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September-October, 2018

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From the Editor's Desk

Financial independence is a dream most of us share. But how does one get there? More importantly, what does 'financial independence' really mean?

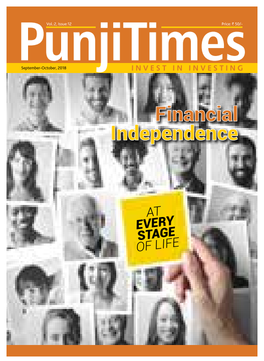
We could define it as possessing enough money to take one's own financial decisions and not being plagued by financial burdens. Clearly, financial independence is important to live the lifestyle one desires and not have financial constraints limit one's opportunities in life. In a nutshell, it means never having to worry about money. However, it isn't an overnight miracle; it needs careful planning and strong determination.

We experience various stages of financial independence, or lack thereof, at different points in life. Financial independence is easier when you're younger and employed with a regular stream of income. As you get older, it becomes harder to sustain independence without a steady inflow of money. Thus, it is in your old age when financial independence assumes utmost importance. With a regular source of income drying off, senior citizens must rely on pensions and investment returns to continue a comfortable lifestyle. This means that one needs to financially prepare for old age.

This issue contains editorials on systematic withdrawal plans, pension plans, reverse mortgages, common investing mistakes, and tax essentials for freelancers..

Best,

Team Meri Punji



Punji (*noun / Hindi*) **- Capital** *meaning, wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.*

Disclaimer

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September-October, 2018

CONTENTS

4 Common Investing Mistakes

Mistakes are a part-and-parcel of life. When it comes to investing, avoid these common mistakes to reap optimal returns..

1 INVESTING TO ONLY SAVE TAX

Most investors sit up and take notice only towards the end of a financial year, investing solely for the purpose of tax deduction or benefit. Do remember that tax is an incidental benefit and not the primary one. Not that one should fully ignore it either, since it does impact the money you get in hand. For instance, in a bond investment, returns are fully taxable at the applicable tax rate. Thus, returns will factor in a tax rate of 30% if you fall in the highest tax bracket.

2 INVESTING WITH A HERD MENTALITY

Sometimes, investors are tempted to act on peer recommendations of stocks and bonds. However, what works for your friend may not work for you. For example, your friend may have invested in a fixed income instrument because they need to withdraw their money within a year. But if you have a surplus that you don't require for the next couple of years, you friend's investment route is not ideal for you. Instead of following the herd, ask these three important questions:

- What is the ideal investment horizon of the instrument?
- Is this investment liquid enough i.e. how fast can you get your investment back?
- Where does the asset ultimately invest or what is the risk being undertaken?

Once you have the answers to these questions, match your investment objectives with them.

3 INVESTING SURPLUS WITHOUT DETERMINING THE RIGHT AMOUNT

If you don't know where you are going, you will get nowhere. Inflation in India has averaged 7%. This rate can make your future plans go awry. A look at higher education fees over the years is enough to prove this. IIM fees for the 2013- 15 PGDM batch were around Rs 16.5 lakhs. With an inflation rate of 7%, this amount balloons to over Rs. 31 lakhs in 10 years. So if you have to provide for your kids' education, you'd need to save an amount that gets you there in 10 years. Therefore, just investing surplus is not enough. One has to curb spending, if necessary, to manage this saving. Assuming that you are about 25 years old, by the age 40 you could have:

- An extra Rs. 21,13,723 in your bank provided you start saving from age 25 instead of 30^
- An extra Rs. 2,50,755 if you cut down on four cigarettes a day starting now*
- An extra Rs. 4,17,924 if you cut down on one meal a month**

(^Assuming your rate of return on investments is 10% and monthly investment amount is Rs. 10,000. *Cost per cigarette stick is assumed to be Rs. 5 and rate of return on investments is assumed to be 10%. **Cost of one meal outing is assumed to be Rs. 1,000 and rate of return on investments is assumed to be 10%. Targets/returns depicted above are for illustration purpose only and there is no guarantee/ assurance that target illustrated will be achieved.)

4 POSTPONING IN THE HOPE THAT ONCE YOU EARN MORE YOU WILL INVEST MORE

The following two scenarios make this point clear.

- **Scenario 1:** You start at age 23 with just Rs. 25,000 per annum @ 8% and stop at the age of 33. Your investment of Rs 2.5 lakhs would have grown to more than Rs. 31 lakhs by the age of 60.
- **Scenario 2:** You start at age 45. You will need to invest Rs. 10 lakhs for the next 15 years to give you the same payoff of Rs. 31 lakhs by the age of 60.

The investment world is as full of pitfalls as it is of opportunities. With the right education and adequate caution, investors can make the right choices to optimize their returns ■

contributed by
Axis Mutual Fund

OLD AGE POVERTY
A MYTH OR REALITY?

Of the various things today's older generation might fear, there's perhaps no prospect more terrifying than the notion of outliving their savings. In fact, 60% of the people are more worried about running out of money in retirement than actually dying.

Longevity of life, unpredictable healthcare costs, inflation and unforeseen overwhelming financial expenses can devastate the best of the retirement plans.

Rational planning generally takes all of the above into account. To a large extent however, the very uncertainty of the quantum of financial impact of these events can exhaust one's savings much earlier than aniticipated, resulting in retired life crisis.

This financial crisis at old age can be termed as "Old Age Poverty". Old age poverty does not mean complete exhaustion of funds. It implies non-availability of sufficient funds to meet the expenses of a lifestyle that one has been used to.

A little understanding of socio-economic changes in the Indian family system would also highlight why old age poverty needs to be given due consideration. Till a couple of decades back the Indian family was a cohesive and homogenous unit consisting of three or more generations living together with a very strong self-supporting and coping mechanisms. This family system not only provided psychological security to the elders but also provided them with nearly unlimited financial security. Our economic progress has had a significant impact on Indian Family system. It has brought in unit family system, wherein the older generation is forced to live alone. This is no way implies that the older generation has lost its economic independence but that it doesn't have an unconditional financial cover.

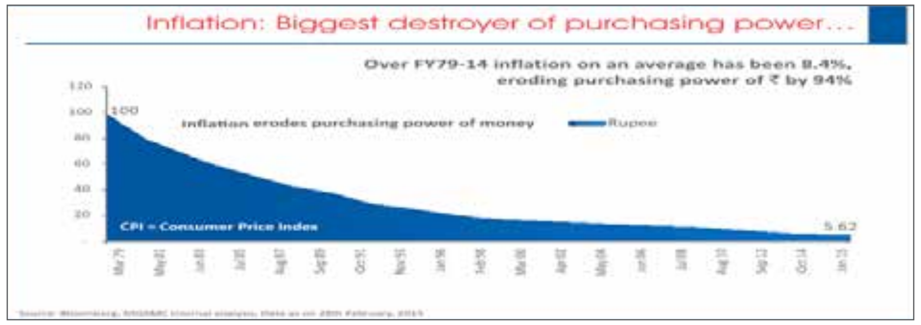
OUTLIVING YOUR SAVINGS: HOW TO AVOID A RETIREMENT THAT RUNS SHORT

Overestimate Expenditure

Always overestimate your expenditure in the retired life. A host of expenses that were not previously considered can emerge. The most obvious is medicare but hidden expenses can be increased travel costs, visits of family and children etc. There can be no guidelines but as a thumb rule the retirement planning should be based on one's annual expenditure at the age of 45 years or below.

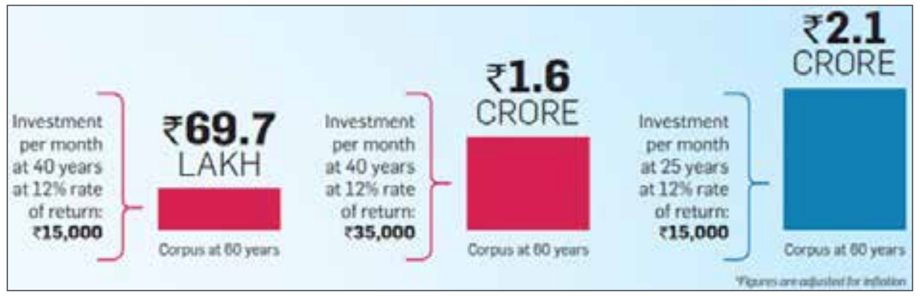
Take Inflation Into Account

Inflation is omnipresent and omnipotent. It reduces real rate of return, erodes savings, reduces investible surplus, and acts as the biggest drag on the retirement funds.



Start Early

The early bird catching the worm aptly represents retirement planning. The earlier you start the less you have to work because then the money works for you due to power of compounding.



Take Risks

No risks no gains can work well to build one's retire fund. Invest in volatile instruments like equity and equity related instruments. Past data has shown that over long periods equity related instruments have given far superior returns then other form of investment. However, as one approaches retirement age one should gradually move to safer Investment Instruments.

Excessive Withdrawal

Avoid excessively dipping into your retirement corpus, except in emergencies. However, you would not like to leave your retirement corpus as a legacy. Enjoy your funds and therefore 3-4% dip into the corpus will still no way adversely affect regular retirement Income.

A little additional planning will help you to lead a happy, contented and financially safe retired life ■

Financial stability post retirement
Pension Guaranteed Plans

Retirement is a natural progression of one's career. To enjoy a tranquil retired family life with an opportunity to pursue one's passion, a stable and steady source of lifetime income is necessary. Thus, the importance of post-retirement financial planning shouldn't be underestimated.

Managing finances post retirement can be a daunting task with inflation eating into your corpus and rising healthcare costs upsetting monthly budgets. However, retirement planning is not limited to building a retirement corpus. The more important part is to ensure that this corpus delivers healthy returns over the lifetime of an individual to avoid old-age poverty. Does this have a straightforward solution? Not really. Financial planners and experts have varied views on the subject but a unanimous vote goes to equity mutual funds.

Undoubtedly, mutual funds offer much higher returns as compared to other investment instruments. However, one cannot ignore the risks associated with this instrument. The foremost risk is the erosion of capital leading to diminishing returns. Putting all eggs in one basket may not be the idle solution. Instead, hedge risks by selecting a few different options.

Let's understand the different instruments in the market for a regular income.

Particulars	Bank Fixed Deposits	Mutual funds.	Guaranteed Income Pension plans
Tenure	No limit if periodically renewed	As long as one remains invested lifetime	Various options. from limited time period to lifetime
Rate of Return	6 -7 % Guaranteed for period of deposit	10-12 % Fluctuating with market conditions	7-12% Guaranteed rate for lifetime. Depends on deferment period
Risk	Very low. Only due to interest rate changes	Moderate to high	No risk
Liquidity	Highly liquid	Moderate to high	Not liquid
Return of Corpus	100% of amount invested	Value of the Investment as per NAV	110% of the amount invested to nominee

The next step is to choose an instrument that suits one's requirement and decide the corpus to be put in each instrument. Because one size doesn't fit all, one will need to consider the pros and cons of each option. The investment should be based on need and the risk-taking capacity of an individual. A general guideline that may assist in decision making is explained in the succeeding paragraphs.

Bank FDs: Historically, bank FD returns have been just about 1.5-2% higher than the inflation. The returns can never generate sufficient income to lead a financially satisfied retired life. On the other hand, FD returns are guaranteed for the period of deposit and can also be withdrawn. Bank FDs, however, should not be the primary instrument of investment of retirement corpus. Due to safety and liquidity, the FDs should be an instrument of investment for emergency funds. Thus, as a thumb rule, one should not invest more than 15-20% of the retirement corpus in bank FDs.

Mutual Funds: Long-term data has clearly established that equity mutual funds have consistently generated 10-12% returns over longer investment periods. Mutual funds also have high liquidity and lower tax incidence. This instrument, however, has some disadvantages. Firstly, the investor has to be financially savvy. Secondly, the returns are equity market performance linked, making them prone to fluctuation. Moreover, the possibility of abysmally low returns in the short term cannot be ruled out. Despite the downsides, equity-linked mutual funds remain the best option to generate high returns. Thus, one should invest 50-60% of their retirement corpus in mutual funds.

Guaranteed Income Pension Plan: This instrument is an improvement over the downsides linked with FDs and mutual funds i.e. they offer a good return and protection against market fluctuations. These pension plans offer financial stability and safety of the retirement corpus. The returns are fixed at the time of investment and guaranteed for life or the tenure opted for. The rates can vary between 7-13% depending on the deferment period, which can be between 0-10 years. The greatest advantage these plans offer is returns on a joint life basis. Putting it simply, the guaranteed returns can be enjoyed by the primary and secondary recipients for life. The secondary recipient can be anyone who is financially dependent on the primary recipient. These plans are so simple that they require no financial acumen. In the Indian context, this plan acquires significant importance because of a lack of financial inclusion of women in families, a harsh reality of our socio-economic structure. At end of life of both the recipients, the invested corpus is inherited by the nominee. Transitions at all stages occur seamlessly as per the instructions recorded at the time of investment. Guaranteed regular income for life irrespective of any situation along with protection of the capital makes this instrument a compelling must-have for one's portfolio. It is advisable to invest 30-40% of retirement corpus in guaranteed income pension plans.

Though there are various pension plans available in the market, the HDFC Pension Guaranteed Plan stands out. This plan comes with a number of flexible options with a regular guaranteed income for a lifetime. The below illustration would give the readers a greater understanding of this plan

- **Ages of Primary & Secondary Beneficiaries:** 55 Years & 52 Years respectively
- **Retirement Income start age:** 60 Years
- **Deferment Period:** 06 Years
- **Guaranteed Rate of Return for life for both:** 9.25%
- **End of Life Benefit:** 110% of the amount invested

Investing in a SWP for a Regular and Fixed Income

When investors seek fixed income, they typically think of mutual fund schemes with dividend payouts. While such schemes serve the purpose, they aren't necessarily the most tax-efficient way to achieve the goal. Because higher taxes translate to higher costs, returns through the mutual fund route may be lower than expected.

THE PROBLEM WITH DIVIDEND SCHEMES

Mutual funds issue dividends to investors as part of the gains realised. Thus, one's fixed income is not guaranteed but is contingent on the realisation of gains, which may not always be the case. For instance, when the market sees a downtrend, the fund could find it difficult to issue dividends. Even when it earns a profit, it may not deem it fit to issue dividends. This means that investors are at the mercy of the fund's judgment. Hence, income in this case may not be 'fixed' at all.

Moreover, such schemes are ultimately a tax-inefficient option. Investors seeking regular income through the dividend option may either be invested in debt or equity funds. Let's look at the tax treatment for each of these. For those invested in debt funds, a dividend distribution tax (DDT) of 28.84 % (25% DDT +12% surcharge+3% cess) is levied on the dividend plan. Although this amount is not taxed in the hands of the investor, it is deducted from the total gains by the fund house before coming to the investor. For example, if the total gains were Rs. 100, an investor would receive only Rs. 71.16 of the dividend declared.

For a long time, dividends from equity fund had been exempt from taxes, thus increasing their attractiveness to investors. However, the recent announcement of a 10% tax on income from equity funds in Union Budget 2018 has taken the sheen off dividend income arising out of equity funds.

A SYSTEMATIC ALTERNATIVE

For those expecting a tax-free regular income, dividends from mutual funds may not be the ideal solution. Such investors can instead benefit from a Systematic Withdrawal Plan (SWP). Here, the investor doesn't receive dividends declared by the mutual fund. Instead, they can withdraw a fixed amount on a regular basis from their investment in a scheme. Let's look at how it scores over a dividend option while offering the same benefits:

Fixed and Customisable

For those in possession of a lump sum amount and seeking a regular fixed income, an SWP proves to be a better option. Say, an investor has a corpus of Rs. 12 lakhs and is seeking a regular income. He invests this amount in an equity fund for 2 years and opts for an SWP where he redeems an amount on the 1st of every month. He will get a fixed amount of Rs. 50,000 every month while the rest of his money continues to grow with the rise in the value of the equities. Hence, an SWP assures a pay-out to investors at fixed time periods of their choice - daily, weekly, monthly, yearly. It is an excellent alternative to dividend schemes since the investor can fix the date and amount of his income rather than relying on the fund house to do so.

No Dividend Distribution Tax

The introduction of a 10% tax on Long-Term Capital Gains (LTCG) on equity funds means that any dividend paid will attract a tax of 10%, irrespective of the amount. However, in the case of SWP, investors can avoid tax if LTCG on amount withdrawn is less than Rs. 1 lakh. Hence, the trick here lies in fixing an SWP amount that only encashes the appreciation accrued to the corpus and does not diminish the corpus itself. For those invested in debt funds, an exit before 3 years leads to a Short-Term Capital Gains (STCG) tax as per the income tax slab of the individual. If invested for more than 1 year, an LTCG tax of 20% is charged which is inclusive of indexation benefits.

TAKING THE SWP ROUTE FOR FIXED INCOME

A quick comparison between dividend schemes and SWP can be made with the help of the below table:

Option	Pay-out	Taxation
Dividends	• Uncertain • Frequency of payments dependent on fund house	• DDT in case of debt funds • 10% tax irrespective of amount in case of equity funds • Additional tax post income of Rs. 10 lakhs
SWP	• Certain and guaranteed • Frequency of payments is customisable	• STCG & LTCG tax applicable in case of debt funds • No LTCG tax if amount withdrawn is below Rs. 1 lakh

An SWP has clear advantages to offer over dividend schemes. Investors are advised to consult their financial advisor to understand the full breadth of the benefits of SWPs and make a suitable investment ■

Understanding reverse mortgages

One of the greatest contributions of technology has been in the field of medical science, which has led to increased life expectancies. However, these extra set of years sometimes prove to be more of a curse than boon for senior citizens who don't earn a regular income. Especially with inflation making even the most basic of necessities expensive each day, elderly citizens may find it hard to make ends meet in the absence of a regular source of income.

Often, they might possess assets such as a residential property built from savings accumulated over their lifetime. However, they lack the liquidity to bear day-to-day expenses. The uncertainty of additional medical expenses too looms over. Reverse mortgage helps combat these problems, enabling one to live independently in their sunset years.

WHAT IS A REVERSE MORTGAGE?

A reverse mortgage generates a regular stream of income against a house mortgage. The borrower can continue to reside in the property until their death and receive periodic payments. Conceptually, it is the mirror image of a conventional home loan where an individual takes a lump sum amount (loan) and continues to pay regular installments. In case of a reverse mortgage, the borrower continues to receive periodic payments for a maximum tenure of 20 years. When a property is pledged, the bank arrives at its monetary value. Based on this, it disburses a loan amount in the form of periodic payments, also known as reverse EMIs. With each payment, the equity or the individual's interest in the house decreases.

Towards the end of this period, the legal heirs to the property can get it released by paying back the amount along with the accumulated interest. In the event of default, the bank recovers its dues by selling the house (post death of borrowers). This differs from a mortgage in the sense that paying back the borrowed amount towards the end of the tenure is not compulsory. Also, it is not required to maintain a specific income/debt ratio as in the case of a mortgage.

WHO IS ELIGIBLE?

Any Indian senior citizen more than 60 years of age is eligible for a reverse mortgage. In the case of a joint account, the co-applicant should be at least 58 years of age. The borrower should own a residential property and continue to reside in it. The property needs to have a residual life of at least 20 years and should be free of encumbrances.

WHAT IS THE VALUE OF PAYMENTS RECEIVED?

Once the security is pledged, the bank determines the value based on the existing prices in the real estate market, the borrower's age and the present condition of the house. The total loan (payments) received are calculated as a percent of the value of the house calculated. Typically, this averages out to 60% and can reach a maximum of 90%. For example, if the value of the property pledged is Rs. 1 crore, a total of Rs. 60 lakhs can be received over the entire tenure.

WHAT ARE THE DIFFERENT TYPES OF REVERSE MORTGAGE?

- **Regular Periodic Payments:** Here, banks pay borrowers at regular intervals (monthly, quarterly or annually). This sum can then be used for meeting daily expenses or any cash shortfalls. Because the payments received are treated as a part of the loan, they are tax-free in the hands of the receiver. Also, the loan to value is typically higher in this case
- **Lump sum Payment:** Banks pay a lumpsum amount to the borrower which can be used to buy a pension plan from a life insurance company. However, this pension is treated as income and is, therefore, taxable. The loan to value ratio is lower than that in case of periodic payments

A BOON FOR SENIOR CITIZENS

Reverse Mortgage is a blessing for the elderly citizens who require regular income. The following features make it especially suitable for the cause:

- No restrictions on end use of funds
- Tax-free income after retirement (avail periodic payments)
- No compulsion to pay back the loan
- Borrowers can continue to stay on the property even if they outlive their tenure

Thus, a reverse mortgage is an excellent tool for senior citizens to live independently after retirement, without having to rely on anyone else for financial support ■

Life Insurance & Married Woman Property Act (MWP Act)

Details & Benefits

A life insurance cover is bought to protect oneself and one's family members in the case of an unfortunate event. An individual must buy an adequate term plan if their family is dependent on them. Say, Mr. Harish, a businessman, borrows some capital to expand his business. He takes a Term Insurance Policy with his spouse as the nominee. After his sudden demise, his creditors approach the court and assert their right to get paid out of the proceeds of the policy. Thus, Mr. Harish's family didn't benefit from the policy. Instead, the claim proceeds (death benefits) went to his creditors.

Today, 'buying on credit' has become commonplace. Whether employed or self-employed, most of us buy on credit - home loan, personal loan, consumer loan etc. Such debts can pose a significant problem in the event of the demise of a sole breadwinner. How can you ensure only your dependents receive insurance policy claim proceeds in such a scenario?

MARRIED WOMEN'S PROPERTY ACT

The Married Women's Property (MWP) Act was created to protect properties owned by women from relatives, creditors, and from their own husbands. Applicable for married women of all religions, the Act has been instituted to protect women's rights.

Section 6 of the Act covers life insurance plans - an insurance policy under the Act is treated as a trust with guaranteed payment to the nominee(s) only. There is no need for creating a trust under the Trust Act. The claim proceeds are free from creditors, court, and tax attachments. The beneficiaries (wife and/or children) can also be trustees. The policyholder has the option to change the trustees at any point in time. If an unmarried woman buys a policy under MWP, it is treated as a separate asset.

A married man can take a life insurance policy under the MWP Act. This includes divorced persons and widowers. The policy can be taken only on one's own name i.e. the life assured has to be the proposer himself. Any type of plan (money-back/term plan/endowment etc.) can be endorsed to be covered under the Act.

When a married woman buys an MWP policy with her children as beneficiaries, the husband doesn't receive benefits.

How to get an Insurance Policy covered under the Act

Getting a policy under the MWP Act is easy and inexpensive. At the time of applying buying a policy, a separate MWPA form has to be filled by the proposer for it to be covered under the Act. The details of the beneficiaries, the share of the benefits that are to be accrued to them and the trustees need to be furnished. Revealing the trustee(s) names is not mandatory. Do note that existing life insurance policies cannot be assigned under MWP Act.

Can I Change the Beneficiaries and Trustees?

Each policy under the MWP Act is considered as a separate trust. At the time of the proposal, the names of the beneficiaries must be mentioned. One can also mention the names of trustees, though it is not mandatory.

If the beneficiary is a minor, the appointment of a trustee is compulsory who cannot be a minor or an HUF (Hindu Undivided Family). Also, the proposer can neither be the beneficiary nor the trustee. However, the beneficiary and trustee can be the same person for e.g. the wife.

The trustees can be the wife and/or one or more of his adult children, or a third party. The policyholder has the option to change the trustees at any point in time. However, the beneficiaries of the plan, once declared, cannot be changed. In case of a death claim, the insurance policy proceeds are given to the trust and cannot be claimed by the creditors.

Can I assign or take a Loan on policies which are under MWP Act?

No, you cannot assign the policy to another person (or) take a loan on the policies which are covered under MWPA. However, in the loan request comes from you, signed by the beneficiary and trustee, it can be processed.

Can I surrender the policies which are under MWPA?

The surrender request should come from policyholder and signed by the trustee (if appointed) and beneficiary (should be an adult at the time of request). Surrender proceeds will be paid to the trustee/beneficiary. The policy maturity benefits will also go to the Trust.

Due to a lack of awareness, not enough policies are being bought under the MWP Act. Life insurance is a tool to protect dependent family members and if this purpose is to be achieved in its entirety, the MWP route is the best. So, the next time you are buying a life insurance policy, consider the MWP option. However, do not misuse the MWP Act with an intention to defraud your creditors ■

Contributed by
Aviva Life Insurance

Expert Speak

5 things to keep in mind

when moving from a Full-Time Job to Freelancing

Not everyone finds solace in the 9 to 5 life. If you've recently taken the freelancing route in the hope of flexibility and comfort, familiarize yourself with income tax and other rules to run your business smoothly and avoid running into any trouble with the authorities. Here are some things freelancers must keep in mind to wade through the tax territory.

1 First, the cost of an old asset being used for your freelance business can be used to claim depreciation. This is because when you purchase a capital asset, its benefit is expected to last more than a year. Every year, a small portion of its cost is expensed, which is then reduced from your income. For instance, when you buy a laptop for Rs. 60,000 for your freelance work, it is considered as an asset. Assuming a straight line depreciation of 33.33%, each year Rs. 20,000 shall be charged as expenses. The Income Tax Act lays down the rules for methods of depreciation and rates of depreciation to be charged as per the type of assets. Keep bills of such assets secure.

2 Second, all business related expenses (not personal) can be claimed against income. So one must keep the related bills secure to claim expense. This could be expense such as office rent, travel, business dinner etc. To claim expenses as a deduction from freelancing income, the amount should have been spent fully and exclusively for the purpose of your work during the tax year. It should not a capital expenditure or a personal expenditure of the freelancer.

Many people claim a lot of expenses to show lower than actual income actual income. However, it is also important you show adequate cash drawings from your income that would be reasonably required to meet regular household expenses. Else it raises suspicions about over-claiming of expenses.

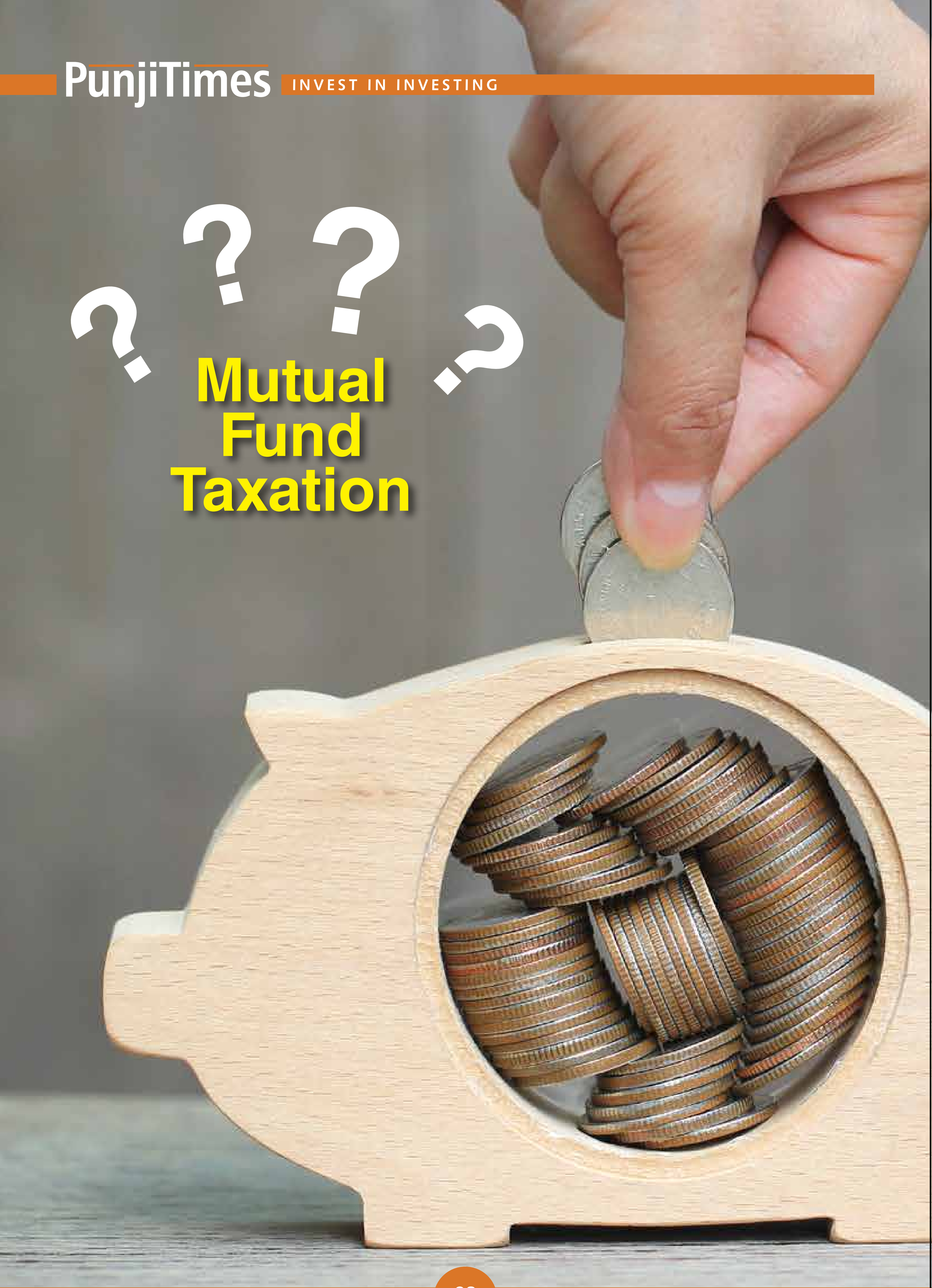
3 Third, as you must be aware, GST has replaced the earlier applicable VAT and Service Tax so whether you sell goods or provide services as a freelancer, GST shall be applicable. However, if the total revenue from your freelancing work is not more than Rs. 20 lakhs in a year, GST shall not apply. GST payments can be easily done online and making them online is mandatory if your payments exceed Rs. 10,000. The GST amount has to be deposited with the government either quarterly or monthly based on your composition scheme and turnover.

Freelancing income means income received for specific assignments, the amount typically received upon completion and submission of work. For all incomes, raise a proper invoice with GST (if applicable). It is unlawful to charge GST on your invoice if you don't have a GST number even if GST is applicable to you, so do get a GST number as soon as it becomes applicable. Raising proper invoices with serial numbers is also a good practice to follow in order to keep clean documentation of the work you are doing as a freelancer.

4 In the case you are exporting goods or services, keep a record of the Foreign Inward Remittance Certificate (FIRC) you receive to prove the export of services. This will be helpful in claiming benefits of GST exemptions meant for export of goods and services.

5 Lastly, if your turnover crosses a certain limit in a year, a tax audit is required for proper compliance with the income tax laws. A tax audit means you need to maintain books of accounts and having a CA sign off on that your books are correctly maintained. Contact your CA for guidance on the matter and other compliance requirements. Further, if a tax audit is conducted in a particular year, TDS laws become applicable for compliance from the next year which means TDS would need to be deducted on certain payments to third parties and deposited with the tax authorities. TDS returns would also need to be filed ■

Mutual Fund Taxation



HOW DOES ONE EARN THROUGH INVESTING IN MUTUAL FUNDS?

Mutual fund income can be of two types:

- Dividend income earned when a mutual fund distributes its profits to its unit holders/investors
- Captial gains earned when units of a mutal fund are sold at a profit. If the units are sold at a loss, the result would be a capital loss

IS INCREASE IN NAV/ PRICE OF MUTUAL FUNDS CONSIDERED AN INCOME?

An increase in NAV/price of a mutual fund is an unrealised gain which is not taxable in India. It is only when a mutual fund unit is sold, the difference between selling price and cost is taxable as capital gain in accordance with the income tax rules.

HOW IS MUTUAL FUND INCOME TAXED?

Mutual fund income can be categorized into two:

- Dividend income
- Capital gains

Dividend income is tax exempt in the hands of the recipient since it is already taxed in the hands of the mutual fund. The investor must, however, disclose the income in their tax filings.

Capital gains are earned when an investor sells their mutual funds. Capital gains can be long or short term, depending on how long the mutual fund units were held before they were sold.

For an equity mutual fund, a holding period of less than one year is considered short term. For a debt mutual fund, it is less than three years. While short-term capital gains are added to a person's gross income and taxed at his/her slab rate, long-term capital gains are taxed at 10% after an exemption threshold of Rs. 100,000.

WHAT IF THERE IS A LOSS ON THE SALE OF MUTUAL FUNDS?

In the case of a debt mutual fund, the capital loss can be set off against other capital gains. Long-term capital losses can only be set off against long-term capital gains while a short-term capital loss can be set off against any type of capital gains.

If capital losses persist after a settlement in the current year, they can be carried forward for further setting off for up to eight years. However, for carrying losses forward, the filing of tax returns is necessary

iProbono

Enabling Justice

WHAT WE DO

iProbono is a non-profit working to provide access to quality pro bono legal assistance to civil society and disadvantaged individuals, while building a culture of pro bono in the legal profession.

iProbono's global reach enables the legal professionals registered on its network to get involved in projects for organisations working on a wide range of development and rights-based issues.

HOW IT WORKS

- Civil Society Organisation (CSO) in need of legal assistance reaches out to us.
- Our Programs Team, comprising of lawyers analyses the CSO's legal requirement.
- Our Team identifies a suitable professional from our network of lawyers, policy-experts and law students.
- We match the requirement & manage the project, ensuring the CSO gets the best pro bono assistance.

BE PART OF THE CHANGE

Reach out to us if you are an NGO or social enterprise in need of pro bono legal assistance.

Join our network if you are a legal professional looking to provide pro bono legal services.

Donate to us if you want to support our work and help us get more people access to justice.

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