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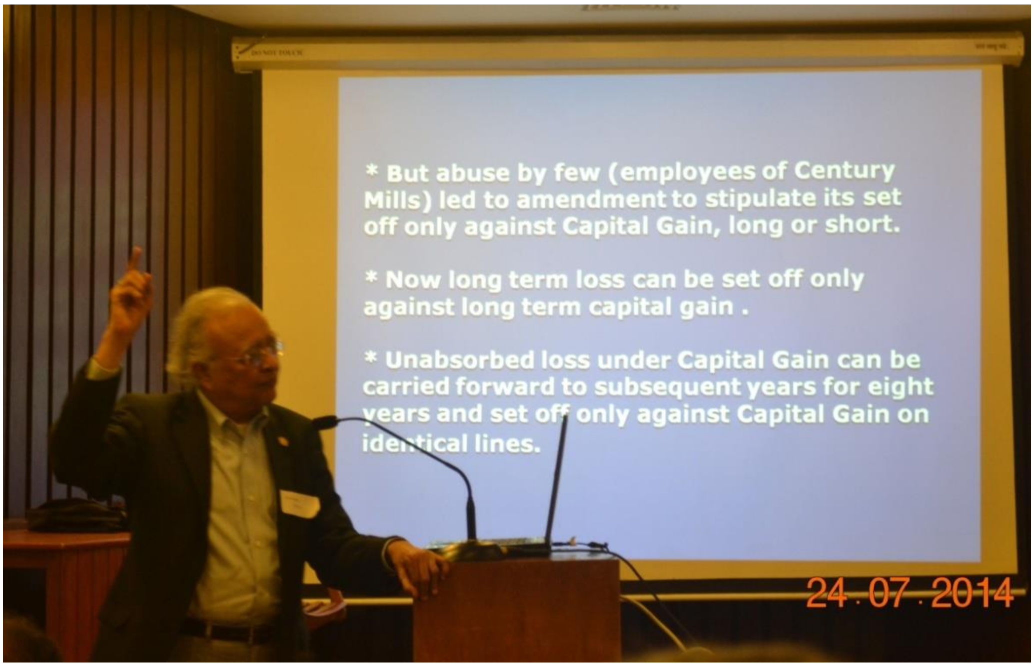
FIFA Perspectives

July 2014

Taxpertise : Taxation insights from the Guru himself



***Knowledge Sharing Session** on 24th July 2014 - Taxation on Investment Income by **Mr. Kanubhai Doshi**- A co-author of "Tax Holidays", "Financial Accounting", and "Special Economic Zones" was held at Mumbai .*

This event gave FIFA members knowledge on Taxation on Investment Income after recent budget which has significantly modified the tax treatment of certain investment income. FIFA has always been proactive in seeking and sharing knowledge on topical business issues, and the session with Mr. Kanubhai Doshi was another example of quickly moving on a business critical issue and seeking out insights from one of the best experts in the field. These sessions from renowned experts helps FIFA members gain rich perspectives on key aspects and thus helps them serve their clients better.

Other events during the month

1) Knowledge Sharing Session on 2nd July 2014 held at Mumbai. FIFA along with ICICI Prudential AMC had an interactive session with Mr. Jacob Lundquist (Head – Nordic Fund Distribution – Nordea Asset Management) on 'International Investing & Global Asset Allocation" at ICICI Prudential Corporate Office
2) 5th Board Meeting of IMFI was held on Tuesday, July 08, 2014 at AMFI , Mumbai
3) Knowledge Sharing Session on 4th July 2014 held at Delhi- How to Select a Mutual Fund by Mr. Huzaifa Husain (Head- Equities), Pine Bridge Investments
4) Motivational and Inspirational Session on 9th July 2014 held at Mumbai for IFAs across the country. FIFA and Birla Mutual Fund together organised a Motivational and Inspirational TALK on " Maanoge Tabhi Toh Jeetoge " by Mr. Prakash Rohera

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The 3rd Lifeline for IFAs

Brijesh Dalmia, Dalmia Advisory, Kolkata

Imagine this. A one day international cricket match is going on. The team batting 2nd has to chase 280 runs. They are 20 for 2 after 6 overs. The no. 5 batsman who came to crease was making his debut. Big challenge for him. He must perform. But... he is caught on the first ball. As he walks towards the pavilion, he hears a roar from the home crowd. He turns around to see the umpires calling him back as the ball is called a 'No ball'. He goes back to his crease. But he is so nervous that he is playing tentative and takes a long time to score 20 runs. If it goes like this, he is surely gonna get eliminated from the team in future and his career may end. Worse still, his nervousness got him out again. As he walked back again to the pavilion, he could not believe his ears when umpires called him back again. Lady luck was on his side. It was a 'No ball' again. Now he thought, it's a do and die for him and he must give all he has. He went on to score a century and win the match for his country. He was lucky that he got 3 opportunities. Not many do.

The 3rd lifeline for IFAs. May well be the last.

Life may not give 2nd chance to many to correct their mistakes or to change their direction. Similarly, many businesses do not offer multiple opportunities to start all over again, having missed out on previous opportunities. So true for IFAs.

The first real opportunity came in late 99 and early 2000 when open ended mutual funds started making their mark. Those who jumped early are in a very strong position today. Those who missed, got another opportunity in the middle of the last decade (2005-2007) when sensex rallied and touched 20000. AUM's made and income earned during this period helped IFAs pass the storm that followed and strengthen their hold on the business.

Now is the third opportunity for those who missed the first two. There are enough learnings in the past for IFAs that mutual fund still remains the best option for their clients as well as their own revenue stream. It is time to correct their mistake of not marketing mutual fund aggressively in the past. They should make a fresh beginning to pursue this fantastic business on a serious note.

Age is catching up for IFAs who have been in business for 15-20 years. So, I would say this may be the last real opportunity to make it big in mutual fund distribution business for existing IFAs who missed the first two opportunities.

The 3X Multiplier

Structurally, it seems that this is one of the best times for IFAs to garner assets in mutual funds. The current environment may give a 3X multiplier to the effort done by IFA's.

Firstly, the efforts made to sell mutual funds in current environment will pay off. Secondly, the improved confidence of investors will double the business as they will themselves be willing to invest more. Thirdly, this is the first time there is a stable government (full majority on its own) in over 40 years. It is expected that reforms pushed by this government and positive intent overall will spike the markets over the next few years. This might give added push to AUM's going up due to better market performance. This is what I call 3x multiplier.

Shun the fear

Each time a new fear comes in the mind of IFAs and they get demotivated to sell mutual funds. Few years ago It was the fear of trail commissions going away. It did not go. Currently, they have a fear that 'direct business' will kill their business. It has hardly made an impact on IFA's till now. Each time their fear is turning out to be baseless but they are losing precious time. It's time they shun their fear and start focussing on mutual funds aggressively. After all, they need to ask themselves - If not mutual funds, which other financial product distribution will make their own financial dream come true (along with their clients).

FIFA Perspectives

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FIFA represents to Finance Minister

Yogesh Sharma, Director, FIFA

The recent Budget has created a lot of anxiety amongst investors in debt mutual funds and for the MF industry on account of the proposed changes on taxation of income arising from debt funds. IFAs across the country have been seeking relief from the proposed amendments for the benefit of the investors especially retail investors.

FIFA as a pan India body of IFAs has made a representation in this respect to the Finance Minister and is hopeful of some relaxations which are expected shortly. A copy of the representation submitted to the Finance Minister is reproduced below.

19th July 2014

To,
The Honourable Finance Minister Shri Arun Jaitley

On behalf of Foundation of Independent Financial Advisors (FIFA) we congratulate you on your maiden budget!

Under the dynamic leadership of the Prime Minister, the financial proposals as laid down by the Government will surely provide a much needed impetus to growth and development.

FIFA represents a pan India body of Individual Financial Advisors/Distributor's who channelize household savings of investors into Mutual Funds. FIFA had been invited to participate in meetings held by finance ministry to discuss and finalize steps to reenergize the Mutual Fund Industry in July 2012.

We are especially concerned about the changes proposed regarding taxation of investments in debt mutual funds. While drafting the changes some vital facts pertaining to various categories of investors seem to have been overlooked. Though you have been espousing the ill effects of retrospective amendments to the Finance Act, the proposed amendments seek to effect changes which have a retrospective tax effect on the investors. This anomaly which quite appears to be more out of oversight needs to be addressed. On behalf of all the Individual Savers and Investors we give herein below our thoughts and suggestions. We request you to kindly consider the same, before the finance bill is being passed.

Prior to the proposed amendments the period of holding of various equity and debt instruments for the purpose of Long Term Capital Gains was a period of twelve calendar months. In case of equity instruments if the same are sold after the period of twelve months of holding and Securities Transaction Tax is paid thereon, then the Long Term Capital Gains are exempt from Tax. In respect of debt funds the Long Term Gains were being taxed at 10%.

The Dividend declared by debt funds is charged to Dividend Distribution Tax @ 28.325 % in case of Individuals and 33.99% in case of corporates. Whereas long term capital gains before indexation were charged to tax @ 10%. Investments in Bank and other debt instruments attract a higher rate of tax. In your Budget Speech, you have mentioned that this allows tax arbitrage opportunity. With a view to remove this tax arbitrage, you have proposed to increase the rate of tax on Long Term gains from 10 % to 20% on transfer of units of such debt funds. You have also proposed to increase the period of holding in respect of such units being treated as long term assets from 12 months to 36 months. In the same speech you have mentioned that this arbitrage has hardly benefitted retail investors as their percentage is very small among such mutual fund investors. These changes are effective from 1st April 2014.

The effect of these proposed changes on investors including retail investors is as under:

a. Till the date of declaration of the Budget in respect of 2014, Investors who have invested in Debt Mutual Funds in the genuine belief that holding such units for a period of 12 months would entitle them to concessional rate of tax of 10% on the gains would now have to either hold such investments for a period of 36 months or would have to pay tax at the rate of 33.99 % if they are in the maximum tax bracket.
b. Those investors who have redeemed their investments which had been held for a period exceeding twelve months but less than thirty six months between 1st April 2014 till now would have to pay higher tax as the benefit of concessional rate of tax on such Long Term Capital Gains would not be available.

Our humble suggestions

1. The differential tax rate on Bank Deposit Interest and Income from Debt Mutual Funds cannot be compared as they are distinct categories of investment. By its very nature Interest on Bank Deposits is assured. As against that Income from debt funds is a function of many factors bearing interest and credit risks. As such the returns from debt funds are not assured, at times the returns have been negative. In fact even in closed ended products such as FMP's the fund houses cannot give an indicative yield. Therefore it is not strictly an arbitrage opportunity. As there is no arbitrage the proposal to increase the rate of tax on these long term gains from 10% to 20% and to increase the holding period to 36 months is not justified.
2. The period of holding in respect of Mutual Fund debt schemes to be classified as Long Term should be restored to 12 months and the rate of tax on Long Term Gains from such funds without indexation should be restored to 10%.
3. If it is not possible to restore it to 12 months, then the provisions should be made applicable to investments made after the budget date ie 11th July 2014 onwards. Else it will tantamount to retrospective taxation.
4. The tax arbitrage, if any, exists generally and mainly in closed ended products such as Fixed Maturity Plans (FMP's). As such the new provisions should be made applicable only to closed ended schemes all other debt schemes should be outside its purview.
5. Since the Hon'ble Finance Minister has mentioned in the speech that the percentage of retail investors is very small, the proposed provisions should be made applicable only to corporate investors and not to retail investors.
6. The Finance ministry is encouraging individual investors to invest their savings through mutual funds. These investors will find investing through mutual funds not attractive as compared to other avenues. Considering the fact it has taken years to build the assets to current level, movement of assets from mutual funds to other assets classes will not be in the interest of the industry and detrimental to channelizing household savings to capital markets for growth and development and **could see shift back to gold as a preferred savings instrument.**

We have taken this opportunity to highlight the concerns of the investors, especially the retail investors. We are confident the overwhelming mandate given to you by the common people of this country will surely enthuse use you to make the necessary changes in the interest of the retail investors.

Thanking you.

Best Regards,

Dhruv Mehta

Chairman

FIFA

FOUNDATION OF INDEPENDENT FINANCIAL ADVISORS

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FIFA welcomes its new members

M Type	Membership	Type	ORGANIZATION	NAME	CITY
Ordinary	O108	Indv	Harsh Sharma	Harsh Sharma	MUMBAI
Associate	A3	Indv	WEALTH PRIME	JAINY SHAH	MUMBAI
Ordinary	O112	Indv	SANDEEP BHARGAVA	SANDEEP BHARGAVA	DELHI
Ordinary	O111	Indv	PUNEET RANDEV	PUNEET RANDEV	DELHI
Ordinary	O110	Indv	FARHAD SAM CHOKSEY	FARHAD SAM CHOKSEY	MUMBAI