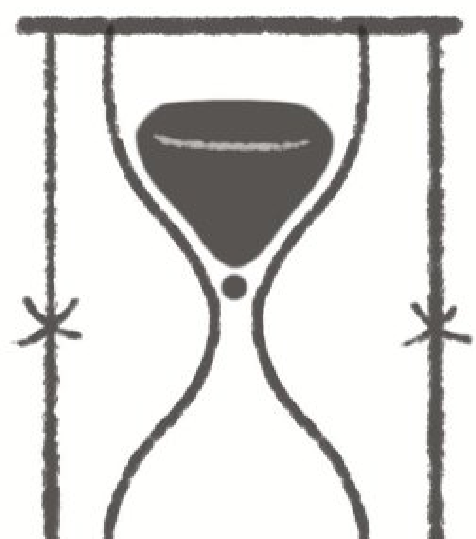
HANDBOOK ON PERSONAL FINANCE



SNEHA C

I would like to thank Mr. Lloyd Rego, founder, LMN Financial services, for all his help with the contents of this book. I would also like to thank my guide Prof. G. V. Sreekumar for his constant support and constructive criticism throughout this project.

The book is to be read with an understanding that the author is not engaged with rendering financial services. Each individual's situation is unique and hence the contents of the book are not responsible for their financial success or failure. For financial advice, the services of a professional financial advisor should be sought.

This handbook for personal finance is a guide to help you understand the concepts underlying the available basic financial instruments, such that you feel more confident about keeping your hard earned money and make it work for you in time.

"In those things toward which we exerted our best endeavors we succeeded."

– George Clason

Learning to distinguish between the two types of happiness — your day-to-day feeling of joy, and your overall satisfaction with life, is of great importance. 'Money does indeed buy you happiness — the day-to-day kind — but up to a certain income level. Once you reach that level, additional income does not make your days more joyful. It can, however, make you feel more satisfied with where your life is going. Lower income does not cause people to be sadder but instead makes them feel more ground down by the problems that they already have. Having money makes it easier to handle adversity.' [1]

In hierarchy of needs, Maslow explains that only when our basic needs are in place, one can avoid being anxious or tense, focusing on our need of self-actualization. This need can be understood as the need for a person to live up to his or her full potential, whether professionally or personally.

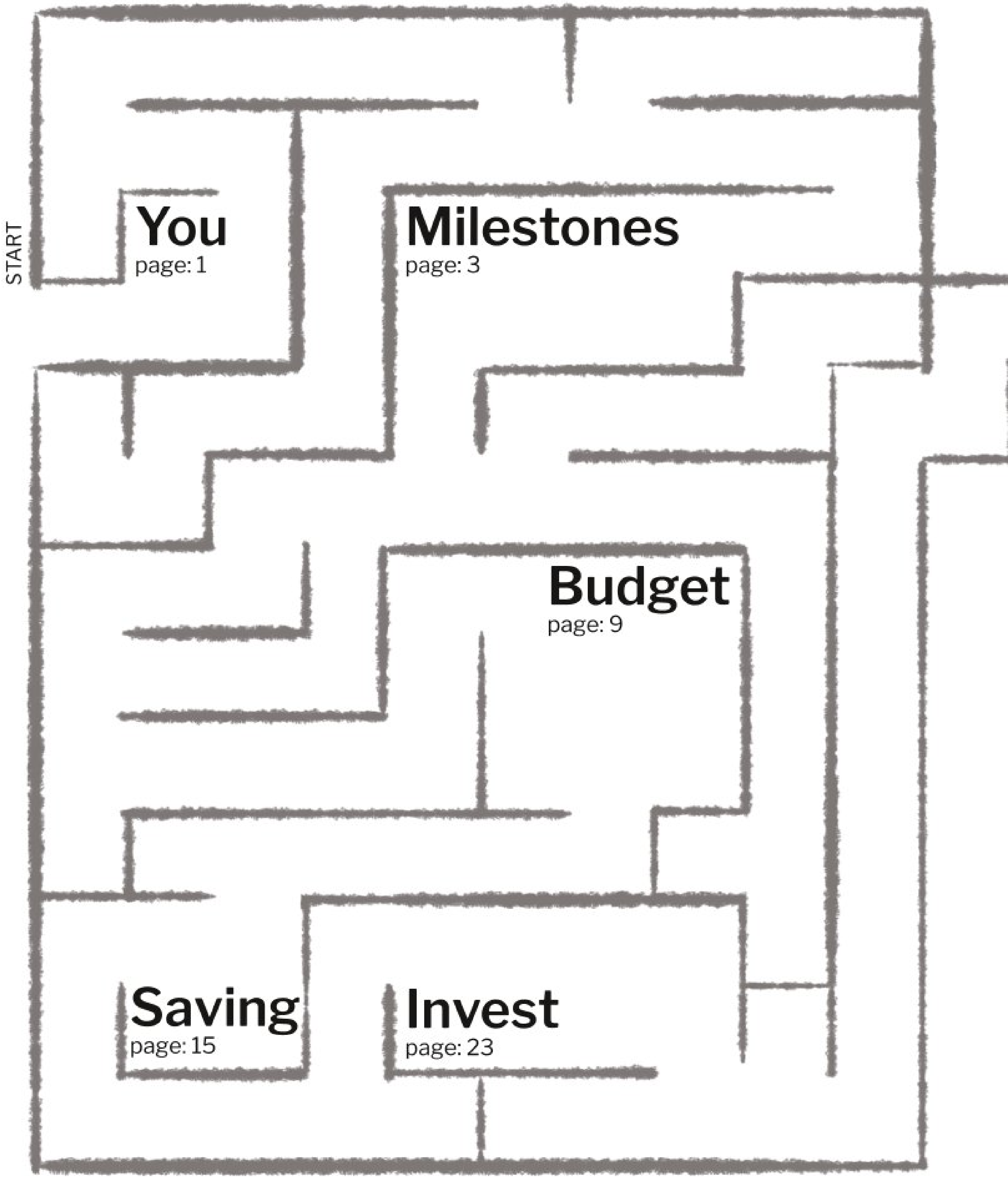
"What is necessary to change a person, is to change his awareness about himself."

– Abraham Maslow

[1] This study was done at the Princeton University's Woodrow Wilson School.

TO DO LIST

- DREAM BIG
- FIGURE OUT YOUR PRIORITIES
- MAKE IT HAPPEN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FINISH

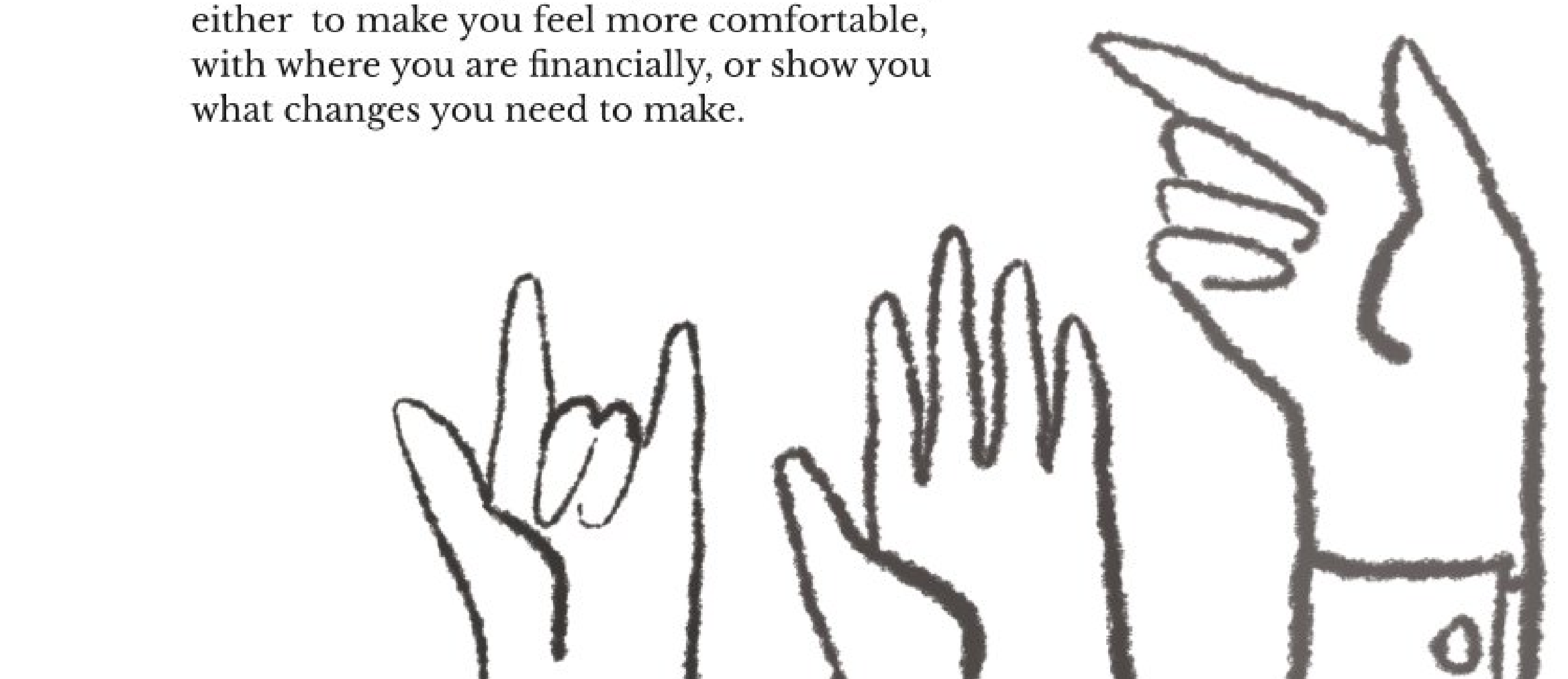

'YOU HAVE TIME ON YOUR SIDE!'

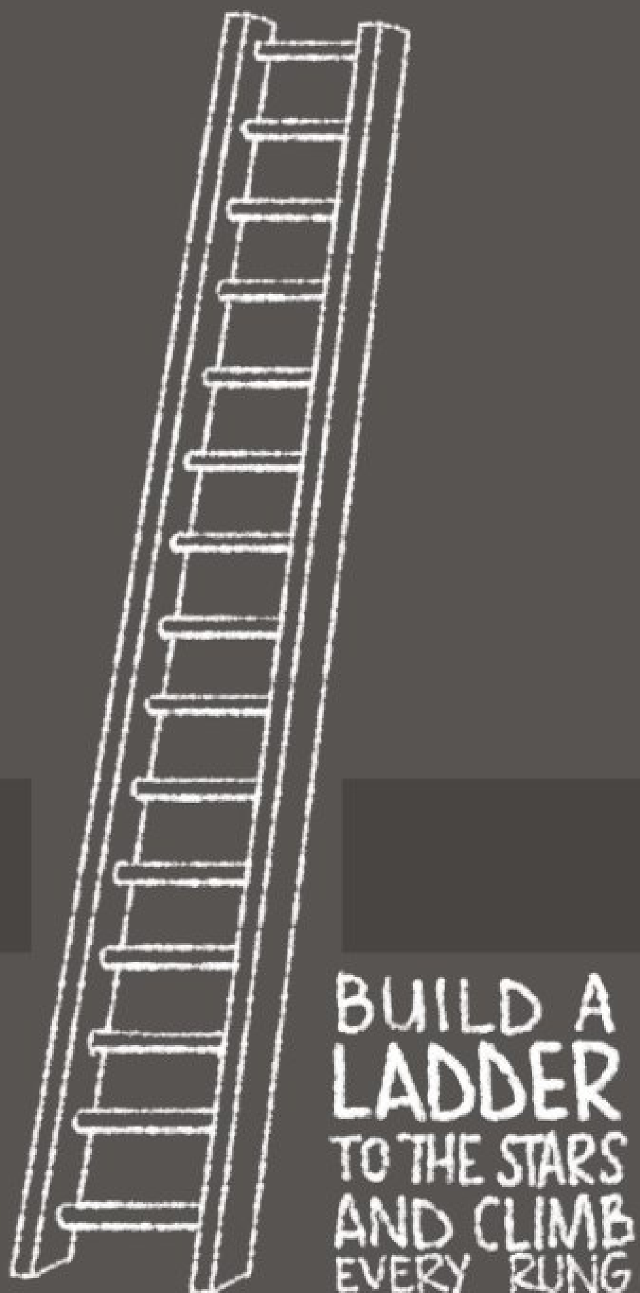
You

Hey! ....
(name)

You amongst most people are already at an advantage! You have time on your side! You will see how, this advantage with time helps, as you read through the chapters. For all the good money decisions you are about to make, let's start with building your foundation.

This book will not "magically solve" all of your financial problems. What it will do is draw an outline for you, which you need to fill in, either to make you feel more comfortable, with where you are financially, or show you what changes you need to make.





Add stars when you have reached your goals.

Milestones

Let's begin!

At different stages in our life's journey, we have different wants and different needs. What you must have wanted as a child, may not be the same now. What you must be aspiring now, may change in your forties. Our ability to earn an income changes too. These changing incomes and changing wants and needs, is described as your financial life cycle.

We all begin from a place where we depend on others, as a young adult, under our guardian's care or you may have hit a rough patch in life as an adult and need aid.

"A goal without a plan is just a wish."

– Antoine de Saint-Exupéry

Regardless, the first step is to transition from being dependent to being stable and then to being financially independent. While no two people have identical life experiences, you can follow these general guidelines on how to progress your finances through different stages of your life.

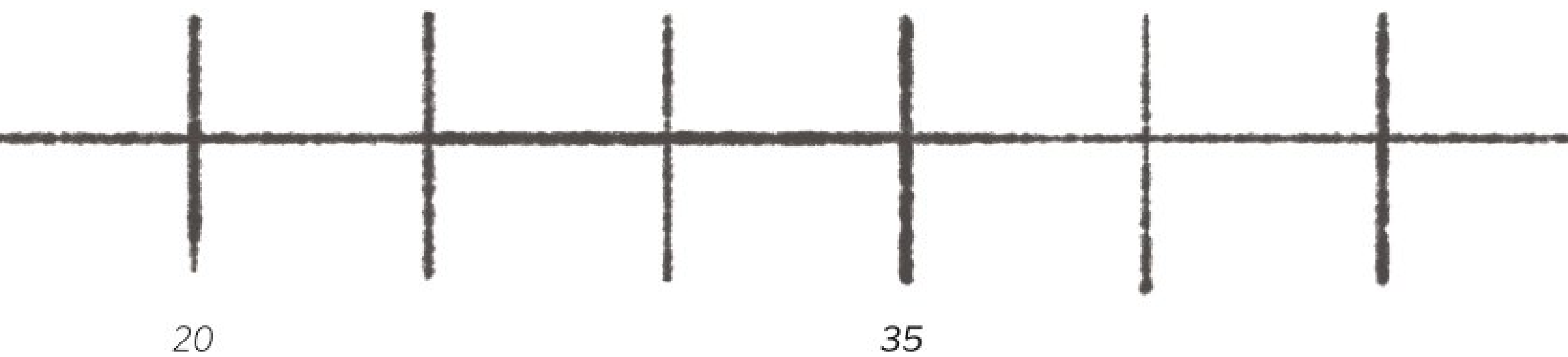
The characteristics of the financial life stages:

Dependent – your financial needs are supported by the aid of others. You are provided with essentials like food or a house.

Stable – you are self-supporting financially with a buffer amount for unexpected events.

Supporting – you give a regular amount of money as aid to others to cover their needs.

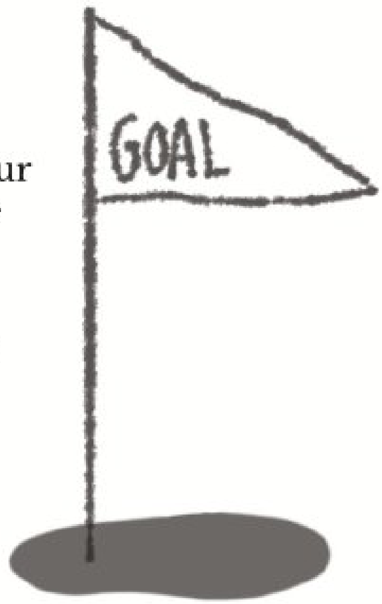
Independent – you have enough wealth to live on, without working. Your investments generate an income that is at least equal to your expenses.



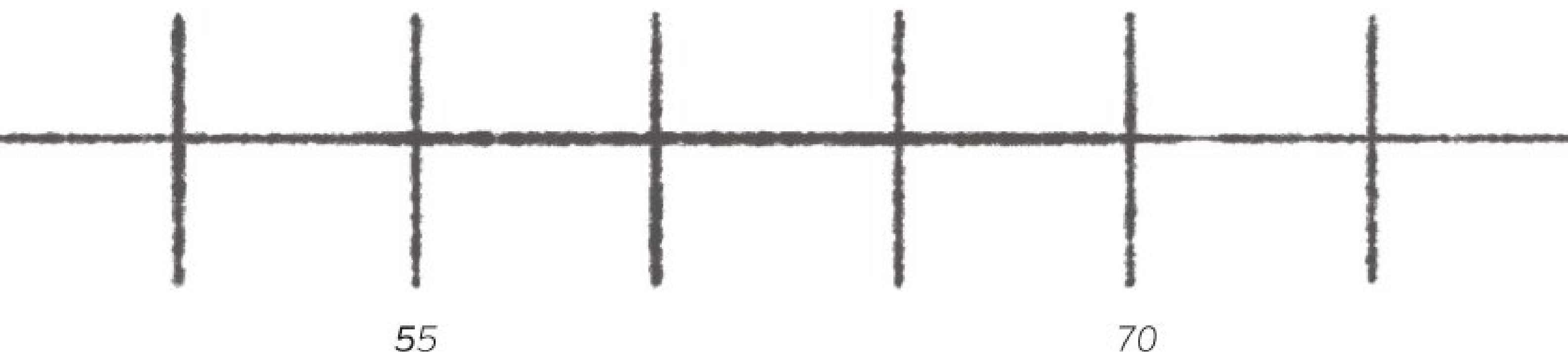
Identify what financial stage in life you belong to and mark it along the time-line.

Write down your goals!

These are your goals set in the future, determined by their specific financial needs. Not all financial goals are the same, which means they shouldn't necessarily be approached the same way. Depending on your circumstances, some goals might take longer to reach than others.



Don't just make a mental note of your future goals you want to finance, but write these down in detail. There's a huge gap between having goals and accomplishing them. This act of writing down your goals will help you in closing this gap.



Place goal flags along the time-line.
Make notes to detail them as much as possible.

Setting clear goals will motivate you to work towards the goal, focus on the necessary actions and stay away from overspending on other activities. Organize your goals into three categories: short-, medium- and long-term goals and identify your goal type:

FEW MONTHS

Short term goals – more immediate expenses, generally within a few months or years. *E.g.: saving for a vacation, paying down student loans or luxury purchases like a new piece of furniture/ appliance etc.*

SOME YEARS

Mid term goals – fall between short-term and long-term goals, these tend to take a few years to reach. *E.g.: buying a new car or saving for a down payment on a house.*

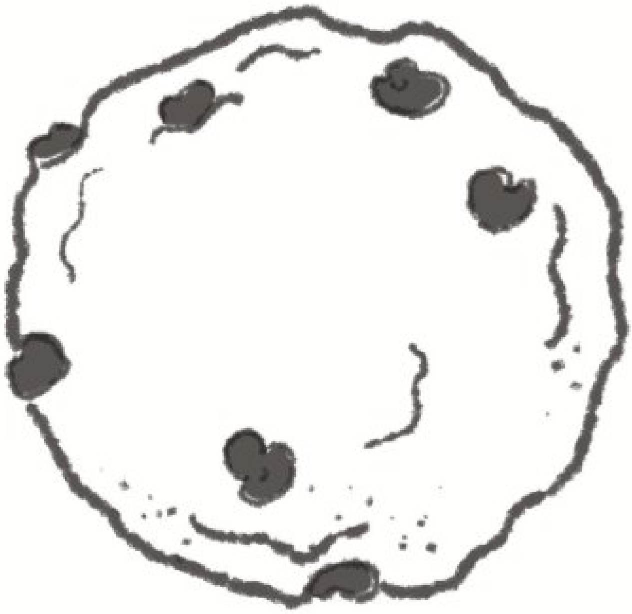
A LONG LONG TIME

Long term goals – are usually your big-picture costs. These goals may take several years or even decades to reach. *E.g.: saving for retirement or paying for your child's education.*

GOALS :

- [ ]
- [ ]
- [ ]
- [ ]
- [ ]

Write down your goals. With a well-written goal, you will know what you want to achieve and how you will achieve it.



WANTS

Write down your wants and needs.
If you need help, ask:
Can I live without this?
Can I work without this?

Budget

Prioritize!

Now that you have written down your goals, you need to plan to achieve them. Creating a plan for spending your money, ensures there will be enough money for the things you need, when you need to purchase them. A budget acts like a road-map for your finances. It determines what you need to spend on and what you should save for.

One of the toughest aspects about making a budget is, separating your wants from your needs. Sometimes, our wants are so powerful that we can't imagine living without them. Like having a cookie – a cookie is a want, not a need, no matter how much you love it!

NEEDS

It's entirely too easy to blow a wad of notes on a night out with friends, a weekend away, or during your break as you shop online. If you have found yourself waiting for payday wondering where your money went, then you will surely benefit from knowing where it's going by **expense tracking.**

Write down everything you spend money on, whether you bought your morning tea, a movie ticket, or drinks on the way home. Also, track whether you paid with cash, debit card, or credit card; and if the expense was a need or a want. Track your expenses for at least three months before you start on your budget. This will help you get a snapshot of your financial life.

Note your monthly spending as per your ease: Excel sheet, mobile app., your diary (you could start here ...)

INCOME	EXPENSE

SPENDING LOG

DATE	TRAVEL	FOOD	BILLS	FUN	STUFF

The Golden Buckets

(a reference guide)

Investment bucket – (10%)

Fill this bucket with 10% of all you earn and invest it properly with the help of a proper financial advisor and never spend it.

Spending bucket – (10%)

This is for buying things. 10% of what you earn goes into this account and when you have enough spend it. Spend only when you have it.

Education bucket – (10%)

Keep re-investing in yourself, because there is always new things to learn. 10% of your earnings should go towards learning.

Necessities bucket – (55%)

You may have to learn to live on 55% of your after tax income. Learn to simplify your life to get on this track.

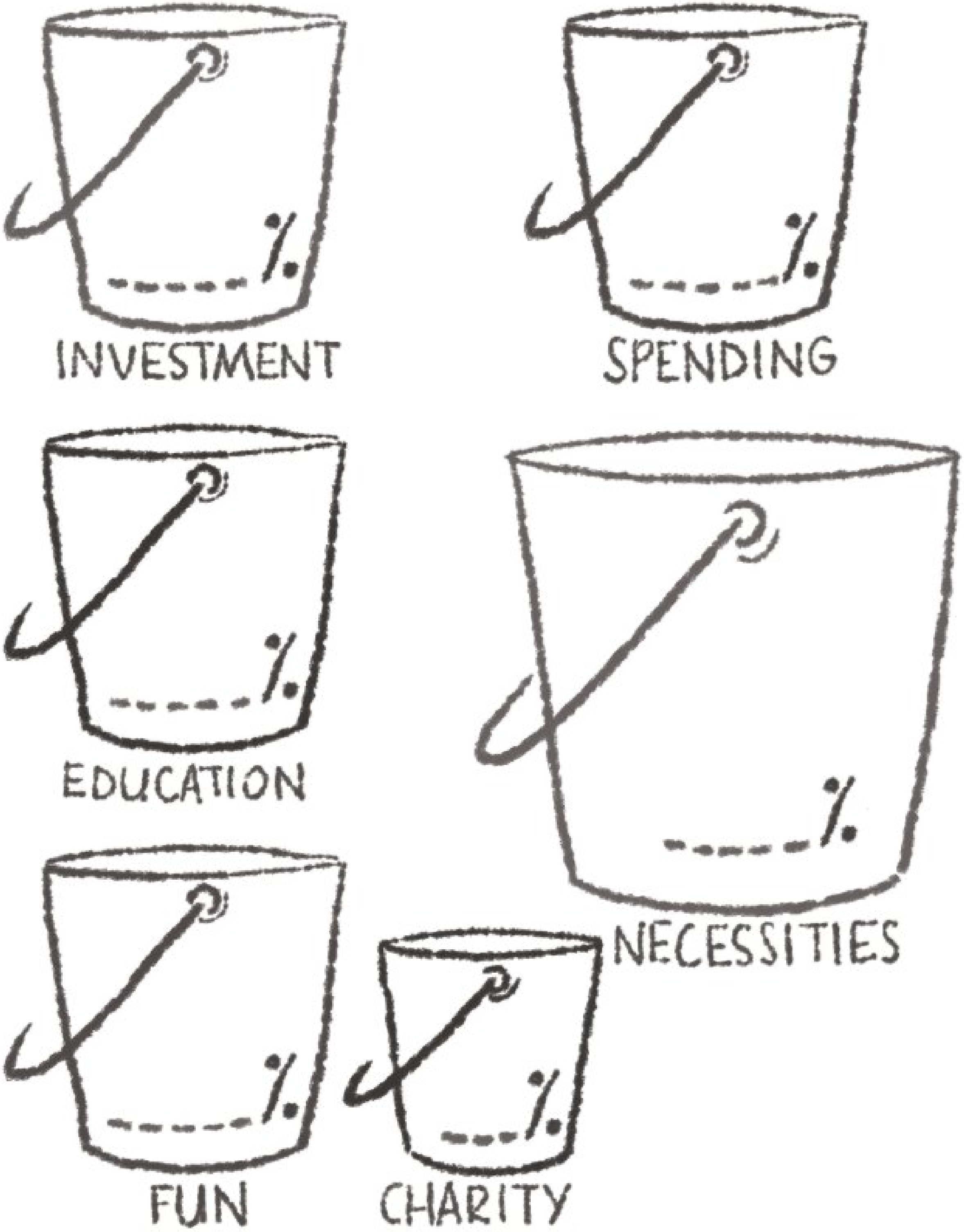
Fun bucket – (10%)

Because you need to have fun! 10% of the money you make needs to be spent on fun and you must spend this amount!

Charity bucket – (5%)

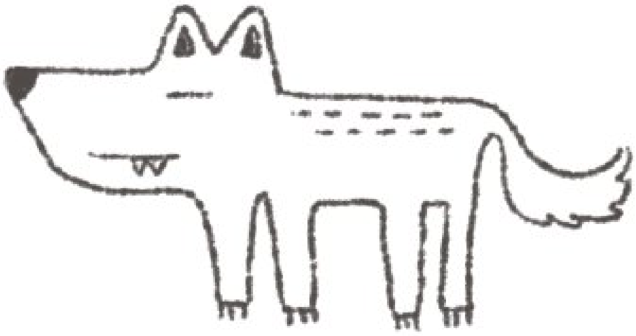
Last but not the least, 5% of what you earn goes into this bucket, so that you always have money to give back when there is a need.

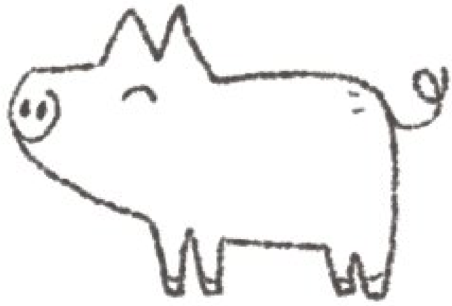
(These percentages are to be considered based on your 'post tax' income. To know how to calculate your post tax income, turn to page 44.)

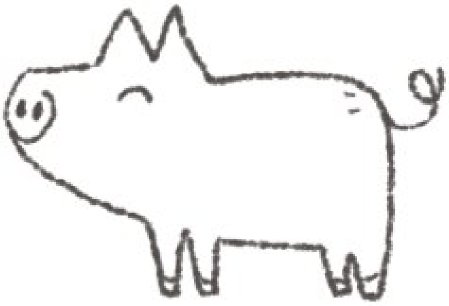


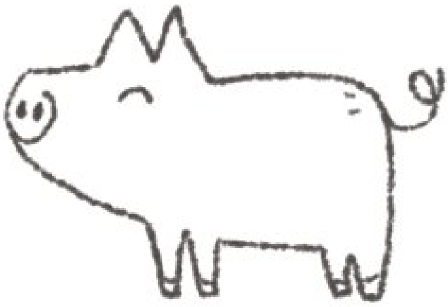
Fill in % as per your expenses tracker.

The Golden Buckets are only an outline for a budget. No matter how you earn a living, you're going to be making decisions about what you do with your income. The Golden Buckets is a money management system that you draw up to help you look at your expenses before you make them.

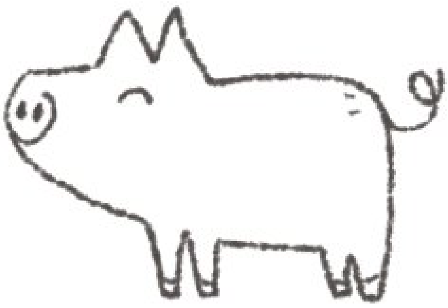


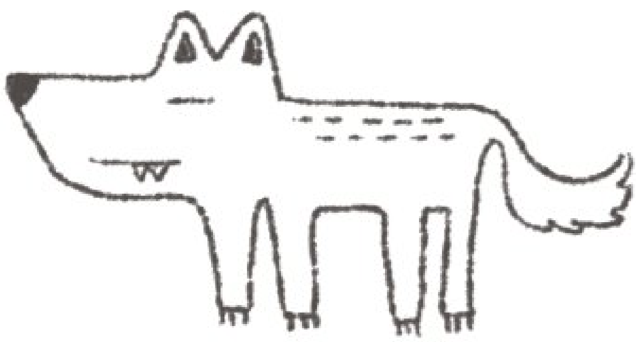






Inflation is like a pack of wolves to an unprotected livestock. If you only save your money in a bank, you will lose to inflation. Draw a fence around the pigs to protect them from the wolves.





Savings

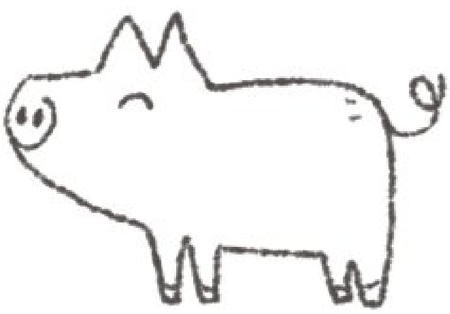
Save first!

This maths is simple: in order to save money, you need to spend less than what you earn. But, the catch is, you need to save first, then spend. Each time you get your paycheck, the first thing you should do is, set aside a portion to save before taking care of your bills and other necessities. It guarantees that the money you should be saving, you are actually saving. This portion depends on the budget you drew up on page 13. Spending on present wants without saving first for future needs is like eating your dessert before your meal.

"Do not save what is left after spending, instead spend what is left after saving"

– Warren Buffet

Like starting a new diet, saving money must be a choice you are committed to in order for it to be effective. Some people find it easier when it isn't a conscious decision, they have their bank automatically transfer money into an account every time a paycheck is deposited. If you don't even see that money for long enough, you won't even consider spending it.



One reason people save is to be able to buy more expensive items, say a play-station, a new gadget or an online course. Another reason people save is for unexpected expenses in the future, like an emergency dental procedure or a music festival.

Whatever your goal maybe, the most important part of setting your goal is celebrating your successes on accomplishing it! Follow the steps for your financial goals.

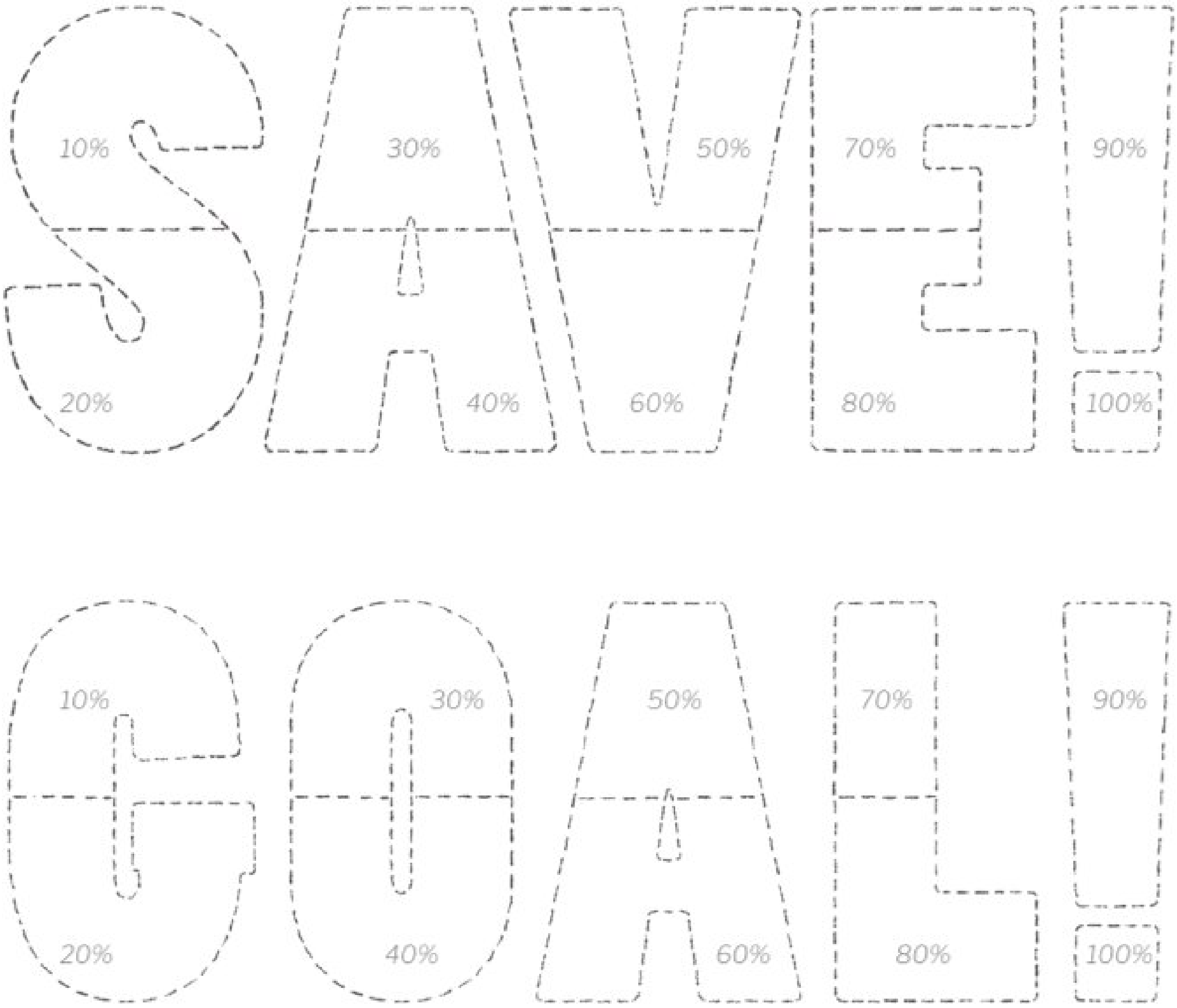
1. Figure out what you want.

2. Turn your want into a measurable target.

3. Set an achievable time frame.

4. Map your progress.

5. Celebrate the completion!

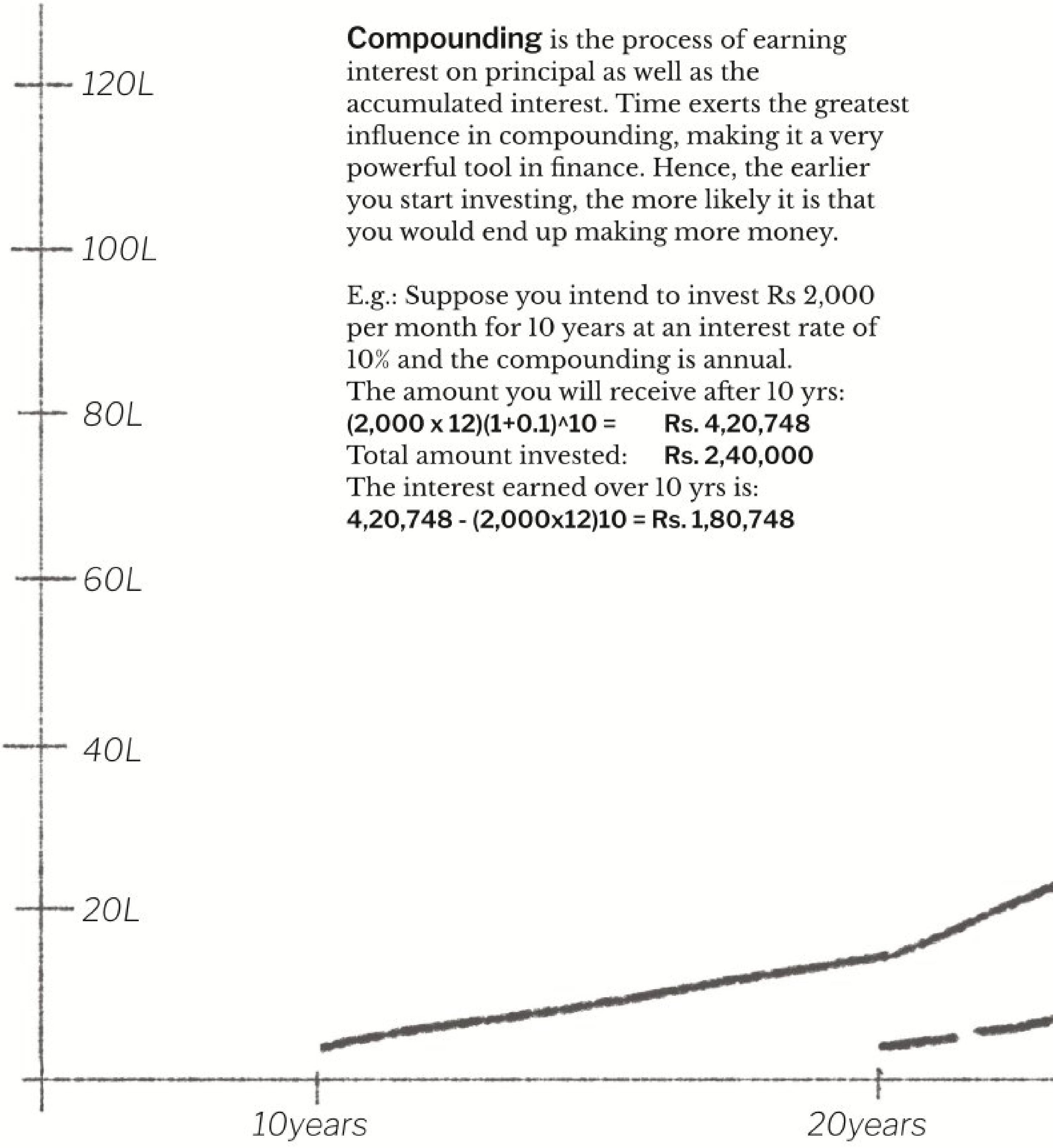


Colour-in as you progress to meet your goal.

This is the part about your advantage. It you understand it, it will work magic for you, but if you don't, you will end up paying for it.

Compounding is the process of earning interest on principal as well as the accumulated interest. Time exerts the greatest influence in compounding, making it a very powerful tool in finance. Hence, the earlier you start investing, the more likely it is that you would end up making more money.

E.g.: Suppose you intend to invest Rs 2,000 per month for 10 years at an interest rate of 10% and the compounding is annual.
The amount you will receive after 10 yrs:
(2,000 x 12)(1+0.1)^10 = Rs. 4,20,748
Total amount invested: **Rs. 2,40,000**
The interest earned over 10 yrs is:
4,20,748 - (2,000x12)10 = Rs. 1,80,748

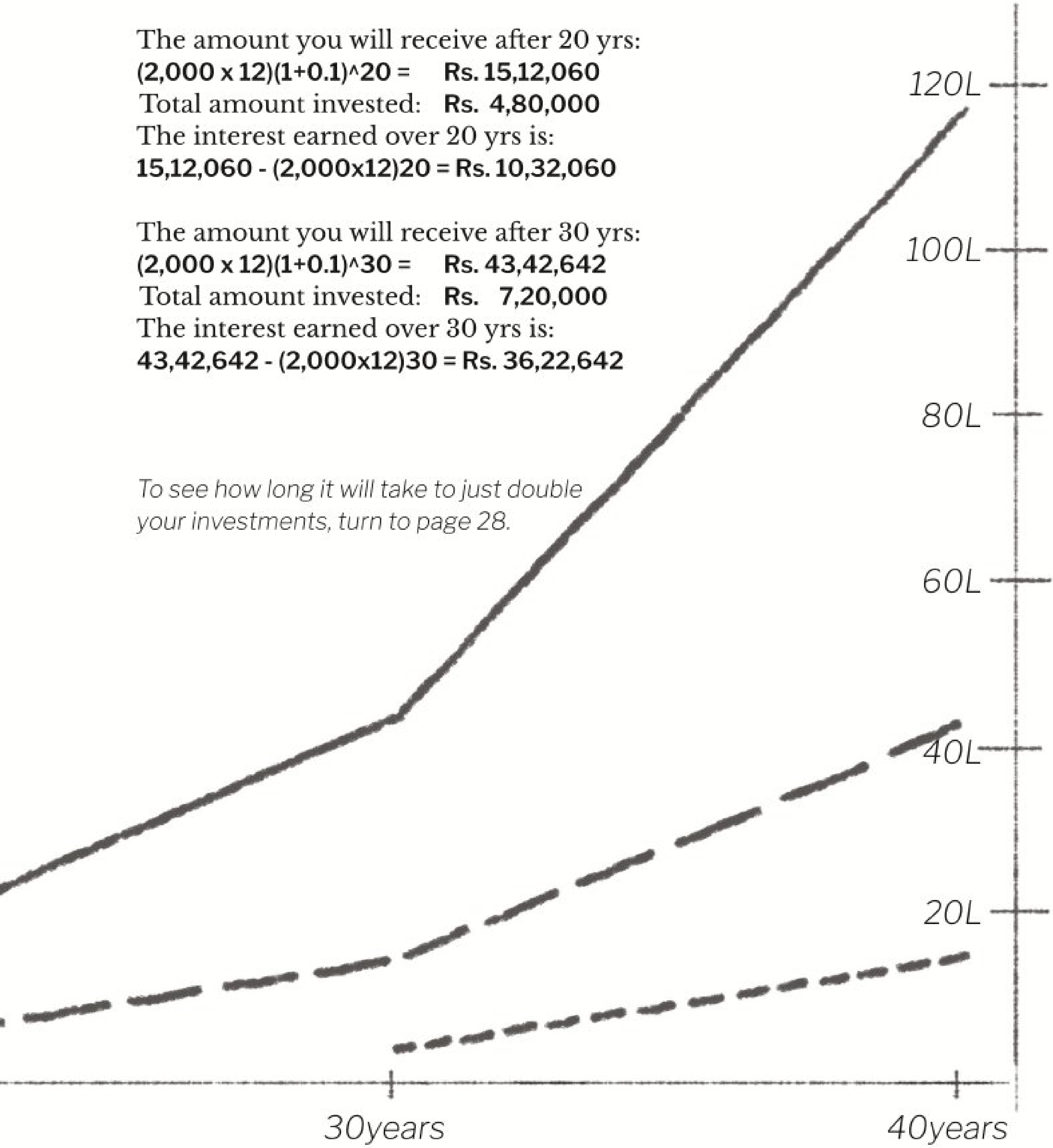


If you continue to invest the same amount, at the same rate of interest, for another 10 years.

The amount you will receive after 20 yrs:
(2,000 x 12)(1+0.1)^20 = Rs. 15,12,060
Total amount invested: **Rs. 4,80,000**
The interest earned over 20 yrs is:
15,12,060 - (2,000x12)20 = Rs. 10,32,060

The amount you will receive after 30 yrs:
(2,000 x 12)(1+0.1)^30 = Rs. 43,42,642
Total amount invested: **Rs. 7,20,000**
The interest earned over 30 yrs is:
43,42,642 - (2,000x12)30 = Rs. 36,22,642

To see how long it will take to just double your investments, turn to page 28.



A PART OF
ALL YOU EARN
IS YOURS
TO KEEP

–GEORGE CLASON

Seven Cures For a Lean Purse

I
Start thy purse to fattening
pay yourself at least 10% of your income

II
Control thy expenditures
cut back on unnecessary expenses

III
Make thy gold multiply
put that money to work

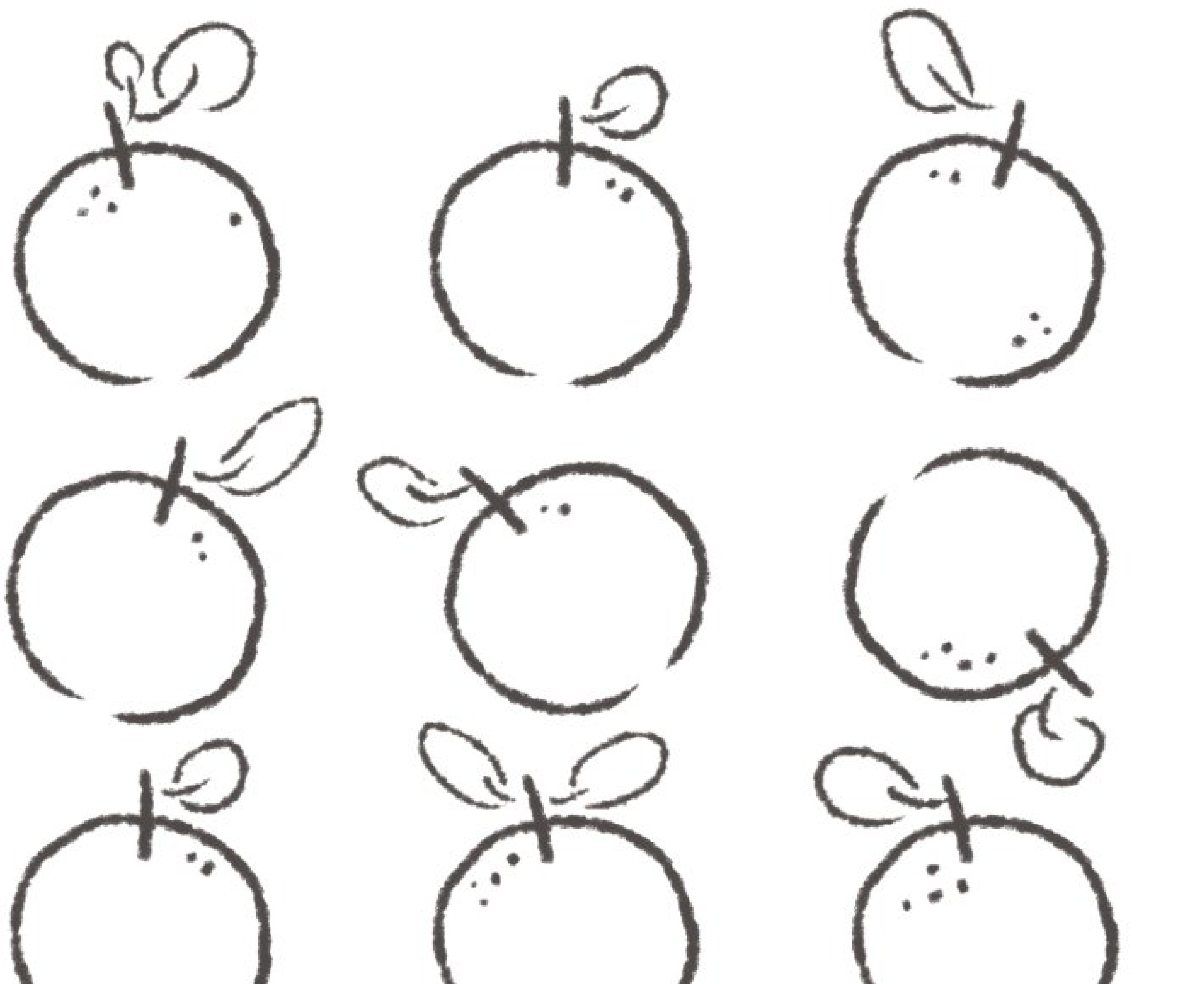
IV
Guard thy treasures from loss
be cautious about what you invest in

V
Make of thy dwelling a profitable investment
your home may appreciate in value over time

VI
Insure a future income
when you reach your elderly years you have a source of income

VII
Increase thy ability to earn
put in the effort and hard work to do it

The Richest Man in Babylon by George S. Clason, talks about some of the basic laws of money. Acclaimed as a modern-day classic, this celebrated bestseller offers an understanding of— and a solution to — your personal finances that will guide you through a lifetime. This book with the 'cures for lean purses' has been termed a guide to financial understanding.



Each investment strategy is unique. You need to pick the ones that fit the requirements to meet your needs. Identify which two fruits are alike.

Invest

Work it!

We all have this idea that the money we have earned is ours to keep, but if we really think about it we all have things we need to pay for in everyday life. We have bills to pay, food to buy, clothing to purchase, rent for a place to live in etc. Paying for things from what you earn is not paying yourself. You must realize that a part of all you earn is yours to keep, and that you must pay yourselves first.

Saving: putting money aside, with no intention of earning a profit. You spend less money than you earn and put the rest into the bank.

Investing: putting your money to work, with a view of earning profit. You put aside money to invest and spend the rest.

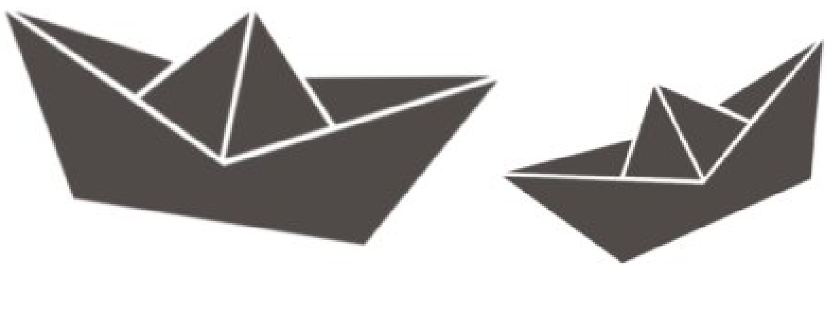
The process of investing in something is known as an Investment. It could be anything, i.e. money, time, efforts or other resources that you exchange to earn returns in future. When you purchase an asset with the hope that it will grow and give good returns in the coming years, it is an investment.

Here is what is called the investing trinity. These are factors that you need to know when choosing an investment product:

Return – How **much** do you expect to earn off on your investment over the next year? *(Investments are made for the purpose of making money grow or generating returns. Safe or low risk investments often promise a specified but 'limited' return. Those that involve more risk offer the opportunity to make or lose a lot more money.)*

Risk – How **likely** is it that you're going to get the return you expect over the next year, or the next five years? *(Risk means the possibility of losing money. Why would people take risk? Higher risk usually brings with it the possibility of earning more money i.e. higher returns.)*

Liquidity – How **easy** is it for you to get money out of that investment? *(Liquidity means how easy or quickly you can convert investment product to cash i.e. how accessible is the your money invested in that product. The most liquid asset is cash. Stocks, mutual funds are considered fairly liquid. Art, real estate are less liquid as you need to find a suitable buyer and negotiate a price.)*



Essentially, chose your investments in line with your goals. You can choose an approach to investing based on the time and effort you're able to commit and your level of comfort with the investment decisions. Consult a financial advisor for a well informed decision.

(notes)

RECURRING DEPOSIT (RD)

Goal type:
short - medium term

Liquidity:
depends on term

Return:
7 - 7.5%

Risk:
low risk

Tax treatment:
TDS applicable. No Sec 80C deductible

FIXED DEPOSIT (FD)

Goal type:
short term

Liquidity:
depends on term

Return:
7.5 - 8%

Risk:
low risk

Tax treatment:
TDS applicable. No Sec 80C deductible

PUBLIC PROVIDENT FUND (PPF)

Goal type:
long term

Liquidity:
15yr lock in period

Return:
8.1%

Risk:
low risk

Tax treatment:
Sec 80C deductible

(notes)

NATIONAL PENSIONS SCHEME (NPS)

Goal type:
long term

Return:
9.47%

Liquidity:
annuity 60yrs

Risk:
low risk

Tax treatment:
Sec 80C deductible

EQUITY LINKED SAVING SCHEME (ELSS)

Goal type:
medium term

Return:
13.11%

Liquidity:
3yrs lock in period

Risk:
medium risk

Tax treatment:
Sec 80C deductible

UNIT LINKED INSURANCE PLAN (ULIP)

Goal type:
long term

Return:
8.9%

Liquidity:
5yrs lock in period

Risk:
medium risk

Tax treatment:
Sec 80C deductible

The interest earned on an investments is considered as an income, and is liable to taxation depending on the investment.

(notes)

EQUITY MUTUAL FUNDS

Goal type:
long term

Return:
12.5%

Liquidity:
at will

Risk:
medium risk

Tax treatment:
STCG at 15%. No Sec 80C deductible

BALANCED MUTUAL FUNDS

Goal type:
short - medium term

Return:
8 - 9%

Liquidity:
at will

Risk:
medium risk

Tax treatment:
STCG at 15%. No Sec 80C deductible

DEBT MUTUAL FUNDS

Goal type:
short - medium term

Return:
7 - 8%

Liquidity:
at will

Risk:
high risk

Tax treatment:
LTCG per tax slab. No Sec 80C deductible

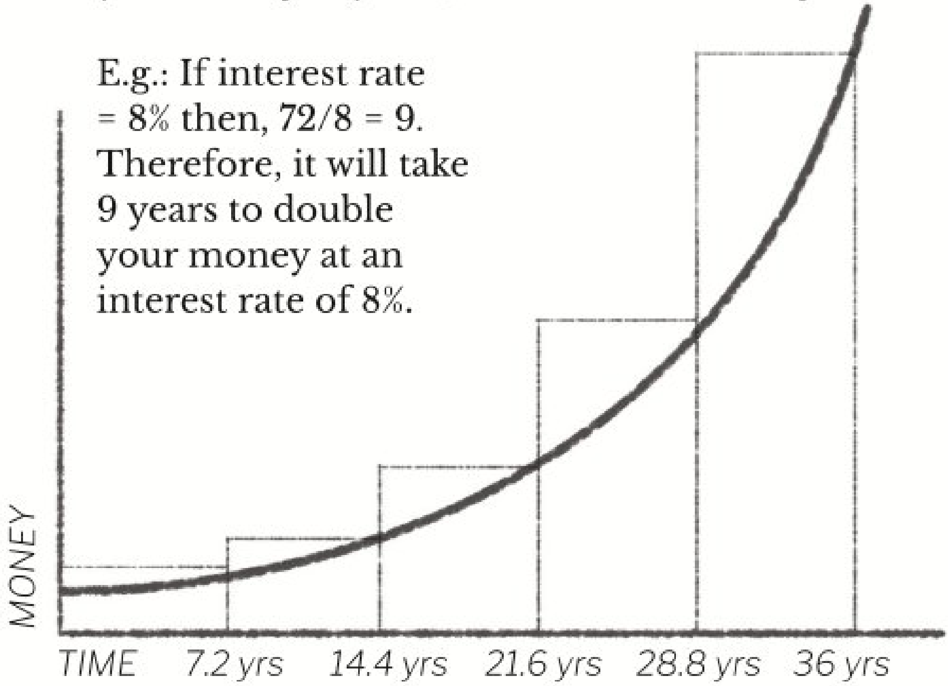
Under section 80C, a deduction of Rs 1,50,000 can be claimed from your total income. That is, you can reduce up to Rs 1,50,000 from your total taxable income through section 80C. *Turn to page 44, to find out how to calculate taxable income.*

THE RULE OF 72

The rule of 72 refers to the time value of money. It helps you know the time (in terms of years) that is required to double your money at a given interest rate.

If you want to know how long it will take to double your money at a given interest rate: Divide 72 by the interest rate.
(Your money x 2) = 72 / interest rate = no. of years

E.g.: If interest rate = 8% then, 72/8 = 9. Therefore, it will take 9 years to double your money at an interest rate of 8%.

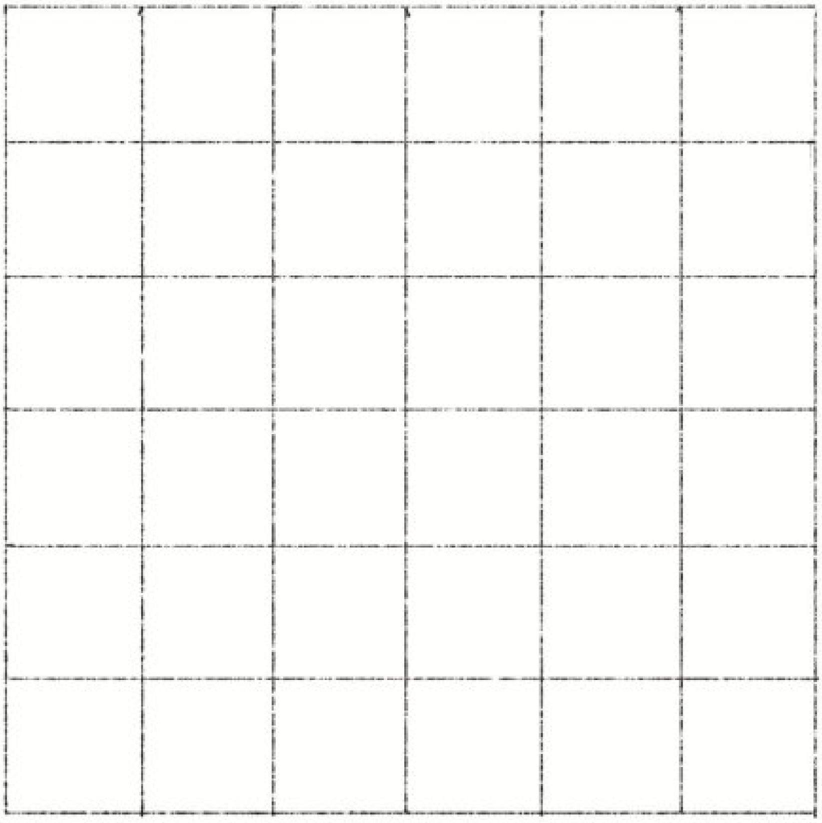


Inversely, if you want to know what interest rate is required to double your money in a given time:
Divide 72 by the time (number of years).
(Your money x 2) = 72 / no. of years = interest rate

E.g.: If time = 12 years then, 72/12 = 6. Therefore, at 6% rate of interest, your money will double in 12 years.

Do not put all your eggs in one basket. Placing all your savings in one kind of investment is a risky proposition. **Diversification** is an investment strategy to reduce risk.

Risk can be minimized by diversification. Place circles such that no two circles lie on a horizontal, vertical or diagonal line of the grid.



"Never test the depth of a river with both feet."

– Warren Buffet

One way to diversify your portfolio is to invest in several asset classes. An asset class is a group of investments that have similar risk and return characteristics.
The 3 main asset classes are:

Cash equivalents – like savings accounts and general insurance.
Fixed income – like bonds and fixed income mutual funds.
Equities – like stocks and equity mutual funds.

Investment pyramid is a strategy that is applied to your investments, based on the relative risk and liquidity of different investments. Start at the bottom of the pyramid which comprises of the low risk investments. Progress to smaller portions of investments for growth and reach the apex is for speculative investments to satisfy your needs.

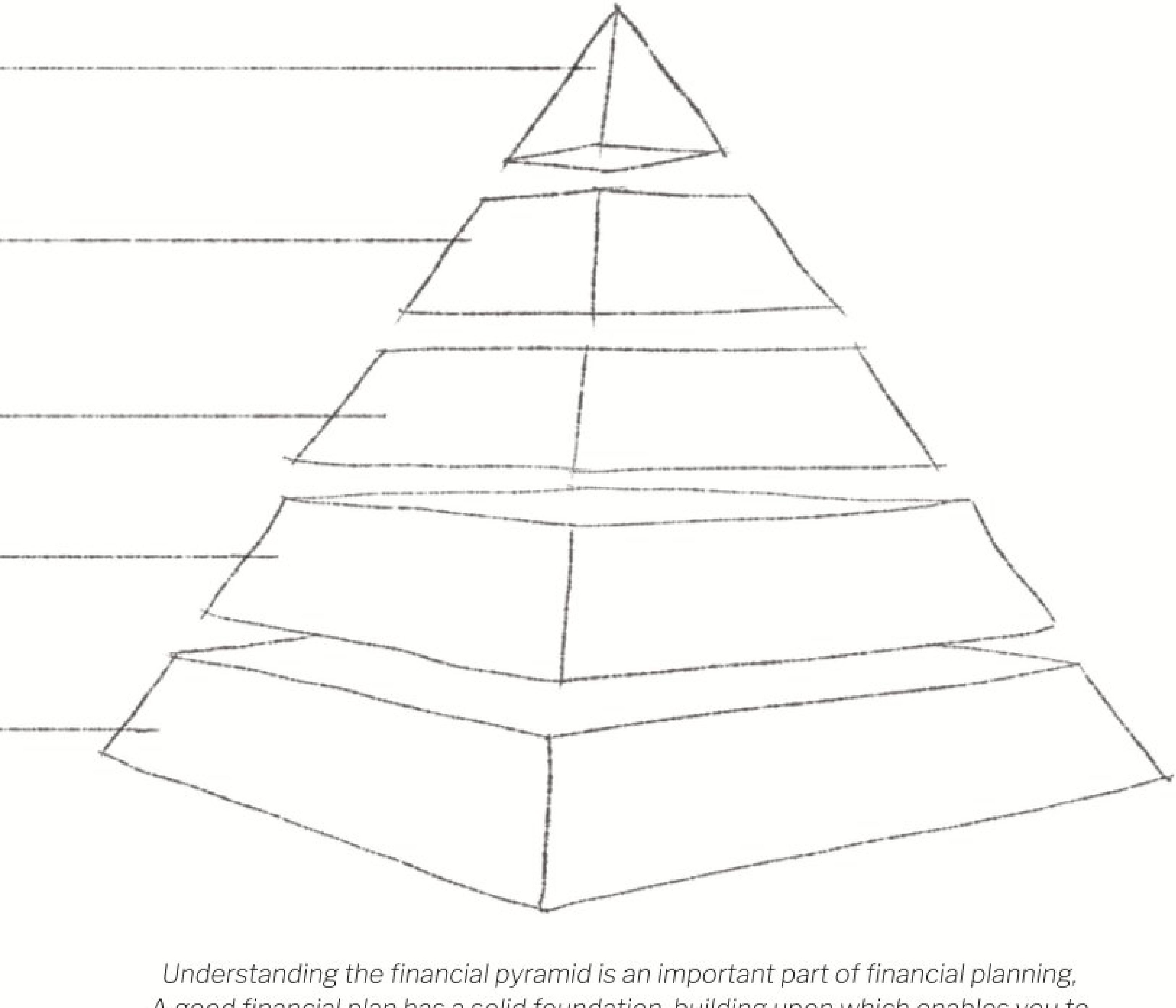
SPECULATIVE
Consider asset procurement that will grow in value and can be left behind.
(E.g.: real estate, art, ..)

GROWTH
Consider tax efficiency, charitable contributions or business continuation.
(E.g.: shares, gold, ..)

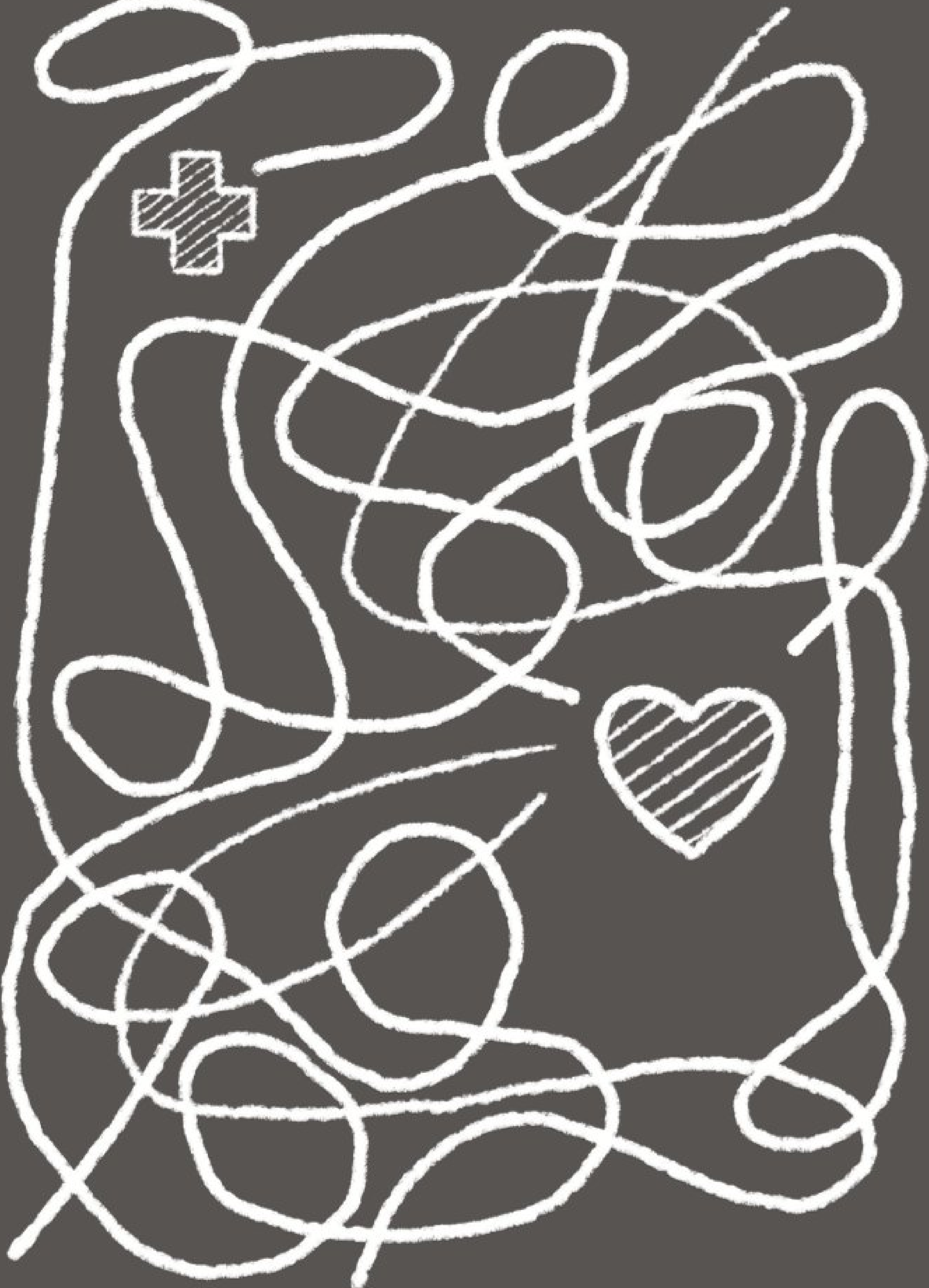
GOALS
Plan for inflation and fulfilling goals.
(E.g.: PPF, equity mutual funds, ..)

SECURITY
Plan for emergencies and major purchases.
(E.g.: medical insurance, bonds, ..)

INCOME PROTECTION
Protect what you earn, what you own and those you love.
(E.g.: life insurance, liquid instruments, ..)



Understanding the financial pyramid is an important part of financial planning, A good financial plan has a solid foundation, building upon which enables you to reach your goals even when you are faced with certain uncertainties in life.



Insurance may seem unnecessary now, but if an unexpected situation arises, you should be able to find the right line to pull you through. Find the line that connects the heart to the aid.

Insure

Protect!

As part of your financial planning, and at the bottom of the financial pyramid lies one of the most important components, that is insurance. The importance of insurance lies in taking the necessary steps to protect yourself from situations that are beyond your control. While you may not feel the need for any kind of cover as a young adult, it's good to know about the various types at the start of your financial life.

People often skip taking insurance in an effort to save money, but this can end up costing more for them than they can afford. The basic purpose of insurance is to cover risks in your life by transferring financial risks from yourself to an insurance company. This allows you to focus on other things instead of worrying about possible financial losses.

There are two main types of insurance—life insurance and general insurance—which cover different aspects in your life.

Life insurance: An insurance that pays out a sum of money either on the death of the insured person or after a set period.

(Premium is the specified amount of payment, which needs to be made periodically, to receive coverage under a given insurance plan for the specified time.)

Term: Provides financial coverage to the nominee of the insured person for a defined period of time. If the life insured dies during the term, the death benefit will be paid to the nominee. Typically the least expensive way to purchase a substantial death benefit on a coverage amount over a specific time.

Whole life: Provides financial coverage as long as you live. The premium is paid for the first 10-15 years and the insurance cover is extended till the entire life of the insured. The premium is paid only for a limited duration and therefore, it is high. In addition to providing a death benefit, whole life also contains a savings component where cash value may accumulate.

Endowment: Provides financial coverage for a specified period of time. On maturity, the insured, or in-case of death during the term, the nominee, receives the sum assured and bonus for the term of the policy. The premium is paid only for a limited duration and therefore, it is high.

HOW MUCH INSURANCE DO I NEED? A scary question, but one that must be answered when you go searching for life insurance. The foremost objective of life insurance is to provide financial support to your family and dependents if something untoward happens to you. For people with a greater than average exposure to loss, there is a tendency to purchase life insurance.

General insurance: An insurance policy that protects you against financial losses and damages during your lifetime and other than those covered by life insurance.

Medical/ Health insurance: Ensures you get cashless treatment or health reimbursement, in case you fall ill. The insurance company provides the cashless hospitalization facility at a network hospital or provides a reimbursement for the incurred expenses. You should always go with a company that has a good claim settlement record.

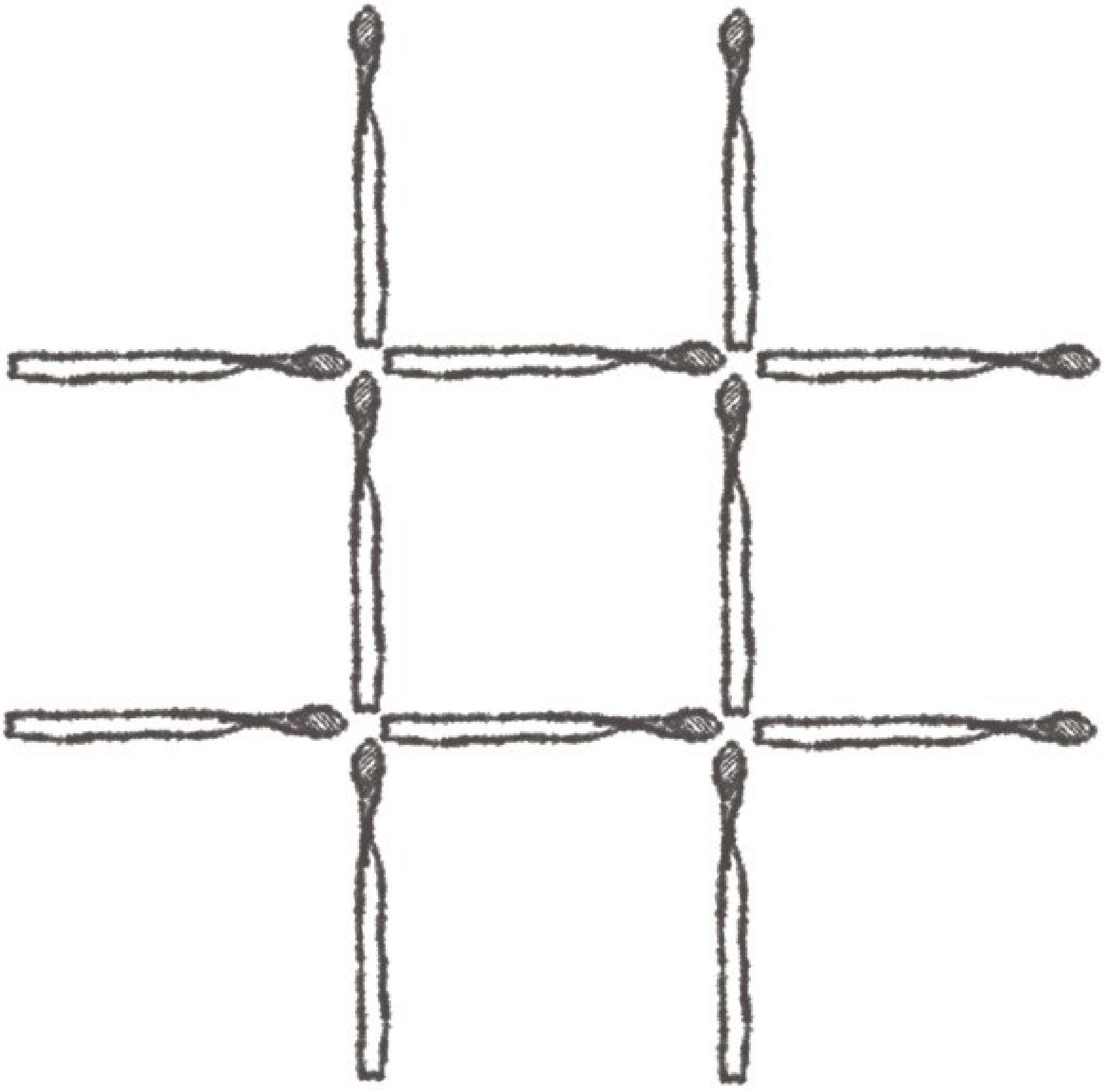
(Treatment costs are getting expensive by the day. A health insurance policy prevents a medical emergency from turning into a stressful financial emergency.)

Personal accident insurance: Provides financial coverage against accidental death and disability. It offers compensation in the event of demise, bodily hurts, impairment or mutilation resulting from a hazardous external means.

Householder's insurance: Provides financial coverage for your home *(whether own or rented)* from threats like burglary, fire, earthquake or destruction due to riots. It covers losses to the structure and content of your home *(except cash)*.

Motor insurance: Provides financial coverage for your vehicle that would ply on a road. Complete coverage against physical damage or loss from natural and man-made calamities. *(In India, motor insurance is mandatory.)*

Travel insurance: Provides financial coverage when you are on a trip for medical emergencies, permanent disability and death, checked-in lost/ stolen baggage, travel delay, passport loss and personal liability.



Banks basically make money by lending money at rates higher than the cost of the money they lend. Move only three matchsticks to make three squares.

Loans

Right now!

Investing in the future is expensive. Be it for your education, a gadget, a vehicle or even a home, sometimes opting for a loan is the only option to get a hold of a big-ticket item.

A loan gives you access to the cash you need today, and lets you repay that amount over a period of time. In exchange for this convenience, you'll need to pay extra in the form of interest. Used wisely, a loan can help you achieve your financial goals sooner. Although, planning in advance is beneficial.

> *"If you are smart, you are going to make a lot of money without borrowing."*
>
> – Warren Buffet

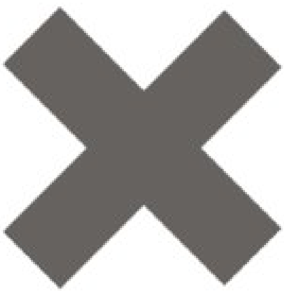
While there are many sources that you can tap for funds, you should always assess both the positive and negative aspects of these sources before signing on the dotted line.

A loan is a commitment—you're agreeing to pay the money in installments within a certain time. Both loan types have strengths and weaknesses. If you plan to apply for a loan, try to have a clear understanding of which option works best for you. Before borrowing, make sure you can afford to pay back your loan in a timely manner without straining your budget. There are two types of loans:

Secured loan:

- You are required to pledge an asset.
- Lower risk for the lender.
- They typically have lower interest rates.
- They have higher borrowing limit.

E.g.: home loan, car loan



Unsecured loan:

- You are not required to pledge an asset.
- Higher risk for the lender.
- They typically have higher interest rates.
- They have lower borrowing limit.

E.g.: credit cards, personal loan

CIBIL Score is a 3 digit numeric summary of your credit history, derived by using information from banks and other financial institutions about the financial behavior of their customers and aggregates this information to produce a score or number which to indicate customers' creditworthiness.

When you approach a bank for a loan, you will have to fulfill certain criteria along with a good CIBIL score for your loan to be approved.

Eligibility: You must meet the minimum requirements to qualify for a loan. *E.g.:car loan*

Minimum age: 21 years	**Maximum age:** 70 years
Employment type:	Salaried/ Self-employed
Employment status:	Min. of 1 year continuous employment
Minimum income:	Rs.4,000 - Rs.20,000 net income p.m. *(varies)*
Maximum loan amount:	Varies
Credit score:	CIBIL score 350 - 900

Who pays: The person who takes the loan is usually the person responsible for paying it back.

What if you are unable to pay it back?

Guarantor: They are the ones who guarantees that you will repay the loan. And in case you are unable to repay, then they will be held liable for the same.

Tenure: You get a loan for a certain period of time, this period is called the term or the tenure of the loan.

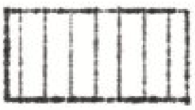
E.g.: home loan - 20yrs
car loan - upto 5yrs

When you are young, you get a loan for a longer tenure. However, the closer you are to your retirement, the tougher it is to get a long-term loan.

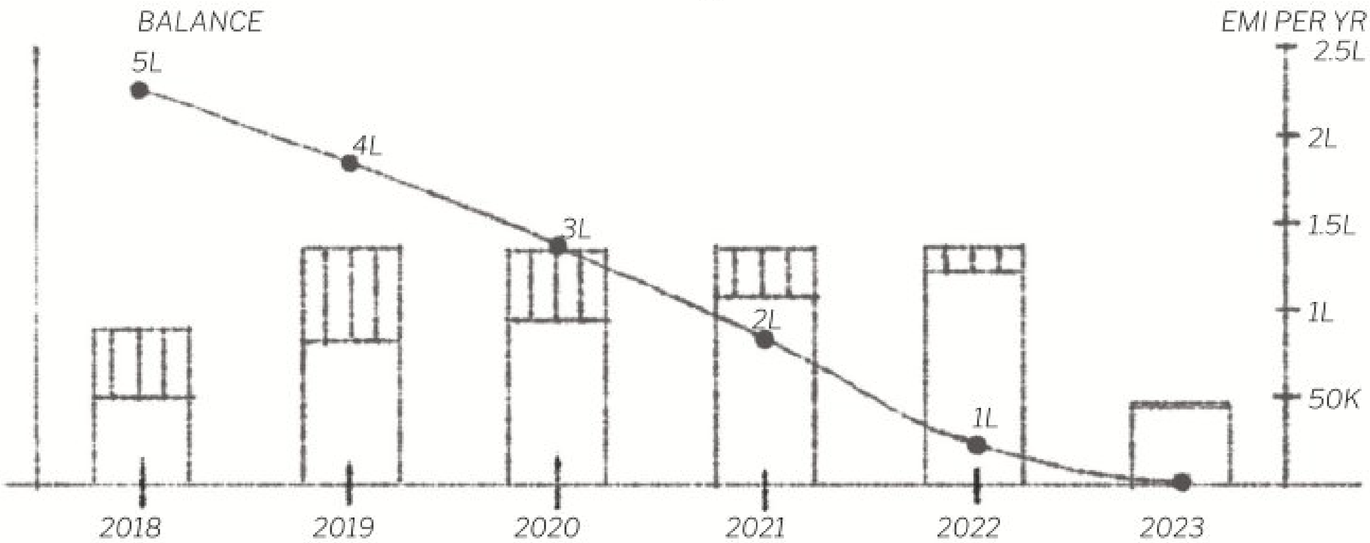
Amount to repay: You take a loan because you are unable to pay the entire amount at the current time. Hence, you borrow the amount and pay it back in installments.

Equated monthly installments (EMIs) are common nowadays. When seeking a loan, you will be shown the EMI structure for payment. This is generally an unequal combination of principal and interest amount.

Principal repayment: A part of your EMI goes towards repaying the face value of the total amount that you originally borrowed from the money lender.



Interest cost: The other part of the EMI is the amount that the lender charges you for the original face value of the loan. It is a percentage of the total amount of money you are borrowing.



Amortization is the process of spreading out a loan into a series of fixed payments over time. Although your total payment remains equal each period, you'll be paying off the loan's interest and principal in different amounts each month. The interest amount is to be paid off before the principal amount.

If you have ever wondered about the calculation behind these numbers, then here is the formula.

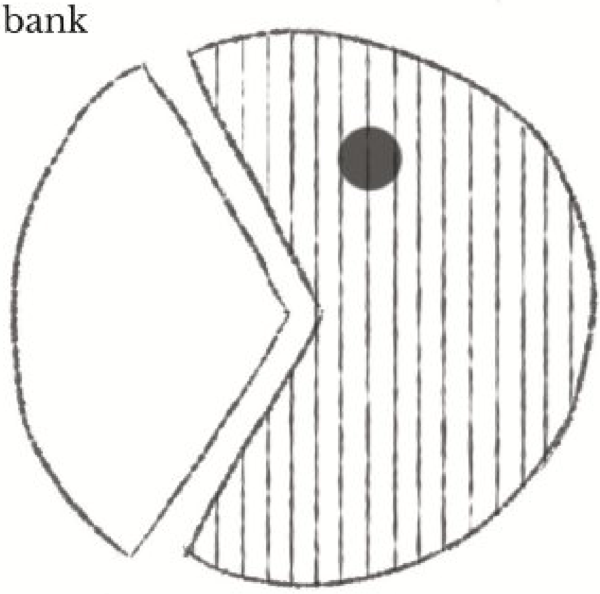
Formula: $\mathbf{EMI = (A*R)*(1+R)^{N}/ ((1+R)^{N})-1)}$
Where: **A** = Loan amount
R = Interest rate
N = Duration

E.g.: Suppose you have taken a loan of Rs 50 lakh at 10.5% annual interest for 20 years.

A = Rs. 50,00,000
R = 10.5% per annum = 10.5/1200
= 0.00875 per month
N = 20 x 12 = **240 months**

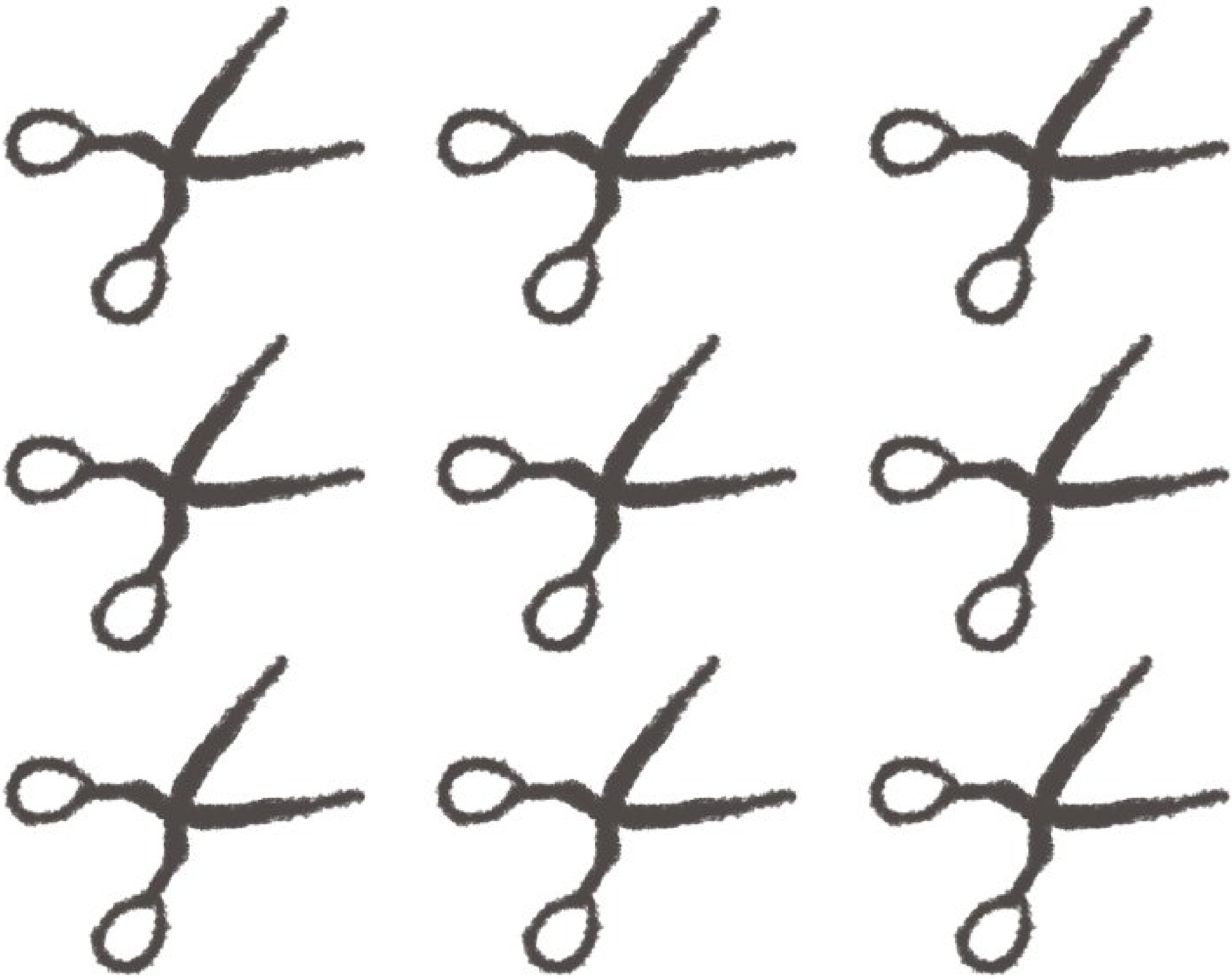
$$\mathbf{EMI} = \frac{(50,00,000 \times 0.00875) \times ((1 + 0.00875)^{240})}{([(1 + 0.00875)^{240}] - 1)}$$
$$= \text{Rs.}49,919 \text{ per month}$$

This equation helps you check if the bank is charging the right amount.



Loan amount:	**Rs.**	**50,00,000**
Interest payable:	**Rs.**	**69,80,559**
Total payment:	**Rs.**	**1,19,80,559**

Higher education costs have the highest inflation rates. You need to realize it is going to be an expensive affair. Save early instead of applying for a loan.



You can save a lot of your hard earned money, that you would be paying as tax to the government, by connecting all your tax deductible investments. Use only four straight lines to connect all the scissors.

Tax

Pay up!

Tax is not a voluntary payment or donation. It is a contribution imposed by government, state or administrative division to enable them to meet their expenses. The money you pay in taxes goes to paying the government salaries, welfare and education schemes, your tax also helps to ensure the roads you travel on are safe and well-maintained.

If tax is levied directly on person or a corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax.

"You don't pay taxes - they take them."

– Chris Rock

Direct Taxes:

Income tax
Capital gains tax
Perquisite tax
Corporate Tax
Securities transaction tax

Indirect Taxes:

Sales tax
Service tax
GST

What all are you taxed for:

Income from salary
Income from gains of profession or business
Income from house property
Income from capital gains
Income from other sources

Your income tax calculation:

You need to calculate your total taxable income, for paying up the right tax amount.

1. **Calculate your gross total income:** basically the sum of your income from salary, income from capital gains, profits or gains from profession or business, income from house property and income from other sources. It is the amount of money you have earned totally from all your sources of income.

2. **Calculate your tax deductions:** basically all your investments under Section 80C to Section 80U. *(turn to page 46)*

Gross total income
- Tax deductions

= Total taxable income

(rough work)

\-

=

How much tax should you pay: You are liable to pay tax based on the tax bracket fixed by the government for the current financial year.

Taxable income	Tax Rate
Up to Rs. 2,50,000	*Nil*
Rs. 2,50,000 - Rs. 5,00,000	*5%*
Rs. 5,00,000 - Rs. 10,00,000	*20%*
Above Rs. 10,00,000	*30%*

ITR: Income tax return is a form(s) filed with the Income Tax Department which reports income, expenses, and other pertinent tax information. Tax returns allow taxpayers to calculate their tax liability, schedule tax payments, or request a refund for overpayment of tax. ITR-1 or Sahaj, ITR-2, ITR-3, ITR-4 or Sugam and ITR for non-resident Indians are the various categories of the form. The forms are available on www.incometaxindia.gov.in.

Form 16: This certificate is issued by an employer validating the fact that tax has been deducted at source from salary and deposited with the authorities on behalf of the employee. This form is required for the purpose of e-filing of Income Tax.

Deadline to make investments under Section 80C - 31st March. Due date of e-filing income tax return for a financial year is on or before 31st July of the next financial year. Applicable for income earned from April 1st of the previous calendar year to March 31st of the current calendar year. If your gross total income (without allowing any deduction under section 80C to 80U) exceeds Rs 2,50,000, it is mandatory for you to file an income tax returns.

Tax deductions: The government incentivizes schemes which can be claimed as deductions. Under Section 80C, 80CCC and 80CCD, the maximum tax exemption limit is Rs 1.5 Lakhs per annum. The various investments that can be claimed as tax deductions are:

Section 80C:
PPF *(Public Provident Fund)*
EPF *(Employees' Provident Fund)*
5 years Bank or Post office Tax saving Deposits
NSC *(National Savings Certificates)*
ELSS Mutual Funds *(Equity Linked Saving Schemes)*
Life Insurance Premium
Sukanya Samriddhi Account Deposit Scheme
SCSS *(Post office Senior Citizen Savings Scheme)*
Stamp duty charges on purchase of a house
Repayment of Home Loan *(Principal only)*
NPS *(National Pension System)*
NABARD rural Bonds

Section 80CCC:
Contributions made towards Annuity plans available with any of the Life Insurance Companies for receiving pension from the fund can be considered for tax benefit.

Section 80CCD:
Employees can contribute to National Pension Scheme (NPS). The maximum contributions can be up to 10% of the salary (Basic+DA) for salaried or gross income in case of self employed.

Section 80CCE of Income Tax Act 1961-2017 provides for Limit on deductions under sections 80C, 80CCC and 80CCD. The aggregate amount of deductions under section 80C, section 80CCC and sub-section (1) of section 80CCD shall not, in any case, exceed one hundred and fifty thousand rupees.

Section 80D:
Health insurance

Section 80DD:
Medical costs of 40% disability dependents.

Section 80DDB:
Treatment of specified critical illness.

Section 80E:
Interest paid towards education loan.

Section 80EE:
Interest paid on first bought home.

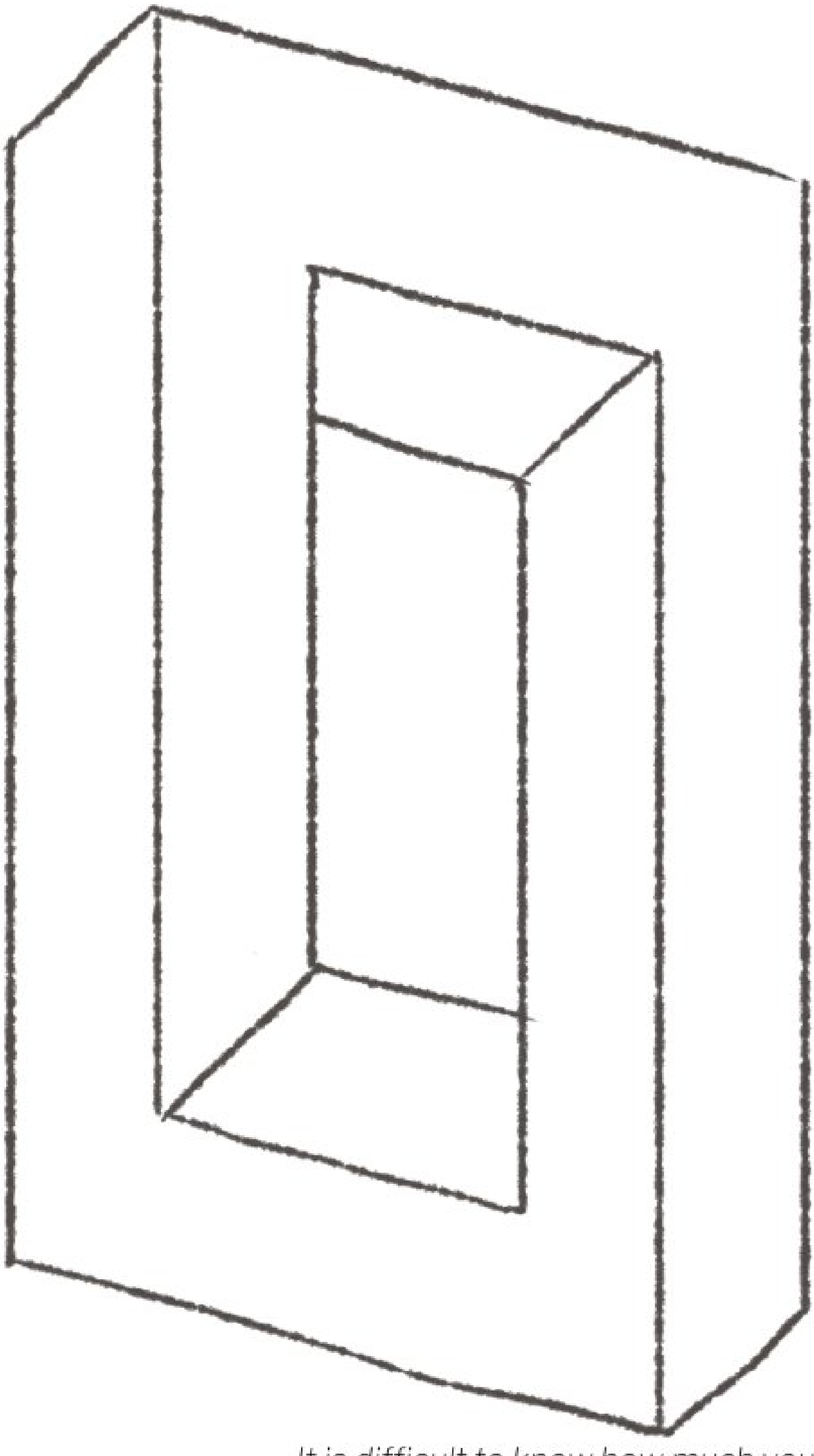
Section 80G:
Contribution towards charitable institutions.

Section 80GGC:
Contribution towards political parties.

Section 80TTA:
Interest from savings.

These tax deductions can be claimed over and above deductions under section 80C, 80CCC and 80CCD of the Income Tax Act.

Pick investments that are not taxable at the time of withdrawal and schemes where interest and dividends earned are also tax-exempt.



It is difficult to know how much your money will be worth and make long-term spending decisions. Figure out how to make sense of this figure.

Inflation

Prepare!

Inflation is defined as a sustained increase in the general level of prices for goods and services in a country. It is measured as an annual percentage change. Under conditions of inflation, the purchasing power of your money decreases over time.

Rising prices impact your cost of living, the cost of doing business, interest paid on bank loans, interest rates earned on saving schemes, employment, and generally every other facet of the country's economy.

"Inflation is the crabgrass in your savings."

– Robert Orben

Although as a consumer of goods and services, you may hate rising prices, many economists believe that a low and stable inflation is good for a nation's economy, but high or unstable inflation is harmful.

With inflation eating up your purchasing power, in order that your investments earn a decent return for you in the future, it must grow by at least the rate of inflation for it to be beneficial to you.

If you are used to a certain lifestyle, your income needs to grow considering the rate of inflation, in order to afford the same choices for the coming years.

Inflation Rate in India averaged 6.57% from 2012 until 2018, reaching an all time high of 12.17% in November of 2013 and a record low of 1.54% in June of 2017.[2]

The current savings deposit rate at the country's largest bank, the State Bank of India is 3.50% for deposits below Rs.1 crore and 4.00% p.a. for deposits above this margin.[3]

For example, if the inflation rate is projected to be around 5%, and if your savings account is paying you an interest rate of 4%, you are effectively earning a negative return once tax and inflation is factored in. You will need to inflate the amount you have allocated for your goals to ensure you have sufficient resources to realize these goals as cost will have increased over the years.

Some investments products are more likely to keep pace with inflation than others. The trade-off may be lower income in the present, but more income for the future. An inflation-adjusted return, measures the return that takes into account the tenure's inflation rate. That is, an inflation-adjusted return, reveals the return that you will receive on an investment after removing the effect of inflation.

Inflation is what you need to be planning for if you want to maintain your current lifestyle and achieve the goals you have set out for yourself. You have the read these general guidelines on how to progress your finances. Now get started to make your way towards being financially independent.

[2] www. tradingeconomics. com/india/inflation-cpi
[3] www.bankbazaar.com/ ... / current-rbi-bank-interest-rates

NOTES:

- [ ] WRITE DOWN YOUR GOALS
- [ ] NEEDS > WANTS
- [ ] SAVE FIRST !
- [ ] [COMPOUNDING] : [TIME = MONEY]
- [ ] TAX PLANNING < INFLATION PLANNING

NOTES:

- [ ]

What will be your equation with money? What would you be willing to do to maintain your lifestyle and be financially independent? It all comes down to your willingness to choose.

Begin by simply writing down your goals and how you intend to achieve them. Acquainting yourself, with the basics of personal finance, has put you a step ahead of many others. You are now at an advantage and as Maslow explains, that only when your basic needs are in place, can you avoid being anxious or tense, will focus on fulfilling the need of self-actualization.

> "I MAKE MYSELF RICH BY MAKING MY WANTS FEW"
>
> -HENRY DAVID THOREAU

Glossary

AUTHORITIES:
RBI – Reserve bank of India
SEBI – Securities and exchange board of India
IRDAI – Insurance regulatory and development authority of India
CIBIL – TransUnion CIBIL Limited

FINANCIAL PRODUCTS:
ELSS – Equity linked savings scheme
NPS – National pension system
SIP – Systematic investment plan
EPF – Employee's provident fund
ETF – Exchange traded funds
FD – Fixed deposit
RD – Recurring deposit
EMI – Equated monthly installments
PMJDY – Pradhan Mantri Jan Dhan Yojana

TERMS:
Asset – anything tangible or intangible, that is owned by a person and has value.
Annuity – a fixed sum of money paid each year, typically for life.
Bonds – loans, or IOUs, but you serve as the bank.
Dividends – payment made by a corporation to its shareholders.
Equity – the value of the shares issued by a company.
Shares – a unit of ownership that represents an equal proportion of a company's capital.
Stocks – a share of a company held by an individual or group.

ANSWERS

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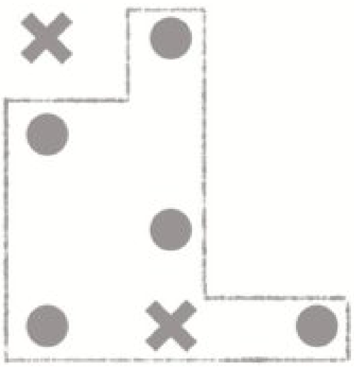

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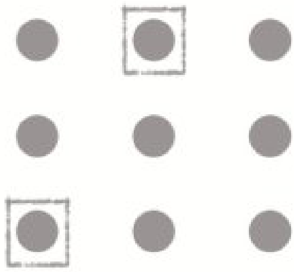

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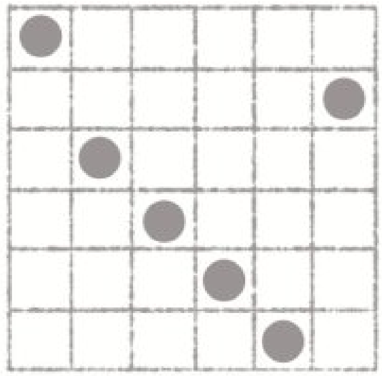

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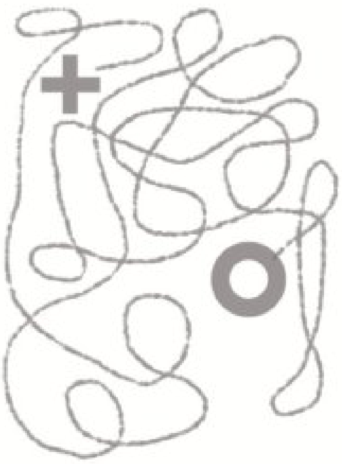

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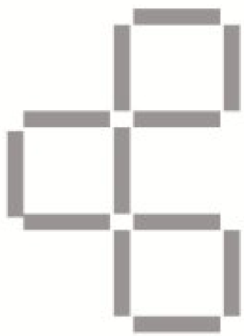

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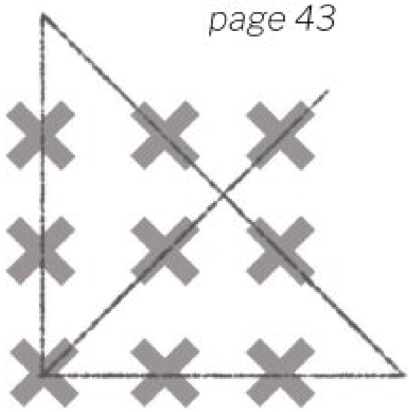

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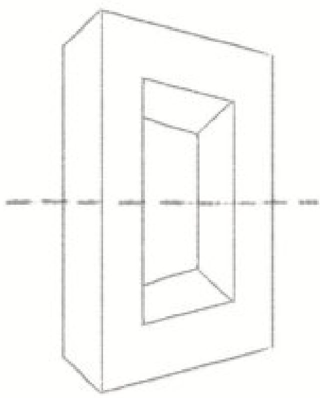

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