

## PERSONAL TAX PLANNING & TAX SAVING SCHEMES

TAX PLANNING IS A VERY PROBLEM STAKING ISSUE FOR AN EMPLOYEE.

AS A PERSON DRAWS SALARY, HE IS ALLOWED TAX EXEMPTIONS UPTO CERTAIN LIMIT.

AFTER THAT HIS SALARY IS SUBJECT TO TAX TREATMENT UNDER INCOME TAX RULES.

WE HAD ALREADY UPLOADED A TAX CALCULATOR WHICH COVER ALMOST WHOLE OF THIS CHAPTER IN EASIEST WAY. U CAN DOWNLOAD IT FROM OUR WEBSITE

<http://www.employeesforum.in/>

WE WILL TRY TO SOLVE THESE PROBLEMS IN EASIEST WAY WITH THE HELP OF READY TO USE CALCULATORS.

### INCOME AND ITS TYPES

UNDER THIS HEAD, 5 TYPES OF INCOME ARE FOUND. IF TOTAL OF ALL 5 TYPES OF INCOME EXCEEDS BASIC EXEMPTION LIMIT, THEN THAT INCOME COMES UNDER TAX TREATMENT.

- **SALARY** - INCOME WHICH ARISES OUT OF AN EMPLOYEE – EMPLOYER RELATIONSHIP;
- **HOUSE/PROPERTY INCOME** - INCOME FROM LETTING OUT OF HOUSE/ COMMERCIAL PROPERTY;
- **BUSINESS/PROFESSION INCOME** – PROFITS/GAINS ARISING OUT OF BUSINESS / PROFESSIONAL WORK;
- **CAPITAL GAINS** – PROFITS/GAINS ON SALE OF ASSETS;
- **OTHER SOURCES (NOT COVERED ABOVE)** – ANY OTHER INCOME NOT COVERED UNDER ABOVE HEADS (OF INCOME).

### SALARY

THERE ARE 2 TYPES OF SALARIES

#### 1. **FIXED SALARY:**

IT COMMONLY CONSISTS OF:

- **BASIC SALARY**: THE ACTUAL PAY YOU RECEIVE FOR RENDERING SERVICES. THIS IS A TAXABLE AMOUNT.
- **DEARNESS ALLOWANCE**: A TAXABLE AMOUNT, THIS IS PAID TO COMPENSATE FOR THE RISING COST OF LIVING.
- **HOUSE RENT ALLOWANCE (OR HRA)**: PAID TO MEET EXPENSES OF RENTING A HOUSE.
- **CONVEYANCE ALLOWANCE**: PAID FOR DAILY COMMUTE EXPENSES. UP TO AN AMOUNT OF RS 800 PER MONTH IS EXEMPT FROM TAX.

AN EMPLOYEE WORKING IN GOVT. OFFICES GET THIS SALARY. WHILE AN EMPLOYEES WORKING IN A COMPANY GETS CTC SALARY OF WHICH FIXED SALARY IS A PART.

OTHER PARTS OF CTC ARE:

2. **REIMBURSEMENTS** - THIS IS THE PORTION OF YOUR CTC, PAID AS REIMBURSEMENTS THROUGH BILLED CLAIMS.

**MEAL COUPONS:**

MANY COMPANIES PROVIDE THEIR EMPLOYEES WITH SUBSIDIZED MEAL COUPONS IN THEIR CAFETERIAS. SUCH COSTS INCURRED BY COMPANIES IN THE FORM OF SUBSIDIES ARE INCLUDED IN THE CTC. MEAL COUPONS ARE TAX EXEMPT PROVIDED IT IS NOT IN THE FORM OF CASH.

**MOBILE/TELEPHONE BILLS:**

TELEPHONE OR MOBILE EXPENDITURE UP TO A CERTAIN LIMIT IS REIMBURSED BY MANY COMPANIES THROUGH A BILLED CLAIM, AND IS A TAXABLE AMOUNT.

**MEDICAL REIMBURSEMENTS:**

PAID EITHER MONTHLY OR YEARLY, FOR MEDICINES AND MEDICAL TREATMENT. THE ENTIRE AMOUNT IS TAXABLE. HOWEVER, UP TO RS 15,000 COULD BE TAX EXEMPT, IF BILLS ARE PRODUCED.

3) **RETIREMENT BENEFITS** - THIS IS AVAILABLE TO YOU ONLY ON RETIREMENT OR RESIGNATION.

**PROVIDENT FUND:**

EMPLOYERS CONTRIBUTE AN EQUAL 12% TO THE PROVIDENT FUND ACCOUNT. THIS EMPLOYER'S CONTRIBUTION THOUGH RECEIVED ONLY ON RETIREMENT OR RESIGNATION, IS AN EXPENSE INCURRED BY THE COMPANY EVERY MONTH AND THUS IS INCLUDED IN THE CTC.

**GRATUITY:**

COMPANIES MANAGE GRATUITY THROUGH A FUND MAINTAINED BY AN INSURANCE COMPANY. THE PAYMENT TOWARDS THE GRATUITY ANNUALLY IS SOMETIMES SHOWN IN CTC.

4) **OTHER BENEFITS AND PERKS**

**LEAVE TRAVEL ALLOWANCE:** IT IS THE COST OF TRAVEL ANYWHERE IN INDIA FOR EMPLOYEES ON LEAVE. TAX EXEMPTION IF ALLOWED TWICE IN A BLOCK OF FOUR CALENDAR YEARS.

**MEDICAL ALLOWANCE:** SOME COMPANIES OFFER MEDICAL CARE THROUGH HEALTH FACILITIES FOR EMPLOYEES AND THEIR FAMILIES. THE COST OF PROVIDING THIS BENEFIT TO THE EMPLOYEE COULD ALSO FORM PART OF CTC.

**CONTRIBUTION TO INSURANCE AND PENSION:** PREMIUMS PAID BY COMPANIES ON BEHALF OF EMPLOYEES FOR HEALTH, LIFE INSURANCE AND EMPLOYEES PENSION SCHEME, COULD FORM A PART OF THE CTC.

**MISCELLANEOUS BENEFITS:** OTHER PERKS WHICH COMPANIES INCLUDE UNDER CTC COULD BE ELECTRICITY, SERVANT, FURNISHINGS, CREDIT CARDS AND HOUSING.

5) **BONUS:** THIS IS THE BENEFIT PAID ON SATISFACTORY WORK PERFORMANCE FOR EMPLOYEE MOTIVATION. THOUGH THIS AMOUNT IS NOT ASSURED TO THE EMPLOYEE,

MOST COMPANIES INCLUDE THE MAXIMUM AMOUNT THAT CAN BE PAID AS BONUS, TO THE CTC. THE TWO TYPES OF BONUSES THAT ARE NORMALLY PAID OUT ARE:

(A) **FIXED ANNUAL BONUS**: PAID ON THE BASIS OF EMPLOYEE PERFORMANCE, EITHER MONTHLY OR IN MOST CASES ANNUALLY, IT IS A FULLY TAXABLE AMOUNT.

(B) **PRODUCTIVITY LINKED VARIABLE BONUS**: COMPLETE BONUS AMOUNT IS PAID ONLY ON 100% ACHIEVEMENT OF TARGET, NEVERTHELESS IT STILL IS INCLUDED AS PART OF YOUR CTC.

### **HOUSE PROPERTY INCOME**

ANY INCOME FROM PROPERTY (RESIDENTIAL OR COMMERCIAL) OWNED OR TAKEN ON LEASE IS CALLED AS INCOME FROM HOUSE PROPERTY. THE OWNER OF SUCH A HOUSE PROPERTY HAS TO INCLUDE IT IN TOTAL INCOME EVERY YEAR (UNDER THIS HEAD), EXCEPT IF THE PROPERTY IS USED BY HIM FOR HIS OWN BUSINESS.

### **COMPUTATION OF INCOME FROM HOUSE PROPERTY**

STEP-1: CALCULATE 'GROSS ANNUAL VALUE' OF HOUSE PROPERTY –  
GAV (OR GROSS ANNUAL VALUE OF PROPERTY) IS HIGHER OF THE BELOW 2 -

(A) **EXPECTED RENT PER YEAR/EXPECTED RENT** IS HIGHER OF BELOW 2, BUT LIMITED TO STANDARD RENT –

- ANNUAL MUNICIPAL VALUE OF THE PROPERTY
- FAIR RENTAL VALUE OF THE PROPERTY

(B) **ACTUAL RENT** RECEIVED DURING THE FINANCIAL YEAR

STEP-2: 'GAV' LESS 'MUNICIPAL TAXES' PAID BY THE OWNER OF PROPERTY; THE RESULTING AMOUNT IS CALLED NAV (OR NET ANNUAL VALUE OF PROPERTY);

STEP-3: 'NAV' LESS DEDUCTIONS UNDER SECTION 24, WHICH ARE –

1. STANDARD DEDUCTION OF 30% OF NAV
2. INTEREST REPAID ON HOME LOAN
  - CURRENT YEAR INTEREST
  - INTEREST FOR PRE-CONSTRUCTION PERIOD.

**BUSINESS/PROFESSION INCOME** – PROFITS/GAINS ARISING OUT OF BUSINESS/PROFESSIONAL WORK

THERE ARE CERTAIN BASIC RULES THAT APPLY WHEN YOU ARE ASSESSING YOUR TAXABLE INCOME FROM EITHER OF THESE 2 HEADS, THESE ARE AS FOLLOWS:

- BUSINESS OR PROFESSION SHOULD BE CARRIED ON BY YOU I.E. THE ASSESSEE. IT IS NOT THE OWNERSHIP OF BUSINESS WHICH IS IMPORTANT, BUT IT IS THE PERSON CARRYING ON A BUSINESS OR PROFESSION, WHO IS CHARGEABLE TO TAX. FOR EXAMPLE, YOU MAY BE DRAWING A SALARY FROM THE BUSINESS, EVEN IF YOU ARE NOT THE OWNER OF THE BUSINESS. THIS WOULD COUNT AS INCOME FROM BUSINESS, AND WOULD BECOME TAXABLE.

- INCOME FROM BUSINESS OR PROFESSION IS CHARGEABLE TO TAX UNDER THIS HEAD ONLY IF THE BUSINESS OR PROFESSION IS CARRIED ON BY THE ASSESSEE AT ANY TIME DURING THE PREVIOUS YEAR. THIS INCOME IS TAXABLE DURING THE FOLLOWING ASSESSMENT YEAR.

**CAPITAL GAINS** – PROFITS/GAINS ON SALE OF ASSETS LIKE ANCESTRAL HOUSE, SHARES, MUTUAL FUNDS THAT ARE NOT COVERED UNDER TAX SAVING SCHEMES.

IN ALL THESE 2 TYPES CAPITAL GAINS ARE CALCULATED

- **LONG TERM CAPITAL GAIN**: IT IS EXEMPTED FOR SHARES & MUTUAL FUNDS.
- **SHORT TERM CAPITAL GAINS** : IT IS CALCULATED IN 2 WAYS
  1. IT IS 10% OF PROFIT IF WITHOUT INDEXATION.
  2. IT IS 20% OF PROFIT IF WITH INDEXATION.

**OTHER SOURCES (NOT COVERED ABOVE)** –

ANY OTHER INCOME NOT COVERED UNDER ABOVE HEADS (OF INCOME).

- INCOME FROM DIVIDEND DECLARED ON SHARES/MUTUAL FUNDS
- INTEREST INCOME
- INCOME FROM WINNING LOTTERIES/PUZZLES ETC.
- INCOME FROM REARING RACE HORSES.
- ANY OTHER INCOME NOT COVERED.

ALL TYPES OF INCOME COVERED UNDER ABOVE 5 HEADS AGGREGATE TO GROSS TOTAL INCOME FOR TAXATION PURPOSES.

### **INCOME TAX EXEMPTIONS**

LIST OF INCOMES EXEMPTED FROM TAX:

#### **1. INCOME FROM SALARY.**

- **HOUSE RENT ALLOWANCE (HRA)** – EXEMPTED UP TO A CERTAIN LIMIT.
- **ENTERTAINMENT ALLOWANCE** – EXEMPTION AVAILABLE ONLY FOR GOVERNMENT EMPLOYEES
- **CHILDREN'S EDUCATION ALLOWANCES** RS.100 PER MONTH PER CHILD UP TO MAXIMUM OF TWO CHILD IS EXEMPTED IF EXPENSES MADE IN INDIA
- **CHILDREN'S HOSTEL ALLOWANCE**: RS 300 PER MONTH PER CHILD UP TO MAXIMUM OF TWO CHILD IS EXEMPTED IF EXPENSES MADE IN INDIA
- **TRANSPORT ALLOWANCE** MEANS ALLOWANCE TO MEET EXPENSES INCURRED FOR OFFICE TO HOME AND HOME TO OFFICE IS EXEMPTED UP TO 800 PER MONTH MAXIMUM.
- **ALLOWANCES TO SUPREME COURT/HIGH COURT JUDGES** :NOT TAXABLE.
- **SERVANT/HELPER ALLOWANCE** :TAXABLE ,IF HELPER USED FOR OFFICIAL PURPOSE THEN EXEMPTED..

- **ALLOWANCE GRANTED TO EMPLOYEE WORKING IN TRANSPORT SYSTEM** WHERE NO DAILY ALLOWANCE HAS NOT BEEN ALLOWED TO MEET DAILY EXPENSES ,DONE TO MEET HIS PERSONAL EXPENSES DURING DUTY PERFORMANCE FROM ONE PLACE TO OTHER PLACE :70 % OF SUCH ALLOWABLE EXEMPTED MAXIMUM UP TO 6000 PER MONTH
- **CONVEYANCE ALLOWANCE**:TO MEET THE EXPENDITURE ON CONVEYANCE IN PERFORMANCE OF DUTIES OF AN OFFICIAL NATURE:EXEMPTED TO EXTENT ALLOWANCE USED FOR SAID PURPOSE
- **MEDICAL REIMBURSEMENT**; HERE FIXED MEDICAL ALLOWANCE IS NOT EXEMPTED.
- **UNIFORM ALLOWANCE** : EXEMPTED TO THE EXTENT USED FOR THE SAID PURPOSE
- **FOREIGN ALLOWANCE** :EXEMPT FROM TAX IF PAID OUTSIDE INDIA BY THE GOVERNMENT TO THE INDIAN CITIZEN FOR RENDERING SERVICES OUTSIDE INDIA
- **ALLOWANCE TO MEET THE COST OF TRAVEL ON TOUR OR ON TRANSFER** (INCLUDING AMOUNT PAID FOR PACKING AND TRANSPORTATION OF PERSONAL EFFECTS ON SUCH TRANSFER):EXEMPTED TO THE EXTENT ALLOWANCES USED FOR SAID PURPOSE.
- **ALLOWANCE (KNOW AS DA IN TA BILL)** PAID TO MEET THE ORDINARY DAILY CHARGES ON ACCOUNT OF ABSENCE FROM HIS NORMAL PLACE OF DUTY) : EXEMPTED TO THE EXTENT ALLOWANCE USED FOR THE SAID PURPOSE
- **ACADEMIC ALLOWANCE** GRANTED FOR ENCOURAGING THE ACADEMIC ,RESEARCH AND OTHER PROFESSIONAL PURSUITS:EXEMPTED TO THE EXTENT USED FOR SAID PURPOSE
- **MANY HILLY AREA,REMOTE AREA,FIELD ALLOWANCES** ARE EXEMPTED ON VARIOUS RATE

## 2. INCOME FROM HOUSE PROPERTY:

- MUNICIPAL TAXES - ACTUALLY PAID BY THE OWNER DURING THE RELEVANT FINANCIAL YEAR ONLY
- STANDARD DEDUCTION OF 30% OF NET ASSET VALUE (NAV)
- INTEREST PAID TOWARDS PAYMENT/BORROWED HOME LOAN – SUBJECT TO CERTAIN CONDITIONS

## 3. CAPITAL GAINS:

- SHORT-TERM CAPITAL GAINS ARISING OUT OF SALE OF PHYSICAL ASSETS [WITHIN 3 YEARS OF PURCHASE] ARE EXEMPTED (TO A CERTAIN EXTENT) UNDER SECTION 54 AND 54B.
- LONG-TERM CAPITAL GAINS ARISING OUT OF SALE OF PHYSICAL ASSETS [AFTER 3 YEARS OF PURCHASE] ARE EXEMPTED (TO A CERTAIN EXTENT) UNDER SECTION 54, 54B, 54EC AND 54F.
- LONG TERM CAPITAL GAIN: IT IS EXEMPTED FOR SHARES & MUTUAL FUNDS.
- SHORT TERM CAPITAL GAINS : IT IS CALCULATED IN 2 WAYS FOR SHARES & MUTUAL FUNDS

(a) IT IS 10% OF PROFIT IF WITHOUT INDEXATION.

(b) IT IS 20% OF PROFIT IF WITH INDEXATION

#### **4. INCOME FROM OTHER SOURCES:**

- FAMILY PENSION (RECEIVED BY THE LEGAL HEIRS OF A DECEASED PERSON) – IS EXEMPTED TO AN EXTENT.
- DIVIDENDS RECEIVED BY WAY OF INVESTMENT IN MUTUAL FUND SCHEMES IS FULLY TAX EXEMPTED

**THE ABOVE INCOME EARNED BY THE EMPLOYEE IS EXEMPTED UP TO A CERTAIN EXTENT AND THE BALANCE IS INCLUDED IN HIS/HER TAXABLE INCOME FOR INCOME TAX COMPUTATION.**

#### **DEDUCTIONS ALLOWED**

THOUGH NOT TAXING AS IT MAY ALWAYS SEEM, THE IT ACT HAS PROVIDED CERTAIN SECTIONS FOR US TO MAKE USE OF IN ORDER TO LOWER DOWN OUR TAXABLE INCOME IF NOT TO ZERO

#### **LIST OF INCOME TAX DEDUCTIONS –**

- **SEC 80C** - MAXIMUM BENEFIT OF RS 1 LAKH P.A. AVAILABLE THROUGH VARIOUS OPTIONS;
- **SEC 80CCC** - INVESTMENT IN PENSION FUNDS AND PENSION PLANS;
- **SEC 80CCF** – INVESTMENT IN TAX SAVING LONG-TERM INFRASTRUCTURE BONDS; MAX. BENEFIT AVAILABLE IS RS. 20000/- P.A.
- **SEC 80CCD** - CONTRIBUTION TO GOVERNMENT PENSION SCHEME (ONLY FOR GOVERNMENT EMPLOYEES);
- **SEC 80D** – PAYMENT OF MEDICAL INSURANCE PREMIUM PAID FOR POLICY TAKEN IN THE NAME OF SELF, SPOUSE (DEPENDENT OR NOT), DEPENDENT CHILDREN AND DEPENDENT PARENTS;
- **SEC 80DD** - DEDUCTION WITH RESPECT TO TREATMENT OF A DISABLED DEPENDENT;
- **SEC 80DDb** - DEDUCTION WITH RESPECT TO MEDICAL TREATMENT OF SPECIFIED DISEASES AND AILMENTS (MENTIONED UNDER RULE 3A) OF SELF, DEPENDENT – SPOUSE, CHILDREN, PARENTS, BROTHERS AND SISTERS;
- **SEC 80E** - INTEREST PAID ON LOAN TAKEN FOR HIGHER EDUCATION (ALL THE STUDIES AFTER CLASS 12 - EITHER VOCATIONAL OR FULLTIME BUT SHOULD BE FROM SCHOOL /INSTITUTE / UNIVERSITY RECOGNIZED BY THE GOVERNMENT.) BY THE INDIVIDUAL;
- **SEC 80G** - DONATIONS MADE – SUBJECT TO CONDITIONS
- **SEC 80GG** - DEDUCTION WITH RESPECT TO THE RENT PAID BY ASSESSEE IF HE (OR HIS SPOUSE OR CHILDREN) DOES NOT OWN ANY RESIDENTIAL PROPERTY AND ALSO NOT IN RECEIPT OF HRA AND RFA;

- **SEC 80U** - DEDUCTION AVAILABLE TO DISABLED PERSONS.

### **LIST OF INSTRUMENTS FOR GETTING DEDUCTIONS U/S 80C**

**FIXED INCOME INSTRUMENTS**, WHICH OFFER FIXED RETURNS, ARE SUITABLE FOR RISK AVERSE INVESTORS WHO WANT TO PROTECT THEIR INVESTMENT FROM THE UNCERTAINTIES OF THE MARKET. ALL THESE INSTRUMENTS ARE BACKED BY THE GOVERNMENT AND HENCE THEY ARE RISK FREE. BUT THE RETURNS MAY JUST BEAT THE INFLATION AND YOU SHOULD NOT EXPECT ANY MEANINGFUL APPRECIATION IN INVESTMENTS. PER ANNUM RETURNS WILL VARY FROM 6% TO 10% DEPENDING UPON THE INSTRUMENT YOU CHOOSE.

### **PROVIDENT FUND (PF)**

THE PAYMENTS THAT YOU MAKE TO YOUR PF ARE COUNTED TOWARDS SEC 80C INVESTMENTS. FOR MOST OF YOU WHO ARE SALARIED, THIS AMOUNT GETS AUTOMATICALLY DEDUCTED FROM YOUR SALARY EVERY MONTH. THUS, IT'S NOT JUST COMPULSORY SAVINGS FOR YOUR FUTURE, BUT ALSO IMMEDIATE TAX SAVINGS!

### **VOLUNTARY PROVIDENT FUND (VPF)**

IF YOU INCREASE YOUR PF CONTRIBUTION OVER AND ABOVE THE STATUTORY LIMIT (AS DEDUCTED COMPULSORILY BY YOUR EMPLOYER), EVEN THIS AMOUNT QUALIFIES FOR DEDUCTION UNDER SECTION 80C.

### **PUBLIC PROVIDENT FUND (PPF)**

AMONG ALL THE ASSURED RETURNS SMALL SAVING SCHEMES, PUBLIC PROVIDENT FUND (PPF) IS ONE OF THE BEST. CURRENT RATE OF INTEREST IS 8.6 % TAX-FREE AND THE NORMAL MATURITY PERIOD IS 15 YEARS. THE MINIMUM AND MAXIMUM ALLOWED INVESTMENTS IN PPF ARE RS. 500 AND RS. 100,000 PER YEAR RESPECTIVELY.

### **NATIONAL SAVINGS CERTIFICATE (NSC):**

NATIONAL SAVINGS CERTIFICATE (NSC) IS A 6-YR SMALL SAVINGS INSTRUMENT ELIGIBLE FOR SECTION 80C TAX BENEFIT. RATE OF INTEREST IS EIGHT PER CENT COMPOUNDED HALF-YEARLY, I.E., THE EFFECTIVE ANNUAL RATE OF INTEREST IS 8.16%. IF YOU INVEST RS 1,000, IT BECOMES RS 1601 AFTER SIX YEARS. THE INTEREST ACCRUED EVERY YEAR IS LIABLE TO TAX (I.E., TO BE INCLUDED IN YOUR TAXABLE INCOME) BUT THE INTEREST IS ALSO DEEMED TO BE REINVESTED AND THUS ELIGIBLE FOR SECTION 80C DEDUCTION.

### **5-YR BANK FIXED DEPOSITS (FDS):**

TAX-SAVING FIXED DEPOSITS (FDS) OF SCHEDULED BANKS WITH TENURE OF 5 YEARS ARE ALSO ENTITLED FOR SECTION 80C DEDUCTION.



### SENIOR CITIZEN SAVINGS SCHEME 2004 (SCSS):

A RECENT ADDITION TO SECTION 80C LIST, SENIOR CITIZEN SAVINGS SCHEME (SCSS) IS THE MOST LUCRATIVE SCHEME AMONG ALL THE SMALL SAVINGS SCHEMES BUT IS MEANT ONLY FOR SENIOR CITIZENS. CURRENT RATE OF INTEREST IS 9% PER ANNUM PAYABLE QUARTERLY. PLEASE NOTE THAT THE INTEREST IS PAYABLE QUARTERLY INSTEAD OF COMPOUNDED QUARTERLY. THUS, UNCLAIMED INTEREST ON THESE DEPOSITS WON'T EARN ANY FURTHER INTEREST. INTEREST INCOME IS CHARGEABLE TO TAX.

### 5-YR POST OFFICE TIME DEPOSIT (POTD) SCHEME:

POTDS ARE SIMILAR TO BANK FIXED DEPOSITS. ALTHOUGH AVAILABLE FOR VARYING TIME DURATION LIKE ONE YEAR, TWO YEAR, THREE YEAR AND FIVE YEAR, ONLY 5-YR POST-OFFICE TIME DEPOSIT (POTD) – WHICH CURRENTLY OFFERS 7.5 PER CENT RATE OF INTEREST –QUALIFIES FOR TAX SAVING UNDER SECTION 80C. EFFECTIVE RATE WORKS OUT TO BE 7.71% PER ANNUM (P.A.) **AS THE RATE OF INTEREST IS COMPOUNDED QUARTERLY BUT PAID ANNUALLY. THE INTEREST IS ENTIRELY TAXABLE.**

### MARKET LINKED:

MARKET LINKED PRODUCTS ARE **ELSS (EQUITY LINKED SAVING SCHEME) AND ULIPS (UNIT LINKED INSURANCE PLAN)**. THESE INSTRUMENTS INVEST THE MONEY IN EQUITIES (EXCEPT SOME DEBT BASED ULIPS) AND HENCE THERE IS AN INHERENT MARKET RISK. HOWEVER IT HAS BEEN SEEN THAT OVER A LONG PERIOD RETURN FROM EQUITIES BEAT INFLATION BY A COMFORTABLE MARGIN AND CREATE WEALTH FOR THE INVESTOR.

ELSS IS SIMILAR TO MUTUAL FUND EXCEPT THAT IT HAS A LOCK IN PERIOD OF 3 YEARS. THE MONEY IS INVESTED INTO DIVERSIFIED STOCKS BY A FUND MANAGER/AMC. ON THE OTHER HAND ULIPS ARE A FORM OF LIFE INSURANCE WHERE A PART OF THE PREMIA IS INVESTED INTO EQUITY OR DEBT MARKET (OR COMBINATION OF TWO). ULIPS USUALLY HAVE LONGER LOCK-IN PERIODS.

### ELSS:

ELSS HAS SOME ADVANTAGES OVER OTHER INVESTMENTS AND PEOPLE WITH MODERATE TO HIGH RISK APPETITE SHOULD CONSIDER THEM SERIOUSLY. SOME KEY FEATURES OF ELSS ARE:

- LOCK-IN PERIOD OF 3 YEARS.
- SIP (SYSTEMATIC INVESTMENT PLANNING) AVAILABLE
- DIVERSIFIED EQUITY INVESTMENTS
- DIFFERENT FUNDS FOR DIFFERENT RISK PROFILES IN TERMS OF EXPOSURE TO LARGE CAP, MID CAP AND SMALL CAP



- DIVIDEND PAID OUT IS TAX EXEMPT
- AT MATURITY THE PROCEEDS ARE EXEMPT FROM LONG TERM CAPITAL GAINS TAX

### **OTHER SCHEMES**

#### **HOME LOAN PRINCIPAL REPAYMENT:**

THE EQUATED MONTHLY INSTALLMENT (EMI) THAT YOU PAY EVERY MONTH TO REPAY YOUR HOME LOAN CONSISTS OF TWO COMPONENTS – PRINCIPAL AND INTEREST. THE PRINCIPAL COMPONENT OF THE EMI QUALIFIES FOR DEDUCTION UNDER SEC 80C. EVEN THE INTEREST COMPONENT CAN SAVE YOU SIGNIFICANT INCOME TAX – BUT THAT WOULD BE UNDER SECTION 24 OF THE INCOME TAX ACT. PLEASE READ “INCOME TAX (IT) BENEFITS OF A HOME LOAN / HOUSING LOAN / MORTGAGE”, WHICH PRESENTS A FULL ANALYSIS OF HOW YOU CAN SAVE INCOME TAX THROUGH A HOME LOAN.

#### **STAMP DUTY AND REGISTRATION CHARGES FOR A HOME:**

THE AMOUNT YOU PAY AS STAMP DUTY WHEN YOU BUY A HOUSE, AND THE AMOUNT YOU PAY FOR THE REGISTRATION OF THE DOCUMENTS OF THE HOUSE CAN BE CLAIMED AS DEDUCTION UNDER SECTION 80C IN THE YEAR OF PURCHASE OF THE HOUSE.

#### **CHILDREN TUTION FEE MAX. UPTO 2 CHILDREN**

#### **CONTRIBUTION TO NEW PENSION SYSTEM**