

Budget 2015: Government looking at Sebi proposal to introduce MF retirement plans with tax benefits

Investors may soon get tax benefits in retirement plans run by mutual funds. The government is considering a proposal by the capital market regulator to introduce retirement savings plan under section 80CCD of the Income Tax Act, which allows investors to claim tax deductions.

The government may announce this in the Budget. The Securities and Exchange Board of India (Sebi) has proposed that a long-term product, such as mutual fund linked retirement plan (MFLRP), with tax incentive can play a significant role in mobilising household savings to the capital markets. Currently, individuals investing in National Pension Scheme (NPS) are eligible to claim income tax deductions under section 80CCD.

Sebi has proposed that the investment under this plan may be categorised under E-E-E status, which stands for exempt, exempt, exempt. The first exempt means that investments are allowed for tax deduction, the second means individuals do not have to pay any tax on the returns earned during the tenure. The third implies the investment is tax-free at the time of withdrawal.

"Mutual fund pension products have a tax treatment different from that of the NPS. One key differentiator is that NPS contributions by employers are exempt up to 10% of salary," said Gautam Mehra, partner, PricewaterhouseCoopers. "A uniform tax treatment across all pension products similar to that available to the NPS will greatly enhance the reach and penetration of these products and help in garnering long-term capital from a wide section of the working population."

At present, tax incentives for savings are provided under section 80C of the I-T Act. The section covers products such as employee provident fund (EPF), public provident fund (PPF), NPS, equity unit linked insurance plans (ULIPs), life insurance premium, and mutual funds' equity-linked saving schemes (ELSS) among others.

In this crowd, mutual fund products such as ELSS and pension schemes are ranked lowest in the priority of an investor.

Mutual funds are hoping this tax incentive would help them attract funds better. Under the EPF Scheme 1952, there is a mandatory requirement for membership by workers earning up to 6,500 per month. Those earning above this threshold have the option to choose EPF where both employee and employer contribute equally. Most of the contributors to the EPF corpus are voluntary contributors.

Globally, whenever governments have provided tax incentives, it has led to significant increase in the share of long-term retail money in mutual funds, said analysts. The Mutual Fund Linked Retirement Plan is designed to be similar to the 401(k) plan of the US.

"Across most of the world, market-linked retirement planning has been a turning point for high quality retirement savings, which are actually tuned to savers' needs. Savers get choice, they get flexibility, and they get returns," said Dharendra Kumar, CEO, Value Research.

Sebi has proposed that all mutual funds should be allowed to launch pension scheme, which would be eligible for tax benefits under section 80CCD. Currently, three mutual fund pension schemes are eligible for the purpose of claiming deduction under section 80C of the I-T Act,

"Most first-time investors in equity mutual funds tend to come in through the ELSS route. Tax savings have always been a big draw for investors across all categories. In 1999-2000, there was a huge increase in the flow of long-term equity into MF schemes due to Sections 54ea and 54eb, which enabled an investor to save on capital gains," said Vikaas M Sachdeva, CEO, Edelweiss Asset Management.

The regulator has also proposed that in case of merger of mutual fund schemes, such transaction should be exempted from levy of capital gains tax. At present, when a shareholder gets shares in a merged company, it is not treated as a transfer and not subjected to capital gains tax.

(Economic Times)