Union Budget 2012-13

YOUR FINANCES

Dr Neelu Agarwal, gynaecologist, has a private clinic in Ghaziabad

Dr Vivek Mittal (husband, cardiologist), Divyanshu (son, student)

Till now Dr Agarwal was more oriented towards setting up her practice, so she was not very focused on her personal finances. Because of this, she could not invest fully for her personal income-tax saving. In the name of investments, she has only two life insurance policies. But as she is settled in her profession now, and for the coming year, she wants to pay more attention to her finances, including taxes, for a better financial future.

YEARLY INCOME	EXPENSES	SURPLUS
Rs 5,50,000	Rs 2,54,000	Rs 2,96,000

DEDUCTIONS	FY 2011-12	FY 2012-13
Taxable Income	5,10,000	3,90,000
Tax Payable	33,990	19,570
Net In Hand	4,76,010	3,92,855

DEDUCTIONS	CURRENT LIMIT	AVAILED
Sec 80 C	1,00,000	40,000
Sec 80CCF	20,000	0
Sec 80D	15,000	0

ALL FIGURES IN Rs

BUDGET IMPACT ON FINANCIAL SITUATION OF DR AGARWAL

The Budget will help her on two fronts — saving taxes and diverting the surplus towards investments for achievement of goals. She can start investing in ELSS schemes and PPF; to increase equity exposure in the portfolio, she can invest in Rajiv Gandhi Equity Scheme. She should purchase an individual mediclaim with adequate sum assured. She is yet to start her tax-saving investments. By using all the investment options for saving tax, and with the change announced in the tax slab in 2012-13, she will be able to save the extra tax payment of Rs 13,390.

MAIN FINANCIAL GOAL

HIGHER EDUCATION FOR SON (2021)
(Inflation considered: 10%)

PRESENT COST: Rs 15 lakh

FUTURE VALUE: Rs 35.36 lakh

She should start investing Rs 2.31 lakh per annum in the ratio of 80:20 in equity and debt to save for this goal. This means investment of Rs 1.85 lakh per annum in equity and Rs 46,000 per annum in debt. She should use ELSS and PPF as saving instruments for this particular goal, which would help in income-tax savings as well. For the balance investments, she should select equity diversified mutual funds. She should completely stay out of instruments that offer a combination of insurance and investments like ULIPs, endowment plans etc. Rate of return assumed: Equity 14%, PPF 8%

EXPRESS TIP

Additional savings announced under Rajiv Gandhi Equity Scheme will help investors get the benefit of equity investments for achievement of long term goals along with tax benefits. Your tax planning should be in tune with your overall financial planning, which will help you to save towards your goal.

Plan by **Manikaran Singal**, Member, The Financial Planners' Guild, India

Rajiv Chandok, zonal commercial manager in a private insurance company, Delhi

Vriti (wife, homemaker); Kashvi, 10, Navya, 5 (Daughters)

Rajiv is a self-made man working with a leading insurance company. He owns a house and a car, for both of which he has taken loans. Most of his investments are skewed towards insurance. His primary concern is accumulating a good retirement corpus. The other goal is to fund his daughters' education and weddings. Rajiv's investments have a small diversification in Public Provident Fund (PPF) and mutual funds.

YEARLY INCOME	EXPENSES	SURPLUS
Rs 10,60,000	Rs 9,02,258	Rs 1,57,742

DEDUCTIONS	FY 2011-12	FY 2012-13
Taxable Income	7,31,528	7,31,528
Tax Payable	27,671	26,258
Net In Hand	10,32,329	10,33,742

DEDUCTIONS	CURRENT LIMIT	AVAILED
Sec 80 C	1,00,000	1,00,000
Sec 80CCF	20,000	20,000
Sec 80D	15,000	6,600

ALL FIGURES IN Rs

BUDGET IMPACT ON FINANCIAL SITUATION OF RAJIV

Fortunately, none of his goals will be negatively impacted due to the Budget. Tax is reduced by approximately Rs 2,000 in all, which is insignificant. He will not get the benefit of the newly launched Rajiv Gandhi Equity Savings Scheme. He will also not receive the benefit of the deduction of Rs 10,000 on the interest on his savings bank account, as his income is over Rs 10 lakh, and will increase further in the next year.

He was also disappointed by the reduction of the Employees' Provident Fund rates from 9.5 per cent to 8.25 per cent just before the Budget.

MAIN FINANCIAL GOAL

RETIREMENT PLANNING (2031)
(Inflation considered: 7%, Life expectancy: 85 years)

PRESENT ANNUAL RETIREMENT EXPENSES: Rs 3.12 lakh

FUTURE VALUE: Rs 12.07 lakh

CORPUS REQUIRED: Rs 2.58 crore

There is not much impact on this goal due to the Budget. Rajiv will require a corpus of Rs 2.58 crore at retirement. His EPF, if not touched till retirement, will be significant part of this corpus, approximately Rs 1 crore. He can start investing Rs 15,300 per month in equity mutual funds and increase it by 5 per cent every year in order to achieve the desired retirement corpus. Regularity in savings and diversified investing as per the required asset allocation is very crucial in achieving his long-term goals.

EXPRESS TIP

Tax planning should be aligned to overall asset allocation in portfolio. For long term goals, equity is the right asset class — even the budget hints at promoting equity investments through the Rajiv Gandhi Equity Savings Scheme and tax exemption on the sale of residential property if proceeds can be invested in SME equity.

Plan by **Hemant Beniwal**, Member, The Financial Planners' Guild, India

PRAVEEN KHANNA

Gur Swarup Nangia, retired Central government employee, presently chairman of a private school in Ghaziabad

Gur Swarup earns a regular pension and rental income apart from salary from his engagement with his family owned private school. Most of his investments are in commercial property, which fetches him a steady rental income. PPF has been extended beyond 15 years, and the rest of his investments are in stocks and mutual funds.

The intention of making the financial plan is to reassure him that he has adequate resources to keep himself financially sound through his retirement phase.

YEARLY INCOME	EXPENSES	SURPLUS
Rs 8,34,000	Rs 2,73,540	Rs 5,60,460

DEDUCTIONS	FY 2011-12	FY 2012-13
Taxable Income	4,35,400	4,10,400
Tax Payable	43,540	41,040
Net In Hand	3,91,860	3,69,360

DEDUCTIONS	CURRENT LIMIT	AVAILED
Sec 80 C	1,00,000	1,00,000
Sec 80CCF	20,000	0
Sec 80D	20,000	0

ALL FIGURES IN Rs

BUDGET IMPACT ON FINANCIAL SITUATION OF GUR SWARUP

As per the proposed Budget provisions, he can invest an additional amount of Rs 50,000 in Rajiv Gandhi Equity Savings Scheme which will allow him an additional deduction of 50 per cent of the above amount, thereby reducing his tax liability by Rs 2,500. Since his income is anyway less than Rs 10 lakh per year, his tax slab will continue to remain at 10 per cent. He can also now happily get his routine medical tests done, since he can now get a relief of up to Rs 5,000 in a year. He can also continue to invest in ELSS schemes for one more year since Direct Taxes Code has been postponed.

MAIN FINANCIAL GOAL

TO BE FINANCIALLY SELF SUFFICIENT
(Inflation considered: 7%, returns considered: 8% post tax, life expectancy: 90 years)

PRESENT ANNUAL RETIREMENT EXPENSES: Rs 2,30,000

CORPUS REQUIRED: Rs 60 lakh

The present Budget does not seem to have any impact on his finances since his government pension and rental income from commercial property should be adequate to take care of his retirement needs. He can continue to invest surplus funds in bank fixed deposits and mutual fund monthly income plans. PPF should not be extended and its maturity amount should be used to invest in senior citizens' scheme. Care should be taken to avoid any further investments in property since liquidity is more important at this age.

EXPRESS TIP

The Budget provides a major boost to preventive healthcare in the form of relief provided for preventive medical tests and should be used by senior citizens to keep a regular check on their health status at an age when there are high chances of age-related illnesses. Equity investments also need to be kept at a minimum.

Plan by **Steven Fernandes**, Member, The Financial Planners' Guild, India

Rashi Tarika, corporate communications executive in a finance services company, Delhi

Rashi represents the quintessential young urban Indian woman, well educated and independent, with a zest for life. She stays with her parents. Being single, she is yet to experience the burden of financial responsibilities or dependencies. Her major expenses are in commuting (fuel for own vehicle), communication (mobile/Internet) and holidays. Currently she usually saves and invests towards the end of the financial year to meet her tax-saving requirement. She has not given a thought to any long-term goals, and has not made any major investments.

YEARLY INCOME	EXPENSES	SURPLUS
Rs 8,19,600	Rs 5,08,700	Rs 3,10,900

DEDUCTIONS	FY 2011-12	FY 2012-13
Taxable Income	7,05,800	7,05,800
Tax Payable	74,325	73,325
Net In Hand	6,94,900	6,95,900

DEDUCTIONS	CURRENT LIMIT	AVAILED
Sec 80 C	1,00,000	1,00,000
Sec 80CCF	20,000	0
Sec 80D	15,000	4,800

ALL FIGURES IN Rs

BUDGET IMPACT ON FINANCIAL SITUATION FOR RASHI

Current Budget will not cause a major change in her financial situation. She is in the 20 per cent tax bracket and will continue in the same, with an additional saving of Rs 1,000 due to tax slab change. She will save some tax on the interest on savings account deposits, as it has been exempted up to Rs 10,000. Her overall expenses for travel, hotels, restaurants will go up due to the increase in service tax from 10 to 12 per cent. Equity exposure can help her create a huge corpus for the long term. She can utilise Rajiv Gandhi Equity Savings Scheme, being in the sub-10 lakh income bracket.

MAIN FINANCIAL GOAL

HOLIDAY ABROAD (2014)
(Inflation considered: 10%, Life expectancy: 85 years)

CURRENT COST: Rs 3.5 lakh

COST IN 2014: Rs 4.23 lakh

Budget does not impact this goal in any way. Since this is a near-term goal, an investment of Rs 20,000 per month at the rate of 8.5 per cent in a recurring deposit (RD) for two years is recommended. RD is taxable, hence a higher amount has been suggested, as tax will have to be paid from maturity value. Another alternative is to use the funds lying in her savings account to fund this goal. This can be invested in a two-year fixed maturity product from a mutual fund. She can invest Rs 1 lakh in an Fixed Maturity Plan and start an RD, as mentioned above, for Rs 15,000 per month.

EXPRESS TIP

Rashi has both time and resources available to create a big corpus. Budgeting will help her streamline her expenses. She will have to think long-term and set her goals. She can think of setting aside funds for buying a house, planning for her retirement etc, which will be important goals for her going forward.

Plan by **Kiran Telang**, Member, The Financial Planners' Guild, India