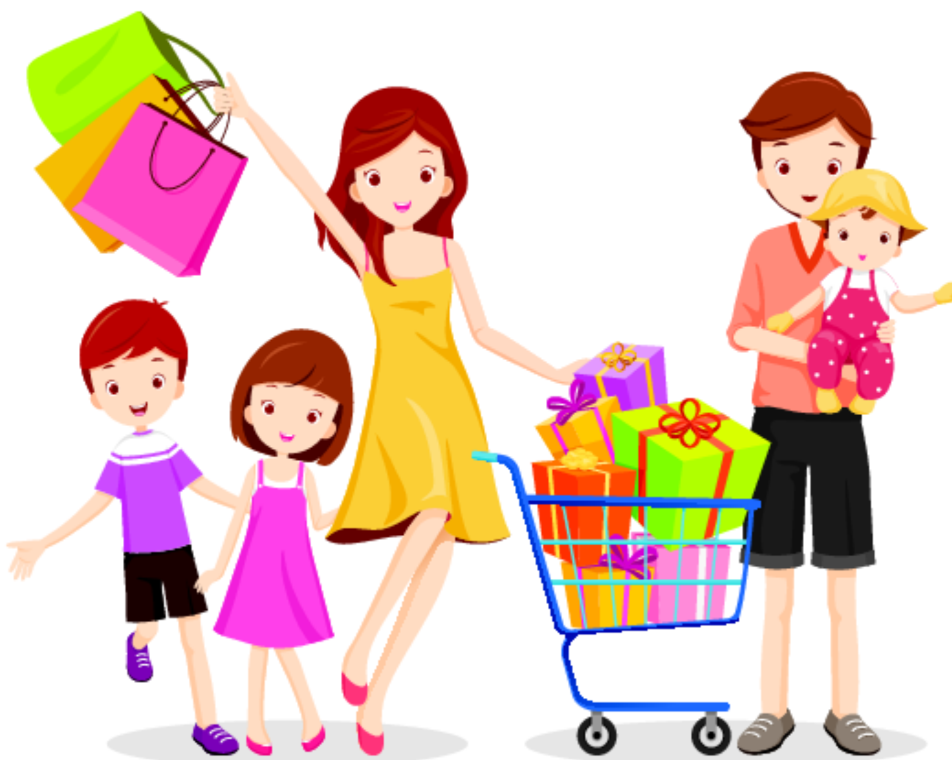
I-CAN COMMUNIQUÉ

JANUARY 2019



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MONTHLY NEWSLETTER – JANUARY 2019

Sensex : Down 0.3% Nifty : Down 0.1%	
Best performing sector: PSU Banks (5.9%)	Worst performing sector: Pharma (-4.4%)
Best performing Global index: Jakarta Composite (2.3%)	Worst performing Global index: Nikkei 225 (-10.5%)
Indian Rupee: -0.3%	Gold: 4.5%

The headline indices were flat for the month of December. The mid and small cap indices fared relatively better and gave returns of 2% and 3% respectively. The foreign institutional investors (FIIs) invested a net amount of Rs 3,143.2 crore in equity and Rs 4,748.6 crore in debt markets. In 2018 India received the highest number of foreign portfolio investors (FPIs) since 2014. The number of new FPIs registrations was 600 in 2018.

Five important state election results came out last month in which BJP had a lackluster performance. The Congress party emerged as the winner in Madhya Pradesh (MP), Rajasthan and Chhattisgarh. While Congress missed the majority mark in MP and Rajasthan, it won with a two-thirds majority in Chhattisgarh. The Mizoram state election was won by the Mizo National Front (MNZ). With this, Congress is completely wiped off from the North East. Telangana Rashtra Samiti (TRS) emerged victorious with a two-thirds majority in the state of Telangana.

Crude oil prices continued to move downward after touching a high of $85.12 per barrel on 5th October. Since then the Brent crude oil price has fallen by 41%! The fall in the month of December was 12% with a year-end closing price of $50.57 per barrel. This is a huge positive for the Indian economy.

The Nikkei Manufacturing Purchasing Managers' Index (PMI), compiled by IHS Markit, fell to 53.2 in December, below November's 54.0 reading. The Services PMI dropped slightly to 53.2 from November's 53.7. However, both the readings are above 50 which is a sign of expansion. Wholesale price based inflation fell to a 3-month low of 4.64% in November due to a drop in price of food articles, especially vegetables. The consumer price based inflation fell to 2.33% - which is the lowest level seen in the last one-and-half years. The Index of Industrial Production (IIP) which measures factory output, increased by a strong 8.1% in October compared to 4.5% in the previous month. This was mainly owing to festive demand and also a favourable base effect.

In the December monetary policy review, the RBI kept the repo rate unchanged at 6.5%, while maintaining the stance of ‘calibrated tightening’. The export growth rate fell sharply to 0.8% in November from 17.86% in October mainly due to an unfavourable base effect. The falling crude oil prices led to a trade deficit narrowing to $16.7 billion in November from $17.13 billion in the previous month.

After the sudden resignation of Mr Urjit Patel from the post of the RBI governor, Mr. Shaktikanta Das was appointed for this position.

The current account deficit (CAD) in July – September period touched 2.9% of GDP or $19.1 billion - the highest in more than four years. This has been largely attributed to rising crude oil prices.

For the first time 20 years, India has received more foreign direct investment (FDI) than China. In 2018, India saw more than $38 billion of inbound deals compared with China’s $32 billion. India’s FDI investment total across 235 deals was the highest ever as per data from Dealogic (a global M&A and capital markets data provider).

By November end, the total assets under management (AUM) of the mutual fund industry was Rs 24 trillion, up by 13% from the end of the 2017 AUM. The number of investors rose by 1.3 crore. It is expected that mutual funds will continue to see good growth in 2019 as well. Mutual funds collected Rs 7,985 crore in November via systematic investment plans (SIPs), 35% higher from the year-ago period.

Reforms

- SEBI issued a detailed set of norms regarding offer for sale (OFS). As per the new rules, companies with more than Rs 10 billion market capitalization can use the OFS mechanism to offload shares. Hence, now 700 companies will be able to sell shares through OFS compared to only 200 earlier.
- A proposal to make the National Pension Scheme (NPS) completely tax-free on withdrawal was approved by the Cabinet. Subscribers can withdraw 60% of the corpus on maturity on which they will get full tax exemption. Currently, on withdrawal, 20% of the amount is taxable. Contribution by government employees under Tier-II of NPS will be covered under Section 80C for deduction up to Rs. 1.50 lakh, provided that there is a lock-in period of 3 years.
- SEBI is planning to come out with a policy on sandbox framework, which will allow companies in the capital markets space to come out with experiments with innovations in a closed environment.
- Prime Minister Narendra Modi said that he has suggested to the GST Council that 99% of items should attract a GST tax of 18% or lower, with the exception of sin or luxury items.
- SEBI may start the practice of naming and shaming reckless fund managers. It also proposes to soon come up with strict norms for ‘side-pocketing’ which refers to segregating distressed or illiquid assets in a separate folio.
- SEBI has introduced a more robust risk management framework with regards to margin system for the

equity derivatives segment based on the recommendations by the Risk Management Review Committee. It requires members to make the payment of the mark to market (MTM) margin on T+0 basis, i.e., before the trading session begins the next day.

- The SEBI board approved the new listing norms for start-ups in businesses such as technology, intellectual property, data analytics and bio-technology. The listing platform has been renamed as Innovators Growth Platform. The current requirement of investors holding a minimum of 25% of the post-issue capital has been removed. The minimum application size for share offers has been reduced to Rs 2 lakh from Rs 10 lakh.
- Soon Indians will be able to access voice call and internet services through their mobile phones during air and ship travel within India. Indian and foreign airlines and shipping companies operating in India can provide these services in partnership with a valid Indian telecom player.
- SEBI has plans to permit custodial services in commodity derivatives market to promote institutional participation.
- The Ministry of Finance fulfilled the demand of various trade and industry bodies by extending the due date for filing annual GST returns by three months to 31st March.
- RBI laid down norms for enhancing credit discipline among large borrowers.
- SEBI shifted the time to start commodity derivatives trading earlier to 9 am from 10 am and extended the closing time of agriculture commodity futures from 5:30 pm to 9 pm.

How to Save Tax on Long Term Capital Gains on Property?

Capital gains refers to the profit one makes on selling an asset. When a property is sold, the quantum of capital gains can be significant especially if it was held for a long period.

Short Term Capital Gains Tax on Property: If a property is held for a period of less than two years, the gains are classified as short term and are taxed as per the income tax slab of the individual holding the property.

Long Term Capital Gains Tax on Property: If a property is held for a period of more than two years, the gains are classified as long term and are taxed at 20% plus cess with indexation benefit.

There are two types of property when it comes to computation of capital gains taxation:

a. Residential – it includes house/apartment which is used for residential purpose
b. All others – it includes land, commercial buildings etc

In order to save long term capital gains tax arising out of sale of property, the following provisions can be used:

1) <u>Section 54:</u>
   This is applicable for capital gains arising from sale of a residential property. There are two ways of avoiding tax:
   i. Purchase of another residential property (including under construction property) 1 year before the sale or 2 years after the sale
   ii. Construction of residential property within 3 years of sale

   The new property which is bought/constructed should not be sold within 3 years of purchase/construction. In case the property is sold within 3 years, the purchase price would exclude the capital gains exemption that was claimed. Also, the new house should be owned by the same person who held the previous property.

2) Section 54EC:
   The long term capital gains tax on residential or other property can be avoided if an individual invests the gains in specified long term capital gains bonds within 6 months of the sale of property. The eligible bonds are National Highway Authority of India (NHAI), Rural Electrification Corporation (REC) and Power Finance Corporation (PFC) bonds. The money cannot be redeemed before 3 years from the date of sale.

3) Section 54F:
   Exemption under Section 54F is available when the capital gains arise out of sale of a property other than a residential property. In order to avail this exemption, the entire sale value and not just the capital gains needs to be invested to purchase a new residential property. This should be done either 1 year before or 2 years after the sale of the property. Alternatively, one could construct a residential property within 3 years of the date of sale.

   Amount exempt = Capital Gains x [Amount invested/Net Sale Consideration]

   There are certain conditions to be fulfilled in order to avail this exemption:

   i. The new house should be located in India
   ii. The proceeds should not be invested in a commercial property or in another plot
   iii. The taxpayer should not have more than 1 residential house as on the date of sale

4) Section 54B:
   In case of short term or long term capital gains arising out of sale of land used for agricultural purpose by the taxpayer or his/her parents for 2 years immediately prior to the sale, there is exemption available under Section 54B. The sale value should be invested into a new agricultural land within 2 years from the date of transfer.

   In some cases capital gains from sale of agricultural land may be completely tax exempt. For instance, sale of agricultural land in a rural area is not taxable.

   What is the Capital Gains Account Scheme?
   The entire process of finding a seller, arranging the funds and paperwork is a time consuming one. Hence, the Tax Department allows individuals to deposit the amount from the sale of property in a public sector bank or other banks as per the Capital Gains Account Scheme, 1988 in case the capital gains have not been invested until the due date for filing tax returns. This deposit can then be claimed as an exemption from capital gains, and no

tax has to be paid on it. However, if the money is not invested, the deposit shall be treated as short-term capital gains in the year in which the specified period lapses.

How to calculate long term capital gains?

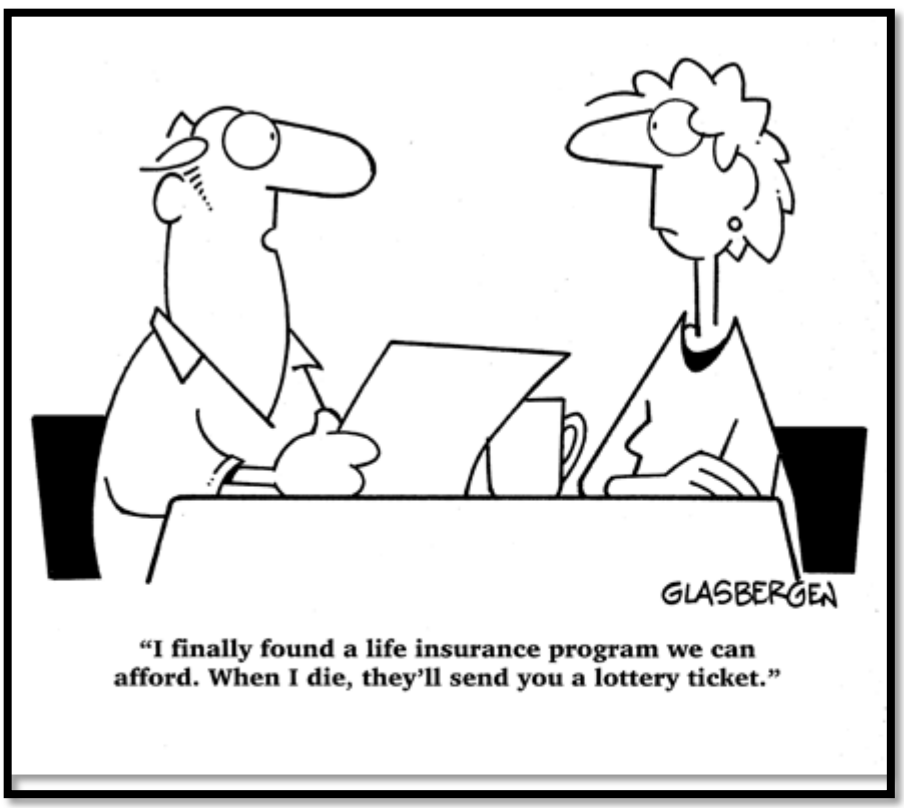
a. Begin with the full sale value
b. Deduct the following
    a. Expenditure incurred wholly or exclusively in relation to the asset transfer
    b. Cost of purchase (indexed)
    c. Cost of improvement (indexed)
c. From the arrived figure, deduct exemptions availed under Section 54, 54EC and 54F

The value arrived after the above mentioned steps is the amount on which long term capital gains tax needs to be paid.

Did you know?

The acid in your stomach is strong enough to dissolve zinc. It doesn't destroy the stomach because the stomach wall constantly renews itself.

Cartoon of the Month



Top Personal Finance News – December 2018

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2) Soon, you could get PAN card in 4 hours : Click here
3) Avoid lumpsum investments, stagger them through STPs : Click here
4) SIPs get 'smarter' to offer better returns : Click here
5) Mutual Funds: Your insurance agent may now sell MF, pension products, FDs: Click here
6) 5 smart ways to save premium costs on your life insurance purchase: Click here
7) ULIPs: Here's all you need to know: Click here
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