FINANCIAL PLANNING

A compact note towards excellent revision on the aspects of financial planning.

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Preface

Financial planning is not a one-time task but an ongoing process. It requires regular review and adjustment to reflect changes in the personal circumstances and the broader economic environment. This book entitled "Financial Planing" is crafted to provide a comprehensive review of essential financial planning concepts, tailored to meet the needs of students learning the subject of Financial Planning whilst seeking a deeper understanding of personal finance.

Some aspects of financial planning may be challenging and complex to students. Therefore, this revision book will guide students to simplify complex topics, offering clear explanations and practical examples that will help them solidify the knowledge and apply financial planning principles in real-life scenarios. By the end of this book, students will have a reinforced understanding of financial planning and the confidence to make informed decisions related to the financial perspectives.

I hope this book serves as a valuable resource to students to prepare for revision and take steps towards financial independence and success.

Sincerely,
MOHAMAD SHUKRI BIN MUDA
Author

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CHAPTER 1

Principles and Practices of Financial Planning

Learning Outcomes:

- Explain the concept and implementation of financial planning
- Explain ethical and professional aspects of financial planning industry

DEFINITION OF FINANCIAL PLANNING

A process of developing strategies to help people manage their financial affairs to meet life goals.

TASKS OF A FINANCIAL PLANNER

- Help clients achieve their financial goals
- Gather relevant financial information
- Examine current financial status
- Propose plan to clients

TYPES OF CONCEPT FINANCIAL PLANNING

PERSONAL FINANCIAL PLANNING

A process or methodology of assisting clients in determining their financial goals, objectives and priorities and the resources to meet them in an optimal and practical manner.

CORPORATE FINANCIAL PLANNING

A process of financial planning addressing firms and organizations that involves analyzing alternative investment, financing and dividend strategies in the context of various potential economic environments.

ISLAMIC FINANCIAL PLANNING

A process of assisting clients in determining their financial goals and priorities and the resources to meet them optimally within the parameters of the *Shariah.*

FINANCIAL PLANNER

An individual practitioner who provides financial planning services to clients and meets all competence, ethics and experience requirements of the profession.

Registered Financial Planners issued by Malaysian Financial Planning Council (MFPC)

Certified Financial Planners (CFP) issued by Financial Planning Association of Malaysia (FPAM)

OBJECTIVES OF FINANCIAL PLANNING

1	Provide direction and meaning to a person's financial decisions.
2	Allow a person to understand how financial decision affects other areas of his finances.
3	Allow an person to adapt more easily to life changes and to feel more secured as a result.

ESSENTIALS OF A COMPREHENSIVE FINANCIAL PLAN

Personal data

Inclusive of family data, age, age of children, spouse, parents, etc.

Assumption

Material assumptions made, inclusive of inflation, investment growth rate, income growth rate, etc.

Zakat and income tax

Statement and analysis should comprise, but not limited to, zakat/income tax for all the relevant years.

Estate planning

Identification of assets that could form the client's estate and an analysis of the control, disposition and taxation of these assets.

Goals and objectives

A statement of the client's established goals and objectives, in accordance with their priority, and the time frame for achieving each.

Asset-liability management / net worth statement

Material assumptions made, inclusive of inflation, investment growth rate, income growth rate, etc.

Risk management

The analysis should correspond to mortality, morbidity, liability and property.

Recommendation and implementation

Clearly stated recommendations specifically addressing the goals and objectives of the client, and actions needed to cover any deficiency.

Identify the issue and problem

Should include personal and financial issues affecting the client, e.g. illness, cost of education etc, inclusive of hidden and future issues anticipated such as children's marriages.

Cash flow statement

Statement should include the client's sources of funds and uses for the relevant years, as well as net cash flow, and individual income statement.

Investment

Should outline the current investment portfolio together with details liquidity, diversification and investment risk exposure. It should discuss the suitability of the investments in relation to the client's needs and goals.

SOURCES OF INFORMATION FOR FINANCIAL PLANNING

- Statement of assets and liabilities
- Statement of cash flows and/or budgets
- Insurance/Takaful policies
- Investment certificates and contracts
- Legal documents
- Immediate and long term goals and objectives
- Economic assumptions
- Risk tolerance
- Other considerations like regulations, ethical or religious matters

GOVERNING ACTS IN FINANCIAL PLANNING INDUSTRY

Capital Market and Services Act 2007 (CMSA)

An Act to regulate and to provide for matters relating to the activities, markets and intermediaries in the capital markets, and for matters related to capital market in Malaysia. This Act governs the licensing of financial planners and capital markets intermediaries (CMSL-Capital Market Services License and CMSRL - Capital Market Services Representative's License).

Financial Services Act (FSA 2013)

An Act include insurance, the Act was introduced to promote better accountability on the part of the insurer, insurance brokers and adjusters to strengthen their financial standards, to ensure their operations are conducted in a sound manner and to provide greater protection to policy owners.

Islamic Financial Services Act (IFSA 2013)

An Act includes Takaful, the Act was amended to strengthen the role of regulators and the Shariah Advisory Council as the body that represents the *Shariah* compliance. It provides the Council with recognition as the authoritative body over *Shariah* matters that relate to Islamic finance and Takaful.

SELF-REGULATORY ORGANISATION

- Malaysia Takaful Association (MTA)
- Life Insurance Association of Malaysia (LIAM)
- Persatuan Insurance Am Malaysia (PIAM)
- Federation of Investment Managers Malaysia (FIMM)
- Financial Planning Association of Malaysia(FPAM)
- Malaysian Financial Planning Council (MFPC)
- Financial Mediation Bureau (FMB)
- Persatuan Insurans Deposit Malaysia (PIDM)
- Agensi Kaunseling & Pengurusan Kredit (AKPK)

FPAM CODE OF ETHICS

Client First: Place the client's interests first

Integrity: Provide professional services with integrity

Objectivity: Provide professional services objectively

Fairness: Be fair and reasonable in all professional relationships. Disclose and manage conflicts of interest

Professionalism: Act in a manner that demonstrates exemplary professional conduct

Competence: Maintain the abilities, skills and knowledge necessary to provide professional services competently

Confidentiality: Protect the confidentiality of all client information

Diligence: Provide professional services diligently

6 STEPS IN FINANCIAL PLANNING PROCESS

Establishing and defining the client-planner relationship

Gathering client data including goals

Analyzing and evaluating the client's financial status

Developing and presenting financial planning recommendations and/or alternatives

Implementing the financial planning recommendations

Monitoring the financial planning recommendations

CHAPTER 2

Money Management and Personal Financial Statement

Learning Outcomes:

- Exercise the importance of cash flow management
- Exercise the importance of asset-liability management

INTRODUCTION

A financial planner needs to make a careful assessment and understand the financial scenario pertaining to the client. To assess the current state of cash flow and the state of current indebtedness of the client, financial planners may inquire the financial data from the clients through interviews and financial documents such as bank statements and many more.

CASH FLOW MANAGEMENT

The cash flow provides information of the client's movement of cash, i.e. cash receipts and cash disbursements, over the past one-year period. It provides a one-page report on the client's inflows and outflows of cash, identifying all sources of income and pattern of disbursing those incomes.

THE IMPORTANCE OF CASH FLOW

- Records daily the cash inflow and cash outflow.
- Place and filing any receipts, cheque butt, documents accordingly.
- Reconcile the bank statement with actual cash at bank/cash in hand.
- Keep track with related parties (i.e. bank, debtor, creditor, etc).

CASH FLOW

CASH INFLOW

Cash inflows would include all the sources of cash takings accorded to the client, either in the form of actual receipts or credits to his account. The cash inflows can be derived from earned and unearned sources. These are the examples of cash inflows:

- Gross employment income (i.e. salaries, wages, allowances, bonuses, commissions self-employment income)
- Proceeds from mature endowment policies, savings, investment returns
- Rental and dividend income
- Proceeds from sale of personal assets
- Gratuities
- Employer's contributions to client's retirement account (credit to account or indirect cash flow)

CASH OUTFLOW

Cash outflows would include all the cash disbursements/ expenses by the client. It provides a pattern of spending, savings and investment activities. Outflows can be further divided into committed or fixed outflows or variable outflows. These are the examples of cash outflows:

- Fixed Outflows:
  - Insurance/Takaful premium
  - Mortgage/loan repayments
  - Car loan repayments
  - Maid's salary
  - Rental payment

- Variable Outflows:
  - Income tax
  - Food/Groceries
  - Utilities
  - Children's education
  - Parent's allowance
  - Household/ Car maintenance
  - Medical expenses
  - Transportation
  - Credit cards
  - Others

SURPLUS AND DEFICIT OF CASH FLOW

Surplus means the client the cash inflows are more than cash outflows. In case of cash surplus, the client is able to plan further for wealth generation.

Deficit means that cash inflows are less than the cash outflows for that particular year. In case of cash deficit, the client needs to reduce current expenses and/or sell-off certain assets.

INCOME – EXPENSES = NET CASH FLOW
CASH INFLOW – CASH OUTFLOW = CASH SURPLUS/DEFICIT
CASH INFLOW = CASH OUTFLOW = EQUILIBRIUM

BUDGET

A budget is a record or set of records used to keep track of both projected and actual income and expenditures over a period of time. Budgeting is the process of projecting, monitoring and controlling future income and expenditure. It is an important technique used in cash flow management with a reconciliation of income and expenditure to achieve short-term goals that are in alignment with long-term goals.

5-STEP APPROACH IN BUDGET

Identify and compute the annual income

Form assessment for both fixed and discretionary (optional/elective) expenses

Ascertain the surplus/deficit within the budget duration

Identify ways of increasing income and reducing expenses

Compute the Budget Percentage of each of the Income and Expenditure items against the total to allow for planning reallocation of resources.

CASHFLOW STATEMENT	Kassim	Mariam	Total
Inflow			
salary	240,000	48,000	288,000
bonus	0	2,000	2,000
rental	12,000	6,000	18,000
Investment income	300	150	450
EPF 11%x240k)	-26,400		-26,400
tax (1000x12) : (200x12)	-12,000	-2,400	-14,400
zakat	-3,000	-500	-3,500
Total Inflow	210,900	53,250	264,150
Outflow	**Yearly**	**Yearly**	**Total**
Groceries	6,000	0	6,000
Utilities	2,000	0	2,000
Telephone (less 30%)	3,500	2,500	6,000
UNIFI (less 30%)	1,680	0	1,680
Dining Out (less 30%)	4,200	0	4,200
Clothing	5,000	5,000	10,000
Books	1,000	1,000	2,000
Personal	2,000	3,000	5,000
Maid	0	9,000	9,000
Vacation (less 30%)	14,000	0	14,000
Miscellaneous	4,000	2,000	6,000
Car Takaful & Road Tax	1,500	800	2,300
Car maintenance	3,000	2,000	5,000
Petrol	4,000	2,000	6,000
Other expenses	xxx	xxx	xxx
Total Outflow	229,923	60,876	290,799
Surplus/Shortfall	-19,023	-7,626	-26,649

- **SURPLUS** – cash inflow > cash outflow
  - Amount available for savings, investing or settlement of debts.
- **DEFICIT** – cash inflow < cash outflow
  - Will have to draw on his savings or increase credit spending
- **EQUILIBRIUM** – cash inflow = cash outflow
  - Net worth stays the same.

ASSET-LIABILITY MANAGEMENT

The statement of net worth or balance sheet presents a snapshot of the client's financial position at a particular date.

It shows how the assets of the client are financed, which is either from his own savings and accumulations or from outside sources. For example, banks and credit card companies.

It also shows the net worth of the client, which represents his real wealth holdings at that point of time.

(Possessions)	**(Assets Financing Sources)**
Assets "has"	Liabilities + Net worth (Capital or Equity) "owes" and "owns"

ASSET	LIABILITY-EQUITY
What the client possesses on that particular date, which comprises of the following; • Cash/Cash equivalents – savings/current account, general investment accounts • Investment Assets – EPF account balance, equities (shares), *sukuk*, unit trust etc • Assets for Personal use – houses, lands, personal vehicles etc	What the client owes and the equity ownership section the client possesses on that particular date. • Short-term liabilities – financial obligations that must be settled within one year • Long-term liabilities – financial obligations that can be settled outside the realm of one year • Equity – the net worth of the client's wealth holdings

NET WORTH STATEMENT

ASSETS	Kassim	Mariam	Total
Saving Account	10,000	5,000	15,000
Tabung Haji	6,000	4,000	10,000
ABC unit trust	20,000	10,000	30,000
Manjung Tin Company Shares	100,000		100,000
Bank Rakyat Share		5,000	5,000
SMN shares	120,000		120,000
Bit Coin	10,000		10,000
Gold Bar		5,000	5,000
EPF	300,000		300,000
Takaful	100,000	20,000	120,000
House Bangi	500,000		500,000
Bungalow Sg Long	2,000,000		2,000,000
Terrace House Kajang		300,000	300,000
Audi	192,500		192,500
Mini Cooper	175,000		175,000
Total assets	**3,533,500**	**349,000**	**3,882,500**
LIABILITIES			
Credit Card	10,000	4,000	14,000
Bungalow (app1)	904,333		904,333
Terrace House (app 1)		244,160	244,160
Audi (app1)	191,437		191,437
Mini Cooper (app1)	37,479		37,479
Tax due (from App 4)	26,020	-1,732	24,288
Zakat due (from App 5)	8,661	1,063	9,724
Total liabilities	1,177,930	247,491	1,425,421
NET WORTH	**2,355,570**	**101,509**	**2,457,079**

Asset = Liability + Equity

Net Worth = Asset - Liability

CHAPTER 3

Risk Management Planning

Learning Outcomes:

- Apply the basic concepts of risk management
- Apply the various insurance coverage available to manage risk
- Apply the principle of Islamic insurance (*Takaful*)
- Construct a Risk Management Needs Analysis

INTRODUCTION

The objective of financial protection and wealth preservation is to ensure the client and his family is not left financially disadvantaged as a result of major disasters, such as death, disablement, loss of assets through fire, prolonged injury and other events that result into financial loss. Risk management through insurance/takaful is a form of cooperative insurance in which the participants share the risks. With that, the risks borne by each participant will be much less.

CONCEPT OF RISK MANAGEMENT

Risk management is the act to avoid risk, control risk, reduce risk or accept risk. In the financial planning, risk management is also known as wealth protection. It implies the act of protecting the wealth from any harm resulting from pure risk. Hence, it is one of the most crucial areas in the financial planning.

Financial planners, therefore, need to identify and evaluate the risks relating to a particular client and ensure the client properly understands the significance of failing to adequately protect the wealth.

PROCESS OF RISK MANAGEMENT

1	Establishing context and defining parameters
2	Assessing the risk – by identification, analysis and evaluation
3	Treating the risks – by transferring, sharing, reducing, avoiding or acceptance
4	Monitoring and reviewing

CONCEPT OF RISK

Term	Description
Peril	Refers to a cause of loss. Common perils include fire, flood, collision, earthquakes, sickness and premature death.
Hazard	Refers to the condition that increases the chance of loss. There are **FOUR (4)** types of hazards:
	a) Physical Hazard Refers to the physical condition that increases the chance of loss. (i.e.: defective wiring)
	b) Moral Hazard Refers to the character defect (i.e.: dishonesty) in an individual that increases the chance of loss. Moral hazard is present in all forms of insurance and it is difficult to control
	c) Morale Hazard Refers to carelessness or indifference to a loss because of the existence of insurance. Careless acts will likely increase the chance of loss.
	d) Legal Hazard Refers to the characteristics of the legal system or regulatory environment that increases the frequency or severity of losses.

DEFINITION OF RISK

Among the common definitions of 'risk' are: -

- Variability in future outcomes
- Chance of loss
- Possibility of an adverse deviation from desired outcome

Traditionally, 'risk' is defined in terms of uncertainty. It is defined as uncertainty because there is a possibility of a loss. For example:

- The risk of having lung cancer among smokers is high and the cost of the treatment of the disease is costly
- The risk of accident while driving a car

DEFINITION OF ISLAMIC RISK MANAGEMENT

Risk management is the process by which various risk exposure are

- Identified
- Measured/ assessed
- Mitigated and controlled
- Reported and monitored

Islamic risk management is an emphasis on *maqasid shariah* which are protection of religion, life, lineage, intellect and property.

Therefore, in Islamic risk management, the transfer of risk to third party is allowed.

- Essential risk
- Prohibited risk
- Permissible risk

TYPES OF RISK MANAGEMENT

Type of Risk	Type of Risk
Risk avoidance	Avoid an activity that poses a potential risk. For example; the risk of getting lung cancer can be avoided by not smoking.
Risk control	Reduce the likelihood of financial loss occurring or lightening the severity of the occurrence of financial loss (i.e. installing a security alarm, smoke detectors, wearing a helmet or fasten the seatbelt or driving within the specified speed limit).
Risk retention	Involve accepting the risk. Even if the risk is mitigated, if it is not avoided or transferred, it is retained. Retention is effective for small risks that do not pose any significant financial threat.
Risk transfer	Transfer risk to a third-party entity (in most cases an insurance company). To be more clear, the financial risk is transferred to a third-party. For example, a homeowner's insurance policy does not transfer the risk of a house fire to the insurance company, it only transfers the financial risk. A house fire is still just as likely as before.
Risk sharing	Risk sharing is also a type of risk transfer. For example, members assume a smaller amount of risk by transferring and sharing the remainder of risk with the group.

INSURANCE

A contract of insurance is a contract between two parties, the insurer and the insured, the insurer promises to compensate the insured on the happening of a definite event in return for his contribution.

FUNCTION OF INSURANCE

- Insurance provides financial protection against a loss arising out of happening of an uncertain event.
- A person can avail this protection by paying premium to an insurance company.
- A pool is created through contributions made by persons seeking to protect themselves from common risk.
- Insurance works on the basic principle of risk-sharing.

Life Insurance

- An insurance cover that gives out a certain amount to the insured or their nominated beneficiaries upon a certain event such as death of the individual who is insured.
- For a convenience and better understanding, it will not be wrong to state that life insurance is related to a human life.
- It is basically a long term investment and requires periodic payments, either monthly or quarterly or annually.
- The risks that are covered by life insurance include – premature death, income during retirement, illness.
- The main products for the same consists of – whole life, endowment, term, medical and health, life annuity plan.

General Insurance

- An insurance covers things apart from the things covered in life insurance.
- It is basically an insurance policy to protect an individual against losses and damages other than those covered by life insurance.
- The coverage period for most non-life insurance policies and plans is usually one year, whereby premiums are normally paid on a one time basis .
- The risks that are covered by non-life insurance is property loss (stolen car or burnt house), liability arising from damage caused by an individual to a third party, accidental death or injury.
- The main products of non-life insurance include – motor insurance, fire/house owners'/householders insurance, personal accident insurance, medical and health insurance and travel insurance.

TAKAFUL

- The word 'takaful is derived from the Arabic verb *kafala* which means to guarantee one another; to help; to take care of one's needs.
- A scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for the purpose. (Takaful Act 1984).
- Based on the principle of *ta'awun* (mutual assistance) and *tabarru'* (voluntary contribution).
- Prohibited elements in takaful are:
    - Uncertainty (*Gharar*)
    - Gambling (*Maisir*)
    - Interest (*Riba*)

Prohibited Elements in Takaful

Gharar

Any transaction of probable items whose existence or characteristics are not certain, due to lack of information, ignorance of essential elements in the transaction to either party, or uncertainty of the ability of one party to honor the contract.

Maisir

Easily obtaining something without effort such as gambling.

Riba

Premium that must be paid by the borrower to the lender along with principal amount as a condition for the loan or for an extension in its maturity.

PRINCIPLES OF TAKAFUL

- Insurable interest
- Utmost of good faith
- Indemnity
- Subrogation
- Contribution
- Proximate cause

PRINCIPLES OF TAKAFUL

1

INSURABLE INTEREST

A legal right to insure arising out of financial relationship recognized at law between the insurance and the subject matter of insurance e.g. property.

2

UTMOST GOOD FAITH

The right of the insured to disclose to the insurer/ underwriter all material facts relating the subject matter of insurance whether he is asked for it or not.

3

INDEMNITY

The right of the insurer to place back the insured to the position he enjoys immediately before the loss or the right of the insurer to place back the insured to the financial position he was immediately before the loss.

4

SUBROGATION

The legal of the insurer to step into the shoes of the insured and avail himself for all rights and remedies of the insured against the third party.

5

CONTRIBUTION

The right of the insurer to call upon others similarly but not necessarily equally liable to the same insured to share the cost of an indemnity settlement.

6

PROXIMATE CAUSE

It is the direct cause that sets in motion a chain of events, which ultimately results in the damage or loss covered by an insurance policy.

TAKAFUL PRODUCTS

Family takaful
Offers a combination of protection and long-term savings, usually covering a period of more than one year.

General takaful
Provides protection on a short-term basis, normally covering a period of one year.

FAMILY TAKAFUL PLAN

Characteristics	Description
Long-Term Contracts with Usually Level Contribution	Usually with level contributions. The rating for a Family Takaful plan is calculated based on many factors. Principal amongst these factors are mortality, expenses, rate of investment returns and tax. As this is a long term contract, the Takaful Operator has to properly manage the fund to ensure that sufficient reserves are maintained and available in the event of any claim.
Termination of Contract with Payment of a Claim	Usually the settlement of a claim in Family Takaful will cease or terminate the contract. Once the participant receives the claim settlement, the Family Takaful contract is deemed terminated.
Risk To Be Covered Increases with Time	Under Family Takaful, the covered risk increases with duration of the contract. The longer the duration of the contract, the higher the mortality risk as it increases with age. The older the participant, the higher the possibility he will get contracted with illness, disease or death.

GENERAL TAKAFUL PLAN

- Usually short term contracts
- Premiums charged may vary
- Contracts of indemnity
- Payment of a claim does not terminate the contracts
- The risk to be insured does not necessarily increase over time

DIFFERENCES OF INSURANCE AND TAKAFUL

Aspect	Insurance	Takaful
Hukum	Non-compliance with *Shariah* principles	In compliance with *Shariah* principles
Contract	Buying & Selling	*Tabarru'* & *Al-Mudharabah* or *Wakalah* or others
Obligation of Company	Guarantor to insured	Risk management and fund manager
Guarantee	Given by company (Risk transfer)	Participant mutually guarantee each other (Risk sharing)
Investment	Usury based, non compliance with *Shariah*	Non-usury, based in compliance with *Shariah*
Religious Supervisory Council	No provision	Provision in Takaful Act
Payment of Contribution/ Premium	Paid premium creates an obligation against the insurer on a sale and purchase contract.	Paid contribution is treated as donation (*Tabarru'*).

RISK MANAGEMENT NEED ANALYSIS

- Determine the annual household expenses required
- Calculate the protection needed.
- Add liabilities, oustanding, emergency funds, funeral expenses etc.
- Less the amount of existing coverage taken by the deceased
- Shortfall - additional amount of coverage required

Risk Management Analysis			
Outflow		Adjustment:	After Adj
Groceries	6,000		6,000
Utilities	2,000		2,000
Unifi**	1,680		1,680
Dininig Out**	4,200	reduce to half	2,100
Clothing	5,000	No more for husband	
Books	1,000	No more for husband	
Personal	2,000	No more for husband	
Maid Mak senah		Wife to maintain	
Vacation**	14,000	reduce to half	7,000
Other expenses	xxx		xxx
		Total expenses	41,173
Estimated annual expenses			41,173
Return on investment (weighted return)			6.74%
Capital Intact Amount =			610,875
Liabilities	Isaac	Adjustment	
Credit card	10,000	To add to sum assurred	10,000
Bungalow	904,333	Covered by MRTT	0
Audi	191,437	Takaful Covered	0
Mini Cooper	37,479	To add to sum assurred	37,479
Tax due	26,020		26,020
Zakat due	8,661		8,661
Total liabilities	1,177,930		82,160
3. Amount of takaful cover needed			
Capital Intact Amount			610,875
Total liabilities not covered			82,160
Total Sum assurred			693,036
Less: existing coverage (individual)			500,000
Organization Group Takaful Death Benefit (20k x 10)			200,000
(Surplus) / deficit			-6,964

Takaful Needs?

A) 5/10/15 times the amount of annual salary.

B) Standard-of-living method : amount that is needed to maintain a standard of living if the insured party dies.

CHAPTER 4

Investment Planning

Learning Outcomes:

- Apply the concept and nature of investment
- Assign the various market for investment
- Assign the alternatives of investment

INTRODUCTION

Investment is usually explained as the choice by the individual to risk his savings with the hope of gain. A financial planner should have a good grasp of investment related issues in order to provide proper guidance to clients in this vital area.

OBJECTIVE AND CONSIDERATION IN INVESTMENT

Objectives for a person or organization for investments are:

- For savings
- Increase wealth
- Purpose of charity

While for most investors, considerations in choosing the suitable investment among others are:

- Security purpose – whether the money that invested is safe and secured
- Liquidity – whether the investment can be transformed into cash when it is needed
- Rate of Return – the gain and profitability

Concept of Portfolio

Portfolio

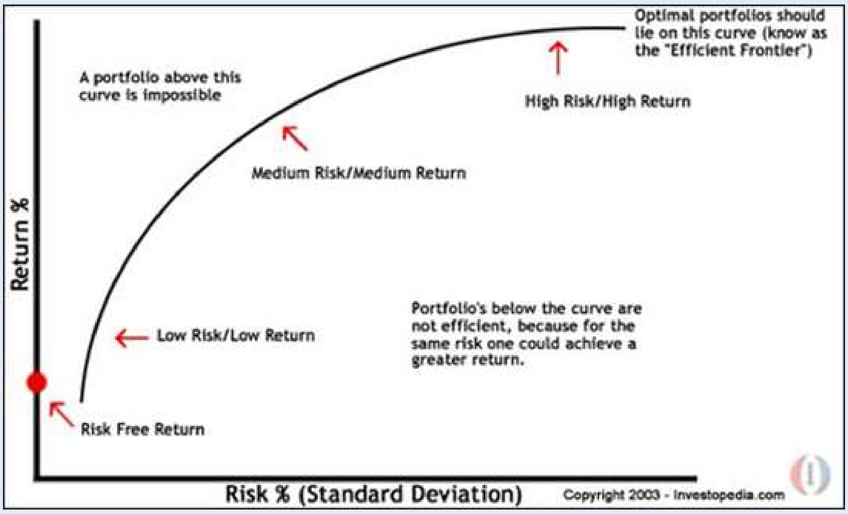
A portfolio is a basket of assets that can include stocks, bonds, commodities, currencies, cash equivalents, as well as their fund counterparts.

Efficient Portfolio

Diversification of Portfolio

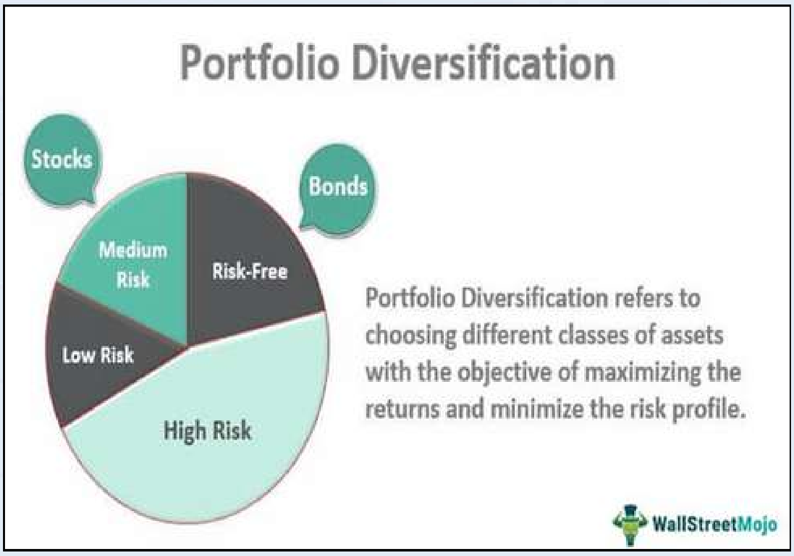
Efficient Portfolio

An efficient portfolio is either a portfolio that offers the highest expected return for a given expected return. The line that connects all these efficient portfolios is the efficient frontier. The efficient frontier represents that set of portfolios that has the maximum rate of return for every given level of risk.



Diversification of Portfolio

Portfolio diversification is the risk management strategy of combining a variety of assets to reduce the overall risk of an investment portfolio. Portfolio diversification will lower the volatility (risk) of a portfolio because not all asset categories, industries, or stocks move together.



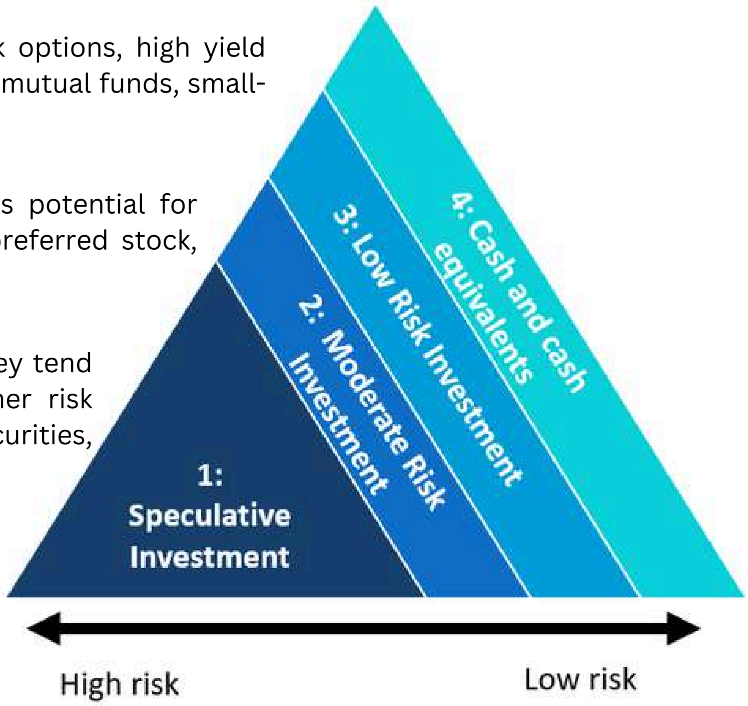
4-LEVEL OF INVESTMENT PYRAMID

Level 1: Speculative Investment
Investment may yield large gains or losses. Future, stock options, high yield bonds, precious metals or gems, aggressive growth stocks, mutual funds, small-cap stocks.

Level 2: Moderate risk investment
Investment may loss money but they offer a long terms potential for higher rates of returns. For example, corporate bonds, preferred stock, dividend-paying stock.

Level 3: Low risk investment
It is unlikely that these investment will lose money but they tend to offer a lower potential rate of return than the higher risk investment. For example, treasury and government securities, commercial paper, municipal debt.

Level 4: Cash and cash equivalents
These are assets that can be made accessible at any time (liquid). This is generally the safest category of investment but it produces the lowest rate of return. For example, cash, savings accounts.



TYPES OF INVESTMENT PRODUCT

STOCK
A stock is a form of security that indicates the holder has proportionate ownership in the issuing corporation

BOND
Referred to as a fixed-income instrument since bonds traditionally paid a fixed interest rate (coupon) to debtholders.

MUTUAL FUND
A pool of many investors' money that is invested broadly in a number of companies.

EXCHANGE TRADED FUND
A basket of securities that trade on an exchange just like a stock does.

COMMODITIES
A basic goods used in commerce that is interchangeable with other commodities of the same type.

CRYPTOCURRENCIES
Digital currencies that do not have any government backing. People buy and sell them on cryptocurrency exchanges.

ANNUITIES
A contract between you and an insurance company in which you make a lump-sum payment or series of payments.

OPTION
Derivatives that buyers have the right - not the obligation - to buy or sell an underlying asset at an agreed-upon price and date.

CERTIFICATE OF DEPOSIT
A saving account that holds a fixed amount of money for a fixed period of time, such as six months, one year, or five years, and in exchange, the issuing bank pays interest.

TYPES OF INVESTMENT RISK

MARKET RISK
The risk of investments declining in value because of economic developments or other events that affect the entire market.

LIQUIDITY RISK
The risk of being unable to sell the investment at a fair price and get the money out when want to.

FOREIGN INVESTMENT RISK
The risk of loss when investing in foreign countries.

CONCENTRATION RISK
The risk of loss because the money is concentrated in one investment or type of investment.

CREDIT RISK
The risk that the government entity or company that issued the bond will run into financial difficulties and will not be able to pay the interest or repay the principal at maturity.

INTEREST RATE RISK
The risk of losing money because of a change in the interest rate.

REINVESTMENT RISK
The risk of loss from reinvesting principal or income at a lower interest rate.

INFLATION RISK
The risk of a loss in purchasing power because the value of investments does not keep up with inflation.

EQUITY RISK
The risk of loss because of a drop in the market price of shares.

HORIZON RISK
The risk that the investment horizon may be shortened because of an unforeseen event.

LONGEVITY RISK
The risk of outliving the savings. This risk is particularly relevant for people who are retired, or are nearing retirement.

CURRENCY RISK
The risk of losing money because of a movement in the exchange rate.

SHARIAH CONCEPT IN INVESTMENT

Transcendental

Accountability to Allah SWT (Hablumminallah)

Dai and Khalifah

Individuals as trustees or vicegerents
Khalifah - Success in this world and in the hereafter
Tazkiyah -Personal accountability

Social Accountability

Accountability to the society (Hablumminan-nass)

Falah Economic

Goals beyond purely wealth maximization
Taklif - Justice in relationships, contracts, and activities
Adalah - Public interest is more important than personal interest (Maslahah)

CRITERIA OF ISLAMIC INVESTMENT

- Investment must be in ethical sectors (profits are not from prohibited activities, and non-Islamic financial institutions).
- Investment of property and wealth must be resulting from a partnership between the investor and the user of capital in which rewards and risks are shared.
- Investment must be considered the philosophy of Islamic business (e.g: social justice, equitability, and fairness as well as practicality of transaction).
- The major prohibited elements are *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), non-halal (prohibited) food and drinks and immoral activities.
- When a transaction has some prohibited elements, it must first be removed for it to be *Shariah*-compliant.

ESTABLISHMENT INVESTMENT GOAL

Time horizon
The period of time to establish the fund.

Risk tolerance
The level of risk that the client willing to accept.

Liquidity needs
How quickly an investment can be converted into cash.

Growth
An increase in the value of an investment.

Income
Some investments make periodic payments of interest or dividends.

Stability
A capital preservation or protection of principal.

DIFFERENCES OF VARIOUS PRIMARY INVESTMENT MARKETS

Types of investment	Description
Capital market	Is the market in which longer-term debt (maturity of one year or greater) and equity instruments are traded
Foreign exchange market	This market cater only for currency exchange.
Property market	This market involve in asset or physical asset such as building and gold.
***Shariah* based investment products**	All investment are in line with the *Shariah* principles.
Saving	Surplus of money that is being deposited in a saving account.

TYPES OF ALTERNATIVE INVESTMENT

S N

- Unit trust is a collective investment scheme that allows investors with similar investment objectives to pool their funds together.
- These funds will be invested by professional fund managers in a portfolio of securities according to the fund’s objective and investment strategy.

U TUG

- Trust property refers to assets that have been placed into a fiduciary relationship between a trustor and trustee for a designated beneficiary.
- Trust property may include any type of asset, including cash, securities, real estate, or life insurance policies.

GY N

- Equity trusts (also known as share trusts) allow investor to invest in a wide range of shares listed on a stock exchange by pooling investor money with other investors’ money.
- The aim of an equity trust is usually to provide a medium level of income and long term growth.

RT LALG

- Mortgage trusts, also commonly known as mortgage funds, are an investment vehicle that provides loans to commercial borrowers to finance land subdivision, property development or construction.
- These loans are generally secured by mortgages over property as the primary security.

QN G NS ASEG

- Life insurance is a contract between an insurer and a policy owner.
- A life insurance policy guarantees the insurer pays a sum of money to named beneficiaries when the insured dies in exchange for the premiums paid by the policyholder during their lifetime.

CHAPTER 5

Income Tax And Zakat Planning

Learning Outcomes:

- Apply the basic concept of tax planning
- Apply the basic concept of zakat
- Construct income tax computation for individual self-assessment and zakat on income

INTRODUCTION OF TAX

- Tax payment and zakat payment is the obligation for every individual to pay every month.
- This obligation in compulsory and in case the amount is due, the outstanding balance still needs to be paid.
- Tax and income planning are tools to help client to ensure their payment is correct.

INLAND REVENUE BOARD OF MALAYSIA (IRBM)

- The IRBM manages income tax in the country.
- Tax is chargeable on income accruing in or derived from Malaysia.
- In general, income received in Malaysia from outside Malaysia is not subject to income tax in the country.
- The IRBM is one of the main revenue collecting agencies of the Ministry of Finance.
- IRBM was established in accordance with the IRBM Act 1995 to give it more autonomy especially in financial and personnel management as well as to improve the quality and effectiveness of tax administration.

TYPES OF TAXES	
DIRECT TAXES	**INDIRECT TAX**
• Tax that is levied on a person or company's income and wealth. • The tax is paid directly to the government. • Examples of direct tax are income tax and real property gains tax. • The statutory body who is in charged with the direct tax is the Malaysia Inland Revenue Board (LHDN).	• Tax excised to a person who consumes the goods and services and is paid indirectly to the government. • Examples of indirect tax are Goods and Services Tax, Service Tax and Sales Tax. • The government body who is responsible for the indirect tax is Royal Malaysian Customs Department (RMCD).

TAX PLANNING

Tax avoidance	It involves essentially the commercially and the effective utilization of the legitimate fiscal policies such as exemptions, relief's, allowances and incentives provided by laws and Inland Revenue Guidelines and practices by making better choice between competing alternatives and avoiding pitfalls based on knowledge of legislation and practices.
Tax mitigation	It is the activities of obtaining tax advantages by reducing income or incurring expenditures in which the taxing statutes affords a reduction in tax liability.
Tax evasion	It is the activities of evading income and taxation by omission and understatement of income by the taxpayer.

OBJECTIVES OF TAX PLANNING

Reduce tax liabilities
A good tax planning will reduce the tax liabilities.

Encourage productive investment
Tax provisions provide the scope and space for the taxpayers to make productive investment on their income while enjoying tax relief.

Tax planning for married taxpayers
Under separate assessment, each spouse may claim up to the maximum limit and payment made in this assessment make both spouses eligible for reliefs.

Minimize tax litigation
Good tax planning activities could minimize the possibility of litigation and tax suit.

Types of Income Tax in Malaysia

Income Tax

- Personal Income Tax
- Corporation Income Tax

Tax Assessment

- **Joint/Combined assessment**
  - If a wife chooses to joint assessment with her husband. The assessment notice will be issued in the husband's name.
  - If a husband chooses to joint assessment with his wife, the assessment notice will be issued in the wife's name.

- **Self-assessment system**
  - All income of a married woman is automatically assessed separately from her husband's.
  - A separate tax bill will be issued in her own name.

CHARGEABLE INCOME

- The amount an individual will be taxed depends on the chargeable income.
- Chargeable income is derived by deducting income of an individual from all sources with personal relief, allowable deduction and rebates.
- Chargeable income= Income – Personal Relief – Allowable Deductions - Rebates

TAXABLE INCOME

- This is the total of the various types of income received by the individual that need to be declared for tax purposes according to the Income Tax Act:
  - Gains or profits from a business.
  - Gains or profits from employment
  - Dividends, interest or discount
  - Rent, royalties and premium
  - Pensions, annuities or other periodical payments
  - Gains or profits not falling under any of the above

RELIEF	REBATE	TAX PAYABLE
• A tax relief is a way for an individual to reduce his/her chargeable income. • Personal relief is only available for resident Individual as a deduction to the total income in determining the taxable income.	• These are payment of zakat and any other religious dues that can be used as 'deductions' in tax assessment, thus lowering the tax amount to be paid.	• Tax payable is the amount of tax be paid by the individual. • Tax payable= (Chargeable income x Tax rates) – total rebates

PLANNING TO REDUCE INCOME TAXES

- Invest in the places that give a tax advantage income.
- Take capital losses quickly.
- Split income for married tax payer.
- Stagger income and expenses.
- Defer income to later years.

CALCULATION

For the year ended 31 December 2020, Rafiq received annual salary of RM60,000. His wife is not working and they have four school going children. How much the income tax calculation for Rafiq?

Item	RM
Income	60,000
Less:	
Personal relief	9,000
Wife relief	4,000
Children 1 relief	2,000
Children 2 relief	2,000
Children 3 relief	2,000
Children 4 relief	2,000
chargeable income	39,000
Tax on first RM35,000	600
Tax on remaining RM4000 @ 8%	320
Tax payable	**920**

INTRODUCTION OF ZAKAT

- Zakat is the 4th pillar of Islam, which comes immediately after prayer (*salat)* and fasting (*siyam*) and before pilgrimage (*hajj*).
- In Arabic, zakat literally means “growth”, “increase”, “multiply”.
- Zakat is an obligatory payment from a certain wealth in a certain portion under certain conditions and to be given to certain group recipients.

TYPES OF ZAKAT	
Zakat al-Fitr	**Zakat al-Mal**
• Also known as zakat on the person, zakat of Ramadan. • Means of purification for the person who fasts, redressing wrong deeds and undesirable words uttered during fasting. • Payment can be made throughout the month of Ramadan but must be before the start of *Id al-Fitri* prayer. • The zakat al-Fitr rate is obligatory on every person is one saa’ or 2.3 kg of the staple food of the territory in which the person is residing. • Muslims are obligated to pay zakat al-Fitr, regardless of their age, status or wealth.	• Also known as zakat on wealth. • Zakat on wealth is an annual payment based on the amount of wealth owned by a Muslim individual or an organisation. • This payment is obligatory upon any individual Muslim or organization that has completed the requirement of *nisab* and *haul*. • The payment is 2.5% out of the total wealth deemed for zakat. • Types of zakat on wealth are zakat on saving/currency, income, gold, silver, shares and other investment in capital market, livestock, agricultural produce and mining and buried treasures

CONDITION OF ZAKATABILITY

- Islam
- Free
- Complete ownership
- Complete cycle (*haul*)
- Growth
- Above valuation (*nisab*)

ZAKAT RECIPIENTS

- *Al-Fuqara* (The poor)
- *Al-Masākīn* (The needy)
- *Al-Āmil* (The administrators)
- *Al-Mu'allafatu Qulūbuhum* (Those whose heart are made to incline to Islam)
- *Riqāb* (The ransoming of slaves)
- *Al-Ghārimīn* (Those who are in debt)
- *Fī Sabīlillāh* (For the cause of Allah)
- *Ibnu Al-Sabīl* (Those who are stranded during a journey)

Tax/*Zakat* Planning

APPENDIX 5: ZAKAT CALCULATION

ZAKAT ON INCOME	Kassim	Mariam
Gross Salary	240,000	48,000
Bonus		2,000
Rental	12,000	6,000
Investment return	300	150
Total income	252,300	56,150
Personal	11,300	11,300
Wife	5,000	0
Parents	0	2,350
Children	3,150	0
EPF	26,400	
Total relief	45,850	13,650
NET CHARGEABLE INCOME	206,450	42,500.00
Rate	2.50%	2.50%
A) ZAKAT PAYABLE ON INCOME	**5,161**	**1,063**

ZAKAT ON WEALTH	Kassim	Mariam
Saving Account	10,000	5,000
ABC UNIT TRUST	20,000	10,000
SMN BHD share	120,000	
XYZ Tin Co Share	100,000	
Bitcoin	10,000	
Gold bar		5,000
Total zakatable assets	260,000	20,000
Rate	2.50%	2.50%
B) ZAKAT ON WEALTH	**6500**	**500**

- Plan Construction and Case Study: Tax & Zakat

a) Analysis of Wealth Subjected to Zakat

b) Zakat and Tax Computation & Analysis

c) Formulate Islamic Financial Solution

APPENDIX 4 : Tax Computation

Income	Separate	
	Kassim	Mariam
salary	240,000	48000
bonus		2000
Rental	12,000	6000
Total income/ taxable income	252,000	56,000
Relief:		
Deduction : personal D1	9,000	9,000
contribution to parent D2		1,500
alimony D12	4,000	
Books, Unifi - lifestyle D8	2,500	1,000
children 1 D14	2,000	
medical takaful D20	3,000	0
epf takaful D17	6,000	2,400
Total deductions/ total relief	26,500	13,900
Chargeable income CI	**225,500**	**42,100**
Tax on first	10,900	600
next	30,120	568
Total	**41,020**	**1,168**
less: Zakat	3,000	500
Tax payable	**38,020**	**668**

CHAPTER 6

Retirement Planning

Learning Outcomes:

- Calibrate the concept of retirement planning
- Construct financial analysis of retirement income and expenses

INTRODUCTION

Retirement is the act of ceasing one's employment or active working life is known as retirement. Semi-retirement can also be achieved by cutting back on one's working hours or workload. Employers and the government in most developed nations have established pension plans for retirees in old age.

DEFINITION

An arrangement to provide people with an income during retirement, that is when they are no longer earning a steady income from employment.

CONCEPT OF RETIREMENT

- Retirement planning is the process of determining retirement income goals and the actions and decisions necessary to achieve those goals.
- Retirement planning includes identifying sources of income, estimating expenses, implementing a savings program, and managing assets and risk. future cash flows are estimated to determine if the retirement income goal will be achieved.

WHAT IS HAZARD?

- A hazard is any source of potential damage, harm or adverse health effects on something or someone.
- It is the potential for harm or an adverse effect (for example, to people as health effects, to organizations as property or equipment losses, or to the environment).

WHAT IS RETIREMENT HAZARDS?

- Retirement is fraught with perils that can wipe out sizable portions of one's savings.

TYPES OF RETIREMENT HAZARDS	
Health challenges	• Good health insurance with affordable deductibles will help protect from many problems. • For example, life insurance can provide assistance in case of a stroke, Alzheimer's disease or other debilitating problems.
Longevity	• Hazard to the savings. • Example, the life-expectancy has continued to increase, so now 50% of all 65 year-old male will live longer than age 82.
Event challenges	• Arise from unexpected situation that involves the money. • For example, replacement of a roof or automobiles, or a spouse that wants to remodel the kitchen and bath.
Economic challenges	• Arise from the inflation, interest rate and increase in tax. • For example, the purchasing power is decrease.

THE IMPORTANCE OF RETIREMENT PLANNING

To help maintain the required lifestyle.	To ensure self-sufficiency at retirement	To provide for emergencies
During the phase of retirement, the enough fund is needed to ensure the life after retirement is still maintained.	By having retirement planning, it can give client a peace of mind during the retirement period.	It helps client to use the extra fund to cover the loss.

STEP OF RETIREMENT PLANNING

Establish the objective of retirement planning
The objective of the retirement planning based on client interest.

Gather the relevant information
Information such as asset, background of the family and health status are important information.

Analyse the information
The information gather need to be anaylse to figure out the fund needed for the client.

Develop plan
Develop plan that is suitable for the client.

Implement plan
At this stage, the implementation of the plan from stage 4.

Monitor the plan
During this period, monitoring the plan need if the strategy does not suitable, the new approach needs to be done.

RETIREMENT PLANNING ASSUMPTIONS

- In retirement planning, it is important to note that there are few assumptions that need to be objectively looked into.
- The assumptions are as follows:
  - The income is consistent
  - There is sufficient protection from the takaful perspective
  - There is no sudden illness
  - The inflation rate is taken into account
  - The morality rate

REPLACEMENT RATIO METHOD

- Operates based on the assumption that changes in the cost of living will be roughly double by changes in the individual's income over the years of his working life.
- In addition, this method assumes that the post-retirement income needs of the client can be estimated from the individual's pre-retirement income.
- Rule of thumb is 70% to 80% of pre-retirement income.

Say you want to replace 75% of your current income. If you currently earn $48,000 per year, and your desired retirement age is 62:

Annual retirement income needed	75% x $48,000 = $36,000
Years in retirement (life expectancy - retirement age)	• Men: 83 - 62 = 21 • Women 88 - 62 = 26
Total retirement income needed	• Men: $36,000 x 21 = $756,000 • Women: $36,000 x 26 = $936,000

If you need $2,000 per month at retirement, and your desired retirement age is 62:

Annual retirement income needed	$2,000 x 12 = $24,000
Years in retirement (life expectancy - retirement age)	• Men: 83 - 62 = 21 • Women: 88 - 62 = 26
Total retirement income needed	• Men: $24,000 x 21 = $504,000 • Women: $24,000 x 26 = $624,000

ADJUSTED EXPENSE METHOD

- Requires the construction of a budget for post-retirement living.
- This involves estimating the amount that will be needed to meet the cost of housing, clothing, food, transportation and other necessities such as medical expenses.

SOURCES OF RETIREMENT INCOME IN MALAYSIA

Pension scheme

Based on Pensions Act 1980 - laws that govern retirement in Malaysia.

- Compulsory retirement
- Retirement at the instance of the government
- Optional retirement

PPA PRIVATE PENSION ADMINISTRATOR

Private Retirement Schemes

- PRS is a government initiated retirement scheme under the Capital Market Masterplan 2.
- Open to individuals above 18 years voluntarily.
- Can be used as Company Employee Retention Programme where instead of contributing more to the IPF, employers can contribute to PRS to diversify the employee's retirement fund.
- Examples of PRS : Am Investment management SdnBhd, CIMB-Principle Asset Management Sdn Bhd, Public Mutual Bhd

PRS Private Retirement Schemes

Save. Invest. Retire. Enjoy™

Employers Provident Fund

- It helps members to achieve a better future by safeguarding the retirement savings.
- As announced by EPF, the three accounts are:
- ***Retirement Account***: Previously known as Account 1, serves as a repository for savings aimed at retirement.
- ***Sejahtera Account:*** Previously known as Account 2, designed to cater to various life cycle needs.
- ***Flexible Account:*** Provides flexibility for short-term financial needs. Savings in this account can be withdrawn at any time.

KWSP EPF

OTHER SOURCES OF RETIREMENT INCOME IN MALAYSIA

Equities

- Stock selection must go through a stringent process
- Conservative nature is preferred for retirees
- Choose a low risk profile

Property

- Gains from rental income
- Invest for capital appreciation

Unit trust

- Increasingly popular as retirement investment asset
- Indirect exposure to equities and bonds
- Diversification in investment
- Managed by a professional fund manager

Cash and fixed deposit

- It is guaranteed by the Government
- Relatively low rate of return
- Popular for retirement - safe, recurring income from profit and highly liquid

Takaful products

- Endowment ending at 55, 60 and 65
- Investment linked plan
- Family takaful has similar features to the investment linked products

Others- fixed income Securities from the government bonds.

- Fixed income securities from the government bonds

When to start retirement planning?
In designing the retirement plan, it is very important to take advantage of the time horizon factors. It means to start as early as possible.

THE ADVANTAGES OF TIME HORIZON

The strategy in taking advantage of time horizon is:

- Start savings early
- Regular saving
- Save in a *halal* and good rate of return

THE ADVANTAGES OF TIME HORIZON

If the retirement plan does not work out, the best alternatives are:

- Government aid from the Welfare Ministry where in special cases the retirees from the military, uniformed bodies and civil service are given assistance on humanitarian grounds.
- NGO aid on humanitarian grounds.
- Extended family concept by contributions from relatives.

LIFESTYLE APPROACH DURING RETIREMENT	
Simple	• Cook and eat at home • Do own laundry • Plant their own vegetables
Medium	• Eat outside occasionally • Laundry is fully outsourced • Watch movies frequently as entertainment
High flyers	• Eat outside most of the time • Laundry is fully outsources • Watch movies and plays frequently as entertainment

CHAPTER 7

Estate Planning

Learning Outcomes:

- Describe the basic concept of real state planning
- Describe the legal concepts of estate planning
- Describe the estate planning instruments

INTRODUCTION

- Estate Planning is an important part of financial planning as it completes the process of financial planning to distribute the wealth of the client to his chosen beneficiaries.
- In Malaysia, though the Capital Markets and Services Act 2007 does not regulate the practice of will writing and trusts but the estate planning advice and plan writing forming part of a financial plan is a regulated activity under the Capital Markets and Services Act 2007.
- A well-designed estate plan can help clients to manage their wealth protection, preservation and distribution effectively to the intended beneficiaries to be used for its intended purposes.

WHAT IS ESTATE?

- The term "estate" consists of all the assets a person owns or controls, whether in his sole name, held in a partnership, in a joint ownership arrangement, or through a trust, and all other monies that would be generated on the person's death, such as through life insurance and Employees' Provident Fund.
- Upon the death of a person, his estate represents him as the legal entity. An estate consists of the following asset classes: Personal property Real property Intellectual property

EXAMPLE OF ESTATE?

- Savings account and current account in a commercial bank
- Tabung Haji, KWSP, Insurance, Takaful, ASB and other unit trusts
- House, land
- Shares (listed and non-listed, cooperative shares)
- Other asset under the name of the deceased

What is Estate Planning?

- Defined as a discipline that deals specifically with estate distribution.
- Estate planning is the preparation of tasks that serve to manage an individual's asset base in the event of their incapacitation or death.
- The planning includes the bequest of assets to heirs and the settlement of estate taxes.
- Most estate plans set up with the help of an attorney in estate law.

PURPOSE AND OBJECTIVE OF ESTATE PLANNING

Determine which heir to be entitled to receive the assets as beneficiaries for a Muslim or non-Muslim estate.

Provide an efficient manner to distribute assets to intended beneficiaries to prevent unnecessary delay.

Ensure a cost-effective method to pass assets to intended beneficiaries during the client's lifetime and/or upon his death.

Preserve family-owned assets to be enjoyed and used by family members only.

PLAYERS IN ESTATE PLANNING

- Financial Planner
- Lawyer
- Tax Advisor
- Trust Officer
- Insurance Consultant

THE IMPORTANCE OF ESTATE PLANNING

Those who have unsettled debts.

To make sure that before his estate is distributed, the legal heirs would know that there are debts that must be paid. It facilitates the legal heirs in identifying the creditors and the amount of debts which must be paid.

Those with no children or no sons

According to the *faraid* system, the property of a deceased who has no children would go to his father and mother or siblings. In estate planning, the wealth can go to the specific person he wishes to give.

Those who have young or adopted children

Planning could ensure the needs and interest of an adopted son/daughter are protected.

Those with dependent parents

Estate planning will ensure that parents who are financial dependent on an individual would be provided for after the death.

Those who live in non-Muslim countries

An individual who lives in a non-Muslim country must prepare a document of *wasiyyah* by stating that his property must be distributed according to the *faraid* system. Otherwise, his wealth would be distributed according to the laws of the country which may not recognize Islamic law.

The distribution of jointly- acquired properties

This would prevent any dispute in court in terms of claim on *harta sepencarian* (jointly-acquired property) which could disrupt the daily life of the claimants, especially in the case of a spouse.

STEP OF ESTATE PLANNING

Establishing and defining the relationship with the client

Gathering client's relevant data including goals

Developing and presenting recommendations and/or alternatives

Analyzing and evaluating the client's financial status

Implementing the planning recommendation

Monitoring and reviewing the plan

LAWS RELATED TO ESTATE

- Laws related to the estate of a Muslim (because the case study given for student task is Muslim) can be divided into the following stages:
- Planning stage
  - Muslim Wills (Selangor) Enactment 1999
  - Waqf (State of Selangor) Enactment 1999
  - Trustee Act 1949
- Implementation under the Civil Law
  - Probate and Administration Act 1959
  - Small Estate and Distribution Act 1955
  - The Rules of Court 2012
  - Public Trust Corporation Act 1995
- Implementation under the Shariah Law
  - Administration of Islamic Law (Selangor) Enactment 2003
  - Islamic Family Law (State of Selangor) Enactment 2003

TAX IMPLICATION ON ESTATE PLANNING

Individual (deceased) - All sources of income forming during the client's lifetime are taxed based on his personal tax rate considering the personal relief and rebates.

Executor/Administrator - Upon his death, the executor will have to obtain tax clearance from the Inland Revenue Board (IRB) whether there are any unpaid taxes during the lifetime of the testator.

Trustee - Income received is assessed on the chargeable income of the trust.

Stamp duty - This would be applicable for transfer of properties, shares and other assets, and also for the relevant legal documents requiring stamping.

ESTATE PLANNING INSTRUMENTS FOR NON-MUSLIM	
Will	The declaration of a person's wishes about the disposition of his assets on his death.
Trust- testamentary trust, declaration of trust and living trust	Creating specific form of trust under law such as the appointment of a person to administer the deceased's estate, including the way the estate is to be distributed.
Nomination	A nominee holds the owner's assets in trust after the latter's death.
Power of attorney	A legally binding document that allows clients to appoint someone to manage their property, medical, or financial affairs

ESTATE PLANNING INSTRUMENTS FOR MUSLIM	
Faraid	The prescribed portions of entitlement fixed by the *Shariah* to the various legal heirs
Islamic Will (*Wasiat*)	Islamic will writing is very similar to conventional will writing. A Will is a document that declares how a person wants his or her assets distributed after death, and who oversees administering the estate. A will may provide for a guardian of the testator's children.
Trust- testamentary trust and living trust (*Amanah Hayat*)	Creating specific form of trust under law such as the appointment of a person to administer the deceased's estate, including the way the estate is to be distributed.
Wakaf	Detention of a thing in the implied ownership of Almighty God, in such a way that its profits may be applied for the benefit of human beings.
Sadaqah	Worshipping Allah by giving money without that being made obligatory in *Shariah*.
Hibah	A voluntary contract that results in uncompensated ownership transfer between living individuals.
Harta sepencarian	It is as property jointly-acquired by the husband and wife during the subsistence of their marriage in accordance with the conditions stipulated by *Shariah*.

TYPES OF TRUST	
Express trust	Express trust arise from the express intention of the Settlor. Express intention means oral or written declaration of such intention.
Discretionary trust	Discretionary trust are trusts where the property is conveyed to trustees to be held by them on trust to apply the income or the capital or both for the benefit of the members of a class of beneficiaries in such proportions as the trustee shall, in their absolute discretion, think fit.
Life insurance trust	Life insurance trust is created under section 166 of the Insurance Act which stipulates that the nomination under section 166 shall not be revoked by a will or any other act. Life insurance trust is protected from creditors and it forms as a statutory trust.
Statutory trust	Statutory trust is a trust created under the statute. For example, under the Trustee Act 1949 and the Distribution Act under 1958.

Parties in writing a

WILL

A will is a document that declares how a person wants his or her assets distributed after death, and who oversees administering the estate. A will may provide for a guardian of the testator's children.

- Attorney
- Professional will writing company
- Amanah Raya

FARAID

- Faraid – plural form of the word "*faridhah*" means something that is obligatory.
- The prescribed portions of entitlement fixed by the *Shariah* to the various legal heirs.
- Islamic law of inheritance:
    - A system to distribute an estate that is devised by Allah. The system gives importance to immediate family and blood ties. It supports the family nucleus as an important component of a civil society.

THE BASIC RULES OF THE APPLICATION OF FARAID

CONDITIONS OF SUCCESSION

- Death of a Person
    - Proof of death
    - Missing person : Civil Court Order
    - Statutory declaration
- The survival of Legal Heirs
    - Survive the deceased at the point of death
    - Includes the right of foetus
- Not excluded from inheritance (by exclusion –son exclude consanguine brother or impediment- different religion)

CAUSES OF INHERITANCE

- Marriage
    - Husband and wives
    - Polygamy- each wives will get equal share
    - Case of *iddah*
- Kinship/Blood Relationship
    - Not an automatic right to inherit –but subject to the principle of exclusion
- Public Treasury (*Bait al-mal*)
    - Any residue of estate and it is nor capable of being exhausted- bait mal will have share

IMPEDIMENTS TO INHERITANCE

- Homicide
    - Killing of person with the intention to inherit the estate
    - Legal heirs convicted – right of entitlement denied
- Difference of religion
    - A Christian mother cannot inherit the properties of her deceased Muslim son
    - How to inherit ? Through Will up to maximum 1/3 of estate

CLASSIFICATION OF HEIRS

- **ASHABUL FURUDH (Quranic Heirs)**
  1. husband
  2. wife
  3. father
  4. mother
  5. grandfather
  6. grandmother
  7. daughter
  8. son's daughter
  9. germane sister (same parents)
  10. consanguine sister (same father)
  11. uterine sister (same mother)
  12. uterine brother (same mother)
- **ASABAH (Residuary Heirs)**
  - **MALE**
    - **ASABAH BINAFSIHI**
      1. Son
      2. Father
      3. Brother
      4. Uncle
  - **FEMALE**
    - **ASABAH BIL GHAIR**
      - -daughter with son
      - -son's daughter with son's son
      - -full sister with full brother
      - -consanguine sister with consanguine brother
    - **ASABAH MA'A AL GHAIR**
      - full sister(s) together with either daughter(s) or son's daughter
      - consanguine sister(s) with either daughter(s) or son's daughter(s)

Quranic Heirs (*Ashab al-Furud*)

MAIN INHERITORS

Husband, Wife, Father, Mother, Grandfather, Grandmother, Daughter, Son's daughter, Germane sister (same parents), Consanguine sister (same father), Uterine sister (same mother), Uterine brother (same mother)

CLASSIFICATION OF ASHAB AL-FURUD

- **Primary Heirs :** Those always entitled to inheritance. Thay are never excluded from inheritance, though their share may be reduced in certain situations.
- They are as follows:
  - Father – 1/6 or 1/6+ residue
  - Mother – 1/6 or 1/3
  - Husband – ¼ or ½
  - Wife – 1/8 or ¼
  - Son – 2:1 or residue
  - Daughter – ½ or 2/3 or 1:2

- **Substitute Heirs:** Generally, they are excluded by the primary heirs – if the primary heirs exist though subject to exception.
  - Grandfather- same as father
  - Grandmother-same as mother
  - Son's daughter-same as daughter
  - Son's son-same as son

- **Secondary Heirs :** The secondary heirs are made up of the brother and sister of the deceased. Their shares maybe excluded or reduced depending on the circumstances.
  - Brother of the deceased : 2:1 or residue
  - Sister of the deceased : 1:2 or ½ or 2/3

TABLE FARAID DISTRIBUTION

No.	Legal Heirs	Condition	Entitlement	Condition	Entitlement	Condition	Entitlement
1.	Father	The deceased has children	1/6	The deceased has no children	1/6 + residue		
2.	Mother	The deceased has children or the deceased has no children and more than 1 germane sister	1/6	The deceased has no children and only 1 germane sister	1/3		
3.	Husband	The deceased has children	1/4	The deceased has no children	1/2		
4.	Wife	The deceased has children	1/8	The deceased has no children	1/4		
5.	Son	Sons only	residue	Inherit with daughter	1/3	Inherit with son	1/3
6.	Daughter	Only child	1/2	More than 1 daughters	2/3		
7.	Uterine brother and sister	In the absence of father, brother, sister and child of the deceased are the only legal heir	1/6	In the absence of father, brother, sister and child of the deceased and consist of 2 or more	1/3		

RESPONSIBILITIES BEFORE DISTRIBUTION

Settlement of the deceased burial expenses	Payment of debts including income tax (credit cards, car loan, personal loan etc)	Payment of *zakat*, unfulfilled *hajj*, *nadhar* (vows) and *kiffarah* (atonement).
Claims against the estate including harta sepencarian, hibah and trust.	Legacy bequest (*Wasiyyah*)	Faraid Distribution

Matrimonial assets
(Harta Sepencarian)

- It is the jointly-acquired property of the husband and wife.
- Section 2 of the Islamic Family Law (Federal Territory) Act 1984 defines it as property jointly-acquired by the husband and wife during the subsistence of their marriage in accordance with the conditions stipulated by *Shariah* ruling.
- In other words, it is wealth acquired by the joint efforts if the husband and wife during their marriage.
- In relation to inheritance, prior to the distribution of estate according to *faraid*, the living spouse can claim his/her right for *harta sepencarian*, as it constitutes part of the debts of the deceased.
- Therefore, the living spouse might have two entitlements, namely, entitlement to *harta sepencarian* and the entitlement under *faraid*.
- Assets not deemed as *harta sepencarian* are as follows:
  - Gift received by way if inheritance
  - Gift received by way of hibah before and during marriage.

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