UNIT 2 - Kisan Vikas Patra - An Investment Scheme for All

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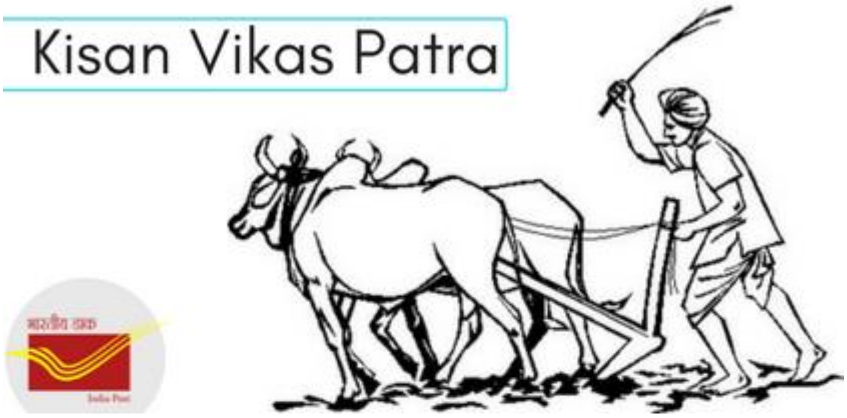
Kisan Vikas Patra Or, KVP, in short, is the latest 'savings' instrument that is making the news.

No, it's not a savings scheme for farmers! Instead, it means that the invested amount will be used for the welfare programs aimed at the farmers of the country.



So you and I can invest – and it will be used in the nation-building activities specifically involving agricultural sector and the farmers! SO it is GOOD!

KVP is not an original idea though – **KVP had been first launched in 1988 – and ran for 23 years before being discontinued in 2011.** As Kisan Vikas Para is a negotiable instrument and PAN card was not required for making an investment in KVP, it led to money laundering. That's why Kisan Vikas Patra scheme was discontinued.

What's new in Kisan Vikas Patra 2014

Now it mandatory PAN Card proof for investments over Rs.50,000 and income source proof for investments exceeding Rs.10 lakh.

Back in July 2014, the new Finance Minister Arun Jaitley gave us a peek at what was to come and mentioned his intention to re-introduce KVP.

The revamped version – one can say – a cog in the wheel of the current PM's nation-building and mass participation vision – was launched (or re-launched) on 24/ 25 November 2014.

And as is expected it's got many pros and some cons which gives the pundits to laud or trash it! But our job is to objectively look at the features of this instrument and prepare for interviews – get a job – get the salaries and then think about investing in KVP!

So what is KVP?

It is small savings scheme – by the Government of India – run by The Directorate of Small Savings – and the Post Offices sell these saving bonds.

Post Offices in India have a very wide network, spread all over the country – and hence it makes sense to sell KVPs through the Post Offices as the public will have easy access.

It is just like an FD – and the instrument just like FDR is a physical instrument – a certificate named 'Kisan Vikas Patra' – which will have the rate of interest, maturity tenure, name of the investor etc. printed on it.

Features of KVP – a bird's eye view:

- The top draw – the invested amount doubles upon maturity! Yeah!
- And the interest is 8.7%. Which is higher than most savings instruments.
- The maturity period is 100 months or eight years and four months – that is like way too long!
- But nation-building is a long process!
- Plus there is a lock-in period of 2 years and 6 months – that is during this period en-cashing is not allowed; thus KVP can be redeemed after 30 months and then after every 6 months hence.
- You being a citizen of India, adult or a trust can invest – you can also invest on behalf of a minor. Two adults can also jointly buy a KVP.
- But if you are a company, a firm, a HUF or an NRI – you cannot invest.
- Now, the certificates are available for fixed amounts – Rs.1000, Rs.5000, Rs.10,000 and Rs.50,000. So every lot/ certificate unit is of these denominations.
- No cap on the maximum amount you want to invest. Minimum is Rs.1000.
- It is a bearer instrument and easily en-cashable and nomination facility is available too.
- And it can also be used as security to avail bank loans!
- PAN is not required for KVP; but identity and address proof is required – so DL, VID etc. should work.
- KVP will be issued after conforming to KYC norms – this is in order to ensure black money does not get turned into white money!

Tax treatment of Kisan Vikas Patra (Bad thing about KVP) ...

- KVP interest on maturity is fully taxable. Yep. So in the year, the KVP matures the entire interest amount will be added up to your income and accordingly taxed.
- So if you are the in higher bracket of the tax slab – you pay a tax at that higher rate on the interest income too!
- As for the investment amount (principal) itself – you do not get any tax deduction under section 80C. So that is a double blow. No tax benefits whatsoever!

Thus, KVP is really aimed at the mid alow-income groups (they also have the benefit of being under the tax slab or lower brackets) to encourage savings and to mobilize savings in constructive activities.

It's just been exactly a month since its re-launch and it has a long way to go for success – because 1990s and 2014 is a lot different in terms of economic conditions of the country and the saving habits of people – and there are better investment options available now.