds. The industry through Association of Mutual Funds of India (**AMFI**) has been highlighting to the regulators and the Government at a regular interval. We believe the following suggestions could go a long way in the acceptance of Mutual Funds as a tool of long-term financial savings.

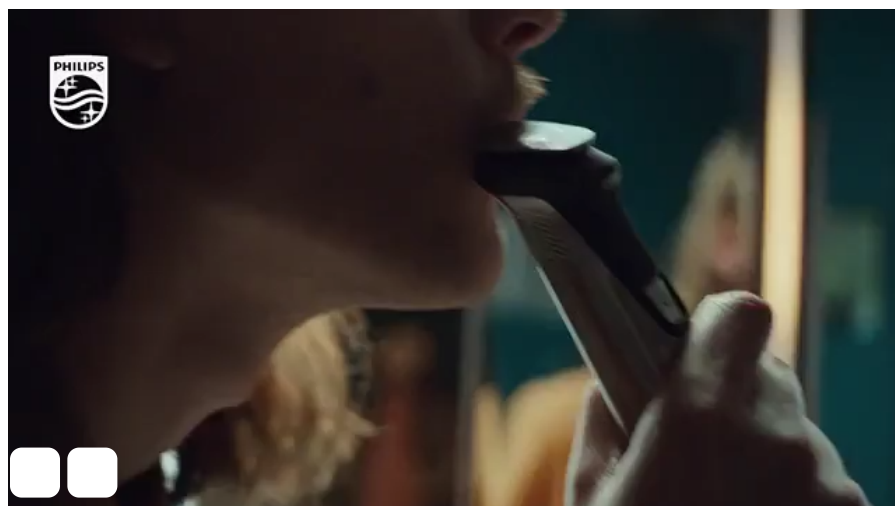
#1 Differential treatment of Long-term capital Gains Tax (LTCG): We believe differential treatment would encourage individual taxpayers to invest in

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capital markets through MF's and channelize long term household savings into Capital Markets. This would serve as a great boost for investors wanting to invest in equity or debt MF schemes.

#2 Elimination of double taxation of Securities Transaction Tax (STT): The mutual fund pays STT on the trades of the underlying portfolio of Equity Mutual Funds. Further, the investor pays STT at the time of redemption of equity oriented mutual funds. This leads to double taxation for the investor. In contrast, Unit-Linked Insurance Plans (ULIPs) which are essentially investment products like mutual funds, with an added insurance benefit and tax benefit under Section 80C are not liable for STT on withdrawals. We believe the removal of STT for MFs levied at the time of redemption by an investor will ensure a level playing field.



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#3 Deepen the Bond market by introducing Debt Linked Savings Scheme (DLSS): An introduction of DLSS would channelise long-term savings of retail investors into corporate bond market, hence driving deeper penetration. Furthermore, it should be eligible for tax benefit. By these measures, small investors could participate in bond markets at low costs and at a lower risk as compared to equity markets.

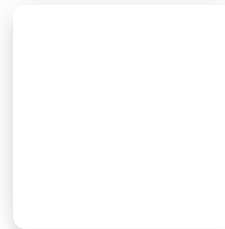
#4 Boost investments in infrastructure through MFs: The Government's plans to increase investments in the infrastructure space will require massive funding (apart from bank borrowings/bonds issued by REC/NHAI). The introduction of allowing investments in MFs with a lock-in of 3 years wherein the underlying investments are made into specified infrastructure sub-sector could help ease the burden of cost of borrowing for infrastructure funding on the Government.

#5 Incentivising long-term investments in MFs to drive stability: The

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benefit of compounding and stability of capital markets can only be realised when funds are invested over a longer period of time. Any incentivisation to investors (for instance tax benefits or TDS waive off) who have remained invested for more than 3 years or disincentivising short term investments by setting minimum lock-in periods, will automatically encourage retail investors to remain invested for a long period of time. We believe that this will set high standards for Indian household savings and enable them to reap the benefits of compounding.

As a participant of the MF industry our view is that implementation of any of the above measures in the upcoming Budget could be a step in the right direction of making mutual funds more approachable and viewed as another mode of investment for an individual's long-term savings.

(The author is the Chief Executive Officer at LIC MF)

(Disclaimer: The opinions expressed in this column are that of the writer. The facts and opinions expressed here do not reflect the views of www.economicstimes.com.)

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