

Personal Financial Management for Group I Officers



Presented by

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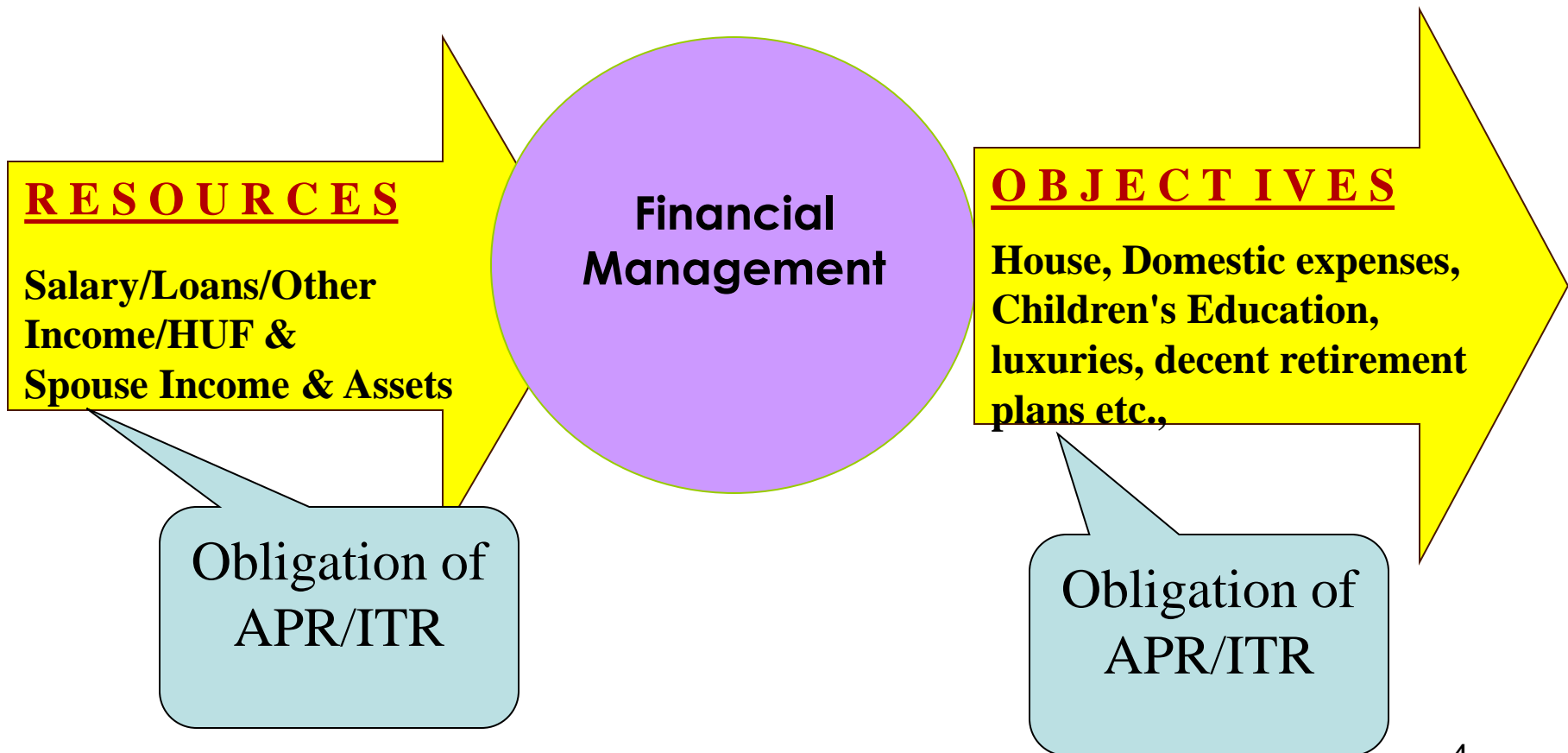
In This Session

- **Personal Financial Management**
- **Income & Expenditure**
- **Investment & Tax Planning**
- **A P Civil Services (Conduct) Rules, 1964 - Financial Issues**
- **13(1)(e) Of Prevention of Corruption Act, 1988**
- **Annual Property Returns/IT Returns**
- **How to safeguard your hard earned money & **how you are being cheated** by Financial Institutions & Others without your knowledge**
- **PAN Card Application**

Personal Financial Management

- Effective Utilization of available resources for attaining objectives.
- Objectives
 - Become financially comfortable and enjoy good living & enough savings for basic comforts, children's education
 - Retirement Planning
 - Decent financial goals and devote your life to honorable public service
 - All or combination of above

Financial Management Process



Personal Financial Management

- Areas of endeavor (Resources)
 - Financial Health
 - Spending wisely
 - Home and Other real estate
 - Insurance
 - Diversified Investment portfolio
 - Retirement and Estate Planning

Personal Financial Management

| | |
|-------------------------|----------------------------|
| Financial Health | Managing Your Money |
| | Budget Process |
| | Short Term loans |
| | Long Term loans |

Personal Financial Management

| | |
|----------------------------|---|
| Spending Your Money Wisely | Food |
| | Clothing and Personal needs |
| | Car/computer |
| | Major Appliances and Other Large Expenditures |
| | Taxes : Income tax and Others |
| Home And Other Real Estate | Home: Rent or Purchase |
| | Other Real Estate |

Personal Financial Management

| | |
|----------------------------------|---|
| Insurance Program | Car, Property, Health |
| | Life Insurance & medical insurance for family |
| | Principles of Insurance, Eq.LIP |
| Diversified Investment Portfolio | Investment Companies: Mutual Funds and Closed End Funds |
| | The Stock Market -- Primary & Secondary |
| | Bonds, Systematic Investment Plans |
| | Bank Savings- SB / Fixed / Flexi / Deposits |

Personal Financial Management

| | |
|-----------------|------------------|
| Estate Planning | Wills and Trusts |
| | Nominations |

| | |
|--------------------------------------|--|
| Plan for Retirement Corpus needed | Consider Inflationary effect & choose suitable Asset – Reverse Mortgage |
|--------------------------------------|--|

General Terms & Concepts in Financial Planning

- ◆ Long/Short Term Returns
- ◆ Liquidity
- ◆ Risk Vs Reward
- ◆ Fixed & Floating Interest Rates
- ◆ Capital Appreciation, Ex. Real Estate, Gold, etc.
- ◆ Tax Planning
 - Loans to spouse, Interest, Repayment of loans
 - Tax Savings, FD's, Bonds, Shares (Exempt from LTCG taxes)
- ◆ Savings Bank Account **Vs Flexi Account**
- ◆ Inflation and Value of Money

Why Financial Planning?

Inflation

Future cost of important goals would be much higher than present

Changing Life Stages & Life Style Needs

Private Car, Manpower cost, Children's Education

Financial Planning

Traditional investments **not as attractive due to non consideration of Tax & Inflation effect**

Lack of Planning or Presumptive approach **is the biggest cause of financial stress**

Note – Inflation is the decrease of Purchase Power of Money.
If you expect inflation to be at 7%, the goods you can buy today for Rs. 5,084 will cost you Rs. 10,000 after 10 years

HINDU UNDIVIDED FAMILY (HUF)

- ◆ All persons lineally descending from a common ancestor including their wives, sons and unmarried daughters.
- ◆ One Male Member essential to form a HUF.
- ◆ The proof of inheritance is essential.
- ◆ HUF is a separate taxable entity and basic IT exemption also available. Many Officers are not aware and loosing advantage of the same.
- ◆ Advisable to include in APRs & also in regular Income Tax Returns and file separate IT Return if HUF comes under Tax Bracket.
- ◆ Agricultural Income – Tax Free ?

A P Civil Services (Conduct) Rules, 1964

Financial issues

Rule 6

Gifts, Service Entertainment addresses and other forms of felicitation

Rule 8

Lending, Borrowing & Insolvency

Rule 9

Acquiring or Disposing of Immovable Property

Rule 10

Private Trade Business and as Investment

Rule 11

Promoting & Management of Companies in private capacity

Rule 12

Private Employment

Rule 6 – Gifts, Service Entertainment addresses and other forms of felicitation

6. (1) No Government employee shall :-

- (i) accept, or permit any member of his family to accept from any person any gift, the receipt of which, or any service the performance of which will place such employee under any kind of official obligation or embarrassment in relation to any person; or
- (ii) receive any address or accept any felicitation or entertainment held in his honour

Exceptions :-

- (a) gifts of flowers or fruits of trifling value.
- (b) gifts of a value, reasonable in all circumstances of the case, from relations, and gifts of a value of less than two hundred rupees from personal friends presented to a Government employee or to any member of his family on ceremonial occasions such weddings

6. (2) If any question arises whether the receipt of a gift or the performance of a service places the Government employee under any kind of official obligation or embarrassment, the decision of Government thereon shall be final.

Rule 6 – Continued

6-A

Every Government Employee shall intimate to the Competent Authority within fifteen days from the date of receipt of any foreign currency or foreign goods of value of more than Rs.10,000/- from any person by him or by any person of his family or by any person on their behalf, in the form given in the Annexure III to these rules.

Rule 8 – Lending, Borrowing & Insolvency

8 (1) No Government employee shall, save in ordinary course of business with a bank or a public limited company, himself or through any member of his family or any person acting on his behalf:

- (a) lend or borrow or deposit money as a principal or agent, to, or from, or with any person or firm or private limited company within the local limits of his authority or with whom he is likely to have official dealings or otherwise place himself, under pecuniary obligation to such person or firm; or**
- (b) lend money to any person at interest or in manner whereby return in money or kind is charged or paid ;**

Provided that a Government employee may give to, or accept from a relative or a personal friend a purely temporary loan of small amount free of interest or operate a credit account with a bonafide tradesman or make an advance of pay to his private employee;

Provided further that nothing in this sub-rule shall apply in respect of any transaction entered into by a Government employee with the previous sanction of the Government.

Rule 8 - Continued

8(2) The prohibition in sub-rule (1) shall not apply to :-

- (i) any transaction of a Government employee with a co-operative society registered.
- (ii) a Government Employee who lends money while acting as an executor, administrator or a trustee without profit or advantage to himself;
- (iii) a Government employee who belongs to a Joint Hindu Family carrying on the business of money lending as a ancestral profession, provided he takes no active share in that business and is not employed in the district in which the said business of the family is carried on.

8(3) A Government Employee shall so manage his private affairs as to avoid habitual indebtedness or insolvency. A Government employee who is involved in legal proceedings for insolvency shall forthwith report the full facts to Government.

Rule 9 – Acquiring or Disposing of Immovable Property

9(1)

No Government employee shall, except after previous intimation to Government, acquire or dispose of or permit any member of his family to acquire or dispose of, any immovable property by exchange, purchase, sale, gift or otherwise either by himself or through others.

Rule 9 - Continued

The Government employee shall submit the particulars giving prior intimation or seeking prior sanction, in the following format :-

- 1) Name and Designation
- 2) Scale of Pay and Present Pay
- 3) Purpose of application – sanction for transaction / prior intimation or transaction
- 4) Whether property is being acquired or disposed of.
- 5) Probable date of acquisition / disposal of property
- 6) Mode of acquisition/ disposal
- 7)
 - (a) Full details about location Viz., Municipal No., Street/ Village, Mandal, District and State in which situated.
 - (b) Description of the property in the case of cultivable land, dry or irrigated land.
 - (c) Whether free hold or leasehold
 - (d) Whether the applicants interest in the property is in full or part (in case of partial interest, the extent of such interest must indicated)
 - (e) in case the transaction is not exclusively in the name of the Government servant particulars of ownership and share of each member.
- 8) Sale/ purchase price of the property (Market value in the case of gifts)

Rule 9 – Continued

- 9(2)** A Government employee who enters into any transaction concerning any movable property **exceeding rupees fifty thousand in value**, whether by way of purchase, sale or otherwise, shall forth with report such transaction to Government
- 9(3)** Nothing in sub-rule (2) shall apply to any purchases made by a Government employee for the performance of weddings, religious or special functions.
- 9(4)** No Government employee shall engage in any transaction which is of a speculative character relating to the purchase, sale or exchange of any immovable or movable property.

Rule 9 – Continued

9(7)

Every Government Employee, other than member of the Andhra Pradesh Last Grade Service and a Record Assistant in the Andhra Pradesh General Sub-ordinate Service, **shall on first appointment to the Government Service submit to Government a statement of all immovable property/ properties irrespective of its value and movable property/ properties whose value exceeds Rs.50,000/- owned, acquired or inherited by him or held by him on lease or mortgage either in his own name or in the name of any member of his family**, in the forms prescribed in **Annexure-I and II separately**.

He shall also submit to Government before 15 January of each year, through the proper channel, a declaration in the forms given in the Annexure-I and II of all immovable/movable property/properties owned, acquired or inherited by him or held by him on lease or mortgage, either in his own name or in the name of any member of his family.

If in any year, a Government employee has not acquired or disposed of any immovable or movable property or any interest therein, he shall submit declaration to that effect.

9(8)

The Government, or any authority empowered by them in this behalf may, at any time, by general or special order, require a Government employee to submit, within a specified period, a full and complete statement of all immovable property and movable property, of the specified value, held or acquired by him or by any member of his family. **Such statement shall, if so required by Government or by the authority so empowered, include particulars of the means by which or the sources from which, such property was acquired.**

Rule 10 – Private Trade Business and as Investment

10(1)

No Government employee shall engage directly or indirectly in any trade or business save in the course of his official duties.

10(2)

No Government employee shall speculate in any investment.

Rule 11 – Promotions & Management of Companies in private capacity

No Government employee shall in his private capacity, except with the previous sanction of Government, take part in the promotion, registration or management of any bank or other company registered under the relevant law for the time being in force.

Rule 12 – Private Employment

No Government employee shall , except with the previous sanction of Government negotiate for or undertake any employment or work other than that connected with the official duties.

ANNEXURE - I

Statement of immovable property possessed, acquired and disposed of by Sri ----- or any other person on his behalf or any member of his family during year ending ----- (Sub-rule (7) of rule 9 of APCS (Conduct) Rules 1964)-

| | Nature of property | Situation of property (Survey Municipal No. with extent | Held in whose name | Date and mode of acquisition / disposal | Price paid/ obtained | source of Payment | Whether information given or sanction obtained (with ref. no .&date | Annual income from property |
|---|--------------------------------|---|--------------------|---|----------------------|-------------------|---|-----------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1 | House | | | | | | | |
| 2 | Flat | | | | | | | |
| 3 | Shop | | | | | | | |
| 4 | House Plot | | | | | | | |
| 5 | Agricultural land (dry or wet) | | | | | | | |
| 6 | Any other immovable property. | | | | | | | |

Note - Details of acquisition of properties standing in the name of Hindu undivided family or partnership in which the officer holds a claim or share should be separately shown in the statement.

ANNEXURE – II

Statement of movable property possessed, acquired and disposed of by Srior any another person on his behalf or by any member of his family during year ending.....

(Sub-rule (7) of rule 9 of APCS (Conduct) Rules 1964)

| | Nature of property | Held in whose name | date & mode of acquisition / disposal | Name and address of person from whom acquired/ to whom disposed of | Whether transaction done within the limits of Jurisdiction | Price paid / obtained | Source of payment |
|---|--|--------------------|---------------------------------------|--|--|-----------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| | Movables (whose value exceeds Rs. 50,000/-) | | | | | | |
| 1 | Vehicles: Motor Car, Motor Cycle / Scooter any other vehicle. | | | | | | |
| 2 | Electrical Goods: Air Conditioner, V.C.R. / Television. Refrigerator, Any other goods. | | | | | | |
| 3 | Jewellery: Ornaments, Vessels etc. | | | | | | |
| 4 | Investment & Cash: Bank deposits/Debentures/ Shares/Bank Balances etc | | | | | | |
| 5 | Furniture: | | | | | | |
| 6 | Live stock | | | | | | |
| 7 | Any other goods | | | | | | |

Note : Details of acquisition of properties standing in the name of Hind undivided family or partnership in which the officer holds a claim or share should be separately shown in the statement.

APR & ITR

- **Precautions**

- Filing of Annual Property Returns promptly
 - Depicting correct data is essential after matching with the relevant Income Tax Returns
 - Giving full details of Savings effected till date and also any additions to immovable and movable assets should be mentioned
 - Share of HUF Income received if any should also be clearly mentioned both in IT Return, exemption claimed and APR should also reflect the same separately

RATES OF INCOME TAX

| Income Slab (Rs.) | Current Tax Rates (2012-13) |
|---|--|
| Upto ` 2,00,000 | Nil |
| 2,00,000 to 5,00,000 | 10% |
| 5,00,000 to 8,00,000 | 20% + ` 30,000 |
| Above 10,00,000 | 30% + ` 1,30,000 |
| Education Cess on Tax Liability (2%+1%) = 3% | |

FINANCIAL MANAGEMENT

- **Personal Financial Management for an Group I Officer**
 - **A typical case is provided based on revised Scales of pay for a Mid Seniority Level**
(with a Saving of Rs.40000)

Computation of Total Income

Name : XYZ
Status : Individual
PAN : ABCD E 1234 F

Income from Salary (A)

| | |
|--------------|--------|
| Gross salary | 424680 |
|--------------|--------|

| | |
|---|-------------|
| Less : Professional Tax (wherever applicable) | <u>2400</u> |
|---|-------------|

| | |
|--------------------|---------------|
| Income from Salary | 422280 |
|--------------------|---------------|

| | |
|-----------------------------|------------|
| Any other Income (B) | NIL |
|-----------------------------|------------|

| | |
|-----------------------------------|---------------|
| Gross Total Income (A + B) | 422280 |
|-----------------------------------|---------------|

| | |
|-----------------------------------|--------------|
| Less :Ded. U/s. 80C (GPF/Pension) | <u>40000</u> |
|-----------------------------------|--------------|

| | |
|----------------|---------------|
| Taxable Income | <u>382280</u> |
|----------------|---------------|

| | |
|---------------------|-------|
| INCOME TAX ON ABOVE | 18228 |
|---------------------|-------|

| | |
|---------------------|------------|
| Education Cess (3%) | <u>547</u> |
|---------------------|------------|

| | |
|--------------------------|--------------|
| Total Tax Payable | 18775 |
|--------------------------|--------------|

FINANCIAL MANAGEMENT

- **The Officer has to pay the Tax of Rs. 18775 for the Financial Year 2012-13.**
- **To reduce the same, the following saving Schemes can be utilized for a further amount of Rs. 60,000 U/s 80 C :-**
 - LIC
 - NSC
 - Pension Fund
 - Public Provident Fund, Addl. Contribution to GPF
 - Investment in Infrastructure Bonds
 - Housing Loan principle repayment / HL Deposit Scheme (NHB)
 - Payment of Tuition Fees for children
 - Other notified deposits/schemes

FINANCIAL MANAGEMENT

- Continuing the same example, if the Officer saves Rs.1,00,000, full benefit under Section 80C could be obtained. Following illustration shows the tax liability, if full saving is made

Computation of Total Income

Name : XYZ
 Status : Individual
 PAN : ABCD E 1234 F

Income from Salary (A)

Gross salary 424680

Less : Professional Tax (wherever applicable) 2400

Income from Salary **422280**

Any other Income (B)

NIL

Gross Total Income (A + B) 422280

Less : Dedns. U/s. 80C (Savings) 100000

Taxable Income **322280**

INCOME TAX ON ABOVE 12228

Education Cess (3%) 367

Total Tax Payable 12595

Mutual Funds

- ◆ A mutual fund is generally a professionally managed pool of money from a group of Investors to be invested in Shares & Securities.
- ◆ A mutual fund manager invests your funds in securities, including stocks and bonds, money market instruments or some combination of these, based upon the fund's investment objectives.
- ◆ By investing in a mutual fund you can diversify & get professional investment support, thereby sharply reducing your risk. Mutual funds can be classified on the basis of structure.
 - **Open-Ended Scheme** sells and repurchases units at all times. When fund sells, investor buys and when the investor redeems, the fund repurchases the units. Buying or redeeming is at a price based on the NAV. (Net Asset Value)
 - **Close-Ended Schemes** are for a certain period of time, viz. 3 / 5 years and after the offer closes, investors are not allowed to buy or redeem units from the fund. Close-ended funds are listed on stock exchanges to enable investors to buy or sell units.
 - **Entry/ Exit Load** - A charge paid when an investor buys/sells a fund. There could be a load at the time of entry or exit, but rarely at both times.
 - **Expense Ratio** - The annual expenses of the funds, including the management fee, administrative cost, divided by the fund under management.

Systematic Investment plan – Mutual Funds

This is a simple, disciplined strategy of investing your money in a mutual fund highly suited to start early in Service.

- ◆ It is a long term strategy for accumulation of wealth. SIP investor gets good rate of returns compared to a one time investor.
- ◆ In an SIP a specific amount should be invested in regular intervals in a mutual fund for a specific period, which is very similar to a recurring deposit.
- ◆ It allows you to buy units of the fund each month, ignoring the volatility in the market. While your investment remains the same, more number of units can be bought in a declining market and less number of units in a rising market. Thus you automatically participate in the market swings once the option for SIP is made.
- ◆ SIP work on the principle of rupee cost averaging. It ensures averaging of rupee cost as consistent investment ensures that average cost per unit fits in the lower range of average market price.
- ◆ SIP generally starts at minimum amounts of Rs 1,000 per month and upper limit for using an electronic clearing service (ECS) is Rs 25,000 per instruction.
- ◆ **Latest trend is NAV Guarantee Schemes in Mutual Funds.**

Section 13(1)(e) of PC Act, 1988

If he or *any person on his behalf*, is in possession or has, at any time during the period of his office, been in possession for which the public servant cannot satisfactorily account, of pecuniary resources or property *disproportionate* to his *known sources of income*

Intimated as per provisions of any law, rules or orders as applicable to officer

DISPROPORTIONATE ASSETS

DISPROPORTIONATE ASSETS

**KNOW SOURCES OF
INCOME**

Depicted in APR/ITR

***NOT
EQUAL
TO***

**ASSETS/
EXPENDITURE / LOSSES**

Depicted in APR/ITR

Known Sources of Income

- Attached to his office or post commonly known as remuneration or salary
- Income by itself, is classic and has a wide connotation including receipts (Interest free /Non repayable loans)
- Every receipt would not partake into the character of income.
Ex. TRAVELLING ALLOWANCES

Other income (as intimated to Govt. from time to time)

- On his property
- On his investments
- HUF INCOME / STREE DHAN
- Surplus in allowances is not to be treated as income

Personal Financial Folders

- Annual Property Returns
- Income Tax Return copies
- Approvals from Govt. - Purchase of Movable & Immovable Assets
- Bank & Credit Card Statements- FOR 3 YEARS
- Documentation relating to Gold & Silver etc. - Sources
- Other Investments, Shares, NSC's - Maturity wise
- Gift Deed Documents
- Copies of Loan Documents

Financial Institution / Retail Frauds

(How you are being Cheated)

- **Frauds by Housing Loan Finance Companies**
 - Monthly compounding of Interest
 - Pre-payment Charges
 - Hidden Charges or wrong rate of interest application
 - Intentional late deposit of cheques
- **Frauds by Credit Card Companies**
 - Hidden Charges
 - Charging additional rate of interest than agreed upon
 - Multiple/Compound charges
 - Intentional late deposits of cheques
- **Frauds by Commercial/Nationalized/Private Sector Banks**
 - Charging adhoc sums
 - Charging additional expenses / collection charges
 - Wrong interest application than what is committed

ITRs & PAN

- PAN is essential under Income Tax Act.
- Failure to possess the same and drawing salary attracts a penalty of Rs. 10,000 each, for both the Receiver & Pay Drawing Officer.
 - The following are the details required for obtaining PAN Card -
 - 1 No. Colour Passport Size Photo
 - Photo Identity Proof
 - Address Proof
 - A Gazetted Officer's Certificate in Lieu of above Proof
 - Filling up of the Prescribed Form in **Black Ink only** with Personal Details
 - Pay a Fees of Rs.96/-

Every officer must submit to the Pay Drawing Officer either savings details or give indication for deduction of suitable tax in a phased manner.

- **Spare two hours every month to monitor your financial status and review decisions**
- **Maintain personal financial folders to keep track of your investments including maturity details**
- **Do your home work because you have to take the exams, but of course you can avail tuitions**
- **Compare your APRs and Income Tax Returns because the due dates for both are different and file them regularly before due dates**
- **Don't go by presumptive approach that everything is alright**
- **Comply with Service Conduct Rules very strictly**
- **You are welcome to email me your personal queries**

Any Questions/Clarifications ??

THANK YOU

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