Outlook

MONEY

SMART WAYS TO SAVE TAXES

An investor education initiative by Invesco Mutual Fund

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Contents

Saving Taxes 2

Long term savings schemes 4

Mutual fund way to tax savings 8

ELSS benefit 11

Easy and straightforward 12

How they stack up 13

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SAVING TAXES

Paying tax is an obligation we all have to fulfill and it is important that we are aware of all the avenues that can help us save tax and at the same time build wealth over time. There are multiple investment avenues available these days that automatically take care of your tax liabilities and at the same time secure your life and health. These tax savers cover a wide ambit, from the tuition fee you pay for your children's school to the preventive health checkup you go for. Most of us wait till the year end to hastily plan our tax savers but it should rather be a year-round affair. Just like your Provident Fund (PF) gets deducted every month from salary, your tax planning too should move regularly. Remember, investing too is a form of saving. National Pension System (NPS), home loan, pension funds, insurance, ELSS, etc, are all investments that secure your future. By taking up a good health and life policy, the gain is not just in terms of taxes; your dependents have it easy even when you are not around. Read on to find out how some simple decisions can have a far reaching impact.

Spreading the Section 80C benefits with ₹1.5 lakh limit

- EPF
- PPF
- NSC
- NPS
- Ulips
- LTA
- Children's tuition fee
- Medical expenses
- Insurance premiums
- 5-year tax saving FD
- Equity-linked savings scheme
- Senior citizen's saving scheme
- Sukanya Samriddhi Yojana
- Home loan principal repayment

OTHER TAX SAVERS

Income Tax Section	What can you do?	Maximum Investment
Section 80CCC	Claim tax deductions on contributions to annuity plans from insurers	**₹1.5** lakh in conjunction with Section 80C benefit in a financial year
Section 80D*	Purchase medical insurance policies for self, family and parents	Self and family: **₹25,000** Senior citizen: **₹30,000** Self and family + parents: **₹50,000** Self and family + senior citizen parents: **₹55,000**
Section 80CCD	Contribute to the National Pension System (NPS)	Employee and/or employer contribution up to 10% of basic salary and DA** is eligible up to **₹1.5** lakh for tax deduction in conjunction with Section 80C benefits under Section 80CCD(1&2) as applicable. Additional exemption up to **₹50,000** in NPS is eligible for income tax deduction outside the Section 80C limit and can be claimed as a deduction under Section 80CCE
Section 80CCG	Rajiv Gandhi Equity Savings Scheme (RGESS)	Deduction available on 50% of the sum invested or **₹25,000**, whichever is less. Deductions can be claimed for 3 successive years, over and above the Section 80C limit subject to complying with other requirements.

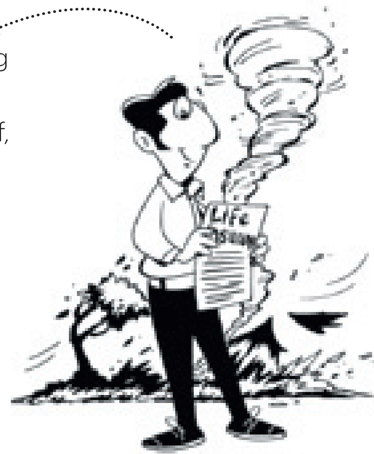
*Additional deduction of ₹5,000 on expenses related to health check-up. ** Dearness allowance; By exhausting the investment options under Section 80C one can save tax up to ₹46,350 for the financial year 2016-17, provided one falls under the highest tax bracket.

LONG TERM SAVINGS SCHEMES

1. Public Provident Fund (PPF): An old and trusted instrument and meant for long term investors. All individuals, including minors, are eligible for it. The PPF comes with a 15-year lock-in period that currently earns interest at 8.1 per cent p.a. (for 2016-17) calculated on the minimum balance between fifth and the last day of the month. It has the status of EEE in terms of tax benefits. EEE means that subscription amount, interest earned and the withdrawal amount are all exempt from tax. One can make premature withdrawal which is allowed to only those subscribers whose account has completed five years.

2. Sukanya Samriddhi Yojana: This scheme was one of the highlights of Budget 2015. It is effectively a savings account aimed at the welfare of the girl child, particularly her higher education and marriage. It also has the status of EEE in terms of tax benefits. Under the scheme, a parent or guardian can open an account with a post office or any of the designated banks. Similar to the popularly known PPF, this scheme is currently offering 8.6 per cent annual return for 2016-17 (notified by ministry of Finance), which will be revised every year. A minimum amount of ₹1,000 and maximum amount of ₹1.5 lakh can be deposited in the account in a financial year. Like the PPF, it also comes with a degree of liquidity by way of partial withdrawal.

One can withdraw 50 per cent of the account balance prematurely if the need arises after the girl turns 18. Deposits will have to be made till 15 years from the date of the opening of the account and the account will remain operative for 21 years from the date of opening or till marriage of the girl child, whichever is earlier



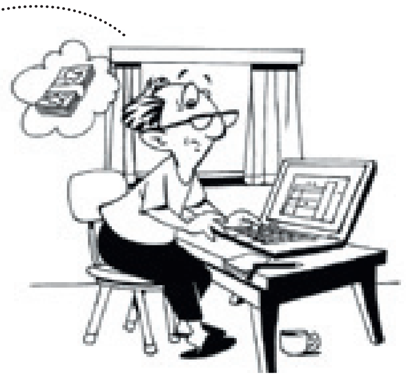
3. Life Insurance: You get tax rebate for securing your life by taking up a life insurance under Section 80C. Premium can be in the name of self, spouse or dependent children, up to ₹1.5 lakh in a financial year. In case of unit-linked insurance plans (ULIPs), deduction is available provided the sum assured is at least 10 times the annual premium and the policy is in force for at least five years. If the ULIP is discontinued before two years, tax benefits under Section 80C will not be allowed. Any deduction allowed in the previous years will be added back to your income in the year in which ULIP is closed.

4. Housing Loan: The principal component of Equated Monthly Instalments (EMI) that you pay for your home loan qualifies for deduction under Section 80C, up to ₹1.5 lakh in a financial year. The interest component up to a maximum of ₹2 lakh in case of self-occupied property is allowed as deduction annually under Section 24 of the Income Tax Act. Where the property has been let out, whole of interest on housing loan is allowed as deduction on accrual basis.

5. Education Loan: You can claim the benefit of tax deduction on the interest paid on an education loan for higher studies in India or abroad for a full-time course from an educational institution or an approved charitable

institution under Section 80E. The maximum period for which you get deduction is eight years (starting when you begin repaying the loan), or till the entire loan is repaid, whichever is earlier. No such benefit is given for repayment of the principal amount.

6. Pension Funds: Under Section 80CCC, an investment in pension funds of any insurance company is eligible for deduction from your income, clubbed within the limit under Section 80C.



7. National Pension System (NPS): Under Section 80CCD(1) and Section 80CCD(2) contributions by the employee and employer, within stipulated limits, qualify for tax deduction up to ₹1.5 lakh on contributions to the NPS Tier 1 account. Additional exemption up to ₹50,000 is eligible for income tax deduction outside the Section 80 limit of ₹1.5 lakh and can be claimed as a deduction under Section 80CCE

8. Employees' Provident Fund (EPF): Contributions made by you to the EPF qualify for deduction under Section 80C. The investment in PF is risk-free as the scheme works like a deposit on which the annual rate of return is fixed for each financial year. At the moment the EPF earns interest at 8.6 per cent p.a. for 2016-17. You cannot withdraw money from your account until you retire or opt out of the job market. However, withdrawals are permitted for specific purposes only and within prescribed limits.

9. National Savings Certificates (NSCs): These are available in two variants of 5- and 10-year tenure; savings in the NSC qualify for tax deduction under Section 80C. Interest is compounded half-yearly, but deemed to be reinvested and will also qualify for tax benefit. Current interest on 5-year scheme is 8.1 per cent p.a. and 8.8 per cent p.a. for 10 years.

SHORT TERM SAVINGS SCHEMES

1. Five-year tax saving FD: 5-year deposit in post office and banks qualifies for tax savings under Section 80C.

2. Senior Citizen's Savings Scheme (SCSS): Individuals who are 60 years or older, or are 55 years old and have retired under VRS, are eligible. SCSS has a lock-in of five years and TDS is deducted if the interest exceeds ₹10,000 annually.

3. Health insurance: Premium paid towards health insurance qualifies for tax deduction under Section 80D. Maximum deduction allowed is ₹25,000 (₹30,000 in case of senior citizens, aged over 60). Under Section 80DDB, you can claim a deduction of up to ₹40,000, or ₹60,000 in case of senior citizens and ₹80,000 in case of super senior citizens (those over 80 years old), for the treatment of specified ailments in cases where a family member such as a spouse, parent or sibling are dependent.

OTHER SAVINGS AVENUES

1. Tuition Fee: Tuition fees to any university, college, school or other educational institution in India for full-time education of any two children of the taxpayer is allowed as a deduction under Section 80C within the ₹1.5 lakh limit.

2. Leave Travel Allowance: LTA is the remuneration paid by an employer for employee's travel in the country, when he is on leave with the family or alone. The LTA amount is tax free and is exempt from taxes. The exemption is on the fare only (subject to conditions) and does not include the cost of stay or any other expenses.

The tax rules provide for an exemption only in respect of two journeys in a block of four calendar years. The current block runs from 2014-2017. If you do not use your exemption during any block on any one or on both occasions, the exemption can be carried over to the next block and used in the immediate calendar year.

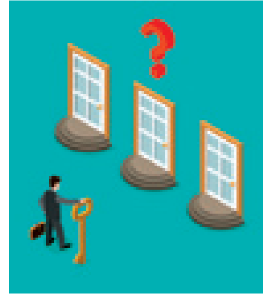
MUTUAL FUND WAY TO TAX SAVINGS (ELSS)

Tax planning for each financial year is an annual chore. And sometimes most tax payers end up buying wrong investment instruments. This is where Equity Linked Savings Scheme (ELSS) comes in handy. Not only does investment in this product save taxes, it also has the potential to earn returns.

WHAT IS IT?

ELSS is nothing but a type of mutual fund which invests in equities. So investments in this fund qualify for tax deduction under Section 80C of the Income Tax Act. The mutual fund structure ensures that these funds come with the dual advantage of potential capital appreciation and tax benefits. Considering these are market linked and have a considerable equity exposure, these schemes have the potential to beat inflation and give returns, which are tax free, subject to Securities Transaction Tax (STT). Effectively, investing in ELSS comes with tax savings and at the same time allows you to experience the potential of equity investments through a mutual fund. With so much going for it, and these schemes being open to retail investors, there is stability in the corpus managed by the fund manager, allowing them to invest with little worry of short-term redemptions.

SMART WAYS TO USE ELSS



Taxpayers can take advantage of the lock-in period of three years that comes with ELSS and use the same towards realising long-term financial goals. For instance, one could invest in an ELSS for the tax savings it offers and then let the accumulated money stay in the fund for the long run. So, one could create a corpus for financial goals that are over three years ahead like money for child's education or even towards one's own retirement and save tax at the same time.

WEALTH CREATION

As tax savings is an ongoing process, so, by investing in an ELSS each year, you get to reduce your income tax liability. That aside, you also get to build wealth for the long term, such as for your retirement needs. The fact that the redemption from ELSS also happens to be tax-free only aids in wealth building over the long term.

DIVERSIFICATION

Being an equity fund, the fund is well diversified, making it a suitable option for every investor looking to save tax and also invest in equities. The diversification that these funds offer is across sectors and market capitalisation, allowing your investments to benefit from the stock markets.

EQUITY EXPOSURE

Compared to other fixed-return options, ELSS is the only option with significant equity orientation as a tax saving option. Though NPS and even ULIPs have equity exposure, they are never as high as what ELSS tends to have. It's a well-known fact that in the long run, equity is an asset class that has the potential to beat inflation, which makes ELSS an option worth considering by every taxpayer.

FLEXIBILITY

You can invest in this scheme just the way one invests in other mutual funds through SIPs or in lump sum. If investing systematically, remember that each SIP needs to fulfil the three-year lock-in criteria before you can redeem the units.

TAX FREE

There is no ceiling for investments in ELSS, which means you can invest beyond the ₹1.5 lakh limit that is applicable to save tax under Section 80C if you wish to. Further, securities transaction tax, or STT at 0.001% will be deducted at the time of redemption of units and not on their purchase.

LOCK-IN

Equity Linked Savings Scheme (ELSS) has a three-year lock-in period, which makes it the most liquid of all available options under Section 80C.

TRANSPARENT

Investments in ELSS are open in the sense that each month the AMC releases the portfolio in which the fund has invested for one to know the type of stocks in which their investments are in, the sectors, and the exposure in debt and cash. Mutual funds are regulated by the stock market regulator SEBI (Securities and Exchange Board of India), which mandates the release of daily NAVs of the fund, indicating the value of one's investments each day. While the lock-in is applicable for three years, one can still track the performance of their investments in these funds regularly.

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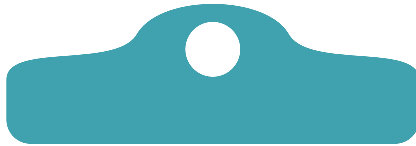
EASY AND STRAIGHTFORWARD

A simple way to compare ELSS with the other available options to save tax under Section 80C is to evaluate them across parameters that matter the most. For instance, most important factors for taxpayers are—the tenure of the product, the minimum investment to make, and the risk involved when investing in the product, and the potential returns that are on offer. While every taxpayer would have a different appetite for risk, what makes ELSS stand out is the return potential. And, with ELSS having the lock-in period of three years, it stands out compared to the rest.



TAX PLANNING CHECKLIST

- ✓ Earmark the sum to be invested
- ✓ Select the tax savings option that best suits you
- ✓ ELSS has a lock-in of three years
- ✓ Check the performance of the fund
- ✓ Understand the risk associated with the scheme
- ✓ Select a fund based on your financial goal and not just tax savings

HOW THEY STACK UP

Compare that with other traditional tax saving instrument, and you'll know exactly why this could be your good bet

Investment Option	Lock-in Period	Returns CAGR per Annum	Tax Status of Returns
Public Provident Fund	15 Years	8.10%	Tax Free
National Saving Certificate	5 Years	8.10%	Taxable
5-year tax saving deposits with banks	5 Years	7.0%^	Taxable
Equity Linked Savings Scheme	3 Years	19.68%^^	Tax Free

Past performance may or may not be sustained in future.

Partial PPF withdrawals are allowed after every 5th financial year. All data for 2016-17; ^for senior citizen (6.5% for others); ^^3-year ELSS category average as on Nov 24, 2016 (from Nov 25, 2013 to Nov 24, 2016; Value Research). **Source:** Indiapost, State Bank of India

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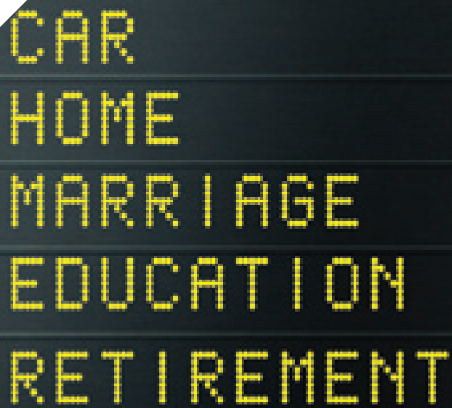

Take the SIP route to your financial destination.

The journey of a thousand miles begins with a single step, or in the case of a financial goal – with a SIP. A SIP will take you to your financial destination one step at a time. It is easy on the wallet as you don't have to commit a lumpsum at one go, inculcates discipline and helps ride market volatility. Start a SIP with mutual funds today and take the smarter route to achieving your goals.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.