Sakthi Financial Services

# Weekly Update

04th April 2023

Vol :- 23.24.01

| SENSEX | NIFTY | GOLD | USD | CRUDE OIL |
|---|---|---|---|---|
| 59106.44 | 17398.05 | 59715.00 | 82.33 | 6615.00 |

## Eight money mistakes you need to avoid in the new financial year

As we step into the new financial year 2023-24 (FY24), it's important to be aware of the common financial mistakes that can cost you dearly. From overspending via credit cards to not investing enough to tackle emergencies, procrastinating tax planning, not reviewing your credit report, and more, here is a quick rundown on the pitfalls to avoid.

**Inadequate emergency fund**

Not having an emergency fund can put you in a difficult financial situation in case of any uncertainty, such as hospitalisation of a family member, job loss, etc. So, aim to save at least six months' worth of living expenses in an emergency fund that you can access quickly. Having a safety net in the form of an emergency fund not only adds to financial stability, but also leads to peace of mind.

**Leaving insurance out of your financial planning**

It is crucial to focus on comprehensive healthcare planning and not just during unforeseen incidents and critical illnesses. A good healthcare plan acts as a safeguard against emergencies and chronic illnesses that can potentially result in disastrous financial losses. Hence, one should prioritise healthcare plans over other investments when doing financial planning, when considering a healthcare plan, it is equally important to evaluate and plan for primary healthcare and other related expenses, such as doctor consults, lab/diagnostics tests, medicines and healthcare products.

With ever-increasing inflation, the cost of medical and hospitalisation products and services has also increased significantly. Therefore, thorough planning for both primary and critical healthcare will help manage expenses and avoid impact on savings or long-term financial planning.

Review your health insurance plan at least once in five years. This ensures that any changes in your lifestyle, life stage, income, medical conditions, and so on, are reflected in your health plan coverage, too.

A term insurance policy is critical to protect your loved ones in the event of your untimely death. Life insurance can provide financial support to your beneficiaries and help cover expenses such as future financial goals, outstanding debts and living expenses, While you should factor in your income, future goals and dependents' needs, among other things, as a thumb rule, make sure you have a term cover of at least 10-15 times your annual income.

**Procrastinating tax planning**

Procrastinating is essentially failing to plan ahead, which results in missed deadlines, penalties, and lost opportunities to minimise your tax liability. While waiting until the last minute to plan for your taxes you will end up investing in sub-optimal tax solutions and you may not take an informed decision.

**(Cont.)**

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to avoid these potential dangers, it's essential to plan ahead and start your tax planning at the start of a new financial year. This includes keeping accurate records throughout the year, staying up-to-date on changes to tax rules, and working with a qualified tax professional who can help you identify opportunities to minimise your tax liability and avoid costly mistakes.

**Investing without a financial goal**

When you don't have a set financial goal or plan, you may be more likely to make impulsive investment decisions based on short-term market trends or rumours, which can result in significant losses. Investing without a financial goal can be a recipe for financial disaster, since you may not know why you're investing in a particular asset or a scheme.

To begin with, determine a financial goal and your risk appetite. Then create a summary of your existing investments, including details such as initial investment value, current value, and returns. Track the objective and time horizon with which you made each investment, By doing this consistently over three to five years, you will gain valuable insights into how your net worth is growing and how your portfolio is performing. This can help you map your savings and investments to specific goals.

**Not upskilling for uncertain time**

The recent layoffs from globally renowned companies serve as a stark reminder that there is no job security despite spending many years with an organisation, and it's essential to be prepared for the worst. Continuous learning and skill enhancement are equally vital for personal and professional growth, This will add to building a financial cushion.

**Making a retirement plan without accounting for inflation**

Inflation erodes the purchasing power of money over time. When you're making retirement plans, it's important to consider how inflation will affect the amount of money you'll need to cover your expenses in the future. For example, if you plan to retire in 20 years and you currently need Rs 50,000 per month to cover your expenses, you'll need to factor in the rate of inflation over those 20 years to determine how much money you'll actually need. “By accounting for inflation, you can estimate how much your retirement savings will need to grow over time to keep pace with the rising cost of living. Assuming an average inflation rate of 6 percent, the value of Rs 50,000 in 20 years will be around Rs 1.22 lakh in today's rupees. This means that if you don't factor in inflation, you may underestimate the amount of money you'll need at the time of retirement and may not have enough to cover your expenses. Not accounting for inflation in your retirement plans can be a costly mistake that could significantly affect your standard of living in retirement.

**Defaulting on loan EMIs and credit card dues**

Every open line of credit, regardless of whether it is a credit card, home loan, personal loan or a short-term pay day loan from a fintech lender, has to be mandatorily reported to the credit bureaus.
This means every payment towards these loans gets tracked. “On-time payments have a big weightage in calculating your credit score, and every default on loan EMIs and credit card dues can have a significant negative impact on your credit score. Failing to make timely payments for dues can affect a person’s credit score, the borrower's creditworthiness is negatively affected, and the person may face difficulty in getting credit in the future. The borrower may even be denied loans in certain circumstances.

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**Not reviewing your credit report**

Vigilant monitoring of credit reports is critical to detect unintended missed payments, loans, credit inaccuracies, identity fraud, or unknown transactions. This financial habit allows users to take timely corrective action and swiftly resolve any discrepancies found in the credit report. Your credit report should always be accurate and up-to-date.

## Seven changes in financial landscape you need to know this April

**Income-tax rule changes for FY 2023-24**

Effective April 1, several changes will affect taxpayers in India because of the income-tax changes announced in Budget 2023. Some of the significant changes are as follows:

The new regime will be the default one, if a person does not state which regime they will submit their returns under. The rebate limit has been increased from Rs 5 lakh to Rs 7 lakh under the new regime. New income-tax slabs under the minimal exemptions regime will also come into force from April 1.

Leave travel allowance encashment limit was raised from Rs 3 lakh to Rs 25 lakh in Budget 2023, effective financial year 2023-24. In line with the Budget announcements, income earned on traditional endowment life insurance policies will be taxable at maturity, if the aggregate annual premiums exceed Rs 5 lakh in a financial year.

Investment in market-linked debentures will be considered short-term capital assets and there will be no capital gains tax, if physical gold is converted to electronic gold or vice-versa.

**No LTCG tax benefit for debt mutual funds**

Debt mutual funds will lose a key tax edge they enjoyed over fixed deposits. From April 1, capital gains made on debt mutual funds — schemes that invest less than 35 percent in Indian equities — will be added to your income and taxed at the slab rate applicable to you.

At present – that is, up to March 31 – capital gains made on debt funds are considered long-term if units are held for more than three years. Such long-term capital gains (LTCG) attract a tax of 20 percent after indexation, which brings down the tax payable. This benefit will no longer be available from April 1.

**SCSS and POMIS investment limits enhanced**

Budget 2023 has enhanced the attractiveness of two important financial investments, popular among senior citizens. Effective April 1, the maximum limit under the Senior Citizen Savings Scheme (SCSS) has doubled to Rs 30 lakh from Rs 15 lakh.

The scheme offered an assured interest of 8 percent per annum for the January to March 2023 quarter. The interest is paid quarterly.

Additionally, the investment limit under the popular Post Office Monthly Income Scheme (POMIS) has been raised to Rs 9 lakh from Rs 4.5 lakh. In case of joint accounts held in POMIS, the investment limit has been hiked to Rs 15 lakh from Rs 9 lakh. The scheme paid a monthly interest at the rate of 7.1 percent from January to March 2023.

**(Cont.)**

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Both SCSS and POMIS have a tenure of five years from the date of investment. SCSS accounts can be extended for three years upon maturity.
A sovereign guarantee backs these schemes, so there is no credit risk involved. These schemes are popular among senior citizens who need a regular income.

**New NPS rules for withdrawal**

The pension regulator, Pension Fund Regulatory and Development Authority (PFRDA), has made the uploading of certain documents mandatory, effective from April 1, 2023, to make annuity payments faster and simpler for subscribers.
The documents that needed to be uploaded on the CRA (Central Record-keeping Agency) system are NPS exit/withdrawal forms, proof of identity and address as specified in the withdrawal form, bank account proof and copy of PRAN (Permanent Retirement Account Number) card.
The CRA system is a web-based application for carrying out NPS-related activities.
You can withdraw 25 percent of your contributions from the account after completing five years in the Tier I account of NPS. You can withdraw for specific reasons - treatment of illness, disability, to fund higher education or marriage of children and for property purchase. The regulator restricts you to withdraw a maximum of three times during the entire period of investment.

**Another rate hike before taking a pause?**

The Reserve Bank of India's first monetary policy announcement of the financial year 2023-24 is on April 6. The Monetary Policy Committee (MPC) increased the repo rate by 250 basis points in the financial year 2022-23 to 6.50 percent. One basis point is one-hundredth of a percentage point. The consecutive rate hikes since May 2022 were to control the rising inflation.
Economists expect the RBI to hike the repo rate by another 25 basis points in April before taking a pause. If there is another rate hike, banks will once again increase interest on home loans and other loans linked to the repo rate as an external benchmark, as per the terms of loan agreements.

**Purchase gold jewellery and gold artefacts with HUID number**

From April 1, only hallmarked gold jewellery with a Hallmark Unique Identification (HUID) number shall be permitted to be sold at all jewellery stores in India. HUID number is a six-digit alphanumeric code. It will be given to every piece of jewellery at the time of hallmarking and will be unique for every piece of jewellery. It offers transparency and the buyer can get a true valuation of the gold purchased.

**Axis Bank revises tariff structure for savings accounts**

Effective April 1, Axis Bank has revised the tariff structure for savings and salary accounts. For instance, the bank has revised the average balance requirement criteria for the Prestige savings accounts. The average quarterly balance (AQB) of Rs 75,000 now becomes the average monthly balance (AMB).
Further, there is a revision of charges on non-maintenance of minimum average balance. Existing charges are NIL to Rs 600. From April onwards, it will be Rs 50 to Rs 600. The bank charges a premium for non-maintenance if the threshold is below 25 percent of the required balance. The bank has hiked the inward cheque return charges for non-financial reasons, from Rs 50 per transaction to Rs 150 per transaction.

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# Hybrid mutual funds can be the next big wave. But do they suit everyone?

TAXATION OF MUTUAL FUNDS

| Category | Tax rates (Before March 31) | | | Tax rates (On or after April 1) | |
|---|---|---|---|---|---|
| | Period of holding | STCG | LTCG | STCG | LTCG |
| Equity schemes (Invest 65% or more in the equity shares of domestic listed companies) | 12 months | 15% | 10% without indexation | No Change | |
| Debt schemes (Invest in debt securities, money market instruments, G-Secs, corporate bonds, municipal bonds) | 36 months | Applicable tax rate | 20% with indexation | Applicable tax rate | Applicable tax rate |
| Floater funds (Invest minimum 65% in floating rate instruments) | 36 months | Applicable tax rate | 20% with indexation | Applicable tax rate | Applicable tax rate |
| Conservative Hybrid Fund (Invests 10% to 25% in equity and 75% to 90% in debt instruments) | 36 months | Applicable tax rate | 20% with indexation | Applicable tax rate | Applicable tax rate |
| Balanced Hybrid Fund (Invests 40% to 60% in equity and 40% to 60% in debt instruments) | 36 months | Applicable tax rate | 20% with indexation | No Change | |
| Aggressive Hybrid Fund (Invests 65% to 80% in equity and 20% to 35% in debt instruments) | 12 months | 15% | 10% without indexation | No Change | |
| Arbitrage Fund (Invests minimum 65% in equity) | 12 months | 15% | 10% without indexation | No Change | |
| Other Funds* (Invests minimum 65% in equity) | 12 months | 15% | 10% without indexation | No Change | |
| Other Funds (Invests more than 35% but less 65%in equity) | 36 months | Applicable tax rate | 20% with indexation | No Change | |
| Other Funds (Invests 35% or less in equity) | 36 months | Applicable tax rate | 20% with indexation | Applicable tax rate | Applicable tax rate |

*STCG & LTCG are short-term and long-term capital gains. *Retirement Funds, Children's Funds, Index Funds, Fund of Funds*
*Source: Taxmann*

moneycontrol

A big outcome from the Finance Bill amendment on March 24 is that post-April 1, mutual fund schemes will be subject to three different types of taxation. On schemes that invest 35-65 percent in equities, you will now pay Short-Term Capital Gains (STCG) tax in line with your income tax rates; long-term capital gains (LTCG) will attract 20 percent tax with indexation.

To be sure, the Finance Bill has removed the capital gains tax and indexation benefits for debt funds that invest less than 35 percent in equity. In the third category of taxation, nothing changes for funds that invest at least 65 percent in equities.

For the Rs 40 trillion mutual fund industry struggling to come to terms with the latest tax shocker, this new category of taxation has changed little. The fact that hybrid funds were left untouched by the Finance Bill amendment actually opens new opportunities.

The question is: should you really switch to hybrid funds, if you're affected by higher taxation on you debt fund investments?

MF industry officials and experts say that the 35-65 percent equity category, which largely makes up hybrid mutual fund schemes, would be under the spotlight. **(Cont.)**

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Hybrid funds comprise six categories: Conservative Hybrid, Balanced Hybrid/Aggressive Hybrid, Balanced Advantage, Multi Asset Allocation, Arbitrage, and Equity Savings.

Hybrid schemes with total Assets Under Management (AUM) of Rs 4.87 trillion are the second-lowest open-ended mutual fund category after Solution Oriented Schemes. Compared to this, Growth/Equity Oriented Schemes commanded AUM of Rs 15.01 trillion as of Dynamic Asset Allocation/Balanced Advantage funds, which are expected to benefit from the tax changes, are the most popular categories among the hybrid schemes with AUM of Rs 1.91 trillion.

A better alternative?

Experts say that with a slight upgrade in their risk profile, hybrid funds can offer a better alternative when it comes to generating returns, over and above fixed deposit rates.

In this category, equity allocation can move anywhere between 20 percent and 80 percent or even 0-100 percent depending on market conditions. Currently, 30 such funds are available in the market, but most are keeping their equity exposure in the range of 65-100 percent and debt in range of 0-35 percent.

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Equity Savings is a neglected category among hybrid schemes with the lowest AUM of Rs 16,445 crore. But that could change soon.

“For retail investors, hybrid funds would make more sense. BAFs and Equity Savings may come in handy for retail investors as they can take debt allocation in a tax-efficient way,” said Niranjan Awasthi, Head of Products Marketing and Digital Business at Edelweiss Asset Management Company.

**Equity Savings and Arbitrage Funds**

In Equity Savings, minimum investment in equity is 65 percent and minimum investment in debt is 10 percent while arbitrage is also allowed.

In mutual funds, arbitrage is the simultaneous purchase and sale of a stock to take advantage of the price differential in the spot and futures markets. This helps in increasing the equity exposure in the scheme while avoiding a rise in the risk profile. Experts say that Equity Savings have largely remained neglected as retail investors generally look at equity allocation in hybrid funds. Apart from Equity Savings, the expert also sees money starting to flow into Arbitrage Funds.

**What should mutual funds do?**

the mutual fund industry used to talk about fixed deposits versus income funds in the early 2000s. In early 2000s, the return on say a long bond fund used to be around 1 percent higher than the corresponding deposit rate. With indexation and tax benefit, it used to be a decent 1.5-2 percent alpha. That alpha over a period disappeared because of the competitive pressure. The pitch has to change, there has to be an additional return and safety will have to come in too

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# NEWS IN BRIEF

**SEBI extends deadline for nomination for trading and demat account holders till September 30**

Sebi on Monday extended the deadline for making nominations or opting out of a nomination for trading and demat account holders from March 31 to September 30. Earlier, Sebi asked all existing eligible trading and demat account holders to provide a choice of nomination on or before March 31, failing which the trading and demat accounts would be frozen for debits. According to brokers, more than half of their retail clients are yet to comply with the norms. Earlier, the date to comply with this rule was March 31, 2022. However, Sebi had extended this deadline by one year to March 31, 2023.

**SEBI gives mutual fund holders till Sept 30 to furnish their nominations**

The Securities and Exchange Board of India (Sebi) has extended the last date for furnishing nominations for mutual fund investments from March 31 to September 30.

The capital market regulator had in June 2022 mandated nominations or opting out of nominations for all the existing individuals holding mutual fund units either solely or jointly by March 31, 2023, failing which the folios would be frozen for debits.

"Based on representations received from the market participants, it has been decided that the provision… with regard to freezing of folios, shall come into force with effect from September 30, 2023 instead of March 31, 2023," the regulator said in its latest circular.

**SEBI allows mutual funds to launch multiple ESG-based schemes**

The Securities & Exchange Board of India (SEBI), the financial market regulator, has announced a slew of measures to boost ESG factor-based investing in India through mutual funds. Mutual fund houses henceforth, can launch more than one scheme, the investment mandate of which is governed by ESG factors. ESG — Environmental, Social and Governance — factors-based investing is catching up in all parts of the world. As per extant rules of categorisation of mutual fund schemes, ESG schemes are considered thematic funds. And fund houses are allowed to launch only one ESG scheme. Now with the regulator allowing multiple schemes based on ESG-related factors, investors may get more alternatives in this space that suit their requirements.

**SEBI evaluating Total Expense Ratio process, to release detailed guidelines**

Madhabi Puri Buch, the chairperson of the Securities and Exchange Board of India (SEBI), on March 29 announced that the regulator is currently assessing the process of Total Expense Ratio (TER) and plans to release comprehensive guidelines on the matter.

Speaking to reporters after a SEBI board meeting, Buch emphasized the importance of transparency in TER and stated that it must encompass all expenses.

She also noted that SEBI has long recognized the existence of economies of scale in fund management. While SEBI continues to review TER, it has provided guiding principles to ensure clarity and thoroughness in expense reporting.

**Source:-** Economictimes, Moneycontrol, Livemint, Cafemutual, Ibjarates, AMFIIndia Etc.

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