All you need to know to make the most of your Tax Saving Investments this year

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As we are at the start of the tax season for 2009-10, many of you would be beginning to plan to save tax. Those of you who are not – it is the time to start!

*Personal*FN brings to you this simple guide of various options available for individuals to plan and save tax.

Section 1: Small Steps to Tax Planning

As the financial year draws to a close, we all start feeling the heat and realise that yes, now we have to invest in order to save tax. Whilst investing with tax saving and tax planning in mind is the key, these investments must be part of a larger financial plan – to achieve certain life goals and protect capital. Unfortunately, tax planning decisions are taken at the eleventh hour with low planning and thus hamper the process of wealth creation over the long term.

Ideally, you should commence your tax planning exercise well in advance, complementing it with your overall investment planning exercise. This will ensure that you select the tax saving instruments which will eventually help you to meet your goals.

In order to get your thoughts moving, we have broken down the tax planning exercise into 3 simple steps:

Step 1 - Compute the Gross Total Income

The process of tax planning begins with computation of your gross total income. Gross total income is nothing but the sum total of income from various sources which includes income from salary, income from house property, profits and gains from business & profession, capital gains (short term and long term) and income from other sources. You can do this by yourself, get it done at your office (many offices do offer this facility), ask your CA / tax consultant to do it, or use the convenience of the new tax portals that have emerged in more recent times.

Step 2 - Compute the Net Taxable Income

The next step is to compute the net taxable income. This means reducing from the gross total income, the various deductions allowed under the Income Tax Act, the most common being deduction under Section 80C. Section 80C allows for deduction upto Rs 100,000 p.a. for specified payments and investments. Common examples are - investment to Public Provident Fund (PPF) upto Rs 70,000, payment of life insurance premium, employee's contribution to Employer's Provident Fund (EPF), and repayment of principal amount of a home loan.

Step 3 - Calculate the tax payable

Once the net taxable income is computed, the final step is to calculate the tax payable based on the current applicable income tax slabs.

The income tax rates for Individuals and HUFs for FY 2009-10 are as follows:

Net Taxable Income	Rate
Upto Rs 160,000 Upto Rs 190,000 (women assesses) and Upto Rs 240,000 (senior citizens)	Nil
Rs 160,001 to Rs 300,000	10%
Rs 300,001 to Rs 500,000	20%
Rs 500,001 & above	30%

Take prudent steps to minimise tax liability

Between step 1 and 2, i.e. before you start calculating your tax liability and decide where to invest your money to save tax, it is important for you to know the parameters on which you should select the tax saving instruments. The most important ones include your:

- Financial goals
- Age
- Risk appetite
- Investment horizon (only to an extent, as most of the instruments have a lock-in period of 3 years)

Based on the above parameters, work out your asset allocation (for the tax saving investments). If you are young, then allocate more money to higher risk instruments like Equity Linked Savings Schemes (ELSS) and a smaller portion to safer instruments like PPF/EPF. As you grow older and near retirement, keep increasing your allocation to EPF/PPF and reducing the same to ELSS.

It should be noted that tax planning enables you to also create wealth for retirement planning, as every year you contribute to the retirement corpus. Starting early will help you in two ways:

- Reduce pressure on finances at a later stage and
- Enable you to aim for an ideal retirement scenario and not a compromise

The illustration below explains the benefits of starting early.

Particulars	Sanjeev	Rajeev	Indira
Present age (years)	25	30	35
Retirement age (years)	60	60	60
Investment tenure (years)	35	30	25
Monthly investment (Rs)	7,000	7,000	7,000
Returns p.a.	10%	10%	10%
Sum accumulated (Rs)	26,576,466	15,823,415	9,287,834
Percentage of Sanjeev's corpus	NA	59.54%	34.95%

The table clearly shows the magnitude of the lead Sanjeev has over his colleagues in terms of a retirement corpus.

Tax planning can be a time consuming and complex exercise, but it's an annual exercise which every tax payer has to go through – and if you start early and plan properly, the task becomes easier. Procrastination will only ensure that you invest at the last moment and not in line with the parameters discussed above. If you are hard pressed for time, consider hiring a competent tax consultant along with an investment advisor.

Section 2: All you need to know about Section 80C

Section 80C of the Income Tax Act provides a maximum deduction i.e. upto Rs 100,000 p.a. for individuals and HUFs. The investments and contributions under Section 80C can be broadly classified into three categories – life insurance, assured return schemes and market-linked schemes. It is important to reiterate that the aggregate of all investments under Section 80C, subject to any sub limits, cannot exceed Rs 100,000 p.a.

Following are the major, more popular and common investments/contributions that qualify for Section 80C deductions:

- Life Insurance Premium
- Public Provident Fund (PPF)
- Employees' Provident Fund (EPF)
- National Saving Certificate (NSC) , including accrued interest
- 5-Year fixed deposits with banks and Post Office
- Senior Citizens Savings Scheme (SCSS)
- National Pension Scheme (NPS)
- Unit-Linked Insurance Plans (ULIPs)
- Equity Linked Savings Schemes (ELSS)
- Tuition fees paid for children's education (maximum 2 children)

- Principal component of home loan repayment

(The above list of investments/contributions is not exhaustive. For a complete list, please consult a tax consultant).

Section 3: Life insurance: Forget the tax benefits

Tax saving and life insurance are synonymous in the Indian context. Think of life insurance and the first point that comes to mind is tax saving. This is because premium paid on any life insurance plan can be claimed as deduction under Section 80C of the Income Tax Act. In fact, tax saving and life insurance have become so closely associated with each other, that life insurance for many individuals is reduced to just a tax saving avenue. While the truth is, regardless of the tax benefits, life insurance is a potent tool that every individual must have in his financial portfolio – not as a tax planning instrument but as an insurance against an eventuality.

The blame for equating life insurance with tax benefits must be shared equally by both insurance companies and life insurance agents. Most insurance companies focus on the tax saving aspect of life insurance more than any other feature. Insurance agents heighten their efforts to sell insurance in the latter half of the financial year (September - March) because they understand that, that is the time individuals (particularly salaried employees) tie up their tax planning.

Not that we at *Personal*FN have any complaints against tax benefits being offered on life insurance. But the tax benefits have served as a distraction and have detracted from the real benefit of taking life insurance i.e. providing financial security to the individual's dependents. The prudent approach to taking life insurance involves putting the primary reason (securing the dependents) ahead of the secondary reason (tax benefit). Look at it this way, if you have not taken life insurance for an amount that accurately provides for your family in your absence, you are hurting your own family's cause. That is why it's more important to take life insurance according to your needs rather than to maximize tax benefits.

How to buy life insurance

First, you must determine the tenure over which you wish to take life insurance. For married individuals, this should be the estimated remaining lifespan of your spouse. Then you must determine your liabilities (like home loan, education loan) and expenses (like household expenses, medical expenses) that your dependents will have to service in your absence. Next, you will also have to factor in inflation to arrive at an estimate sum that is commonly referred to as your 'Human Life Value' (HLV). Finally, you must opt for a suitable insurance plan to provide for your HLV. There are primarily 3 types of plans that you can choose from.

1. Term Plans

Taking a term plan is the most cost-effective way of buying life insurance. Term plans only provide an insurance cover and do not offer a return. If the policy holder survives the policy tenure, he will not receive any maturity benefit.

On the other hand, if he meets with an eventuality (i.e. death) during the policy tenure, then his dependents get the sum assured. Term plans allow individuals to opt for a larger sum assured at a relatively lower premium. For individuals with high HLVs, often term plans are the only option because other plans like endowment plans and unit-linked insurance plans (ULIPs) are either too expensive or not feasible at all.

2. Endowment Plans

The differentiating point between endowment plans and term plans is the maturity benefit. Term plans don't pay the policy holder the sum assured if he survives the policy term, while endowment plans pay out the sum assured (along with profits, if any) under both scenarios - death and survival. Naturally, most individuals find the idea of receiving the sum assured (along with profits) on death and survival appealing. But this comes at a cost. Since endowment plans pay out the maturity benefit, regardless of whether the policy holder survives the policy term or not, the insurance company builds this into the cost of the insurance plan i.e. the premium. This makes endowment plans more expensive than term plans.

3. Unit-Linked Insurance Plans (ULIPs)

ULIPs are a combination of insurance and investments. They can invest in stock/debt markets; investors have the option to choose the debt-equity allocation. Returns from ULIPs are market-linked and hence can be affected by the day to day fluctuations in these markets. The premiums which you pay for ULIPs are converted into units and the Net Asset Value (NAV) is declared regularly. Generally, ULIPs are for a term of 10-20 years with an initial lock-in period and minimum premium payment term of 5 years. The term of the policy and premium payment vary from scheme to scheme.

Like endowment plans, ULIPs can be very expensive. However, if selected well, ULIPs can add value to your portfolio over the long-term. Before buying any ULIP, you must understand the various charges associated with it as these can have a significant impact on the overall returns.

In case of an eventuality, the beneficiary is paid either the sum assured (which generally is 5 times the annual premium) or the fund value, whichever is higher.

Section 4: Tax planning: The "assured return" way

1. Public Provident Fund (PPF)

Investments in PPF are for a 15-Yr period and they provide regular savings by encouraging that contributions are made every year. You can deposit a minimum of Rs 500 and a maximum of Rs 70,000 in a financial year, in lump sum or in twelve installments of any amount in multiple of rupees five. Any deposits in excess of Rs 70,000 in a financial year will be refunded without interest and this amount cannot be considered for income tax rebate. You can open a PPF A/c not only in your name but also in the name of your spouse and children. However, please note that aggregate deposits of upto Rs 70,000 p.a. are eligible for tax benefits under Section 80C.

Currently, PPF investments earn a return of 8.0% p.a. compounded annually. However, you should note that although the stated returns are assured, they are not fixed. The rate of interest is subject to change from time to time. Furthermore, withdrawals can be made only from the seventh financial year onwards. PPF being an assured return product is a safe investment avenue for you, if you are risk averse.

Deduction

Apart from a deduction of upto Rs 70,000 p.a. on deposits in PPF account under Section 80C, interest income from PPF account is exempt from tax under Section 10(a)(i) of the Income Tax Act.

2. National Savings Certificate (NSC)

NSC is a time-tested tax saving instrument with a maturity period of six years. Presently, the interest is paid @ 8.0% p.a. compounded half-yearly. This means that if you invest Rs 100 in NSC, it will grow to Rs 160 on maturity. Interest income accrues annually and is reinvested. While the minimum investment amount is Rs 100, there is no maximum amount. Premature withdrawals are permitted only in specific circumstances such as death of the holder.

Deduction

Investments in NSC are eligible for a deduction of upto Rs 100,000 p.a. under Section 80C. Furthermore, the accrued interest which is deemed to be reinvested qualifies for deduction under Section 80C. However, the interest income is chargeable to tax in the year in which it accrues.

3. Bank Deposits and Post Office Time Deposits

5-Yr bank fixed deposits are eligible for a deduction under Section 80C. The minimum amount that you can invest is Rs 100 with an upper limit of Rs 100,000 in a financial year. Currently these deposits earn an interest in the range of 6.00% - 7.75% p.a.

Post Office Time Deposits (POTDs) are fixed deposits from the small savings segment. The minimum amount to be invested is Rs 200 while there is no upper limit (only Rs 100,000 will be eligible for deduction). Although you can opt for deposit of 1-Yr, 2-Yrs, 3-Yrs and 5-Yrs, only deposits with maturity of 5-Yrs are eligible for tax benefits under Section 80C. A 5-Yr POTD earns a return of 7.5% p.a.; the interest is calculated quarterly and paid annually. In other words, Rs 10,000 deposited in a 5-Yr POTD will deliver an interest income of approximately Rs 771 p.a. Premature withdrawals are permitted after 6 months from the date of deposit with a penalty in the form of loss of interest.

Deduction

The amount deposited in the 5-Yr bank deposits and POTD are eligible for deduction under Section 80C; however interest income on bank deposits and POTDs are chargeable to tax.

4. Senior Citizens Savings Scheme (SCSS)

The SCSS is an effort made by the Government of India for the empowerment and financial security of senior citizens. So, if you are over 60 years old, you are eligible to invest in this scheme; while if you have attained 55 years of age and have retired under a voluntary retirement scheme, you are also eligible to enjoy the benefits of this scheme subject to certain conditions being fulfilled.

The minimum investment in this scheme is Rs 1,000 while the maximum amount has been restricted to Rs 1,500,000. Again, the deduction is limited to Rs 100,000. Investments in SCSS have tenure of 5 years and earn a return of 9.0% p.a. The interest payouts are made on a quarterly basis every year. After one year from the date of opening the account, premature withdrawals are permitted. If you withdraw between 1 and 2 years, 1.5% of the initial amount invested will be deducted. In case if you withdraw after 2 years, 1.0% of the initial amount is deducted.

Deduction

Investments upto Rs 100,000 in SCSS are entitled for a deduction under Section 80C. The interest income is charged to tax, which is deducted at source. If you have no tax liability on the estimated income for the financial year, you can avoid the Tax Deduction at Source (TDS) by providing a declaration in Form 15-H or Form 15-G as applicable.

Section 5: Tax planning with "market-linked" instruments

1. National Pension Scheme (NPS)

NPS, introduced on May 1, 2009, is the new addition to the family of investments that qualify for deduction under Section 80C. It is basically an investment avenue to plan for your retirement. Contributions to this scheme are voluntary and available to individuals in the age bracket of 18-60 years.

There are two types of accounts:

Tier-I account: In case of the Tier-I account, the minimum investment amount is Rs 500 per contribution and Rs 6,000 per year, and you are required to make minimum 4 contributions per year. Under this account, premature withdrawals upto a maximum of 20% of the total investment is permitted before attainment of 60 years, however the balance 80% of the pension wealth has to be utilized to buy a life annuity.

Tier-II account: While opening this account you will have to make a minimum contribution of Rs 1,000. The minimum number of contributions is 4, subject to a minimum contribution of Rs 250. However, if you open an account in the last quarter of the financial year, you will have to contribute only once in that financial year. You will be required to maintain a minimum balance of Rs 2,000 at the end of the financial year. In case you don't maintain the minimum balance in this account and do not comply with the number of contributions in a year, a penalty of Rs 100 will be levied. In order to have this account, you first need to have a Tier-I account. This account is a voluntary account and withdrawals will be permitted under this account, without any limits.

While investing money, you have two investment choices in NPS i.e. Active or Auto choice. Under the Active asset class, your money will be invested in various asset classes viz. E (Equity), C (Credit risk bearing fixed income instruments other than Government Securities) and G (Central Government and State Government bonds); where you will have an option to decide your asset allocation into these asset classes. In case of Auto Choice, your money will be invested in the aforesaid asset classes in accordance with predetermined asset allocation.

The return on your investment is not guaranteed; rather it is market-linked. At the age of 60 years, you can exit the scheme; but you are required to invest a minimum 40% of the fund value to purchase a life annuity. The remaining 60% of the money can be withdrawn in lump sum or in a phased manner upto the age of 70 years.

Deduction

Investments in NPS are eligible for deduction upto a maximum of Rs 100,000 p.a. (part of the total 80C deduction). However, withdrawals will be subject to tax as the scheme has the Exempt-Exempt-Tax (EET) status.

2. Equity Linked Savings Schemes (ELSS)

ELSS are 100% diversified equity funds with tax benefits. A distinguishing feature of ELSS is that unlike regular equity funds, investments in tax saving funds are subject to a compulsory lock-in period of three years. The minimum application amount is Rs 500, with no upper limit. You can either make lump sum investments or investments through the Systematic Investment Plan (SIP).

Deduction

Investments in ELSS are eligible for a deduction upto Rs 100,000 p.a. under Section 80C. Long term capital gains, if any, are exempt from tax.

Options Galore: Snapshot of Tax Saving avenues

Schemes	Type	Interest Rate	Term	Min – Max Investment	Premature Withdrawal	Tax Benefit
Life Insurance		Sum Assured i.e. Insurance cover	5-40 years	the premium depends on the insurance cover	Varies from policy to policy	U/s 80C and 10(10D) of the IT Act
Public Provident Fund	Recurring	8% per annum	15 years	Rs 500 - Rs 70,000	Yes	U/s 80C and 10(a)(i) of the IT Act
National Savings Certificate	Growth	8% compounded half yearly	6 years	Rs 100 - no upper limit	No	U/s 80C of the IT Act
Post Office Time Deposit	Fixed deposit	1-Yr.- 6.25% 2-Yr - 6.50% 3-Yr - 7.25% and 5-Yr - 7.50% compounded quarterly but paid annually	1- 5 years	Rs 200 - no upper limit	Yes	U/s 80C of the IT Act
Senior Citizens Savings Scheme	Regular income	9% per annum payable quarterly	5 years	Rs 1,000 - Rs 1,500,000	Yes	U/s 80C of the IT Act
National Pension Scheme	Recurring	Market-linked returns	30-35 years	Rs 6,000	Yes	U/s 80C and 10 of the IT Act
Unit-Linked Insurance Plans (ULIPs)	Growth	Market-linked returns	Term of Policy: 10-20 years Lock-in period: Min 3 years	the premium varies from scheme to scheme	Yes	U/s 80C and 10(10D) of the IT Act
Tax Savings Funds/ELSS	Growth	Market-linked returns	Term of the scheme: Ongoing Lock-in period: 3 years	Rs 500 - no upper limit	No	U/s 80C of the IT Act

Section 6: And the other 80s…

When it comes to tax savings, Section 80C lies at the top of the recall list. Every income-tax payer is familiar with the provisions of Section 80C and the investment avenues available under it. However, what many do not know is that there are other deductions under Section 80 which can be used to one's advantage to further reduce your tax liability. These deductions are related to medical insurance premium, education loan, expenses on medical treatment, donations to various organizations and funds, house rent paid, among others. We give below, a brief synopsis of some of the major ones.

1. Section 80D

The premium paid on medical insurance policy (commonly referred to as a medi-claim policy) to cover your spouse and you, dependent children and parents against any unexpected medical expenses, qualifies for a deduction under Section 80D. The maximum amount allowed annually as a deduction is Rs 15,000. If you are a senior citizen, the maximum deduction allowed is Rs 20,000. Further, if you pay medical insurance premium for your parents, you can claim an additional deduction of upto Rs 15,000 under this section. For example, if you pay a premium of Rs 15,000 for yourself and Rs 15,000 for your parents, you will be eligible for a total deduction of Rs 30,000.

It should be noted that in order to claim the deduction, you are required to pay the premium by cheque.

2. Section 80DD

If you have incurred any expenditure on the medical treatment of a handicapped 'dependent' with disability, the same qualifies for deduction under Section 80DD of the Income Tax Act. The deduction is a fixed sum of Rs 50,000 p.a. if the handicapped dependent is suffering from 40% of any disability. If the disability is severe (i.e. 80% of any disability), then a higher deduction of Rs 75,000 can be claimed.

The term 'dependent' here means your spouse, children, parents, brothers and sisters. However, it is important to note that the dependent person with disability should not claim any deduction under Section 80U (please refer to point 6).

In order to claim the deduction you will have to submit a medical certificate issued by a medical authority along with the return of income.

3. Section 80E

This section definitely comes as a boon to all of you who intend taking a loan to pursue higher education such as full time graduation and post graduation. The loan can be taken either by you for your education or for your relative's education. The term 'relative' here includes spouse and any child. The entire amount of interest which you pay on the loan during the financial year is eligible for deduction under this section. You should avail of a loan from an approved charitable institution or a notified financial institution.

The deduction is available for a maximum of 8 years or till the interest is fully paid off, whichever is earlier.

4. Section 80G

If you have given donations to certain specified funds, charitable institutions, approved educational institutions, etc, the donation amount qualifies for deduction under this section. The deductions allowed can be 50% or 100% of the donation, subject to the stated limits as provided under this section. For example, donations to electoral trusts are allowed 100% deduction. In order to claim deduction under this section, you must attach a proof of payment along with your return of income.

5. Section 80GG

If you have paid rent for any furnished or unfurnished accommodation occupied for the purpose of your own residence, you can claim deduction under this section. This benefit is available to both, self employed and salaried individuals who are not in receipt of any House Rent Allowance (HRA). In order to be eligible for this deduction, you, your spouse or minor child should not own any residential accommodation in India or abroad.

The deduction available under this section is the least of:

- 25% of the total income or,
- Rs 2,000 per month or,
- Excess of rent paid over 10% of total income

6. Section 80U

Individuals suffering from specified disability qualify for deduction under Section 80U of the Income Tax Act. A fixed deduction of Rs 50,000 is allowed if the person is suffering from 40% of any disability. If an individual suffers from a severe disability (i.e. 80% of any disability), then a higher deduction of Rs 75,000 is allowed.

The individual does not have to submit any proof of medical expenses. However, he has to submit a medical certificate issued by a medical authority along with the return of income. An individual with disabilities such as blindness, hearing impairment, low vision, mental retardation, etc, qualifies for deduction under this section. If you have claimed a deduction under this section, deduction under Section 80DD cannot be claimed.

Section 7: Tax benefits and home loans

The Income Tax Act gets a little benevolent when it comes to housing loans. It encourages you to buy your house with a housing loan because of the tax saving benefits that come along with it. Both, repayment of principal and payment of interest are eligible for deduction from your total taxable income.

When it comes to repayment of principal, you can claim a deduction upto Rs 100,000 under section 80C for both, self occupied and rented property. The interest component of the loan covered under section 24(b) is eligible for a deduction upto Rs 150,000 p.a. for a self occupied property. For rented property the actual interest payable is eligible for deduction.

Let's understand with an example how home loans can reduce the total tax payable by you.

Let's assume you earn Rs 650,000 p.a. by way of salary and have taken a home loan of Rs 4,000,000. The home loan is for tenure of 20 years and the rate of interest is 9.0% p.a. and the Equated Monthly Installments (EMI) is Rs 35,989.

Tax savings on account of home loan

Gross Annual Salary (Rs)	650,000
Loan Amount (Rs)	4,000,000
Tenure (yrs)	20
Rate of Interest p.a.(%)	9.0
EMI (Rs)	35,989
Annual Interest Paid (Rs)	356,960
Principal paid in the 1st year (Rs)	74,908
Tax paid without availing home loan benefits (Rs)	99,000*
Tax paid after availing home loan benefits (Rs)	39,018*
Tax Savings	**59,982**

(* For the purpose of calculating the tax, we have ignored the education cess)

The above table clearly shows the benefit of availing a housing loan if you are contemplating buying a house. The total tax payable on your income without a home loan works out to Rs 99,000. The same with a home loan works out to Rs 39,018, thus saving you Rs 59,982.

Maximise your tax benefits

Now, let's delve deeper into the benefits available. Your interest amount in the first year is Rs 356,960 which is much more than the maximum amount of Rs 150,000 allowed as a deduction. Your principal repayment amount of Rs 74,908 is within the Rs 100,000 limit allowed under Section 80C. However, it takes away a big chunk of the amount eligible under Section 80C and leaves you with little to claim towards other tax saving instruments such as PPF, NSC, Life Insurance, ELSS, POTDs.

Consider, you have invested in the following manner under Section 80C.

Principal Repayment	74,908
Life Insurance	10,000
PPF	20,000
POTDs	10,000
NSC	20,000
Total	134,908
Claim deductions under Section 80 C	100,000
Contributed but can't claim tax benefit	**34,908**

The amount eligible is more than what you can claim. Yes, you have an option of not investing in PPF, POTDs or NSC but these are assured return schemes with attractive returns. An individual's portfolio should always comprise of a mix of assured return and market-linked return instruments. Hence, ignoring these investment avenues may not be prudent from financial planning perspective

So the next question is how do you claim maximum available deductions to minimise your tax liability? The answer lies in taking a joint home loan. A joint home loan can be taken with your spouse or relative.

Let's understand with an example how a joint home loan with your spouse can help reduce your tax liability.

Assume your spouse and you decide to take a joint home loan of the same amount as mentioned above and shares the loan in ratio of 50:50.

	You	Your Spouse
Gross Salary (Rs)	650,000	650,000
Home Loan Amount (Rs)	4,000,000	
Tenure (yrs)	20	
Rate of Interest p.a. (%)	9.0	
EMI (Rs)	35,989	
Annual Interest Paid (Rs)	178,480	178,480
Principal paid in the 1st year (Rs)	37,454	37,454
Life Insurance	10,000	10,000
Other contributions made under Section 80C	50,000	50,000
Total amount contributed under Section 80C & 24 (b)	275,934	275,934
Total amount claimed under Section 80C & 24 (b)	250,000	250,000
Amount which cannot be claimed to reduce tax liability	28,480	28,480
Tax Paid when:		
1. No home loan benefit availed	81,000	*78,000
2. Single home loan benefit availed	34,000	78,000
3. Joint home loan benefit availed	34,509	31,509
Total Household Tax Savings (Single Home Loan)	**47,000**	
Total Household Tax Savings (Joint Home Loan)	**92,982**	

Note: * calculations on the done assuming the assessee is woman
Assumption made that Home Loan and the EMI paid by you and your spouse are in the ratio 50:50

Now since your spouse is a co-owner and contributes towards repayment of the loan she would also be eligible for the tax benefit (both principal and interest component).

As indicated in the table above, if the principal and interest amount is shared equally between your spouse and you, the contribution per person comes to Rs 37,454 and Rs 178,480 respectively. The principal amount is now half of what was earlier which allows you to claim deductions towards other contributions. At the same time it reduces the tax liability to a significant extent and leads to a household saving of upto Rs 92,982. As compared to a Single home loan, a Joint home loan leads to a saving of Rs 45,982.

From the tax planning point of view, ensure that the higher earning member pays higher portion of the home loan EMI. This is because the tax benefit accrues in proportion to the individual's contribution towards loan repayment. If you plan to buy a house, it makes sense to include your spouse as a co-owner; especially if your spouse's income is taxable. This will result in higher tax saving in addition to boosting your loan eligibility.

Section 8: Tax planning: the right way

In the previous pages of this guide, we have discussed numerous investments, contributions and payments that qualify for deduction under the various Sections of the Income Tax Act, the most prominent being Section 80C.
The next step is to know which of those investments, contributions and payments you should choose from. Your choice of tax saving instrument should not only aim at reducing the overall tax liability, but also compliment your investment planning process.

For example, as a part of your retirement plan, you may be investing in equity funds and bank fixed deposits. In such a case, your tax saving portfolio could include Equity Linked Savings Schemes (ELSS), Public Provident Fund (PPF) and Bank Fixed Deposit. This will ensure that your equity portfolio has a mix of ELSS and regular equity funds. The same goes for your debt portfolio.

The underlying principle for choosing from the various tax saving options is **asset allocation,** which in turn is a function of your age, risk appetite and investment horizon (only to an extent).

To help you understand this concept, we have prepared the model asset allocation table showing the break-up of Rs 100,000 investment under Section 80C.

Model Asset Allocation Table

Age	Life insurance premium (Rs)	EPF/PPF/ Bank FD (Rs)	ELSS (Rs)	Total (Rs)
< 30	20,000	25,000	55,000	100,000
30 - 40	20,000	35,000	45,000	100,000
41 - 50	20,000	45,000	35,000	100,000
51 - 55	20,000	60,000	20,000	100,000

The above table takes into account the age of an individual and accordingly suggests the break-up of Rs 100,000. If you are young and less than 30 years of age, we recommend a higher allocation to ELSS as these are high risk investments and need time to grow. As you are young, it makes sense to have a higher allocation to ELSS. As you grow older, increase your allocation to secured and assured schemes like bank fixed deposit, PPF, NSC, etc.

A closer look at the table reveals that 20% of the available amount is allocated to payment of life insurance premium. We believe that every individual should take a term insurance. Why only term insurance? Simply because term insurance provides a higher risk cover for a relatively lower premium. However, 20% allocation i.e. Rs 20,000 as a premium amount holds good only for those individuals who take term insurance early in their life. A premium of Rs 20,000 for a term plan can fetch you a sum assured in the range of Rs 60-70 lakhs. This sum assured by itself may not equal your human life value but it certainly is much higher compared to the endowment plans. If you delay, the premium amount will only increase, leading to a higher allocation towards the same. However, this should not act as a deterrent for taking adequate insurance cover for yourself.

Moving on further, if you are a salaried individual, a part of your basic salary is deducted by way of contribution to Employer's Provident Fund (EPF). In such a case, there is a compulsory allocation to debt. Therefore, addition to debt by way of investment in NSC or PPF should be done taking into account your life stage and overall asset allocation.

At any stage in life, ensure that you allocate some money to ELSS. Equity as an asset class has the potential to create wealth over the long term. If you are saving for long term goals like retirement, investments in ELSS can come handy.

We believe that the above discussion on model asset allocation will help you in short-listing the options that finally make it to your portfolio. It is important to note that the model asset allocation should not be construed as an ideal asset allocation. It is aimed at giving you an insight into the process of choosing from a plethora of options available.

Happy tax planning!

Team *Personal*FN

About *Personal*FN

*Personal*FN, is a service brand of Quantum Information Services Pvt Ltd (QIS), and is focused on providing financial planning and research solutions.

About PersonalFN Research

Since 1999, we have been researching mutual funds, insurance, fixed income instruments and providing customized financial planning and premium mutual fund research to individual clients in India as well as to NRIs.

*Personal*FN follows a fundamental research process and uses an array of qualitative and quantitative parameters to arrive at its recommendations.

What are the services we offer?

*Personal*FN offers the following services:

a) Comprehensive Financial Planning (CFP)
b) Basic Financial Planning (BFP)
c) Transactions
d) Ongoing Personalised Service (OPS)
e) PersonalFN Premier Service (PPS)
f) Premium Mutual Fund Research
   - FundSelect
   - FundSelect Plus

Your *Personal*FN Consultant will recommend a plan for you based on your life goals and current financials

The investment recommendations are selected from a comprehensive set prepared by the *Personal*FN Research Team based on their research on a combination of qualitative and quantitative parameters.

The consultant will also explain to you how you can obtain one of the *Personal*FN Services.

Contact Us

In case you have any questions or you wish to speak to our consultant, you can reach us at:

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