I-CAN FINANCIAL SOLUTIONS

I-CAN COMMUNIQUÉ

JANUARY 2018

MONTHLY NEWSLETTER – JANUARY 2018

I-CAN FINANCIAL SOLUTIONS

Sensex : Up 2.7% Nifty : Up 2.9%	
Best performing sector: Metal (7.4%)	Worst performing sector: PSU Bank (-4.1%)
Best performing Global index: Jakarta Composite (6.8%)	Worst performing Global index: CAC 40 (-1.1%)
Indian Rupee: 1.3%	Gold price: 0.1%

The Indian headline equity indices ended 2017 on an upbeat note. One of the major triggers for the cheerful sentiment was BJP's victory in Gujarat – which reinforced the confidence in the government's political stability. Last month FIIs pulled out Rs 5,882 crore from the equity market while they infused Rs 2,350 crore in the debt market. Overall the FII trading volumes were low in December due to the holiday season. On the other hand, domestic mutual funds invested a net amount of Rs. 8,333 crore in equity and Rs 18,997 crore in debt market. Indian bonds are sliding at the fastest pace in almost two decades. The 10-year G-sec yield increased by 27 basis points last month and a total of 81 basis points in 2017.

Another major event that the market was watching out for was the US monetary policy. As expected, the US Fed hiked interest rates for the third time this year and fifth time in this policy cycle. The interest rates range now stands increased by 25 basis points at 1.25 to 1.50%.

The macroeconomic data released last month was positive. India's GDP growth improved to 6.3% in the September quarter, up from a three-year low of 5.7% in the June quarter. The Centre for Economics and Business Research (CEBR) consultancy's 2018 World Economic League Table predicted that India will be the 5th largest economy in the world in dollar terms in 2018, overtaking the U.K. and France.

The Nikkei Manufacturing PMI rose to 54.7 in December from 52.6 in the previous month – the fastest rate in 5 years. The Nikkei Services PMI in India revived to 50.9 in December of 2017 from 48.5 in the previous month. The Index of Industrial Production grew by 8.4% in November – which is the highest growth in 25 months. Credit to industry grew by 1% in November - the first time growth was achieved in the year.

India's wholesale price inflation cooled to 3.58% in December led by a softer rise in food inflation. India's retail inflation accelerated to a 17-month high of 5.2% in December as fuel and vegetable prices hardened. This has removed any expectation of further rate cuts by RBI. The Reserve Bank of India's (RBI) monetary policy committee (MPC) kept the key interest rate unchanged in the last monetary policy review, noting risks to inflation, but expressed optimism that the slowdown in economic growth had bottomed out.

Reforms

- SEBI announced that all stock and commodity exchanges can facilitate trading in stock and commodity derivatives from October 2018.
- SEBI has decided that any shareholder owning at least 10% stake in an asset management company (AMC) will not be allowed to have 10% or more stake in another AMC.
- SEBI declared that it will investigate the possible leaks of company earnings in social media chat rooms.
- SEBI has proposed allowing mutual funds and portfolio management services (PMS) firms to invest in commodity derivatives.
- The minimum net worth threshold for the rating agencies has been proposed to be raised to Rs 25 crore from the current level of Rs 5 crore.
- The government ruled out giving income tax exemption to profit-making cooperative banks saying they functioned like commercial banks and should be treated on par.
- The government might immediately infuse Rs. 10,000 crore in 6 public sector banks like United Bank of India, Dena Bank, Bank of Maharashtra and so on.
- The labour ministry will soon extend full-benefit fixed-term jobs, already a feature in the labour-intensive garment and leather industries, to most other sectors.
- The Cabinet approved the introduction of the Consumer Protection Bill, 2017. The bill focuses on faster redressal of consumer grievances and strict action against unfair trade practices.
- SEBI has urged the Rs 23-lakh crore mutual funds (MF) industry to stay disciplined and focus on good principles amid gush of inflows from domestic investors.

TAXATION ON MUTAL FUNDS

Mutual funds have added over Rs 6 lakh crore to their asset base in 2017. Investments in mutual funds can be optimized by having a proper understanding of tax implication. Many investors are confused when it comes to taxation on mutual funds. The taxation on mutual funds can be divided in two parts, capitals gains and dividend.

Capital Gains taxation on Mutual Funds

Capital gains refers to an appreciation in the value of an investment. For example if an investor has invested Rs. 50,000 in a mutual fund and redeems the same at a value of Rs. 1 Lakh, then he has made a capital gain of Rs 50,000 or profit of 50%. Capital gains can further be divided into long-term capital gains and short-term capital gains depending on the investor's investment horizon. Capital gains tax on mutual funds also depends on the type of fund the investor has invested in, whether it's an equity mutual fund or a debt mutual fund.

Capital Gains Tax on Equity Mutual Fund

Where the equity holding is more than 65% of the total portfolio value of a mutual fund scheme it is considered to be an equity mutual fund. The Equity Oriented Balanced and Equity Savings Mutual funds are therefore taxed as equity mutual funds.

If an investment is held for a period of more than 1 year, no long term capital gain tax is charged on the returns gained on the investment value. If the investment is held for a period less than 1 year than a short-term capital gains tax of 15% is applicable on the returns gained on the investment value.

For NRI's the long – term capital gains tax charged is same as above, but in the case of short term capital gains tax, there will be a TDS (Tax Deducted at Source) charged to the NRI, which means that tax will be deducted by the AMC before paying the redemption amount to the NRI investor.

Capital Gains tax on Debt Mutual Fund

Where the equity holding is less than 65% of the total portfolio value of a mutual fund scheme it is considered to be a debt mutual fund. Gold funds, International Funds & Fund of Funds are categorized as Debt funds for the purpose of taxation.

The returns from the Debt Funds are treated as long-term capital gains if the investment is held for a period more than three years, with 20% capital gains with indexation benefit. If the investment is held for a period less than 3 years, short term capital gains tax is applicable to the investor according to his tax slab. Indexation benefit helps the investors in the long term to save taxes. Indexation allows the investor to inflate the purchase price using the CII (Cost Inflation Index).

For NRI's the TDS on long-term capital gains tax applicable with 20% indexation benefit along with 10-15 % surcharge with 3% cess, and in case of short-term capital gains tax applicable is 30% along with surcharge as applicable with 3% cess.

Dividend Taxation

The dividend taxation depends on the type of mutual fund. There is no DDT (Dividend Distribution Tax) on equity mutual funds and the dividends received by the investors are tax free. In case of debt mutual funds the DDT is applicable and the dividends received are tax free.

The DDT applicable on debt mutual funds depends on the type of debt funds:

1. DDT on Liquid /Money Market Schemes:

In these kind of schemes 25% tax with 12% surcharge and 3% cess will be deducted from the dividend.

2. DDT on Debt Funds Other than Liquid /Money Market Schemes:

In these kind of schemes 25% tax with 12% surcharge and 3% cess will be deducted from the dividend.

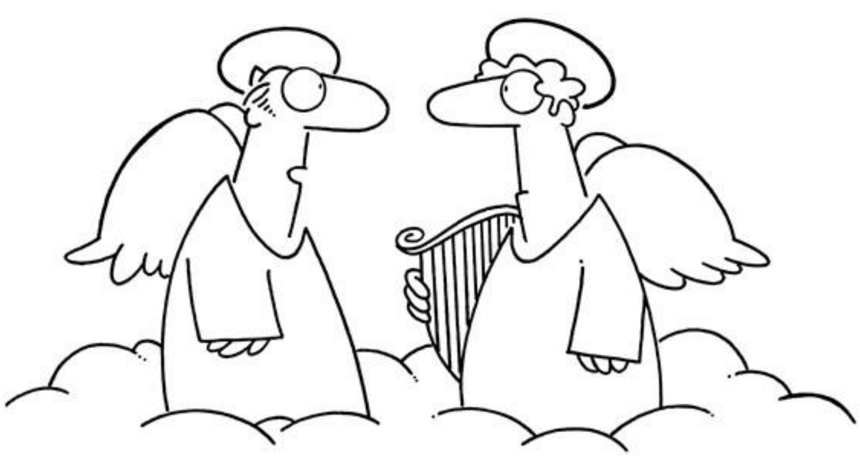
Securities Transaction Tax On Mutual Funds

STT of 0.001% is applicable on the redemption value on sale of units of an equity oriented scheme.

Did you know?

Chocolate manufacturers use 40% of the world's almonds!

Cartoon of the Month



"My accountant says this is the best way for me to avoid paying taxes until he comes up with a better plan."

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