Personal Finance in India's Growth Phase

We live in a historic growth phase in India

Avg GDP Growth (1961*-2000): 4.6%

Avg GDP Growth (2000 – 2022): 6.2%

*Data in World Bank Database begins from 1961 not 1947

Growth Rates in other countries (2000-2022)

- USA: 1.9%
- UK: 1.5%
- Germany: 1.1%
- China: 8.4%
- Australia: 2.7%

- India: 6.2%

Wealth creation via equity

(Source: Prime Investor)

Mutual funds rolling returns - Category wise

Rolling returns are a more useful way to analyse mutual fund performance than point-to-point returns. This tool gives you different aspects of rolling returns to better your analysis. You will be able to compare a fund with others in its category and against the category's average. Simply choose the return period and the category which you want to analyse. Understand more about this tool and rolling returns further down.

DOWNLOAD AS CSV

Flexi Cap Fund | Rolling 5-year returns | Direct

Fund	Category	Average	Minimum	Maximum	% Losses	Std. Dev	% over category
For category	Flexi Cap Fund	12.81%	-0.10%	21.97%	0.08%	4.07%	-

Nifty TRI Probability of Returns

Is long-term investing more profitable?

As you increase the holding period of the Nifty 50 index, data shows there is a greater likelihood of making higher returns.

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(Returns in %)

	Holding period (in Nifty 50)				
	1 year	3-years	5-years	7-years	10-years
Probability **8%** or greater return	60	73	82	96	96
Probability **10%** or greater return	56	65	72	82	83
Probability **12%** or greater return	52	56	63	65	68

Backtest data of Nifty 50 since inception

Source: Fisdom Research

A Simple SIP Plan (Index Fund)

- An SIP of Rs 50k per month
- Growing at a 12% CAGR
- Over 10 years
- Builds a 1 crore corpus
- This can be reinvested into a house (without long term capital gains tax under Section 54F)

But India makes it hard for NRIs to invest

1) Bank account complications

NRO (Non-repatriable) v NRE (Repatriable)

2) Equity investment

PIS (Repatriable) v non-PIS (non Repatriable)

MFs for NRIs

Only some MFs accept US/Canada NRIs

MF KYC becomes an issue with changing KYC rules

https://www.livemint.com/industry/sebi-relaxes-some-kyc-rules-for-mutual-fund-investors-11715705084624.html

There are tax benefits for some

India does not tax gains on mutual funds under many DTAAs. Eg: With UAE and Singapore

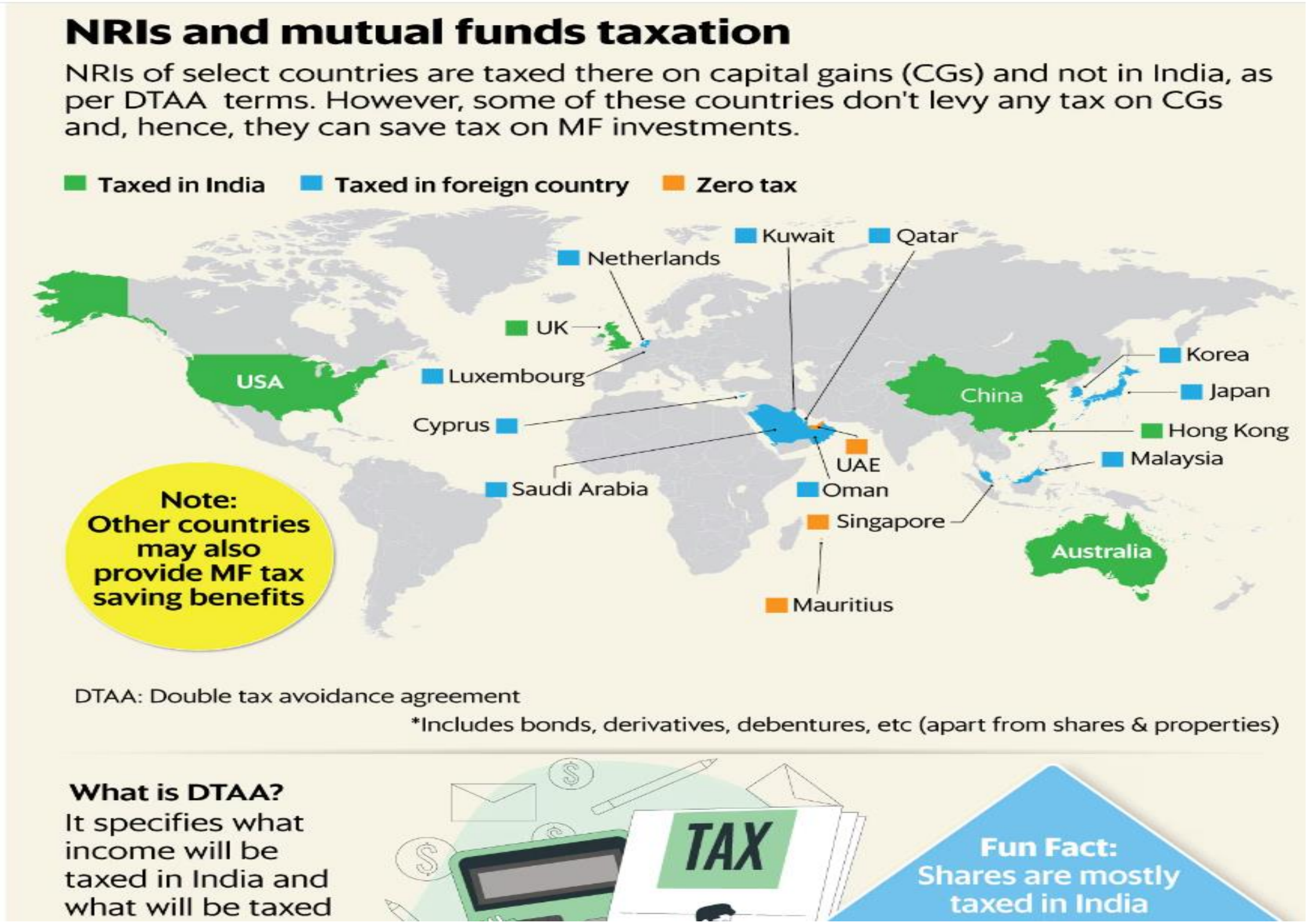
Singapore NRIs MFs

https://www.livemint.com/money/personal-finance/how-singapore-nris-can-navigate-dtaa-hurdle-on-capital-gains-tax-11708965080796.html

UAE NRIs MFs

https://www.livemint.com/money/personal-finance/why-nris-in-uae-enjoy-tax-benefits-on-mf-investments-11707841196793.html

NRIs and MF tax



TRC

Note: Submit Tax Residency Certificate for lower tax deduction

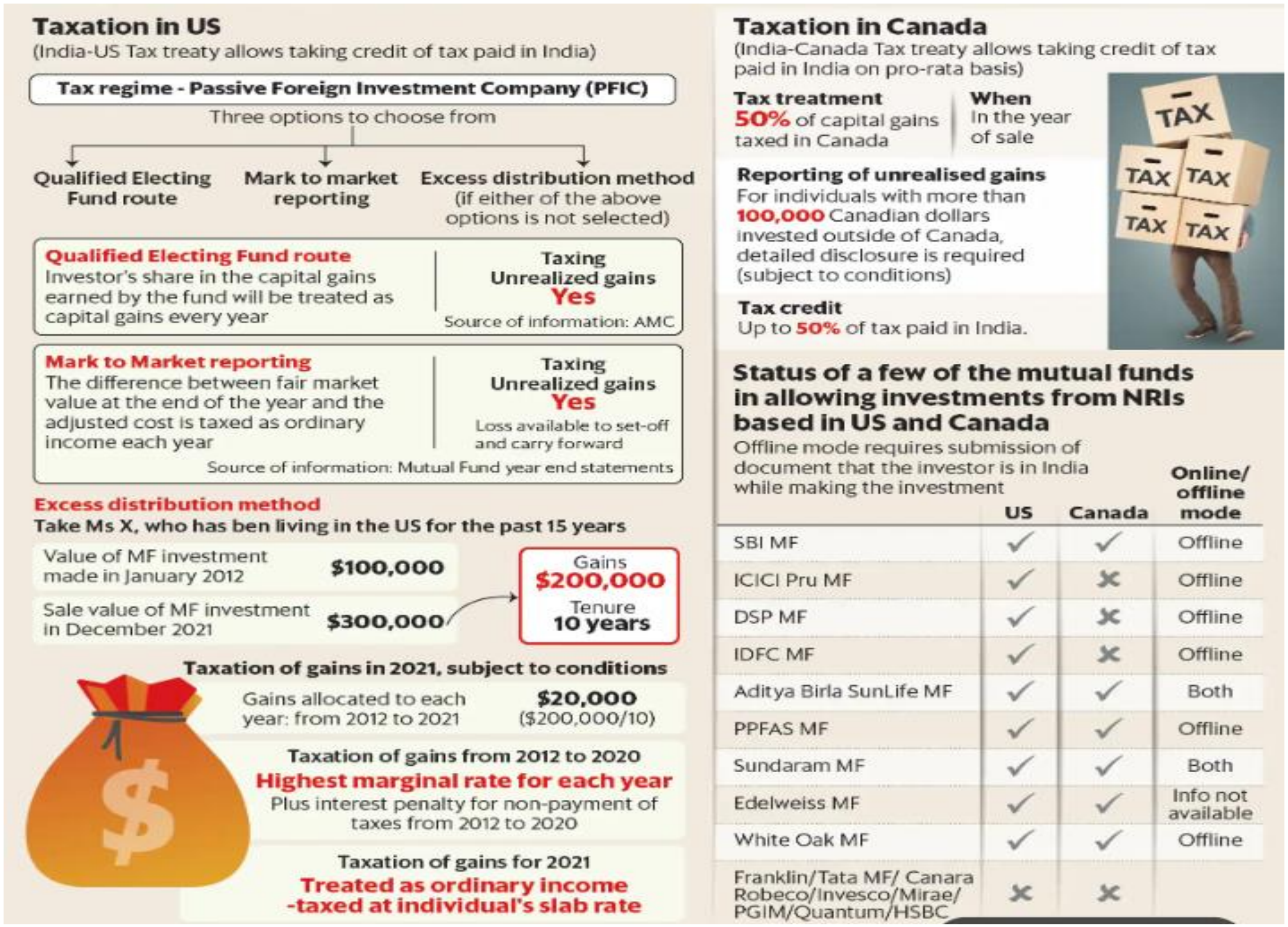
But MF issues for some - US PFIC

Why NRIs in US have trouble with India MFs

US Tax PFIC

https://www.livemint.com/money/personal-finance/how-nris-in-us-canada-are-taxed-on-capital-gains-from-indian-mfs-11669655852938.html

US PFIC



Taxation in US

(India-US Tax treaty allows taking credit of tax paid in India)

Tax regime - Passive Foreign Investment Company (PFIC)

Three options to choose from

- **Qualified Electing Fund route**
- **Mark to market reporting**
- **Excess distribution method** (if either of the above options is not selected)

Qualified Electing Fund route
Investor's share in the capital gains earned by the fund will be treated as capital gains every year

Taxing Unrealized gains **Yes**
Source of information: AMC

Mark to Market reporting
The difference between fair market value at the end of the year and the adjusted cost is taxed as ordinary income each year

Taxing Unrealized gains **Yes**
Loss available to set-off and carry forward

Source of information: Mutual Fund year end statements

Excess distribution method
Take Ms X, who has ben living in the US for the past 15 years

Value of MF investment made in January 2012	**$100,000**
Sale value of MF investment in December 2021	**$300,000**

Gains **$200,000**
Tenure **10 years**

Taxation of gains in 2021, subject to conditions

Gains allocated to each year: from 2012 to 2021 — **$20,000** ($200,000/10)

Taxation of gains from 2012 to 2020
Highest marginal rate for each year
Plus interest penalty for non-payment of taxes from 2012 to 2020

Taxation of gains for 2021
Treated as ordinary income -taxed at individual's slab rate

Taxation in Canada

(India-Canada Tax treaty allows taking credit of tax paid in India on pro-rata basis)

Tax treatment
50% of capital gains taxed in Canada

When
In the year of sale

Reporting of unrealised gains
For individuals with more than **100,000** Canadian dollars invested outside of Canada, detailed disclosure is required (subject to conditions)

Tax credit
Up to **50%** of tax paid in India.

Status of a few of the mutual funds in allowing investments from NRIs based in US and Canada

Offline mode requires submission of document that the investor is in India while making the investment

	US	Canada	Online/ offline mode
SBI MF	✓	✓	Offline
ICICI Pru MF	✓	✗	Offline
DSP MF	✓	✗	Offline
IDFC MF	✓	✗	Offline
Aditya Birla SunLife MF	✓	✓	Both
PPFAS MF	✓	✓	Offline
Sundaram MF	✓	✓	Both
Edelweiss MF	✓	✓	Info not available
White Oak MF	✓	✓	Offline
Franklin/Tata MF/ Canara Robeco/Invesco/Mirae/ PGIM/Quantum/HSBC	✗	✗	

Real Estate

Historically been popular with NRIs but has issues

1) TDS of 30% on rent, 20% on sale (LTCG)
2) No agricultural land, except inherited
3) Maintenance difficult without physical presence
4) For lower TDS deduction, submit Form 13 online. https://www.livemint.com/money/personal-finance/how-nris-can-minimise-complexities-in-selling-property-in-india-11719198777326.html

New solutions have come

GIFT City (IFSC or International Financial Services Centre)

Less paperwork for bank account opening

No TDS on interest

Forex accounts offered (in USD, Euros, GBP etc)

Inbound Funds being launched (in AIF format)

No TDS/Tax in India on inbound feeder funds in MFs with NRI investors

GIFT City Funds

Minimum USD 150k (About 1.2 cr)

No tax on inbound AIFs feeding into MFs with only NRI/foreign investors

https://www.livemint.com/money/personal-finance/aditya-birla-sun-life-mf-indias-first-global-gift-city-funds-emerging-market-equity-fund-ifsc-absl-emerging-equity-fund-11718029250897.html

Major Funds launched in GIFT City

The first few funds, both inbound and outbound, from GIFT City.

Major products launched so far

	Type	Nature
ABSL Global Emerging Markets Equity Fund	Cat. II AIF	Outbound: Emerging markets
Mirae Asset India Equity Allocation Fund	Cat. III AIF	Inbound: Feeds into Mirae India funds
Rangoli India Fund (Unifi Capital) Will deduct tax at fund level at 15 or 10% as per Unifi spokesperson	Cat. III AIF	Inbound: Invests in growth businesses
HDFC Feeder AIF*	Cat. III AIF	Inbound: Nifty Index Fund
HDFC Feeder AIF*	Cat. III AIF	Inbound: HDFC Midcap Fund

*Will be launched in the next few weeks

Advantages

NRIs	Residents
Easier KYC	Global diversification
No NRO, NRE, PIS, etc.	Trusted AMCs in charge
Dollar-denominated funds	No tax advantage
No tax in Gift City/India	Taxed in India

Disadvantages for both

Minimum investment of $150,000

GIFT City FDs

GIFT City FDs

Link: https://www.livemint.com/money/gift-city-s-lenders-are-now-banking-on-fds-to-lure-nris-11706021464580.html

Which vehicle is best

- MF v Stocks
- Rebalancing and dividend advantage for MFs
- Mfs are less expensive
- MF – Active v Passive
- Consistency Problem in Active
- Is NPS a contender?

What can derail the plan

- Greed (investing in higher risk investments for more returns)
- Rogue intermediaries (Finfluencers)
- Life complications (illness, family troubles etc)
- Fear (exiting the market too early)

Retirement

- EPF – Can be withdrawn if leaving India indefinitely
- PPF – Existing PPFs can continue, no fresh contributions
- NPS – Open to all Indian citizens (Including NRIs)

Tax – Old regime v new regime

Old vs new tax regime: What to choose?

For salaried

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Income level	Breakeven deductions* limit (including standard deduction)
Up to ₹5 lakh	nil tax under both regimes
₹6 lakh	1,00,000
₹7 lakh	2,00,000
₹8 lakh	2,12,500
₹9 lakh	2,62,500
₹10 lakh	3,00,000
₹11 lakh	3,25,000
₹12 lakh	3,50,000
₹13 lakh	3,62,500
₹14 lakh	3,75,000
₹15 lakh	4,08,333
₹15.5 lakh up to ₹5 crore	4,25,000

Deductions > breakeven

Old tax regime ✓

Deductions < breakeven

New tax regime ✓

For those earning from ₹15.5 lakh up to ₹5 crore, if the deductions and exemptions together are more than ₹4.25 lakh, the old tax regime is better. Else, the new tax regime scores well.

Beyond ₹5 crore: New tax regime is better#

*Deductions+ Exemptions

#Due to a lower surcharge rate of 25% applicable in new tax regime over 37% in the old tax regime

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