

The

BUDGET DECODE

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Financial
Planning &
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Our View on Budget 2018

Budget 2018 - The Snapshot

Highlights of Budget 2018 for you

Tax

- Effective immediately, long-term capital gains tax (LTCG) of 10% on equity gains above Rs 1 lac without indexation
 - LTCG tax on shares purchased on or before 31 January to be grandfathered
 - Short-term capital gains tax on gains made under one year to remain at 15%
- Tax on distributed income on equity-oriented mutual funds at 10%
- No change in structure of income tax for salaried individuals
- Surcharge of 10 per cent on income above Rs 50 lac but less than Rs 1 crore to be continued next year; 15 per cent on income above Rs 1 crore to also continue

Salaried individuals

- Standard deduction for salaried individuals for transport and health at Rs 40,000
- Health and education cess increased to 4% from 3%
- To increase take home salary - Employees' Provident Fund and Miscellaneous Provisions Act to be amended to reduce contribution of women to 8% from 12% for the first three years; no change in employers' contribution.

Budget 2018 - The Snapshot

Highlights of Budget 2018 for you

Senior citizens

- Exemption for health insurance for seniors under section 80D bumped up to Rs 50,000 per year
- Exemption of interest from bank and post office deposits for seniors raised to Rs 50,000; no TDS to be deducted on such income under section 194A
- Medical expense deduction for seniors with critical illnesses raised to Rs 1 lac under section 80DDB
- Limit of Rs 7.5 lac per senior for investing in interest-bearing LIC schemes doubled to Rs 15 lac

Miscellaneous

- Government to consider all measures to eliminate use of cryptocurrencies such as bitcoin
- Government to formulate policy for gold to be an asset class
- Government to contribute 12% of EPF share for new employees in all sectors for the next three years

Impact on you - Long Term Capital Gains Tax (LTCG)

Introduction of LTCG and its impact on your equity returns while short term capital gains tax remains unchanged at 15%

In the Union Budget, Finance Minister Arun Jaitley said that longterm capital gains of over Rs 1 lac will be taxed at 10 percent without the benefit of indexation. The capital gains made before Jan. 31, 2018 will be exempt.

The long-term capital gains tax existed until 2005 but was removed to encourage greater participation in the equity markets. In recent years, retail investor interest in equity markets has picked up substantially.

Scenario - Say for example if your equity share is purchased 6 months before January 31, 2018 at Rs 200 and the highest price quoted (not day end prices) on 31st Jan is Rs 250. In such a scenario there will be no levy of 10% LTCG on your profits, INR 50 (250-200)

However, on August 2, 2018 you sell these shares for Rs 280 then there will be a 10% tax on the incremental profit of Rs 30 (280-250)

Impact on you - Health & Education Cess

A hike on the current income tax cess from 3% to 4%

Indian taxpayers saw a hike in the health & education cess paid to the government from the current rate of 3% (comprising 2% of education cess & 1% of secondary education cess) to 4% health & education cess in Budget 2018.

The below table provides an increase in tax payable post the cess revision

| Age (Resident individual) | Income Slabs (Rs) per annum | Increase in tax due to slabs (Rs) |
|---------------------------------------|-----------------------------|-----------------------------------|
| Below 60 years | upto 2.5 lacs | No impact |
| | 2.5 to 5 lacs | 125 |
| | 5 to 10 lacs | 1,125 |
| | 10 lacs & above | 2,625 |
| Above 60 years but less than 80 years | Upto 3 lacs | No impact |
| | 3 to 5 lacs | 100 |
| | 5 to 10 lacs | 1,100 |
| | 10 lacs & above | 2,600 |
| Above 80 years of age | Upto 5 lacs | No impact |
| | 5 to 10 lacs | 1,000 |
| | 10 lacs & above | 2,500 |

*Table above is an estimate, kindly contact your financial advisor for exact computations

Impact on you - National Health Protection Scheme

World's largest government funded healthcare initiative

The Finance minister announced a flagship National Healthcare Protection Scheme in the Union Budget for 2018-19 for underprivileged families.

The scheme endeavors to provide a cover of up to Rs 5 lac per family every year for secondary and tertiary care hospitalisation. The government plans to setup 1.5 lac health centres to provide healthcare to remotest corner of India.

The scheme intends to cover 10 crore families and benefit 50 crore people. This scheme marks the first steps taken by the government to provide universal health coverage for Indians.

Impact on you - Standard Deduction

A marginal benefit that would leave the salaried disappointed

Standard deduction - A flat amount that is subtracted from your salary before the computation of taxable income

Current standard deductions - Transport allowance - Rs 19,200 & Medical reimbursement allowance - 15,000

Proposed standard deduction - Rs 40,000

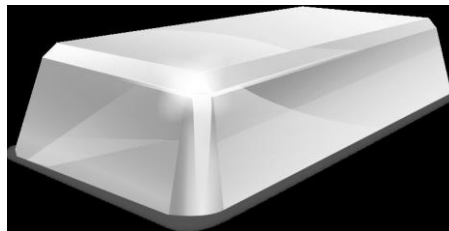
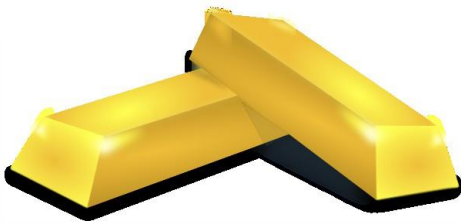
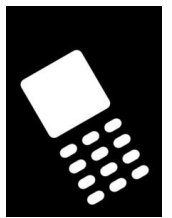
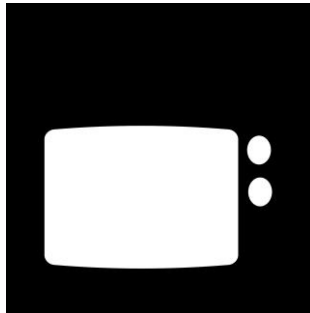
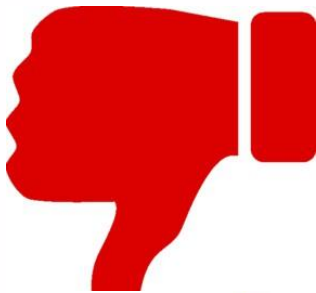
Increase in standard deduction - Rs 5,800

However the savings would be determined by the tax slab you fall under. The following table reflects the potential savings for you:

| Current Taxable Income Slab | Tax Rate | Savings through standard deduction (Rs) | Increase in cess (Rs) | Net Savings (Rs) |
|-----------------------------|----------|---|-----------------------|------------------|
| Upto 2.5 lacs | None | - | - | - |
| 2.5 to 5 lacs | 5% | 290 | 125 | 165 |
| 5 lacs to 10 lacs | 20% | 1,160 | 1,125 | 35 |
| 10 lacs & above | 30% | 1,740 | 2,625 | -885 |

*Table above is an estimate, kindly contact your financial advisor for exact computations

Impact on you - What's expensive v/s What's cheaper



Our Views on Budget 2018

The Government which is known for dropping **BOMBS**... today submitted their last budget before going for general elections in early 2019. Budget 2018 details have started emerging and yes the budget in full of impact. Budget 2018 will be known for Taxing the Equity Market gains.

Budget 2018 is an extension of GST and other measures we have already seen. The government will get full marks on the front of doling out money on social & infrastructure projects. But about these key questions?

The key questions before Budget 2018



- Will you favor agriculture or rural too much to garner votes in 2018 state elections & 2019 general elections?
- You already brought GDP from 7.5 to 6.3 by [GST](#) & [Demonetization](#). What next?
- Will fiscal deficit targets meet? What will happen to country's rating?
- Will you lock horns with the stock market bulls by touching [LTCG](#) or STT?
- Will AAM AADMI get some easy life? Because you said "Less Government & More Governance"... But Government has intensified its presence in last 3.5 years.

Discussions have entered bedrooms and dining tables.

The Answers

FM started his speech with a promise that government is committed to providing **Ease of Living**... but he cited examples of all previous achievements like Ujjwala, Subhagya & doing away with notary cost for students. So the struggle will continue. Better adapt to it by embracing technology.

FM launched the Indian version of Obamacare- **MODICARE** for 10 Cr Families – This is Medical Reimbursement of RS 5 Lakh /Per year. **Huge health insurance plan could cost govt around Rs 50,000 crore annually.**

The **budget** was balancing act between VOTES & Fiscal Prudence. It gives on one hand and takes another hand.

For Eg: Due to above scheme the Health & Education Cess has been increased to 4% from 3%.

Impact on Your Income & Investments

No change in Tax Rate or Section 80C limits

All persons including individuals, HUF, Firms, and Companies to pay same tax rates and the previous slabs. I also feel that Slabs Rates once announced should remain for a long time. No need to change them every year just to please few.

However, Education cess is being increased from 3 to 4 % to be known as Education and Health cess.

Long-Term Capital Gain Introduced – Effective Immediately

The impact will be on Shares, Equity MFs, Balanced Category Funds, Arbitrage Funds & Equity Savings Funds.

Long-Term Gain Tax was ZERO. Now it is 10% without any indexation benefits. So LT gains over 1 Lakh will be taxed now. However, capital gain up to 31.1.2018 shall not be taxed as a cost of acquisition will be taken as Fair Market Value as on 31.1.2018. **This is called Grandfathering.**

Grandfathering

If you bought any share/Equity MFs last year (and not completed 1 year) – your revised cost will be yesterday high price and not the actual price. So LTCG will be applicable at the price what you sell from now on compared with revised cost on 31st Jan 2018. The value of 31.01.2018 become the cost price.

Nothing to panic on LONG TERM GAINS...

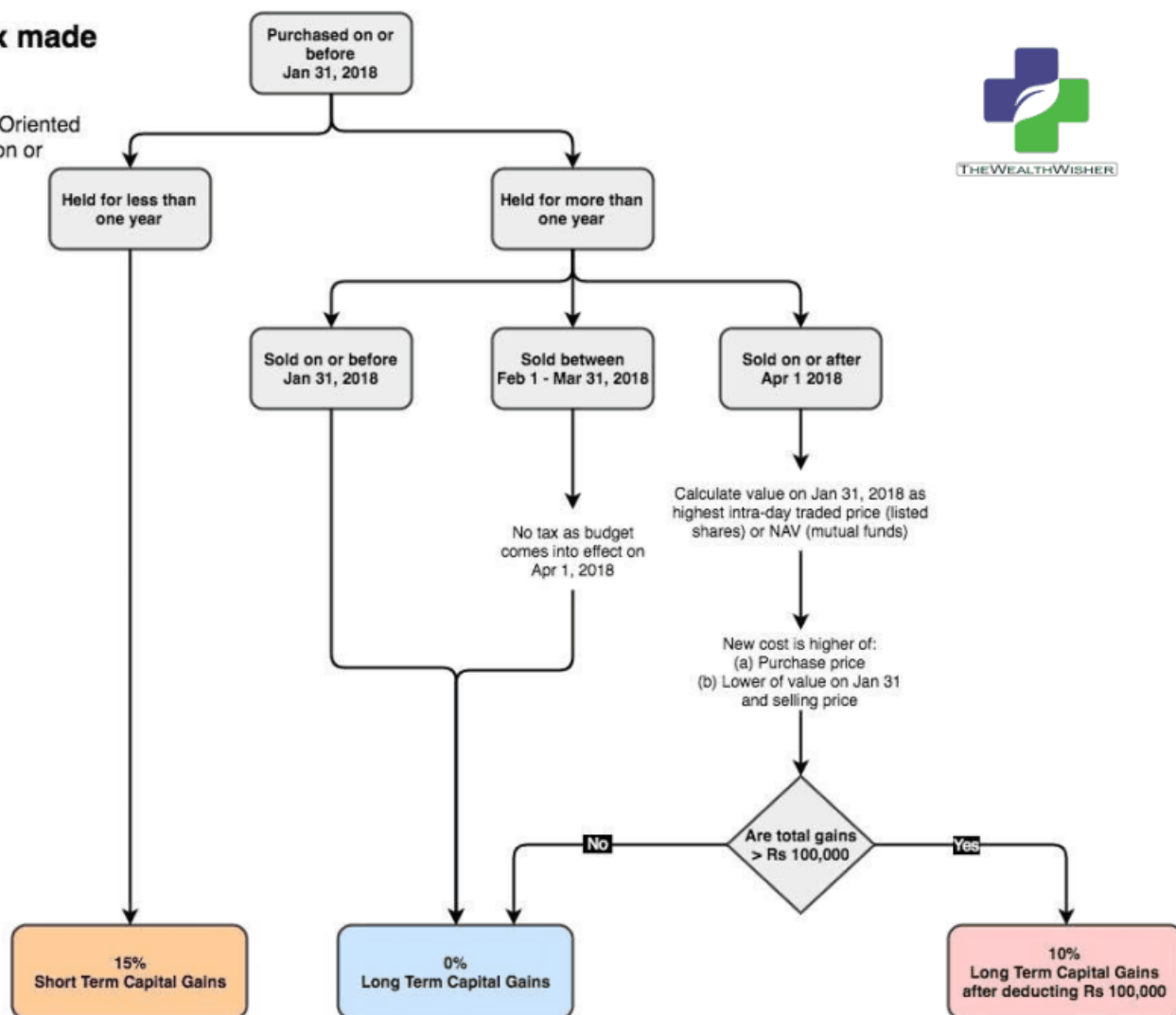
Grandfathering actually helps the market. NO, SELL OFF due to guys invested already if they want to remain invested in equities!

If you have bought a share @Rs 100 a year back & its 250 on 31st 2018. Now when u sell it at Rs 300.

LTGC tax will only applicable on Rs 250-300 = 50, so the tax will be Rs 5 only.

Capital Gains Tax made easy

Equity Shares and Equity Oriented Mutual Funds purchased on or before Jan 31, 2018



Tax on Short-Term Capital Gains to remain unchanged 15%.

This will not impact speculation or short-term investments in equity, in fact, will increase. You invest for 11 months or 13 Months, the tax difference is just 5%. Strange...

Dividend Distribution Tax 10% introduced on Equity Schemes

Will impact All [Equity Funds](#), Shares with Dividend Yield, [Balanced Funds](#), Arbitrage Funds & Equity Savings Funds.

Dividends will remain tax-free in hands of the investor, but MFs will deduct 10% plus surcharge before distributing. And there is no way to claim it back even if you are in 5% or nil tax bracket.

FINANCE BILL, 2018

TAX RATE CHANGES ON MUTUAL FUNDS



| Fund Type | Long term after | Long term gains taxed at | Short term gains taxed at | Dividends taxed at |
|----------------------------|-----------------|--------------------------|---------------------------|--------------------|
| Equity funds (incl ELSS) | 1 year | 10% no indexation * | 15% | 10% # |
| Debt funds | 3 years | 20% after indexation | your personal tax rate | 25% |
| Liquid/ Money Market funds | 3 years | 20% after indexation | your personal tax rate | 25% |
| Arbitrage funds | 1 year | 10% no indexation * | 15% | 10% # |
| Hybrid funds | | | | |
| - Aggressive (Balanced) | 1 year | 10% no indexation * | 15% | 10% # |
| - Conservative (MIP) | 3 years | 20% after indexation | your personal tax rate | 25% |

* cost is calculated as closing price on Jan 31, 2018. Earlier rate was 0%

Earlier rate was 0%

Standard Deduction of Rs 40,000 for salaried employees

However, the benefit of transport allowance of Rs 19,200 and Medical Reimbursement of Rs 15,000 under Section 17(2) are being withdrawn. Thus net benefit to salaries class only Rs 5,800 only.

Capital Gain Bonds for only Real Estate Transactions

54EC benefit of investment in Bonds to be restricted to Capital gain on land and building only. A further period of holding being increased from 3 years to 5 years.

PAN for all If income exceeds 2.5 lakhs in a year

PAN to be obtained by all entities including HUF other than individuals in case aggregate of financial transaction in a year is Rs 2,50,000 or more. All directors, partners, members of such entities also to obtain PAN.

Provision for Filing Income Tax

No adjustment under section 143(1) while processing on account of a mismatch with 26AS and 16A.

The penalty for nonfiling financial return as required under section 285BA being increased to Rs 500 per day.

Interest Income deduction of Rs 50000 for the Senior citizen.

Exemption of interest income on deposits with banks and post offices to be increased from Rs. 10,000 to Rs. 50,000.

TDS not required to be deducted under section 194A. Benefit also available for interest from all fixed deposit schemes and recurring deposit schemes.

Proposed to extend Pradhan Mantri Vaya Vandana Yojana up to March, 2020. Current investment limit proposed to be increased to Rs. 15 lakh from the existing limit of Rs. 7.5 lakh per senior citizen.

Increase in deduction limit for medical expenditure for certain critical illness from Rs. 60,000 (in case of senior citizens) and from Rs. 80,000 (in case of very senior citizens) to Rs. 1 lakh for all senior citizens, under section 80DDB.

Senior Citizen Mediciclaim, Preventive Health Checkup & Medical Expenditure Deduction increased to RS 50000 from earlier Rs 30000.

Deduction u/s 80D for medical premiums to be allowed proportionately in cases where premiums for more than 1 year are paid in advance.

40% withdrawal will be tax free for all NPS subscribers. This was previously only for employees. Now available for all subscribers

My Views

I am very positive about the Budget 2018. The government does what it should do. We expected it to populist budget and it is.

I believe wealth management should be fundamental driven and in no way, the government can take away fundamentals. They just have the power to make or destroy the climate.

My disappointment is towards clarity. I am still not sure Aadhar's way forward.

Many people are asking about LTCG. My question is will you not invest in equity because you need to pay 10% as tax?

Will you not take a promotion simply because your tax bracket may increase from 5% to 20%?

So investments in equity will continue. They will be disturbed in coming 10-15 days, but not forever.

Please let us know regarding your views and avail or services.



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