For HNIs, a high-yield Budget

The annual exercise was decidedly low on big growth ideas, but had enough to open compelling investment opportunities for HNIs

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The Budget may not have had measures to get the country striding towards growth, but did take many small steps in various sectors and under multiple heads. From a high net worth individual (HNI) perspective, though, there were enough announcements of import.

The Dividend Distribution Tax stands abolished. Dividend will now be taxed in the hands of the recipient based on his/her applicable income tax slab rate. This should be viewed as a tax cut for domestic mutual funds as well, although it might see a shift of funds from dividend to growth schemes. The nixing of the DDT will also see yields go up for foreign institutional investors from countries that have a Double Tax Avoidance Treaty with India.

Further, holding companies have been granted a deduction (under Section 80M) for dividend income received from their subsidiaries to remove the tax-cascading effect. While yields of stocks with minimal domestic promoter holding should rise, individual promoters may choose the buyback route over dividend as dividend in their hands may be taxed at over 40 per cent versus 20-30 per cent under buyback.

Tax arbitrage between dividend income and share buyback in the hands of the recipient could increase; overall, a positive for high dividend yield stocks, an avenue that can find favour with HNIs. It will also raise India's dividend yield, which may attract some fresh inflows from yield-focussed global funds.

The government opened up the bond market further by allowing non-resident investors to invest in certain specified categories of government securities. To give it a further boost, the limit for foreign portfolio investments in corporate bonds was raised from 9 per cent of the outstanding stock to 15 per cent.

The Budget proposes to grant 100 per cent tax exemption to sovereign wealth funds' interest, dividend and capital gains income in respect of investments made in infrastructure before March 31, 2024 and with a minimum lock-in period of three years. Several large wealth funds are looking to invest in India; this is likely to give a big push to the infrastructure sector. Deepening the fixed income market is a positive for HNIs as it allows for better price discovery and portfolio diversification.

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The benefit of three consecutive-year profit exemption for start-ups can now be availed within a block of 10 years beginning from the year in which the start-up was incorporated (versus seven years earlier). Further, the turnover limit for tax exemption for start-ups is to be increased from ₹25 crore to ₹100 crore.

From an investment strategy perspective post Budget, any dip in equity valuation provides a good opportunity to add to long-term portfolios. On the fixed-income side, HNIs should look at funds with high-quality credit and short/medium maturity. Tactically, investments could be made in well-structured credit market opportunities with liquid collaterals.

Overall, the Budget was a balanced exercise and will have a positive impact on the country's long-term growth dynamics and this, in turn, will throw up some compelling investment opportunities for HNIs.