Financial Tips for Doctors

WHAT DOCTORS SHOULD KNOW ABOUT PROVIDENT FUND?

Provident Fund (PF) is applicable only to those medical establishments that employ more than 20 people. It is applicable to people drawing salary of less than Rs. 15,000/- per month. PF is a retirement benefit scheme that is available to salaried people. Under this scheme, a stipulated amount (12%) is deducted from the employee's salary and contributed towards the fund. A similar amount is contributed by the employer. The accumulated sum is paid at the time of retirement or resignation by the PF department. After 5 years, withdrawal of PF is not taxable.

On the other hand, Public Provident Fund (PPF) has been established by the Central Government. A PPF account can be opened in any bank or post office. One can deposit a minimum amount of Rs. 500/- up to a maximum of Rs. 1,50,000/- per year. A return of 8% is accumulated every year, which is repayable after 15 years. There is no income tax on maturity. When a new employee joins, every salaried person is supposed to give a declaration on Form 11, which indicates whether or not a person was a PF beneficiary in the past. If he/she was, then he/she will continue to be on PF throughout his/her life. Past PF formalities will be shifted to the new one. Any time a new person is taken on salary, a Form 2 is also required, which includes the name of the nominee to get benefits in case the employee dies suddenly. It is a statutory requirement for the employer to get the Form 2 filled up at the time of service.

PF return needs to be filed by 15th of every month. A 5-day grace period is often given if one fails to file the PF details by that day; there is no penalty. If late by one day, there can be up to 100% penalty. The employer can claim PF under an expense. There is also a dual benefit of 20% extra rebate in income tax, if PF is paid before 15th of the following month. PF is always applicable once the number of employees crosses 20. Even if 10 employees remain, the PF will have to be paid for those 10. Even if the number becomes zero, administrative charges of Rs. 7/- per month need to be deposited, even if the company is closed.

Anybody who is working directly or indirectly comes under PF Act. For example, if we have employed guards or safai karamcharis through an agency, PF will be applicable. Either the service provider (agency) will pay the PF or you will have to pay. If the service provider has less than 20 people, PF may not be applicable to him but it will still be applicable to your organization as you are employing these guards indirectly through an agency.

The various forms that need to be complied with are:

- Form 11 for declaration whether or not the employee was getting PF in the past
- Form 5 at joining
- Form 10 (C) at the time of leaving the company
- Monthly returns to be filled in Form 3 (A).

If a person has resigned or has left the job, it is binding on the part of the employer to fill PF form. Even the Supreme Court cannot touch the PF. This is applicable even if the person has left pending dues. You can claim for the pending dues by filing a case against the employee in a different court. Attestation of the form is compulsory if the person has left the job from your organization.

PLANNING FOR YOUR CHILD'S WELFARE

For the birth of a son, plan money for his education; but, for a daughter, plan both for her education as well as her marriage. All doctors must form Family Trust, which can be 100% specific for a girl child, boy child, minor child, etc. The same needs to be registered. The daughter beneficiary family trust can be controlled by the parents, till the daughter is worldly matured, which usually happens after 5-10 years of marriage. This way, the money given to the girl at the time of marriage can be kept out of control of the husband or in laws at least for a few years.

DAY-TO-DAY TIPS IN MANAGING EXPENSES

- Fringe benefits tax is no more there to any type of concern neither company nor firm or Prop.
- Service tax is not applicable to a doctor's consultation (except plastic surgery).
- One cannot take or give a cash loan of more than Rs. 20,000/- from or to a person. Even a husband cannot give a loan of more than Rs. 20,000 to his wife in cash. The penalty is 100-300%. The classical example is when a person has to pay cash on Saturday evening as part of the hospital bill. If the amount exceeds more than Rs. 20,000/-, then one needs to take loan from two different entries.

- Cash expenses of more than Rs. 20,000 to one party in one day are not allowed in income tax. It can be Rs. 19,900/- but not Rs. 20,000.
- If a medical doctor's income is more than 50 lakhs per year then tax audit is a must. Presumptive Tax Scheme U/S 44AD is extended to doctors also.
- If the gross receipt is below 50 lakhs and the taxable profit is shown 50%, there is no need to maintain books of accounts and no tax audit required.
- Every doctor is supposed to maintain books on records and patient register as prescribed in Income Tax Act Form 6 (F). It is mandatory by law.
- Concealment of income is a crime by up to a penalty of 300% (maximum).
- Income generated from writing articles or appearing in TV or radio is not exempted under Income Tax. But for those who are professionals can claim expenses against them. For example, for travel, research, searching of messages, etc.
- All expenses for conferences and business meetings are fully allowed under the Income Tax Act.
- One can pay salary to the wife, if she is technically and professionally qualified. You can pay salary to her or to her daughter.
- Ask your employer to reduce your salary or professional income and give Rs. 15,000/- as medical reimbursement. The same is exempted under Income Tax.
- It is always better to be on professional fee than on salary as you can claim expenses to any amount.
- You can claim depreciation on your car besides driver salary, car maintenance or petrol expenses.
- If the area you are practicing is not in your name then you can give house rent or clinic rent to your partner, son, daughter. The same will be claimable as full expenses.
- Always show 50% of your house as office or clinic and claim depreciation on it.
- In a partnership both husband and wife can draw salary if they are shown to be professionally working in that organization. The maximum amount paid as salary cannot exceed as specified in section 40b i.e., up to Rs. 3,00,000/- salary allowed 90%. Above 3 lakhs, 60% is allowed as salary.
- Always buy a property in the name of HUF. It gives you an opportunity for one more account to save income tax. Always buy a property in the name of HUF and pay rent for your clinic to your own HUF.
- Always buy a car as you can claim the depreciation on the car and 100% reduction on car allowances.
- It is always better to pay rent to your wife as by this you can claim 100% reduction from your professional income and in addition she will get 30% rebate on rental income.
- Up to Rs. 800/- per month of travel allowance is not taxable. Similarly, expenses for uniform, conveyance and reimbursements of expenses are not part of the taxable income.
- Accordingly modify the salary heads of your employees. One can claim a leave travel allowance two times in 4 years for a visit anywhere in the country.
- If you have taken a housing loan jointly along with your wife, then deduction of interest paid on housing loan can be taken by both @ Rs. 2,00,000 each.

SURCHARGES TO BE KNOWN

- **Surcharge:** The amount of income tax shall be increased by a surcharge at the rate of 12% of such tax, where total income exceeds one crore rupees. However, the surcharge shall be subject to marginal relief (where income exceeds one crore rupees, the total amount payable as income tax and surcharge shall not exceed total amount payable as income tax on total income of one crore rupees by more than the amount of income that exceeds one crore rupees).
- **Education Cess:** The amount of income tax and the applicable surcharge, shall be further increased by education cess calculated at the rate of 2% of such income tax and surcharge.
- **Secondary and Higher Education Cess:** The amount of income tax and the applicable surcharge shall be further increased by secondary and higher education cess calculated at the rate of 1% of such income tax and surcharge.
- **Rebate under Section 87A:** The rebate is available to a resident individual if his total income does not exceed Rs. 5,00,000/-. The amount of rebate shall be 100% of income tax or Rs. 2,000/-, whichever is less.

VARIOUS INVESTMENTS TO KNOW

The investment options are either on equity where you can invest in the shares of a company, the price of which varies.

Another option is to invest in debt funds, which give near fixed returns and the duration of investment varies from a few months to a few years. The examples of debt

funds are fixed deposits (banks and companies), bonds (government and company) and government securities.

National Saving Certificates are an instrument for facilitating long-term savings by the Govt. of India. These forms are available in all post offices in denominations of 100/- , 500/-, 1000/-, 5000/- and 10000/-. The maturity period offers a return of approximately 9.5%. There is no scope of premature withdrawal; but, one can borrow against NSC with the approval of the concerned post master.

Infrastructure Bonds are not same as investment in infrastructure funds. At present, they are issued by ICICI and IDBI (considered to be financially healthy institutions). Income from bonds issued by these institutions is generally assured. They are rated AAA by CARE, CRISIL and FITCH. These bonds can be purchased at Rs. 5,000/- each. One has to apply for a minimum of one bond. There are no upper fillings against purchase of such bonds. These bonds are usually sold for a discount on the face value. It is redeemed at the face value on maturity and the difference becomes the gain.

ELSS is an investment under the equity linked saving scheme with a lock in of 3 years. The money invested is 80-100% on equity and 0-20% in debt.

ULIP is unit linked insurance cum investment plan and gives a dual benefit of life insurance and investment. For example, Bajaj ULIP has a lock in period of 5 years. Withdrawal after 5 years is tax-free. The annualized return for ULIP has been up to 48%.

Fixed Deposits: Investments in fixed deposits are not the best option. They are available for duration starting from 14 days to 5 years and are the most popular modes of investments. The interest offered for a 3-year term by a bank varies from 6% to 7%. For senior citizens, the interest rate may be higher by 0.25-0.5%. Any interest earned from the bank deposits is added to the income and is taxable. Only bank deposits lock in for 5 years are eligible for tax deduction under Section 80C. The returns from fixed deposits usually are less than the inflation rate and, therefore, are not the preferred mode for investment.

Fixed Maturity Plans (FMPs) are equivalent to the fixed deposit in a bank. They have different maturities, from 1 month to 3 years. They are classified under debt investments. Income earned after 1 year from FMP is not added to the taxable income. One can choose while applying for dividend or growth options. For example, you may invest in an FD or an FMP dividend or FMP growth, all at a return of 8%. However, they will have different net returns. In FD, 8% will be the return, 33.3% will be the tax (if the slab is the highest). Therefore, net return will be 5.3%. On FMP dividend, the return will be the same 8%, but the tax will be only 14.28% (DDT) with an annualized net return of 6.8% (DDT). In FMP growth, the annual return may be 8% but the net return again will be 6.8% after 33.3% tax, less inflation.

Low risk investment options are bank deposits, FMPs and treasury bills. The medium risk options are corporate bonds, government debt securities, long-term mortgages, mutual funds and call money. High risk options are equity and properties.

Mutual Funds are funds created by the company and managed by fund managers. The money collected from investors is invested by the fund managers to create returns. And the same is passed back to the investors. The mutual fund managers earn approximately 2.25% income out of it. Mutual funds have an advantage as any money earned after 1 year is not taxable. They are well regulated, less risk with low cost and one can invest in small amount. These are often managed by professionals.

There are different types of mutual funds. These can be equity funds, which are medium to high risk but also give high return. Here 80-100% of the money is invested in equity. The different types of equity mutual funds are large cap, mid cap or small cap (capitalization), depending upon the size of the company in which the fund invests and not the size of the mutual fund itself. Large cap are the ones where the company size is more than 1500 crore and in small cap the company size is less than 500 crore. Equity funds can be simple growth funds, or ELSS funds. Or they can be ***debt funds***, medium risk with medium returns. These invest 80-100% money in debt funds. MIPs are debt mutual funds where 80% is invested in debt and 20% in equity. They provide an annualized return of 12-13%.

Lastly, there are center-specific funds like banking, infrastructure and energy.

SIPs are also mutual funds with systematic investment plans. They are often used for children and for retirement purposes. Pension plans for mutual funds have a 7-year lock in period and provide a return of 13-14%.

- Private fixed deposits give a 3 years annualized return of 9-10%. Always go for AA or AAA rating like Shriram Finance.
- Tax saving FDs come under 80C with a 5-year lock in period. They give a return of 9% and are available in all banks.
- One can invest 3 lakh per person, 6 lakh joint in post office saving bonds.
- They provide 7.5-8% monthly income and 5% bonus on maturity. It is like a time-tested investment.
- Zero risk investments are MIPs, debt funds, FMPs, guild funds.