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MAX SECURE FINANCIAL PLANNERS—NEWSLETTER

Nurturing Trusting Relationships

Why & How should one create a WILL?

Six months back, Praveen Hazare died due to heart attack when he was 65 years old. He was staying in Thane with his spouse and two married sons. He had a flat in Mumbai and a flat in Bangalore. He died without making a will. After his death, there were disputes on sharing of properties. The dispute now has to be decided by the court as per the Succession Act which will take a very long time. This could have been avoided had he made a will.

Who can create?

Any person who is above 21 years of age and is of sound mind can make a Will. But it will come in to effect only after the death of the person who makes it (testator). The Will can be revocable at any time during one's life time. When testator makes a new will, it supersedes all earlier wills.

Steps to construct

Declaration in the beginning: While making a will, one has to declare that he is of sound mind and free from any kind of pressure. Then testator needs to mention his name, address, age, etc at the time of writing the will. He needs to appoint an executor for executing the will after his death otherwise court will appoint one.

Details of Property and Documents: The next step is to provide list of items and their current values, like house, land, bank fixed deposit, postal investments, mutual funds, share certificates owned by testator. He must indicate where these documents are stored.

Details of ownership: At the end of the will, testator should mention who should inherit which assets and in what proportion. If assets are meant for minor(s), it should be clearly mentioned so in the will. The name of the guardian also should be mentioned. The guardian will use the assets for the minor as intended by the testator.

Signing the Will: After completing the Will, one must sign the will along with two witnesses. The date and place must be indicated clearly at the bottom of the will. It is necessary that the witnesses should sign all the pages of the will. It is advisable for the two witnesses to be a doctor and an attorney.

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Inside this issue:

Financial Goal Planning

Someone's sitting in the shade today because someone planted a tree a long time ago.

Warren Buffett

Should you hire a Financial Planner or DIY?

Be it gymming, dieting, curing simple health problems, building a house, tax filing or money management – there are two ways of getting them done, either hire a professional for guidance or do it yourself (DIY). In each case, the decision to hire a professional is based on many factors which vary for every individual. Like for example if you are building a house on a plot, you may decide to hire an architect based on the size of the project, what kind of interiors you want, your budget, etc. Else you may simply give briefing to a *local contractor* and supervise the construction yourself.

Financial Planning is combination of financial strategies, few calculations and most importantly discipline. You may not have a written plan and a second opinion given by a professional financial planner, but can still do fine doing it yourself if the following **five factors** are in your favour and you are disciplined & self-motivated to take charge of your money.

Time: You have to commit 'time' if you want to manage money successfully. You will first need to start by educating yourself with personal finance matters and products. The best way to do this is by reading money magazines or money sections of your daily newspaper. You may also spend time watching TV shows or surf the internet. There is too much of information floating around, you need to get used to terminologies and products on insurance, investments, banking, taxation etc.

You will also need 'time' to understand your needs, set financial goals, learn to use financial calculators (most of them are available on internet), compare products, take a decision and execute it. Getting a grip over your money is a continuous affair and doesn't happen overnight; it will take at least 2-3 years. Spending 6-9 hours a month.

If you are not able to make this commitment, it's a good idea to hire financial planner who will do the handholding, advice and maybe even execute the plan. Even in this case you will have to spend 2-3 hours month in meeting the planner, understanding the plan, executing and reviewing the plan.

Affordability: Hiring experienced & professional financial planner costs money. In India currently, CFP practitioners charge anywhere between Rs. 10,000 to 30,000 to make plan, execute & monitor it. It's no point having a plan done from self-proclaimed planners who are actually insurance agents or mutual fund distributors doing it for free and in the end recommending the products they want to sell.

'Willingness to pay' is best left to you. But 'ability to pay' can be quantified to some extent. In general if you are earning more than Rs. 6 lakhs a year or have an investment portfolio of Rs. 5 lakhs and above, you should be in a comfortable position to pay up the fees. You can use this as a benchmark for deciding whether to hire a FP or DIY. It's a simple tradeoff – you pay fee to save your time, efforts and get professional advice, but let this not be the only deciding factor.

Availability: This may be a non-factor after some years, but as of now it is huge factor. Currently more than 1,500 are qualified as Certified Financial Planners in India out which not more than 200 are practicing. With growth in demand from consumers, this situation is changing fast. So if a qualified and practicing FP is available and is offering the services which you require, you may think of hiring one. Also check on the background, fee structure, references etc. It's better to DIY if planner's offering doesn't suit your requirement.

Knowledge: There are a number of questions which you should be able to answer by yourself. How much corpus do I need for a comfortable retirement? What are various tax benefits available? Am I saving enough or spending too much? Should I be taking home on loan or is it better to rent for some more time? How to invest in equity markets? How will be impact of inflation on my finances? You should also be able understand present value and future value of money.

This knowledge is currently made available by print, TV and web media in abundance. So it's not difficult to find answers to these questions. You just need to take time out from your busy schedule and have an inclination to go through it.

Complications: And finally the decision can depend on the complications in your financial affairs. Is your income from single source or multiple sources like double salary, rent, investments etc? How is your current portfolio spread out – if you have been investing in mutual funds, stocks and insurance policies on an adhoc basis the chances are your portfolio is widely scattered and needs to be consolidated. If you are in such a situation a professional can give you a holistic view and help bring harmony in your investments and map them to future goals. If things are simple, take charge of it yourself.

After evaluating all the above factors, you may decide and try to do it yourself or seek a planners help. Alternatively you may try yourself for sometime before turning on for external help. But, start somewhere & take the first step towards having a plan in place!

Spreading the income – Golden Rule to save tax

Saving Taxes has always been a priority area for any tax payer. Even from a Financial Planning perspective, taxes are treated as a hole in Investors pocket which increase the outflow thus reducing the surplus. But good news is that a lot of tax saving is possible through proper tax planning, within the provisions of tax laws. Please remember that tax planning does not mean Tax evasion where the tax payer conceals some part of his income to avoid tax payments, which is illegal.

This article highlights a specific tax planning technique which if used judiciously can help in saving lot of tax.

Spread your income among your Family members.

Create as many tax files as you can in your family , so that each one of them become independent tax payers. This does not reduce the tax outgo of your salary/ business income but will help in reducing the taxes generated out of the income earned on investment of the surpluses. I know that it is not possible to arbitrarily divide one's income to different family members and then pay lower tax on that, but this goal can be achieved with the help of Gifts and settlement provisions.

Advantages of creating different tax files :

1. You may distribute the further income generated out of the investments made which otherwise would have been added in your total income and taxed accordingly. For e.g doing 10 lakh of FD in your name @ 8% rate of interest will increase your taxable income with Rs 80,000/- and tax with Rs 24000/- (assuming tax rate 30%). With spreading income you could be able to save this tax.

2. You may take Housing loan from other family members and take benefit of interest payment u/s 24. This benefit is not possible if total savings are in your name.

If you are in business, you may take loan from other family members and take benefit of interest payment by showing it as business expense.

Understand the Gift tax provisions.

Gift tax is governed by income tax act u/s 56(2). As per this act any gift above the value Rs 50000 in the form of cash , valuable artifacts, shares, valuable drawings, jewellery, paintings or sculptures or even property where stamp duty would be over Rs 50,000 would be taxable in the hands of recipient. This is applicable only in the case of Individuals or HUFs. Thus any gift received by Trust or Association of person does not get covered under this act and thus are non taxable.

You may take Housing loan from other family members and take benefit of interest payment u/s 24.

Exceptions:

The gifts received from the following people or in following circumstances will be tax free in the hands of receiver.

1. Gifts by relatives which includes Spouse, Siblings & their spouses (self and spouse), Parents and their Siblings (self and spouse)

Any Lineal ascendant or descendant (Self & Spouse)

2. On the occasion of Marriage (this excludes the gifts received by Son in law from parents in Law)

3. As inheritance through WILL.

Cont… Page 4 (Clubbing Provision)

Cont. Page 3—Spreading the income

Clubbing provisions:

Now it might be looking very easy to create different tax files by gifting amounts to family members, but the gift tax provisions has to be read in conjunction with the clubbing provisions which are detailed u/s 60-64 of income tax act 1961. These sections deal with the cases where tax payers make an attempt to reduce the tax liability by transferring / gifting their assets in favour of family members or by arranging their sources of income in such a manner that tax incidence falls on others, but in actual the benefit of income enjoyed by them. Some of the instances it covers are,

- Investing in the name of non earning spouse/daughter in law.
- Investing in the name of minor children

Giving salary to the spouse out of business where the spouse actually doesn't have any technical knowledge or experience.

Mainly these clubbing provisions are applicable on the immediate family members. This says that any income generated by Spouse, daughter in law or minor child (more than Rs 1500) out of gifted amount will be clubbed with the income of transferor and taxed as per the income tax slab he/she falls in.

How to create different Tax files through Gifting and avoid clubbing

1. To avoid clubbing you have to be sure that you should not gift or invest anything directly to your spouse, daughter in law or Minor child.

2. You may gift to your parents if they fall in lower tax slab than yours.

3. You may gift any amount to your major kids and create their tax files. If you follow a financial planning approach which says that come out of risky instruments say equity at least 3 years before the goal. One of your goal is Children education and marriage. So once your kids become major shift the portion of your savings meant for them in their name to reduce your tax outgo in the last 3 years, also do future savings for them through their file only.

4. If you don't have Major kids then you may create a Specific Beneficiary non-revocable trust in favour of your minor child and save for his future through that trust. Money transferred to that trust will not be treated as gift but the income earned by that trust will be taxable as per the individual tax slab.

Tax Evasion is illegal, but tax planning within the scope of different tax laws is completely legal.

5. You can also create a good tax file in the name of your Daughter-in-law by compiling all cash gifts received at the time of marriage.

6. You may create a Tax file by starting off with your HUF (Hindu Undivided Family)

7. Create different tax files through WILL and do tax planning for your successors.

Tax Evasion is illegal, but tax planning within the scope of different tax laws is completely legal So one should make the best use of it and should not indulge in evasion activity.

Sending your child abroad is not that difficult...

She was born a year ago. You named her Pari. And she turned out to be just that. She filled your home with happiness and laughter and lit up your life. Life is great now. You want to do your best for the apple of your eye. But, the education cost is worrying you… especially since all your friends are making plans to send their sons and daughters abroad, for higher education.

Education as such, is costly today… foreign education, more so. But, you need not break into a sweat if you were to break up the problem – it won't look so daunting. Let us see how.

Firstly, much depends on the choice of country where the education is to be pursued. If it is US or UK, the cost per annum could vary between Rs.20-30 Lakhs. If the education is in Singapore, Russia, China, it would be much less.

Secondly, even if it is in the US, there are ivy league colleges which are sought after. The fees here would be much higher than many other colleges. However, there are many colleges which are in the second rung which would offer good quality education for far less money. The amount one would need to spend in such colleges can come down by almost 25%. That is another option available if one wants to send their children abroad, but want to keep the cost within manageable limits.

Now comes the interesting part. The funding by the parent need not be to the full extent of the course fee & living expenses. The funding abroad has four components. They are – Loan, scholarship, self-funding by the student & your funding.

Loans – Today, loans are available upto Rs.20 Lakhs from banks. They of course ask for collateral, guarantors etc. The student can pay the loan after completing the course and land a job. Hence, this is definitely one source of funding.

Scholarship – Many colleges offer scholarships to international students, depending on the course and the scores obtained in the relevant examination like SAT, GMAT etc. Again, different colleges offer scholarships in specific streams, where they want to attract talent. The scholarship on the tuition fees can be substantial – upto even 50% of the tuition fee. That could ease the burden a lot.

Self-funding by the student – Children studying abroad, routinely do part-time jobs to defray their expenses abroad. Teaching assignments, research assistance work, working in restaurants etc. are some of the self-employment options available. This will take care of their living expenses to an extent.

Funding by the parent – Funding by the parent is one source too. It is not the only source as is assumed by many. Parents could look to fund anything from 30-50% of the expenses, which could by itself come to quite a packet. But if one starts off early, reaching a decent corpus should not be a problem. Much depends on whether the entire college education is to be done abroad or only the post- graduation portion.

Portfolio to take care of education funding-
Putting together a long-term plan is essential. Starting early always helps. For accumulating a good corpus, one could start a PPF account for the child. Another good long-term savings mechanism is by investing monthly in equity oriented Mutual Funds. Other good instruments available are tax-free bonds. These are available today for 10 & 15 year tenures and offering 8% plus post-tax returns. Some may also want to stick with FDs, for a portion of their investment. This may be a low-risk route but the corpus may not grow as desired. Hence, this portion should be limited to 20-25% of the portfolio.

The other viable options are debt MF schemes which offer good post-tax returns. Debt MF Schemes are subject to special long-term capital gains tax. Based on the current inflation figures, the effective tax would come to just 5-6%.

To hedge the portfolio, one could also go for MF schemes which invest in companies operating globally, to give a currency hedge.

Hence, if one starts doing these things early and invests in a bouquet of products, the goal of sending the child abroad for education can be achieved, without much of a problem. Pari would have no problem going abroad, if her father invests as outlined. Done right, that would be true for every *pari* in every home.

Cont.. Page 1 — WILL

A doctor will vouch for soundness of the testator. The attorney will make sure not to make stupid mistakes in the will.

Other Important Points

- In case of bank accounts, insurance policies, bank locker and real estate, the nominee is considered as the trustee and the legal heirs can make the claims of ownership.
- In case of stocks, shares and demat accounts, the nominee is entitled to the entire sum being nominated in his/her favor.
- In case of PPF accounts, it is important to have nomination. In the absence of the nominee, the legal heirs get only upto Rs 1 lakh from the PPF account.

Simple Sample Will (India)

I…………………………………… aged………. years (occupation……………………..) here by write my final Will. Any wills written previously are hereby revoked under the law of India. I am writing this will freely and under no duress. I am of sound mental and physical health and in a position to comprehend what I write in this will.

I appoint……………………………………………as the trustee and executor of my will.

As of today I own following things which I would like to consider for division after my death. (Assets are hypothetical and provided for reference)

1. One 2BHK Flat at (address) with areas of 1200 sq foot, bought on 5th Jan 1996 costing Rs 14,00,000/-
2. Cash of Rs 3.5 lakhs/- in my fixed deposit at SBI, Vashi, branch.
3. 500 Mutual funds unit of HDFC Top 200 and 4500 shares of TCS in my demat account.

All the documents are kept in my BOI locker at Fort, Mumbai branch.

After my death, my assets mentioned above should be divided as follows:

1. Item (a) should be given to my wife……………….. Whose date of birth is ………… and she resides as (address), her mother name is…………………. and father name is…………………
2. Item (b) and (c) should be divided equally among my children, first is my son ……………………… who is handicapped (lost his eyes), who's date of birth…………………. and my daughter………………….. Whose date of birth is…………………. and married to…………………..

Both the witnesses are present together while writing and signing this will.

Testator signature :

Name and address :

Date and Place :

(1) Witness Signature (Name and address)

(2) Witness Signature (Name and address)

Max Secure Financial Planners

Nurturing trusting relationships

Prakash Praharaj, CFP Professional

Phone: 02227575648/9833060142

Email:maxsecfp@gmail.com

Web/Blog : www.maxsecfp.in

Why Max Secure Financial Planners ?

Vision: To provide affordable fee based financial planning services, by adhering to Professional practice standards and code of ethics as prescribed

Mission: Nurturing and maintaining long term relationship based on trust with clients by keeping their interest uppermost in mind, providing unbiased advice and financial planning services using six steps planning process, promoting financial literacy.

Financial Planning takes into account the inter-related nature of the goals that one has & helps in deploying the finances so that the high priority goals are given precedence & are met. It takes away the uncertainty out of life and brings in peace of mind.