

Section 2: Money Management

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Today Agenda

- ▶ Personal financial statement and budgeting
- ▶ Tax strategy

Financial Statement and Budgeting

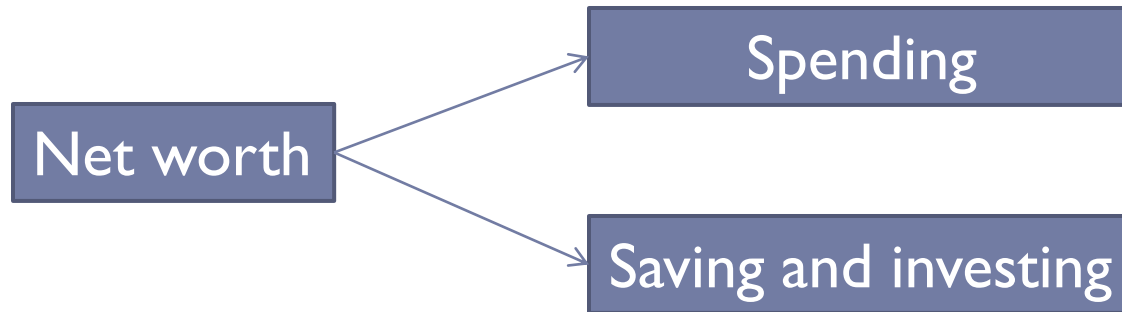
Successful Money Management

Daily Spending and saving decisions are the heart of financial planning.

Decisions must be coordinated with needs, goals, and personal situations

- ▶ **Money management** is the day-to-day financial activities needed to manage personal economic resources, while working toward long-term financial security

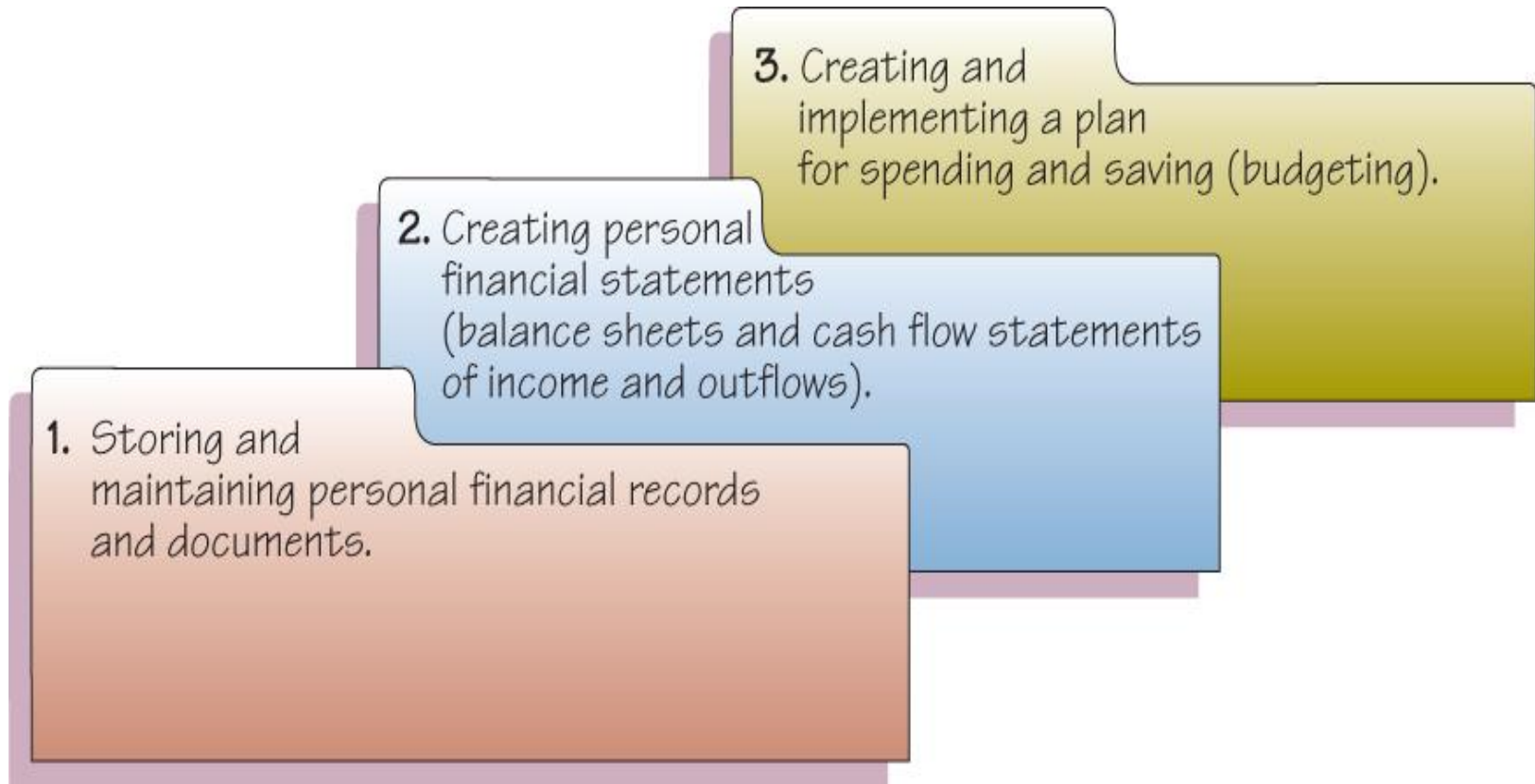
Successful Money Management (2)



OPPORTUNITY COST AND MONEY-MANAGEMENT

- ▶ Spending money on current living expenses reduces the amount you can save and invest
- ▶ Saving and investing for the future reduces the amount you can spend now
- ▶ Buying on credit ties up future income
- ▶ Using savings for purchases results in lost interest and depletes savings

Components of money management



A system for personal financial records

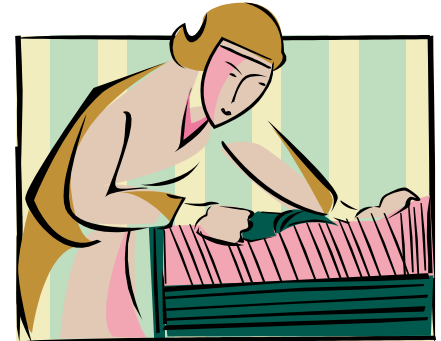
Benefits of an Organized System of Financial Records

- ▶ Handling daily business affairs, including payment of bills on time
- ▶ Planning and measuring financial progress
- ▶ Completing required tax reports
- ▶ Making effective investment decisions
- ▶ Determining available resources for current and future buying

A system for personal financial records (2)

ITEMS IN YOUR HOME FILE

- ▶ Personal and employment records
- ▶ Money management records
- ▶ Tax records
- ▶ Financial services records
- ▶ Consumer purchase, auto and credit records
- ▶ Housing records
- ▶ Insurance records
- ▶ Investment records
- ▶ Estate planning and retirement records



A system for personal financial records (3)

ITEMS IN THE SAFE DEPOSIT BOX

- ▶ Records that would be hard to replace
 - ▶ Birth, marriage and death certificates, copy of will
 - ▶ Citizenship and military papers
 - ▶ Adoption and custody papers
 - ▶ Serial numbers and photos of valuables
 - ▶ CDs and credit and banking account numbers
 - ▶ Mortgage papers and titles
 - ▶ List of insurance policy numbers
 - ▶ Stock and bond certificates
 - ▶ Coins and other collectibles

A system for personal financial records (4)

RECORDS ON YOUR PERSONAL COMPUTER

- ▶ Current and past budgets
- ▶ Summary of checks written and other banking transactions
- ▶ Past income tax returns prepared with tax preparation software
- ▶ Account summaries and performance results of investments
- ▶ Computerized versions of wills, estate plans, and other documents

A system for personal financial records (5)

HOW LONG SHOULD RECORDS BE KEPT?

- ▶ Birth certificates, wills, and Social Security information should be kept indefinitely
- ▶ Keep records on personal property and investments as long as you own them
- ▶ Keep documents related to the purchase and sale of real estate indefinitely
- ▶ Copies of tax returns and supporting data should be kept six years

Personal financial statement

Purpose of Personal Financial Statements

- ▶ Report your current financial position in relation to the value of the items you own and the amounts you owe
- ▶ Measure your progress toward your financial goals
- ▶ Maintain information on your financial activities
- ▶ Provide data you can use when preparing tax forms or applying for credit

Personal financial statement (2)

BALANCE SHEET

Also called the **Net Worth Statement** or **Statement of Financial Planning**

Preparation of Balance Sheet requires using the following Steps

STEP I : LISTING ITEMS OF VALUE

- ▶ Assets - what you own
 - ▶ Liquid assets
 - ▶ Real estate
 - ▶ Personal possessions
 - ▶ Investment assets

Personal financial statement (3)

STEP 2 : DETERMINING THE AMOUNTS OWED

- ▶ **Liabilities** - what you owe
 - ▶ Current liabilities (< 1 year)
 - ▶ Long term liabilities

STEP 3 : COMPUTING NET WORTH

- ▶ $\text{Assets} - \text{Liabilities} = \text{Net Worth}$
- ▶ $\text{Assets} = \text{Net Worth} + \text{Liabilities}$
- ▶ **Insolvency** is the inability to pay debts when they are due

Personal financial statement (4)

Net Worth is an indication of the financial position at any given date

Items of value
(what you own)

-

Amounts owed
(what you owe)

=

Net worth
(your wealth)

Ways to increase Net Worth

- ▶ Increasing your savings
- ▶ Reducing spending
- ▶ Increasing the value of investments and other possessions
- ▶ Reducing the amounts you owe

Personal financial statement (5)

THE CASH FLOW STATEMENT

- ▶ Cash Flow is the actual inflow, outflow for a given time period

Total cash received
During the time period

-

Cash outflows
During the time period

=

Cash surplus
Or deficit

- ▶ The Cash Flow statement is also called ***personal income and expenditure statement***

Personal financial statement (6)

THE CASH FLOW STATEMENT

The process of preparing cash flows statement follows these steps

STEP I: RECORD INCOME

- ▶ Wages, salaries, and commissions
- ▶ Self-employment business income
- ▶ Savings and investment income
- ▶ Gifts, grants, scholarships and educational loans
- ▶ Government payments, such as Social Security, public assistance, and unemployment benefits
- ▶ Amounts received from pension and retirement programs
- ▶ Alimony and child support payments

Personal financial statement (7)

STEP 2: RECORD CASH OUTFLOWS

- ▶ Fixed Expenses
- ▶ Variable expenses

STEP 3: DETERMINE NET CASH FLOWS

- ▶ The difference between income and outflows can either be positive or negative
- ▶ Cash flow statement provides the foundation for preparing and implementing a spending, saving, and investment plan

Personal financial ratios

Ratio	Calculation	Interpretation	Good measure
Debt ratio	Liabilities divided by net worth	Show relationship between debt and net worth	The lower the better
Current ratio	Liquid assets divided by current liabilities	Indicates an amount of liquid assets for every \$1 of current liabilities	The higher the better
Liquidity ratio	Liquid assets divided by monthly expenses	Indicates the number of months in which living expenses can be paid if an emergency arises	The higher the better
Savings ratio	Amount saved each month divided by gross income	Indicates the net savings amount	The higher the better

An illustration

Variable	Amount	Variable	Amount
Liabilities	\$12,000	Net worth	\$36,000
Liquid asset	\$2,200	Current liabilities	\$550
Monthly credit payments	\$150	Gross income	\$1500
Monthly savings	\$130		

Analyze Mr. KS financial status by using personal financial ratios

Budgeting for money management

- ▶ A budget is a ***spending plan***
- ▶ The main purposes of a budget are to help you
 - ▶ Live within your income
 - ▶ Spend your money wisely
 - ▶ Reach your financial goals
 - ▶ Prepare for financial emergencies
 - ▶ Develop wise financial management habits

Class Assignment II

Create a personal budget plan

The budgeting process

Assessing your current situation



Planning your financial direction



Implementing your budget



Evaluating your budgeting program

Instructions

1. Estimate your monthly budget by categorization – income, expenses, and savings
2. Record your actual daily/weekly income, expenses, and savings for a month
3. Make a comparison between your budget and your actual statement

Spreadsheet example

Variable expenses					
Food		\$10.00	8.33%	\$10.00	0.00%
Utilities		\$10.00	8.33%	\$10.00	0.00%
Clothing		\$10.00	8.33%	\$10.00	0.00%
Transportation costs		\$10.00	8.33%	\$10.00	0.00%
Personal care		\$10.00	8.33%	\$10.00	0.00%
Medical and health care		\$10.00	8.33%	\$10.00	0.00%
Entertainment		\$10.00	8.33%	\$10.00	0.00%
Education		\$10.00	8.33%	\$10.00	0.00%
Gifts/donations		\$10.00	8.33%	\$10.00	0.00%
Miscellaneous		\$10.00	8.33%	\$10.00	0.00%
Other		\$10.00	8.33%	\$10.00	0.00%
Other		\$10.00	8.33%	\$10.00	0.00%
Total variable expenses		\$120.00	100.00%	\$120.00	
Total expenses		\$170.00	100.00%	\$170.00	

Money management and achieving financial goals

Reasons for saving include...

- ▶ Setting aside money for irregular and unexpected expenses
- ▶ Paying for the replacement of expensive items, such as cars or a down payment on a house
- ▶ Buying special items like recreational equipment or to pay for a vacation
- ▶ Providing for long-term expenses such as retirement or the education of children
- ▶ Earning income from the interest on savings for use in paying living expenses

Money management and achieving financial goals (2)

SELECTING A SAVINGSTECHNIQUE

- ▶ Payroll deductions into savings accounts
- ▶ Automatic payments from checking into savings accounts or mutual funds
- ▶ Also save coins, make periodic deposits
- ▶ Write a check each payday as a % of income and deposit into savings

Tax strategy

Based on Thai law and regulations
(Source: Revenue Department)

Taxes and financial planning

- ▶ About one-third of each dollar you earn goes to pay taxes
- ▶ An effective tax strategy is vital for successful financial planning
- ▶ Understanding tax rules and regulations can help you reduce your tax liability

Taxes and financial planning (2)

- ▶ To help you cope with the many types of taxes you should...
 - ▶ Know current tax laws as they affect you
 - ▶ Maintain complete tax records
 - ▶ Plan purchases and investments to reduce your tax liability
- ▶ Tax planning – Take advantage of tax benefits while paying your fair share of taxes

Income tax fundamentals

- ▶ Personal Income Tax (PIT) is a direct tax levied on income of a person. A person means:
 - ▶ A natural person (an individual)
 - ▶ A non-registered ordinary partnership
 - ▶ A non-juristic body of person
 - ▶ An estate which remains undistributed

- ▶ A person subject to PIT has to file a tax return and pay tax by the end of March following the tax year which begins on January 1 and ends on December 31 every year

Income tax fundamentals (2)

▶ Who are taxpayers?

- ▶ “Resident” means any individual residing in Thailand for a period or several periods in total of at least 180 days in a tax year (Jan 1 – Dec 31)
- ▶ A resident of Thailand has a duty to pay tax on income remitted from a **source in Thailand** as well as on any income from a **foreign source** in connection with the taxpayers’ employment or business carried on abroad or a property situated abroad, and that income is remitted into Thailand within the year that the taxpayer receives that income (i.e. cash basis)
- ▶ A non-resident is subject to tax only on income from **sources in Thailand**.

Taxable income calculation

$$\text{Taxable income} = \text{Assessable Income} - \text{Deductions} - \text{Allowances}$$

Before applying the tax rate

Type of assessable income

1. Income from personal services rendered to employers such as salaries, wages, employer-provided stock options, work-related compensation and fringe benefits
2. Income from contract for hire
3. Income from goodwill, copyright, franchise, patent, or income derived from a will, or judgment of the Court
4. Dividends, interest on deposits, shares of profits of mutual fund, payment received as a result of a bonus, and gains from acquisition of juristic companies
5. Income from lease of property, breaches of hire-purchase contracts

Type of assessable income (2)

6. Income from liberal professions such as law, medicine, engineering, architecture, accountancy, and fine arts
7. Income from construction and other contracts of work whereby the contractor provides essential materials other than tools
8. Income from business, commerce, agriculture, and industry

Deductible expenses

Category of income	Deduction expenses
Income from employment category (1) – (3)	40% of income but not exceeding 60,000 baht
Income received from dividends and interests category (4)	No deductions are allowed.
Income from rental of property	Actual and reasonable expenses, or a lump sum deduction of 10% to 30% depending on the type of rented property
Income from breach of hire purchase contracts, income from liberal professions	A lump sum deduction of 20%
Income from liberal professions	Actual and reasonable expenses, or a lump sum deduction of 30% (except for the medical profession whereby 60% is allowed)

Deductible expenses (2)

Category of income	Deduction expenses
Income derived from contract of work whereby the contractor provides essential materials besides tools	Actual and reasonable expenses, or a lump sum expense of 70%
Income derived from business, commerce, agriculture, industry	Actual and reasonable expenses, or 65% - 85% depending on the type of income

Allowances (exemptions)

Type of allowances	Amount
Taxpayer	30,000 baht for the taxpayer
Spouse	30,000 baht
Child allowance (child under 25 years of age and studying at educational institution, or a minor)	15,000 baht for each (limited to three children)
Additional education allowance for child studying in educational institution in Thailand	2,000 baht each child
Parents allowance	30,000 baht for each of taxpayer's and spouse's parents if such parent is above 60 years old and earns less than 30,000 baht
Life insurance premium	Amount actually paid by taxpayer or spouse on the taxpayer's own life but not exceeding 100,000 baht each

Allowances (exemptions) (2)

Type of allowances	Amount
Contributions to approved provident fund or Retirement Mutual Fund (RMF)	Amount actually paid by taxpayer or spouse at the rate not more than 15% of wage, but not exceeding 500,000 baht
Contribution to Long Term Equity Fund (LTF)	Amount actually paid up to 15% of wage, but not exceeding 500,000 baht in a tax year, provided that the invested unit is held for at least 5 years, except in the case of incapacity or death during the investment period
Home mortgage interest	Amount actually paid for the purpose of purchase or construction of a residential building in Thailand, but not exceeding 100,000 baht
Social insurance contributions	Amount actually paid by taxpayer or spouse
Charitable contributions	Amount actually donated but not exceeding 10% of assessable income after all standard deductions and allowances

Progressive tax rates

Taxable income (baht)	Marginal taxable income (baht)	Tax rate (%)
0 – 150,000	150,000	Exempt
150,001 – 500,000	350,000	10
500,001 – 1,000,000	500,000	20
1,000,001 – 4,000,000	3,000,000	30
4,000,001 and over		37

Separate taxation

- ▶ **Income from sale of immovable property**
 - ▶ Taxpayer shall not include income from sales of immovable property acquired by bequest or by way of gift to the assessable income
 - ▶ If the sale is made for a commercial purpose, such income must be included and subject to PIT

Separate taxation (2)

- ▶ **Interest**: Taxpayer may elect to exclude from the computation of PIT provided that a tax of 15 percent is withheld at source:
 - ▶ Interest on bonds or debentures issued by a government
 - ▶ Interest on saving deposits in commercial banks if the aggregate amount of interest received is not more than 20,000 baht during a taxable year
 - ▶ Interest on loans paid by a finance company

Separate taxation (3)

▶ Dividends

- ▶ Taxpayer who resides in Thailand and receives dividends or shares of profits from a registered company or a mutual fund from which tax has been withheld at 10%, may exclude such dividend from the assessable income when calculating PIT

Tax strategy

▶ Tax savings list

- ▶ Insurance: not exceeding 100,000 baht
- ▶ Government bond, GSB saving account: interest is tax-free
- ▶ LTF/RMF: not exceeding 500,000 baht per LTF/RMF
- ▶ Residential loan: not exceeding 100,000 baht
- ▶ Capital gains from equity investment
- ▶ Donation for educational purposes
- ▶ Tax credit from dividend payment

Tax strategy (2)

► Interest on savings account

Interest on	Tax
GSB savings account	Exempted
Commercial bank savings account	-Withholding tax 15% and excluded in calculating PIT - Interest earned not exceeding 20,000 baht is exempted
Time deposit account	Withholding tax 15% and excluded in calculating PIT
Time deposit account which is committed for 2 years	Exempted

An illustration

- ▶ Miss A is a business owner.
- ▶ She has two children.
- ▶ Monthly salary = 100,000 baht
- ▶ Bonus = 10 months
- ▶ Annual payment for
 - ▶ Pension fund = 50,000 baht
 - ▶ Social Security Fund = 9,000 baht
- ▶ Borrow 5,000,000 baht for purchasing a house, interest 12% p.a.
- ▶ Donate 10,000 baht for educational purpose

An illustration (2)

- ▶ What is her tax strategy?
- ▶ What's difference between implementing a good tax strategy and doing nothing?

Quiz 1

▶ Given that

- ▶ Initial investment at the beginning of year 2013 = 165,000 baht
- ▶ Interest earned is semi-annually compounding
- ▶ Deposit money during 2013 – 2017
- ▶ Interest rate = 3.15% p.a.
- ▶ Withholding tax = 15%

- ▶ **Question 1** (2 pts.): What is your EOP balance at the first half of year 2015 and BOP balance of the first half of year 2017?
- ▶ **Question 2** (2 pts.): What is your net interest earned after tax at the end of the second half of year 2016?

Quiz 1 (2)

- ▶ **Question 3** (4 pts.): What is your net interest earned after tax at the end of the first half of year 2014 in case of
 - ▶ Semi-annually compounding
 - ▶ Quarterly compounding
 - ▶ Monthly compounding

- ▶ **Bonus** (2 pts.): 3 teams who finish first and answer all questions correctly