MONTHLY NEWSLETTER – JULY 2016

Sensex : Up 1.2% Nifty : Up 1.6%	
Best performing sector: Realty (7.9%)	Worst performing sector: Technology (-2.5%)
Best performing global index: Brazil Bovespa (6.3%)	Worst performing global index: Japanese Nikkei 225 (-9.6%)
Indian Rupee: (-0.39%)	Gold price: (7%)

The Indian headline indices were up by about a per cent in the month of June. FIIs bought a net amount of Rs. 14,671 crore in equity markets. FIIs were net sellers to the tune of Rs. 4,210 crore in the debt market. The markets were on tenterhooks till the poll result on 'Brexit' was announced on 24th June. In a shocker to the markets British citizens voted in favour of Britain exiting the European Union. Global stock markets lost about $2 trillion in value on 24 June after Britain voted to leave the European Union, while sterling suffered a record one-day plunge to a 31-year low and money poured into safe asset classes like gold and government bonds. Many experts said that India is least vulnerable to the UK shock vote. The Indian markets recovered after the sharp fall on the day of the Brexit announcement. Another important development on the domestic front was the decision to end Dr. Raghuram Rajan's tenure as the RBI Governor this September. This announcement came after a lot of speculation. The markets are eagerly awaiting the announcement of his successor to figure out the course of monetary policy action going forward.

Inflation continued to increase in May. Indian wholesale prices rose 0.79% and retail prices increased by 5.76%. Food inflation increased sharply leading to higher retail prices. Growth of industrial output fell 0.8% in April 2016, pulled down by the manufacturing sector, which contracted 3.1% from the same month in 2015. A positive was India's current account deficit (CAD) declined sharply to $0.3 billion or 0.1% of GDP in the fourth quarter ended March for financial year 2015-16, against $7.1 billion (1.3 per cent of GDP), in the third quarter ended December 2015, on account of a lower trade gap.

Important Reforms:

- The cabinet cleared the 'Model Shops and Establishments (Regulation of Employment and Conditions of Service) Bill' that will allow malls, shops, restaurants, banks and cinemas to operate 24 hours a day, effectively boosting employment generation in the country.

- The Union cabinet approved pay and pension raises that will put an additional Rs. 1.02 trillion in the hands of 10 million central government employees and pensioners in the current fiscal, delivering a potential boost to the consumer economy. At a meeting chaired by Prime Minister Narendra Modi, the cabinet accepted the recommendations of the Seventh Pay Commission for pay and pension increases ranging from 14% to 23.5% for 4.7 million employees and 5.3 million pensioners.
- Insurance regulatory body, IRDA, has come out with a draft regulation on selling insurance via e-commerce platforms to help increase insurance penetration and foster financial inclusion.
- RBI allowed startups with an overseas subsidiary to open foreign currency accounts abroad to credit foreign exchange earnings from exports and sales made by them.
- The Cabinet on 22 June approved a RS. 10,000-crore 'Fund of Funds for Start-ups (FFS)' with an aim to generate 18 lakh jobs. This is in line with the 'Start-up India Action Plan' unveiled by the government in January. The 10,000-crore FFS corpus shall be built up over the 14th and 15th Finance Commission cycles subject to progress of the scheme and availability of funds, it said.
- The cabinet on 22 June cleared a Rs. 6,000 crore package for the textile sector, aimed at generating 10 million jobs over the next three years and improving the sector's competitiveness globally.

According to the World Investment Report 2016 by the United Nations Conference for Trade and Development (UNCTAD), India continues to be among the top ten countries in terms of foreign direct investment (FDI) inflows globally and fourth in developing Asia.

The World Bank on 7th June cut growth projections for India by up to three percentage points to 7.6-7.7% for 2016-17 and 2017-18. According to a DBS report, GDP growth is expected to be higher at 7.8% in the current fiscal, although it will be "uneven", propped largely by "strong consumption" and public expenditure.

Five Innocent Mistakes Tax Payers Usually Make

1. Not reporting interest income

The interest earned from fixed deposits, recurring deposits, even tax-saving bank deposits and infrastructure bonds, is fully taxable, people often do not report any interest income below Rs 10,000. The exemption of Rs 10,000 a year under Section 80TTA applies only to the interest earned on the balance in a savings bank account. Even so, one is supposed to declare it in ITR and then claim the deduction.

Another common misassumption is that one need not pay tax as TDS has been deducted on the income. What people forget is that the tax deducted by the bank at source is at a flat rate of 10%. However, tax slabs may vary. So, if one falls in a higher tax slab, the liability may be more and one will have to pay the balance while filing returns. Many people usually forget to re-calculate their liability and end up with a notice and hence pay higher taxes with interest and penalties.

The IT department can catch such mistakes by matching one's ITR with Form 26AS. The taxman also digs deeper, going beyond TDS. It tracks the deposits and interest income where TDS has not been deducted, that is, where one has submitted Form 15 G/H. The penalty is more severe, up to 200% of the tax evaded, as it is not a mis-calculation, but concealment of income.

2. Overlooking clubbing of income

Many people invest in the names of their spouse or minor children. There is no limit to the amount one can give to the spouse, but if one invests the gifted money, Section 64 of the Income Tax Act, a provision for clubbing income, comes into play. Under this, any earning from the gifted amount is added to the taxable income. It doesn't matter if one's spouse has an income or not. The money will be clubbed with one's income.

For a minor child, the earning is treated as income of the parent who earns more. One gets an exemption of Rs 1,500 a year, per child, up to a maximum of two kids. If one wants to escape tax, then one should invest the gifted money in a tax-free option, such as the PPF or ELSS schemes or invest in the name of one's parents or a major child, where clubbing provision does not come into play.

3. Not filing returns

If one thinks that it is not necessary to file returns because one does not have a tax liability then one is highly mistaken. This exemption is only for those with an annual gross income below the basic exemption level of Rs 2.5 lakh. Anyone with an income above 2.5 lakh has to file a return. The basic exemption is Rs 2.5 lakh per year for people below 60 years, Rs 3 lakh for senior citizens above 60, and Rs 5 lakh for very senior citizens above 80.

The rest, including NRIs, have to comply. If one fails to file the return in time, the assessing officer may levy a penalty of Rs 5,000 under Section 271F.

Besides, the limits are for gross incomes, that is, the income before deductions and tax breaks. So, if one's annual income is Rs 4 lakh and invests Rs 1.5 lakh under Section 80C, then the tax liability will be zero. However, one is required to file the ITR and similarly, if one have paid tax as TDS or advance tax then also one will need to file the return.
Many salaried people, who earn less than Rs 5 lakh, don't file an ITR. The confusion is because of an ad hoc rule introduced in 2011-12, where salaried individuals with taxable incomes of Rs 5 lakh or less, and earning less than Rs 10,000 as interest from savings account, with no refund due, were exempt from filing returns. However, this rule has been withdrawn.

4. Missing income from old job

If one has received a single cheque from a part-time freelance assignment, or salary has been credited regularly to one's account, every single paisa has to be reported.

If one fails to inform the current employer about a job change, there is a chance that lesser tax will be deducted from one's salary than one is liable to pay. However, this discrepancy will be immediately reflected when one files the return. One may have to pay higher tax as duplicate benefits will be rolled back.

One should not try to escape it as defaulters have to pay the balance tax along with interest at the rate of 1% per month for delay as penalty.

5. Not reporting tax-free income

Tax-free does not mean it is not an income. All the earnings that one has are included, be it the interest earned on PPF, tax-free bonds, or capital gains from stocks and gifts from specified relatives.
Even if you one is not liable to pay any tax on these incomes, all the interest income has to be reported in the ITR, later one can claim exemption for it under various sections.

Did you know?

If Facebook users were to reside in one country it would have been the third most populated country

Cartoon of the Month

"The best time to think about your retirement is before your boss does.It's never to soon to think about retirement planning."

Top Personal Finance News – June 2016

1) **All equity mutual funds do not follow their benchmark [Click Here]**

2) **Long-term capital loss can be adjusted against LTCG [Click Here]**

3) **What to do if your credit or debit card is lost or stolen [Click Here]**

4) **No TDS for PF withdrawals of up to Rs 50,000 from June 1 [Click Here]**

5) **Keep a mix of products for retirement [Click Here]**

6) **Perpetual systematic investment plan schemes can backfire [Click Here]**

7) **How to choose a comprehensive health plan? [Click Here]**

8) **Banks don't have to change lending rates with change in repo rate [Click Here]**

9) **How to choose a suitable debt mutual fund [Click Here]**

10) **You can switch between mutual fund schemes, but it comes with a time lag [Click Here]**

11) **Nomination in a Mutual Fund [Click Here]**

12) **Difference between medical allowance and medical reimbursement [Click Here]**

13) **Use investment products for right purposes [Click Here]**

14) **How to choose a stock broker [Click Here]**

15) **Long-term goals need higher equity exposure [Click Here]**

16) **You can close PPF after 5 years for a medical emergency or for higher education [Click Here]**

17) **Investments should be made based on your risk profile [Click Here]**

18) **Service tax on under construction property is charged on 25% or 30% of its value [Click Here]**

19) **How to choose health insurance: All you want to know [Click Here]**