I-CAN MONTHLY NEWSLETTER

JANUARY 2017

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I-CAN FINANCIAL SOLUTIONS

Market Update

Sensex : Down 0.1% Nifty : Down 0.47%	
Best performing sector: Teck (2%)	Worst performing sector: Healthcare (-6%)
Best performing Global index: CAC 40 (6%)	Worst performing Global index: Shanghai Composite (-5%)
Indian Rupee: 0.7%	Gold price: -1.6%

The headline indices were flat in the month of December. There was massive selling by FIIs. Indian equity markets witnessed a net outflow of Rs. 8,176 crore and debt markets saw a net outflow of Rs. 18,935 crore. Demonetisation and was one of the major reasons for the weak sentiment in the market. Banks were seen reducing their interest rates due to excessive liquidity. The Nikkei Services PMI shrunk for the first time in 17 months in November, falling to 46.7 from 54.5 in the previous month. (A number less than 50 is indicative of contraction in activity) The Nikkei India Manufacturing Purchasing Managers' Index, or PMI, dropped to 52.3 in November from October's 54.4. The Index of Industrial Production (IIP) fell 1.9% in October compared with a 0.7% rise in September. November retail inflation was 3.63% - which was at a 2-year low. November WPI inflation was 3.15% (5-year low).

Some macroeconomic data that came in for the previous quarter was positive. Indian GDP grew by 7.3% (annualized) in the July – September 2016 quarter – higher than the 7.1% growth achieved in the previous quarter. Core sector (which comprises of coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity) index grew by 6.6% in October. This is the highest level of growth in 6 months.

Bank of America-Merrill Lynch said the impact of demonetisation is not permanent. Morgan Stanley sees likelihood of a 15% return on the benchmark indices in 2017. Similarly, Nomura believes demonetisation to be a near-term blip for India's corporate earnings growth, and believes growth story is intact. According to HSBC, the impact of demonetization could lower GDP growth by 0.7 – 1%.

On expected lines, The US Federal Reserve raised interest rates by 25 basis points on 14th December. However, the Fed hinted at faster increases than expected in 2017. The rate increase raised the target federal funds rate to between 0.5 and 0.75%. One of the events watched closely was a constitutional referendum that was held in Italy on 4th December'16. Voters were asked whether they approve a constitutional law that amends the Italian Constitution to reform the composition and powers of the Parliament of Italy, as well as the division of powers between the State, the regions, and administrative entities. The Italian voters rejected constitutional changes. This led to heightened worries in the global markets regarding worsening of the Italian bank crisis.

- Reforms
  - Prime Minister Narendra Modi on 30th December'16, launched 'BHIM: Bharat Interface for Money', a digital app on the Unified Payments Interface (UPI). It will facilitate e-payments directly through the bank.
  - On 2nd December'16, the government increased the limit for issue under the Market Stabilisation Scheme (MSS) to Rs 6 lakh crore from Rs 30,000 crore earlier. MSS securities are issued with the objective of providing RBI with securities to intervene in the market for liquidity management. This was done to suck out excess liquidity from the system.
  - The Income Tax Department on 2nd December'16, seized more than Rs. 1.64 crore undisclosed money deposited into the Jan Dhan accounts across nation.
  - SEBI may soon allow investors to buy mutual funds worth as much as Rs 50,000 a month through digital wallets.
  - The amount of money disclosed under the Income Declaration Scheme (IDS) totaled Rs. 67,382 crore – which will lead to direct tax revenue totaling Rs. 30,000 crore. The government expects the second and final IDS to get declarations between Rs 1.3 and 1.5 lakh crore.
  - In order drive digitalisation, the finance ministry on 5th December'16 made it mandatory for government departments to make electronic payment to suppliers and contractors if the order value exceeded Rs 5000.
  - For the first time, the income-tax department will use big data analytical tools to go through personal bank deposits to segregate black money holders from genuine tax-payers.
  - Prime Minister Narendra Modi has directed all ministries to draw up two-year Swachhta Action Plan for 2017-18 and 2018-19 to ensure implementation of Swachh Bharat Mission.
  - The government approved the Major Port Authorities Bill, 2016, a move aimed at bringing greater efficiency and professionalism in governance of ports through full autonomy in decision making.
  - In order to incentivise digital transfers, RBI has withdrawn charges on transactions of up to Rs 1000 settled on Immediate Payment Service (IMPS), Unstructured Supplementary Service Data and Unified Payment Interface (UPI) systems.
  - The government on 19 December said small traders and businesses with a turnover of up to Rs 2 crore will pay less tax if they accept payments through banking and digital means.
  - 100 stations were fitted with Wi-Fi already. Railways Minister Suresh Prabhu said that 200 more stations and some additional trains would be provided with Wi-Fi in 2017.
  - The RBI has allowed foreign portfolio investors to transact in non-convertible debentures/bonds issued by Indian companies either directly or in any manner as per the prevalent/approved market practice.
  - In his speech on 31st December, PM Narendra Modi announced the following sops:
    - Housing loans at lower interest rates: PM Awas Yojana beneficiaries to get 4% relief on loans up to Rs. 9 Lakh and 3% for loans up to Rs. 12 Lakh.
    - Loans of up to Rs. 2 Lakh taken in 2017 for new housing or extension of housing in rural areas will receive interest subvention of 3%.

- Number of houses to be build under Pradhan Mantri Awas Yojana – Gramin has been increased by 33% i.e. from 3 Crore to 4 Crore.
- Government would pay 60 days of interest on Farmer's loans availed from district cooperative and central banks for sowing operations this Rabi season.
- NABARD fund to be increased by Rs. 20,000 Crore to Rs. 41,000 Crore to provide loans to farmers ate lower interest rates. Loss to NABARD will be covered by central government.
- 3 Crore Kisan Credit cards to be converted into RuPay cards within next 3 months. This will facilitate them to withdraw money from ATM's and sell & buy at any place through digital transactions.
- Credit guarantee for small entrepreneurs has been increased from Rs. 1 Crore to Rs. 2 Crore. Loans from Non Banking Finance Institutions would also be covered under this.
- Income tax for small entrepreneurs and traders would be calculated at at 6 per cent instead of 8 if they use digital modes of payments.
- New national scheme for pregnant women to cover their delivery, vaccination, for nutritious meals. A financial assistance of Rs. 6000 to every pregnant women would be provided under the scheme. Amount will be directly transferred to saving bank account of pregnant women.
- New saving schemes for senior citizens under which 8% interest would be assured on deposits of up to Rs. 7.5 Lakh. The interest earned can be withdrawn per month.

Why should one invest in ELSS?

With the financial year coming close to an end investors looking to save tax under section 80C of the Income Tax Act one could consider to invest in ELSS funds amongst other funds.

What is ELSS?

Equity Linked Savings Schemes, ELSS, is a type of equity diversified mutual fund that doesn't just help the investor to save tax but also gives an opportunity to grow one's wealth. It is qualified for tax exemption under section 80C of the Income Tax Act. These funds have a lock in period of 3 years and investments of upto Rs.1,50,000 per financial year can be claimed as deductions under Section 80C of the Income Tax Act.

How does ELSS compare with other tax saving options?

ELSS funds have the shortest lock-in period compared to other tax saving investment options like PPF, NSC Bonds, NPS, or ULIPS. Also, historically these funds have generated much higher returns than any other investment option.

ELSS v/s PPF

PPF, or Public Provident Fund, is a traditional scheme offered by the Government of India for the tax payers to save tax upto Rs 1,50,000. The lock in period of the scheme is 15 years and can be extended in blocks of 5 years after maturity. A minimum yearly deposit amount of Rs. 500 is required to open and maintain the PPF account. The amount can be deposited in lump sum or in maximum of 12 installments per year. Partial withdrawals can be made on the commencement of the seventh year. While the risk is low in PPF, the returns are not at par with that of ELSS. The current interest rate is 8.1% (compounded annually).

The scheme invests in government bonds, corporate bonds, securities and debt schemes.

ELSS v/s National Pension System

NPS is more of a retirement solution than an investment solution. It has a lock in period till the retirement age of 60 years. This might be restrictive for investors who aim for higher returns in a relatively medium time period. If one wants to generate with a period of three to five years then NPS is not a right investment option. The long term capital gains on ELSS is tax free, but it is not applicable in case of NPS. 40% of the maturity amount has to be used to buy annuities and the remaining balance is taxable according to the tax slab. In case of NPS, an additional Rs. 50,000 benefit is available under Section 80 CCD.

ELSS V/S National Saving Certificate

It is a scheme launched by the Government of India. It is a fixed income earning instrument and the interest rate is at par with other government tax savings instruments. These schemes are compounded half yearly and the interest rates are declared annually. The major disadvantage of NSC over ELSS is the tax treatment of the interest earned in NSC. The interest of NSC is not paid every year, rather it is reinvested at the same interest rate. This reinvestment of interest is further eligible for tax deduction under section 80C. The current rate of interest is 8% compounded half yearly.

ELSS v/s Unit Linked Insurance Plans

Unit Linked Insurance Plan is a product offered by insurance companies giving investors both insurance and investment under a single integrated plan. It is basically a combination of insurance as well as investment. A part of premium is utilized to provide insurance cover to the policy holder and the remaining balance of the premium is invested in equity & debt schemes. The lock in period varies from three to five years. In case the investment is withdrawn before five years heavy surrender charges are applicable for the same. Whereas there are no such charges applicable for ELSS investments except for minor management fee that is charged by the AMC's. The performance of the ULIP investments is often hampered by overhead and administrative charges, which is not applicable for the ELSS Investments.

ELSS v/s Sukhaniya Samriddhi Scheme

It is a Government of India backed saving scheme targeted at parents of girl child. This scheme encourages the parents of the girl child. The scheme is applicable to only those who have girl child of ten years or below. In this scheme where withdrawal is concerned only 50 % of the investment can be withdrawn once the girl child turns 18, whereas in case of ELSS investments the investment can be redeemed after 3 years. The returns in SSS compared to ELSS are moderate as there is no exposure to equities. Investment in ELSS can fetch good returns as there is exposure to equities and the principal amount along with growth returns earned can be redeemed after 3 years.

Investments in SSS is goal specific and the maturity amount can be redeemed only in the name of the girl child in whose name the account has been initiated, whereas in ELSS there is no such specific purpose and the investment in ELSS can be used to generate returns for any financial goal.

Who Can Invest In ELSS?

Investors who are not risk averse and want to save tax and invest in ELSS schemes.

How Can One Claim The Tax Benefits Of ELSS Funds?

If one wants to claim the tax benefit of the ELSS funds under Section 80C, one will have to provide a copy of the account statement.

Did you know?

"Monowi" is a town of Nebraska that has a population of 1, the Mayor pays taxes to herself.

Cartoon of the Month

"I don't know how you got my number up here, but I do not need any afterlife insurance!"

Top Personal Finance News – December 2016

1) Are you still confused about dividend and growth options in mutual funds? Click Here

2) How to diversify your mutual fund portfolio Click Here

3) Did you know: You can move money without mobile app Click Here

4) There is no tax on interest income of up to Rs 3 lakh a year for senior citizens? Click Here

5) Did you know: You can pay merchants by sending SMSs? Click Here

6) Dividend from mutual funds Click Here

7) De-jargoned: Pre-authorization in health insurance Click Here

8) How many mutual fund schemes should you have in your portfolio Click Here

9) Mobile banking without internet Click Here

10) Manage your money better to save more Click Here

11) How to switch from dividend to growth option in mutual funds Click Here

12) How to handle e-wallet grievances Click Here

13) Know your rights as a bank customer Click Here

14) How is exit load in mutual funds calculated? Click Here

15) How to review your mutual fund investments? Click Here

16) What's in a name? Plenty, if it's a mutual fund Click Here

17) **Are you investing in the right mutual fund scheme? Click Here**

18) **What is a benchmark in a mutual fund? Click Here**

19) **Did you know? How to calculate capital gains for debt mutual funds Click Here**

20) **Did you know: limitations of RBI's relaxed KYC norms Click Here**

21) **Selling or switching mutual fund units Click Here**

22) **What happens when you miss an SIP instalment? Click Here**

23) **Dejargoned: Instant redemption in mutual fund schemes Click Here**

24) **All the investments, expenditures you can claim as tax break under Section 80C Click Here**

25) **Did you know? The 3 digital initiatives to watch out for Click Here**