EXPRESS CLINIC

NAME: **RISHI VERMA (27)**

RESIDES IN: DEHRADUN

PROFESSION: SENIOR MANAGER IN AN MNC

NET ANNUAL INCOME

(₹ 11 lakh)

STATUS & GOALS

RISHI IS A PG IN MANAGEMENT AND RECENTLY JOINED AN MNC. HE FEELS THAT LIFE IS FULL OF UNCERTAINTIES AND ONE SHOULD ALWAYS BE READY FOR THE UNEXPECTED. SO HE WANTS TO START HIS FINANCIAL LIFE WITH PROPER PLANNING. HE DOES NOT HAVE ANY DEPENDENTS AND NEITHER DOES HE WANT HIMSELF TO BE DEPENDENT ON ANYONE. SAVING FOR HIS MARRIAGE, BUYING A BIG CAR, COMFORTABLE RETIREMENT ARE SOME OF HIS GOALS. HE ALSO WANTS TO GIFT HIS PARENTS AN INTERNATIONAL TRIP

NEEDED

A roadmap to start investments at this young age so as to create a secure financial future and be able to fund foreign trip for parents

MONTHLY INCOME (Post Tax) **₹ 88,000**

MONTHLY EXPENSES **₹ 18,000**

NET MONTHLY SURPLUS **₹ 70,000**

GOALS

IN ORDER OF PRIORITY

MARRIAGE (2015) (inflation 6%)

CURRENT VALUE	FUTURE VALUE
₹ 10 lakh	₹ 12 lakh

CAR (2016) (inflation 6%)

CURRENT VALUE	FUTURE VALUE
₹ 4 lakh	₹ 5 lakh

HOLIDAY TRIP FOR PARENTS (2020) (inflation 6%)

CURRENT VALUE	FUTURE VALUE
₹ 5 lakh	₹ 8 lakh

RETIREMENT PLANNING (2043) (inflation 6%) (Life expectancy - 80 years)

CURRENT ANNUAL EXPENSES	FUTURE ANNUAL VALUE	CORPUS REQUIRED
₹ 5.4 lakh	₹ 25.6 lakh	₹ 4.3 cr

CURRENT INVESTMENT

SAVINGS ACCOUNT : ₹ 2 lakh

FINDINGS

EMERGENCY FUND:
He has not started investing the surplus, so whatever he saves is in savings account.

LIFE INSURANCE:
He doesn't have any life insurance cover.

HEALTH INSURANCE:
His father has bought him an investment cum health insurance plan.

INVESTMENTS:
He's yet to start with his investments and he's also ready to compromise safety to growth.

LIABILITIES:
He doesn't have any kind of liability.

RECOMMENDATIONS

EMERGENCY FUND:
He should keep only ₹ 60,000 in his savings account and maintain it as emergency fund.

Express TIP: To manage emergencies related to health or job loss, one should keep 3-6 months of expenses in liquid form.

LIFE INSURANCE:
Rishi has no financial dependents as of now, so he does not require any kind of life insurance policy. But he should surely buy an adequate cover, once he gets married.

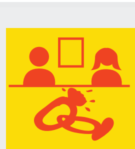
Express TIP: Life insurance is only for those who are in debt or have financial dependents.

HEALTH INSURANCE:
Rishi should buy an Individual comprehensive health insurance policy with sum assured of at least ₹ 5 lakh, and if his parents are not covered then he should get them one as well. The premium outgo for him would be ₹ 6,000.

Express tip: Investment-cum-insurance policies neither provide one with enough cover nor they are good for investments.

ACCIDENT INSURANCE:
Rishi should buy a comprehensive accidental insurance policy with temporary total disablement benefit of at least ₹ 1 crore sum assured. The premium for this would be around ₹ 12,000.

Express tip: This is a must have insurance policy and is not depending on having dependents. This is also called income assurance and covers disability.



MARRIAGE (2015):
He should allocate the balance left in savings account after emergency fund and start saving ₹ 25,000 pm for this goal. He should opt for dynamic bond fund for lump sum investment and bank recurring deposit for monthly savings

RATE OF RETURN ASSUMED 8% POST TAX

Express TIP: One should take advantage of the interest rates while selecting any debt instrument to invest in. Avoid pure equity investments for goals less than 3 years.

CAR (2016):
Start investing ₹ 8,600 in a balanced mutual fund with 50 per cent - 65 per cent of equity exposure for this goal.

RATE OF RETURN ASSUMED IS 10% POST TAX.

Express TIP: It is always better to save first and then spend. Taking a loan for depreciating asset is never an advisable option.

HOLIDAY TRIP FOR PARENTS (2020):
Invest ₹ 5,000 pm with equity debt allocation of 80:20 to save for this goal. For equity you may select equity mutual funds and for debt you may go with bank recurring deposits.

Rate of return assumed is 11.2% post tax.

Express TIP: Following asset allocation is the best way to invest. This will help you in allocating investments among different asset classes thus distributing risk.

RETIREMENT PLANNING (2043):
In this goal the provident fund savings which Rishi will accumulate over a period of time will play a big role, but since this is the start of his career, we have not considered any savings. Rishi should start investing ₹ 5,000 per month with the asset allocation of 80:20 in favour of equity: debt. He should use diversified equity funds for equity allocation and PPF and EPF for debt allocation as investment tools for achieving this target.

RATE OF RETURN ASSUMED 14% IN EQUITY FUNDS AND 8% IN PPF

Express TIP: Compulsory savings under EPF plays a major role in accumulating decent corpus for one's retirement, so one should not withdraw it early to satisfy other desires.

CONCLUSION

You are never too young to start planning for your goals. Starting early and sticking to sensible long term savings plan helps in setting the foundation for sound economic decision making, throughout the life. Having a clear goal and using your money sensibly will never let you fail in your financial life

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SMART TIP

How not to become a tax offender

You may be wrong to assume that you will evade taxes and the authorities will never be able to catch you. Remember that the situation may turn around anytime

KARTIK JHAVERI

THERE is a 98 per cent chance that you are a tax offender; particularly so if you are salaried. But I will come back to that in a moment. Consider these fancy words; compliance, diligence, TAT, efficiency, service quality, six sigma etc. Of course you know that these words emerge from the corporate culture that you are a part of. These words have a lot of meaning in our everyday job. You expect the whole world to comply in every possible manner but in matters of finance specifically, you consider yourself excluded. How is that? There are ample examples and we shall focus on tax for the moment.

The tax filing date has just passed by us (luckily though it has got extended to August 31) and you did not even give a second thought to your non-compliance of not filing tax returns or not filing in time. You think and believe that since you are employed your employer has paid the tax on your behalf and for you there is nothing to worry.

The former is true while with the latter you are grossly mistaken. Not filing or not filing on time is a compliance issue per se but let us focus on three popular types of tax evasion that most salaried persons often do.

THE BANK INTEREST AND FORM AS26

9 out of 10 salaried persons in India have a fixed deposit and a sizeable amount of money in the savings account. This money earns interest and if you earn a lot of interest in a financial year, the bank/ financial institution will also deduct tax at source before paying such interest to you.

This part payment of tax is clearly visible on your AS26 form maintained by the tax authorities. Hence, when you file your return, conveniently ignoring the income you have earned on bank deposits and saving accounts, you are effectively paying lesser tax and thus evading tax. Matters are worse if bank has already deducted tax and this is visible on AS26.

This will surely get picked up in the assessment order and you will then have to pay much more ie tax along with penal interest.

JOB CHANGE

Hardly anyone quits a company exactly on March 31 and joins another company exactly on April 1. For that financial year in which you changed jobs you will have two 'Form 16'. Strangely your companies skipped talking about your taxation. As a result both companies give you benefit of basic tax slabs and all deductions.

Thus, you will never know but you are grossly short paid on tax. You owe a good, hefty payment to the authorities. Interestingly if you try to file your return most software's or web platforms will just not allow you to file with short paid tax. They will advice you to make good the tax liability first. So the option out of this for you is to not file; which is not such a good idea.

CAPITAL GAINS

If you have been wiser than most other people by investing your money in a better way, you would have capital gains to deal with. Naturally, tax is due and must be paid on such capital gains. Often this area is also ignored. Remember, AS26 is a powerful statement. It also reports what you invested and where (over a certain limit). So is it not too good an idea to declare and incorporate the same in your tax return.

FOCUS ON WHAT YOU NEED TO DO

The salaried often feel that the government should pursue the rich businessmen who evade tax. With all the corruption, let us believe that they know their job and let us focus on what we need to do. Paying taxes is not a crime. The government is not depriving you of your money. It is your obligation and that must be fulfilled. Tax evasion should be taken quite seriously.

There are several advantages of filing on time and not filing at all reflects quite badly on matters of your integrity and attitude to compliance of the law. You may enjoy as long as the party lasts. For as long as they are busy with other important matters and therefore have not focussed their attention on you – just as yet. The situation could turn around, anytime with perhaps with unsettling consequences. Consider how you felt when you got that notice; for the one's who have got a notice from the IT department.

I want to request you to pause and think. Just with the AS26 if there is so much that is visible to us can you imagine how much tab do the authorities have on us; can you imagine how much can they see, all that we cannot see? I do not want to scare you; I just want to get you concerned. ◆

—Author is Director, Transcend Consulting, kartik@transcend-india.com

YOU ARE BEING WATCHED

- By ignoring the income on bank deposits and savings accounts, you are effectively paying lesser tax and thus evading tax.
- Remember to pay tax on the capital gains on your investments.
- If you are evading taxes, anyday you can get notice from the tax department
- AS26 is a powerful statement. It also reports what you invested and where.
- While changing jobs you may never know that you are shortly paid on tax. You might owe a hefty payment to the authorities.

C R SASIKUMAR

INVESTMENTS

Common sense of equity investing

SUDIP BANDYOPADHYAY

COMMON sense warrants buying shares when prices are down and selling the same when prices move up. But common sense is extremely uncommon and in capital market retail investors, adopt herd mentality. They enter when the market is high and unfortunately, resort to panic exit when markets fall.

This behavior of retail investors in capital market is not in consonance with the general human propensity of looking for a discount/ deal while buying. In other words, if there is a "sale" or an attractive price discount going on, the consumers flock to such offerings. Unfortunately, when stocks are available at a significant discount to their expected market value, retail investors stay away from the market. Historically, the fate of retail investors in the capital markets has been unsatisfactory due to the above phenomenon. They try to time the market and get it horribly wrong.

Indian capital markets have seen significant price correction over the last 12-18 months and there are valid global and domestic reasons for such depressed market sentiments. The economic crisis in Europe coupled with slowdown in US and China, acted as a dampener, for global investors and kept them away from "risk on" trades in emerging markets like India. Domestic policy logjam, high interest rates, erratic monsoon etc. created significant problems for Indian companies and has subdued their financial performance and growth. Combination of these factors has kept Indian markets down and the same is performing at a significant discount to even the Asian peers.

No solution to the problems both at global level as well as in the domestic environment, is in sight and the markets may remain depressed for some more time before things start looking up. In this context, however, it should be noted that market price of Indian equities has fully factored in most of the above negatives. Barring any further catastrophic event happening in Europe, the chances of market going down significantly from the current levels, is absent. However, with solutions emerging in both global and domestic economic environment, markets may move up quickly and the upside can be anywhere between 20 – 40 per cent from the current levels, whereas the downside will probably get restricted to 5 – 10 per cent. Thus, the odds favour being invested in capital markets at current level for medium – long term gains.

But the approach at present should be bottom up and not top down. Markets will not reward all sectors or all companies. There is a need to select the right sectors and right companies for optimum results. Time is still not ripe for value buying ie picking up stocks which are significantly under-valued. Investors should stick to growth sectors ie sectors which are in growth phase irrespective of the current environment.

Indian pharma sector is at the cusp of a major re-rating. The ingredients that made Indian IT industry, the darling of the world, are now visible in Indian pharma sector. There are companies in mid-cap and small-cap pharma universe which are attractively valued and ideally positioned to benefit from this re-rating. India FMCG industry is also rapidly growing and is poised for further growth in the near future with continuous increase in rural and semi-urban demand. While the frontline FMCG companies looks fully valued, there are opportunities in mid cap and small cap FMCG sector for attractive value buying. Select IT companies do also present excellent opportunities.

While the above sectors are generally classified as defensive sectors, they are also growth sectors for the foreseeable future and the investors will be better off buying into these sectors even at current levels. While sectors like infrastructure, banking, capital goods, will also provide good returns when economy turns around, we believe, the time for value buying in these sectors haven't yet come and investors may wait for possible further corrections in value before entering these sectors. ◆

—Author is MD and CEO, Destimoney