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EDITORIAL

Welcome to the 'Wealth Supremos'! A new theme-oriented magazine initiated by us, which focuses on current market scenarios, global economic conditions and overall market outlook through the eyes of experts. A monthly newsletter which covers data through various data streams and interprets the same for the investors through easily understandable info-graphics. The objective behind this newsletter is not only to provide investors with market information so as to create market awareness but also to synthesize this information for wealth creation of our investors.

In line with our goal to provide our investors with an insight into the latest economic events, our first issue of the newsletter addresses certain important provisions of the budget and its impact not only on our economy but also on an individual investor. It highlights upon the major changes that the Union Budget 2016-17 presented, with respect to the budget allocations and tax reforms.

In the recently announced Union Budget, our honourable Finance Minister, Mr. Arun Jaitley laid down the foundation of nine pillars; the reforms in which are important to the country's overall development. The key areas which were the main focus of the budget were, upliftment of the agricultural sector, improving the rural economy and developing infrastructure in order to facilitate movement in the country. Another important area where Government intervention is required is reforms in the Banking sector. In order to overcome the epidemic of rising NPA's in PSU banks, the Finance Minister allocated a substantial sum for the same. The budget also focussed on fulfilling the basic need of shelter by announcing special provisions for affordable housing and providing tax sops by raising exemption limits.

However, the budget did not please the middle class section, which from a majority of the country's Income Tax payers. The budget did not increase the income tax slabs nor did it announce any major changes in the exemption limits. Further, it increased the Service Tax rates through the implementation of new Cess. These changes are sure to eat into the pockets of the middle class section in the country.

As we near the end of FY 2016, a year which was marked by major global events which had a negative impact on the world and domestic economy; we can hope that things will only improve from hereon. The government's focus on infrastructure spending in the budget, along with fiscal consolidation due to low international crude prices and passage of crucial tax reforms like the Goods and Services' Tax bill should improve the domestic market conditions in the short run.

We, through 'Wealth Supremos', promise to keep you updated on such global and domestic happenings and guide you through, to achieve our ultimate goal – wealth creation!

Happy Investing!

Warm regards,

NANaik

NIKHIL NAIK
Editor

HOW BUDGET AFFECTS YOUR TAXES

The Union Budget is one of the biggest events in the world of Business and Finance. And it's not for nothing – every single individual in the country is affected either directly or indirectly by the Budget announcements.

The biggest directly effect is on your tax payments. Here's how Budget affects your taxes:

1 INCOME TAX

Every individual who earns an income either through a salary, professional services or by running a business has to pay a tax. Exactly how depends on the source of the income and your tax slab. Individuals who earn less than Rs 2.5 lakh do not have to pay any income. Every Budget, the government announces changes in these Income Tax calculations – tax exemption limit, tax slabs, tax rates, or even tax rebates. These affect your tax liabilities. For example, in 2015, the government increased the tax rebate under Section 80C by Rs 50,000 to Rs 1.5 lakh. This allowed people to save as much as Rs 45,000 in tax.

2 INDIRECT TAXES

You also pay taxes to the government indirectly through the goods and services you buy. Every product or service attracts taxes like Excise Duty, Import Duty, Service Tax or Value Added Tax. This tax is incorporated in the cost of the goods and services. So any change in the rates of these taxes makes the goods and services costlier or cheaper.

3 CORPORATE TAXES

Companies too have to pay tax on their income. This is called Corporate Tax. Certain companies also have to pay MAT or Minimum Alternate Tax. The government could also tweak these rates. For example, recently the government announced that Startups may be exempted from Income Tax for the first three-five years. The Budget could legitimise this announcement.

4 TAX DEDUCTED AT SOURCE

Often, you pay income through Tax Deducted at Source (TDS). For example, banks may deduct TDS if your interest income exceeds a certain limit. Any change in this tax rate could also affect your tax outgo. Currently, TDS rate stands at 10%. Media reports suggest the Budget could cut this to 5%.

5 CAPITAL ASSETS

You also pay tax while buying and selling assets like shares and immovable property. These taxes vary with the asset. For example, you pay Securities Transaction Tax (STT) while buy or selling stocks. These tax rates could also be tweaked in a Budget if the government wishes. This could then affect your investment returns.

6 CAPITAL GAIN

You can also earn through profits made by selling investments. This is called as 'Capital Gain'. These attract taxes at varying rates. It also depends on how long you held these assets. The Budget often tweaks the Capital Gain Tax rates for various investments to encourage savings.

The government decides how it taxes its people. The Budget is where the government announces its tax policy. This is why every earning individual closely eyes the Budget.

BUDGET 2016: 10 THINGS TO KNOW

The Union Budget is one of the most important events in the world of business and finance. It has a resounding impact on everyone – individuals, economy, markets, investors and even companies.
Here is a look at the 10 most important announcements in the recent Budget for the fiscal year 2016-17:

1 FISCAL DEFICIT

The financial markets track the government's fiscal deficit close. This is the amount by which the government borrows from the market. Last year, the Budget set a target of 3.9% for the current fiscal year and 3.5% for FY17. Most analysts and investors were worried that the government may overshoot this target. The Budget, however, reiterated that target would be achieved. Not just fiscal deficit, the finance minister also announced an improvement in the Revenue deficit to 2.5% of the GDP in the current fiscal from 2.8% in the previous year. Revenue deficit is when the revenue falls short of estimates. A contraction in the deficit suggests that the government's revenue was closer to the estimate.

2 GOVERNMENT FINANCES

How the government plans to earn and spend its money is equally important. It also gives an idea whether the fiscal deficit target is realistically achievable. The government proposed a 15.3% increase in Plan expenditure of Rs 5.5 lakh crore. This is the expenditure on productive spending like infrastructure growth. The Budget estimates to spend an overall Rs 19.78 lakh crore in FY 2017, 10.8% higher than last year's Rs 17.85 lakh crore. It aims to earn revenue of Rs 13.77 lakh crore. This is a 14.17% increase over last year's revenue of Rs 12.06 lakh crore.

3 CAPITAL EXPENDITURE AND INFRASTRUCTURE

Investments in railways and roads help fuel growth over the long term. This is called Capital Expenditure. The Budget announced an expenditure of Rs 2.21 lakh crore on infrastructure development. Of this, Rs 2.18 lakh crore would be on building roads and railways in 2016-17. The government aims to build 10,000 km of National Highways and upgrade 50,000 km of state highways in the coming fiscal. The numbers state the government's focus on infrastructure. This is essential for any improvement in the economy.

4 AGRICULTURE SPENDING

The biggest focus this year was on agriculture and the welfare of farmers. This was widely expected considering that the sector was beleaguered by two consecutive droughts. The government aims to double farmers' incomes by 2020. The Budget announced three key measures to boost growth. Two of these are about farming – ensuring the fertility of the soil and increasing the coverage of farms that can be irrigated. The Budget estimates that around 28 lakh hectares will be brought under the new farm irrigation plan. The FM also proposed to spend Rs 86,500 crore on irrigation projects in 5 years. Lastly, the Budget spoke about crop insurance for farmers to safeguard them from losses. Considering how vital agricultural productivity is to economic growth and inflation in India, these announcements can be considered a welcome measure.

5 RURAL DEVELOPMENT

It's not just farmers that the Budget targeted, but all of Rural India. The government aims to achieve inclusive growth. For this, it is important the Rural India has access to electricity, transportation as well as technology. The Budget targets all these three aspects. For rural development as a whole, the Budget allocated Rs 87,765 crore for FY 17. This includes the whopping Rs 38,500 crore for MNREGA. This money will be used to electrify villages, the target for which is May 2018. It will also be used to improve transportation by building roads and railways and for digital literacy. The FM also allocated Rs 9,000 crore for the Swatch Bharat Abhiyaan for rural hygiene.

6 SUBSIDIES

The Budget was expected to cut its Subsidy bill this year. Instead, the government announced an additional Rs 2,000 crore to ensure LPG for Below-Poverty Line (BPL) families. This will be done through the Aadhar system. In addition, the government also announced extending the Direct Tax Benefits programme to fertiliser subsidy. In the past, it has helped saved Rs 14,672 crore of LPG subsidy. An extension to fertiliser subsidy too could help plug further leakages.

7 SOCIAL SECTOR

There has been a lot of the social sector too in this year's Budget. Health, education and skill development were the keywords. The Budget allocated Rs1.51 lakh crore for the social sector. This is to fund multiple schemes like the New health protection scheme, National Dialysis Services Programme, the Stand Up India Scheme, the Sarva Shiksha Abhiyan and the setting up of a digital depository to save your school and college certificates online. Job creation was also a key topic of coverage in this year's Budget.

8 BANKING AND FINANCE

Markets are keenly interested in the government's plan to recapitalise the ailing public-sector banks. The Budget proposed to infuse Rs 25,000 crore in PSU banks this year. This, however, is part of the already-announced Indradhanush Scheme. So the Budget did not set aside any extra funds for the banks. Apart from this, the Budget spoke about reforms in the FDI policy in the areas of insurance, pension, asset reconstruction companies and stock exchanges. It also spoke about setting up a wide ATM network across the country as well as a detailed Bankruptcy code.

9 TAX REFORMS

The Budget did not announce any big changes in the tax structure. There were three key changes in direct taxes – increase in tax rebate by Rs 3,000 to Rs 5,000; higher housing rent exemption of Rs 60,000, up from Rs 24,000 earlier, and a change in Corporate Tax while phasing out corporate exemptions. To make up for the loss of tax revenue through these proposals, the Budget increased taxes on luxury goods like cars and jewellery. It also announced a 10% tax on dividend income of over Rs 10 lakh. The FM also announced a 0.5% cess on all taxable goods and services. This money would be used for agricultural and rural development.

10 HOUSING SECTOR

Affordable housing was another key focus point this Budget. It proposed a 100% tax deduction for all housing projects that built smaller flats sized 30-60 square metres. These projects will also be exempt from Service Tax in the coming year. The FM also announced a tax deduction on an extra Rs 50,000 for those who opt for loans Rs 35 lakh in 2016-17. This is only for first-time buyers who buy houses worth less than Rs 50 lakh. The Budget also announced tax incentives on dividends distributed by Real Estate Investment Trusts (REITs).

BUDGET 2016: HOW ARE YOUR TAXES AFFECTED?

The Union Budget covers almost all aspects of the economy, but nothing is more looked forward to than tax-related announcements. This is when the government announces changes in both direct and indirect taxes. Let's look at how the Budget changed tax rules this year:

1 INCOME TAX

This year's Budget had no changes in the income tax slabs or the exemption limit. Instead, the Finance Minister proposed to increase tax rebate under Section 87A of the IT Act to Rs 5,000 from Rs 2,000 earlier. This is for individuals who earn less than Rs 5 lakh. This rebate is applied on your final 'Income Tax' liability. Meaning, if you have to pay tax of Rs 3,000, the rebate ensures you do not pay any tax at all. Suppose, the income tax payable is Rs 6,000 you will only have to pay Rs 1,000 in tax.

2 PRESUMPTIVE TAX

The government focussed on the small-scale businesses and entrepreneurs. This includes professionals, who do not earn a salary. Instead, they earn from services offered. This year, the Budget proposed to extent the Presumptive Taxation Scheme to professionals too along with small-scale businesses. All individuals who earn revenue up to Rs 50 lakh from services offered could calculate their taxable income to be 8% of their total revenue/turnover. This is a simplified way of calculation, and can lead to savings for such individuals. For companies, the Budget proposed to raise the limit to Rs 2 crore from Rs 1 crore earlier. This means, around 30 lakh additional companies could opt for the Scheme.

3 CORPORATE TAX

Small-scale companies have more to rejoice. Start-ups will have to pay no Income or Corporate Tax in the first three years. They will only have to pay MAT or Minimum Alternative Tax. Secondly, the Budget reduced Corporate Tax rate to 29% from 30% earlier for companies with turnovers less than Rs 5 crore. Lastly, the government wants to simplify the tax structure further. To do so, it will give new companies established after March 2016 the option to either be taxed at a rate of 25% or at the usual Corporate Tax rate. The difference is that companies cannot opt for any tax exemptions if they wish to be taxed at 25%.

4 HOUSING-RELATED CONCESSIONS

Housing got some of the biggest tax breaks this year. The Budget proposed three new tax concessions – two for individuals and one for realty developers. First-time buyers of houses worth up to Rs 50 lakh can get an additional exemption of Rs 50,000 on their loans premiums. This is in addition to the existing limit of Rs 2 lakh. All individuals can get a tax deduction of up to Rs 60,000. Currently, the limit is set at Rs 24,000. To encourage developers to build affordable houses, the Budget proposed to exempt all projects from service tax if they are building flats sized up to 60 square meters.

5 DIVIDEND DISTRIBUTION TAX

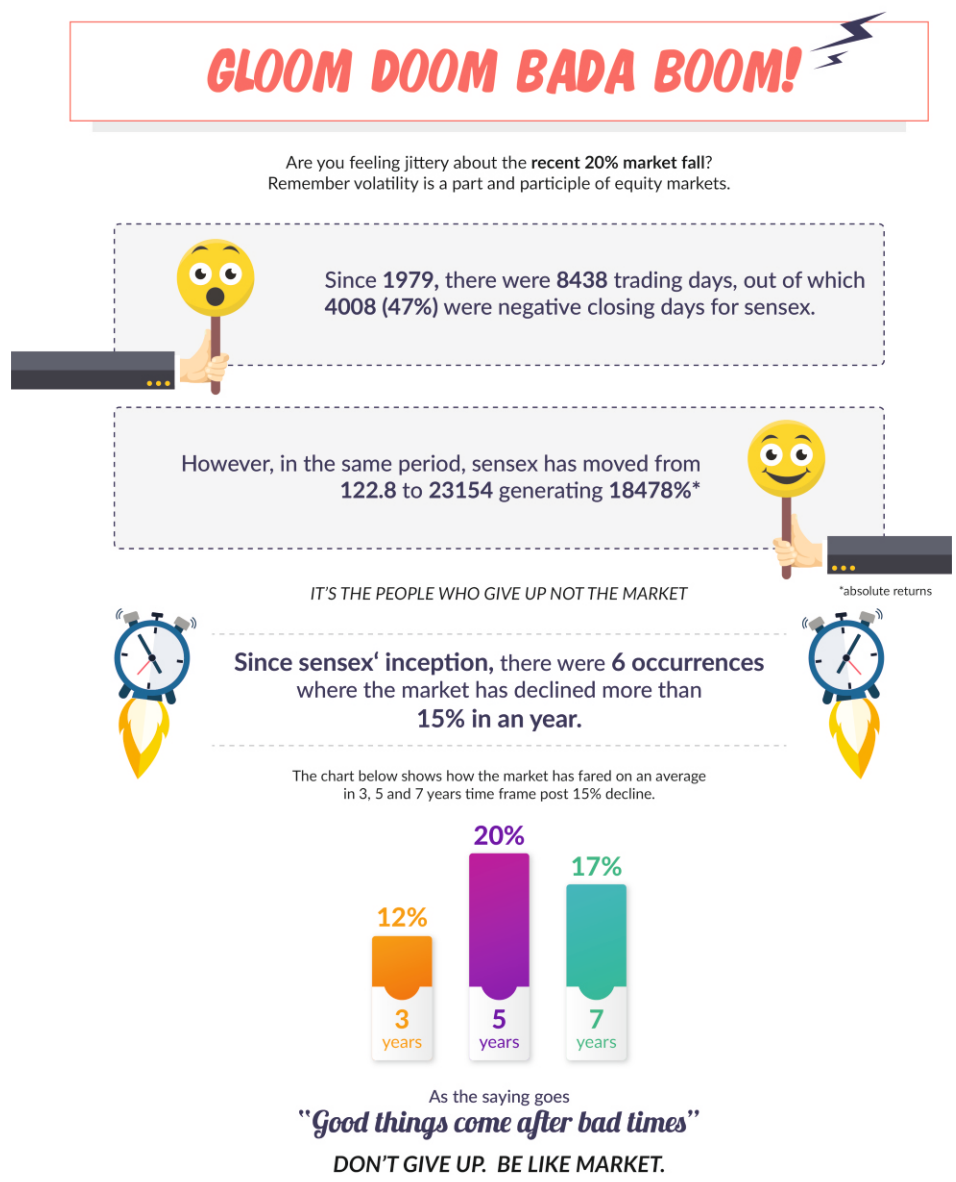
The government clearly wanted to increase its tax revenues to make up for its extra expenditure. For this, it turned to the rich. This reflects in the Budget proposal to tax dividends worth over Rs 10 lakh at the rate of 10% in the hands of the investor. This is in addition to the 28.84% Dividend Distribution Tax that the company pays. This change mainly affects institutional investors who hold portfolios worth crores of rupees.

6 NPS, EPF TAXATION CHANGES

The Budget did not propose to tweak any tax rates on investments. It, however, announced two key changes for the National Pension Scheme (NPS) and the Employee Provident Fund (EPF) scheme. To stimulate investment in NPS, the government proposed to make 40% of the total withdrawals during retirement tax-free. This means, investors only have to pay tax on 20% of the withdrawal as only 60% of the corpus can be withdrawn in lump sum. Of course, any monthly payments will continue to be taxed as usual. Secondly, the Budget lowered the tax-free withdrawal limit to 40% from 100% for all superannuation funds and recognized provident funds like the Employees Provident Fund (EPF). This is only for new investments post April 2016. This means, if you withdraw 60% of your EPF investments after you retire, you will have to pay tax on 40% of the amount. Earlier, the whole amount was tax-free.

7 INDIRECT TAX CHANGES

The Budget announced multiple, but small, changes to indirect taxes like Service Tax, Excise Duty, Import Duty. Most of the hikes in taxes are on luxury goods like jewellery or cars. The quantum of hike, however, is low – just about 1%. Cigarettes too would attract higher Excise Duties by 10-15%. Insurance premiums, meanwhile, could get cheaper as the Budget proposed to exempt general insurance schemes from Service Tax. It also slashed the Service Tax on Single Premium Annuity policy premiums to 1.4% from 3.5%. The Budget also proposed to levy an across-the-board cess of 0.5% on all taxable services and products. This is to fund the rural development projects. Lastly, it proposed to abolish 13 cesses levied by various Ministries to simplify taxation. These are small-level cesses which only generate revenues less than Rs 50 crore.



MUTUAL FUNDS AND BUDGET 2016: 5 THINGS YOU SHOULD KNOW

Tough regulatory reforms and a sharp decline in the stock market made 2015–16 a tough year for mutual funds. The industry was looking at yesterday's budget for announcements that would revive investor interest. Here are five key points from Budget 2016 that affect the mutual fund sector.

1 CAPITAL GAINS TAX

Investors who switch plans within the same mutual fund scheme pay capital gains tax. This has led to widespread debate in the mutual fund sector. Such taxation hinders investor flexibility and makes them wary of investing in mutual funds. The finance minister abolished the capital gains tax on the merger and consolidation of mutual fund plans, yesterday. This is a welcome move for the sector. The legislation will come into force in Fy2017–18.

2 SERVICE TAX ON ADVISORS' COMMISSION

Service tax on fund advisors (distributors or sub-brokers) has been a point of contention. Last year, the government levied a 14% tax on fund advisors' commissions. The fund houses deduct this amount out of the commission they pay to their distributors. The tax eats into the distributors' profits, making the business unviable for them. But fund advisors play a critical role. They bridge the gap between fund houses and the masses. Fund houses cannot set up an extensive network of branches throughout the country. So, they rely on small advisors to carry their products to the people. Yesterday, the finance minister ended the service tax on small fund advisors. Those with an annual commission income of up to Rs 10 lakh are exempt. The move should benefit 38,000 fund advisors. This should increase retail participation in the financial markets.

3 INCOME TAX EXEMPTION LIMIT

Mutual fund products target young professionals and middle-class Indians. These groups have limited financial knowledge and small investment corpuses. Hence, fund houses welcome any development that increases the investment corpus of these groups. After all, a reduction in the income tax rate increases their investable income. This year, the sector had hoped for an increase in the tax exemption limit to Rs 3 lakh. This could have created an excess of approximately Rs 50,000 crore, a lot of which could have come their way. Hence, the income tax slabs remaining unchanged has disheartened the sector.

4 DEDUCTIONS UNDER SECTION 80C

Section 80C of the Income Tax Act discusses the tax deduction limits for various expenses and investment products. The mutual fund sector wants an increase in the deduction limits. Such an increase could promote the investment habit in the country. Equity-linked savings schemes (ELSS) feature prominently in the discussions. These schemes offer the benefits of both equity investment and a saving scheme. At present, ELSS exemption limits stand at a mere Rs 1.5 lakh. Any further investments in the product face standard taxation rates. There were hopes of an increase in ELSS deduction limits this time around. But the budget provided no incentives for ELSS or any other products under 80C this year.

5 SIMPLER KYC PROCEDURE

Know your customer (KYC) norms allow banking and financial services institutions (BFSIs) to be certain about the identity of their customers. The aim is to present misuse of their services. At present, all BFSIs (i.e.mutual fund advisors, banks, stock brokerages, etc.) start the KYC procedure individually for each customer. The process involves lengthy paperwork and time-consuming processes. But mutual fund companies and other BFSIs have a better solution. They have requested the government to set up an eKYC platform to ease the process. They also feel that an investor should undergo the KYC procedure only once for all institutions. Unfortunately, this year's budget took no step to simplify the KYC procedure.

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