

Section 80CCF - Save Income Tax (IT) through investment in infrastructure bonds

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We know that Section 80C is a tax-payer's best friend – it allows for deduction of money invested in certain avenues.

(To know all about tax saving through section 80C, please read “Saving Income Tax – Understanding Section 80C Deductions”)

Of course, there are some other avenues for saving income tax as well – like making donations (Sec 80G), buying health insurance (Sec 80D), etc.

(Please read “Reached Section 80C limit? You can still save more income tax” to know about all the avenues to save income tax)

Budget 2010 has introduced one more way to save tax – investment in infrastructure bonds. This has been made possible through a new section, Sec 80CCF.

How much can you invest?

An investment upto a maximum of Rs. 20,000 in infrastructure bonds would be deductible from your taxable income. Thus, your taxable income would reduce by the investment you make in these infrastructure bonds, subject to an upper limit or ceiling of Rs. 20,000.

Please remember that this is over and above the Rs. 1,00,000 allowed under Section 80C.

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How much tax can you save?

Since the amount is deducted from your taxable income, the income tax you save would depend on the tax slab you fall under.

(To know the income tax slab applicable to you, please read “Income Tax (IT) Slabs / Brackets and rates”)

If you fall under the highest tax slab of 30%, you would end up saving about Rs. 6,000 in income tax.

Which infrastructure bonds qualify for investment?

The budget did not specify the exact bonds that qualify for investment under section 80 CCF – these would be notified by the government from time to time.

However, infrastructure bonds issued by both public sector / state owned companies as well as private sector companies would qualify for investment under this section. This is unlike the past trend – till now, only government entities were allowed to issue infrastructure bonds.

What is the tenure of these infrastructure bonds?

The money raised through these bonds would be primarily invested in infrastructure projects – building of roads, ports, airports, power plants, etc. These investments are of long term duration, and therefore, these bonds too are expected to have long tenures – 10 years or more.

What would be the rate of interest?

The bonds are likely to carry an interest rate of 7.00 – 7.50%. Bonds issued by private companies are expected to offer a slightly higher interest rate of 8.00 – 8.50%.

Is the interest from these bonds taxable?

Yes, just like tax-saving fixed deposits, the interest earned from these infrastructure bonds would be taxable.

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