KNOW YOUR TAX SAVING INVESTMENTS UNDER S. 80C

*Along with the season of cheers, comes the time to look out for investments for saving your tax, says **Makrand Herwadkar**, Chartered Accountant.*

Here comes December. Along with Christmas, the tax saving season also starts. Most tax-payers start looking for tax saving investments from December and the process goes on till the financial year is over. S.80C is very popular among taxpayers as on one hand, investments in certain specified instruments and certain expenses as mentioned in this section, grant tax relief and on the other hand it compels them to make investments. The upper limit for such tax relief is Rs 1 lac per year. Interestingly, this section was introduced way back in 1965 and was in existence in one form or another for the last 40 years.

The Section allows deduction from Gross Total Income to

✦ Individual and
✦ Hindu Undivided Family (HUF)

The deduction is in respect of certain expenditures incurred and certain investments made during the previous year. It is no longer required that these payments have to be out of the current year's income, the same can be out of accumulated savings too. The amount of deduction under this section cannot exceed Rs1 lac along with investments made u/s 80CCC and 80CCD. The payments / deposits with reference to which the deduction is available along with applicable conditions / restrictions have been given below:

1. a) LIC Premium (should not be more than 20% of capital sum assured)
   b) Contribution to PPF
   c) Contribution to ULIP
      - of LIC
      - other notified mutual funds

2. Premium for deferred annuity plan (excluding plan which provide for option to receive cash payments in lieu of annuity)

It may be noted that the above payments would be eligible for deduction as follows:

For the Individual

The Individual, husband or wife and any child of the Individual (here child includes adult children and married daughter)

For HUF

Any member of the family.

3. Tuition fees (other than donations / development fees etc) to any university, college, school or educational institution in India for the purpose of fulltime education of any two children of an individual.

4. Other payments / Investments which will have to be made in the name of individual or HUF as the case may be are as follows:

★ Deduction from Government's employees' salary for premium for deferred annuity plan
★ Contribution to Statutory Provident Fund
★ Contribution to Recognised Provident Fund
★ Contribution to an Approved Super-Annuation Fund
★ Subscription to National Savings Certificate (VIIIth issue) (including accrued interest as per details given below)
★ Premium for annuity plan of LIC or any other notified Insurer (e.g. New Jeeven Dhara, New Jeeven Dhara–I, New Jeeven Akshay I & II)
★ Subscription to any units of mutual funds under ELSS (Equity Linked Savings Scheme).
★ Contribution by an Individual to a pension fund setup by any notified mutual fund (UTI Retirement Benefit Pension Fund & Templeton India Pension Plan).
★ Subscription to any deposit scheme or pension fund setup by National Housing Bank and notified by the Central Government.
★ Subscription to notified deposit scheme of
a) public sector company providing long term finance for construction / purchase of houses and
b) an authority constituted for satisfying the need of housing accommodation etc.
❈ Payment for residential property (as per details given below)
❈ Subscription to equity shares / debentures forming part of eligible issue of public company or public Financial Institution.
❈ Subscription to any annuity of notified mutual fund approved by the Board.

Income tax, though not a welcome phenomenon, certainly is not as haunting as it appears to be. You should take advantage of all these instruments and just not avoid the tax liability but also take the provisions to your own advantage.

- Term deposit for fixed period of not less than 5 years with scheduled bank in accordance with the notified scheme of the Government.
  (w.e.f. A.Y.2007-08)

Some of the items stated above, which may be of greater interest to you as a general taxpayer, are discussed below in detail:

Payments for residential property:

Interestingly, when you are making payment for the purchase or construction of residential property , the same would also qualify for deduction.

Such amount can be on account of

- any instalment or part payment of amount due under self-financing scheme of any development authority, etc
- any instalment or part payment of amount due to company / co-op. society of which the assessee is the member / shareholder, towards the cost of house property allotted to him
- repayment of the loan borrowed from Central or State Governments, Banks, LIC, NHB, Public company providing long term housing finance, employer, etc.
- stamp duty, registration fees etc. for transfer of such house property to the assessee.

c) It may be remembered that there's no internal limit for this particular item of deduction as was the case earlier. However, one may claim the deduction in respect of the sums within the overall limit of Rs1 lac. On reading these provisions you may realise that no deduction is possible for sums paid directly to builder / developer for purchase or to contractors for construction of a residential property. Only principal repayment will be considered for the purpose of deduction. Interest component on such repayment will not be considered as eligible investment u/s.80-C.

Accrued Interest or National Savings Certificate (VIII[th] issue)

Interest on NSC is encashable only at the time of maturity. But interest is accrued on year to year basis. Such interest accruing from year to year is deemed to be reinvested and hence is eligible for deduction u/s 80C. However this deduction is available only for a period of 5 years. It may be noted that such interest is otherwise fully taxable and there is no deduction available u/s.80-L.

This section also penalises the investors who don't appreciate the spirit of this section i.e. promotion of long tem savings, in the following manner. If any assessee does not hold on to the following investments or assets acquired by claiming benefit made under this section for the period mentioned against the same, then no deduction in respect of the sums paid for these investments / assets in that year is allowed. Besides, the deduction that had been granted in earlier years is treated as income of the year in which such termination or transfer takes place.

Investment / Asset	Minimum Holding period
Life Insurance Policy	2 years
ULIP	5 years
House property	5 years

In spite of a growing number of investment avenues coming up everyday, no investor can ignore Section 80C investments. But before he goes for the same for getting the benefit of tax savings, knowing all the applicable rules and conditions as described above is very important.

Special Notes for Senior Citizens:

As senior citizens enjoy higher basic exemption limit, i.e. Rs 185,000 in many cases, you may not be required to invest u/s.80-C. However, by making eligible investment of Rs 1 lac, one can enjoy a tax-free income of Rs 285,000.

Secondly, you should also consider your immediate requirements and liquidity position before investing. It's quite likely that you may not like to block your funds in 15 years' PPF or 6 years' NSC. Other options such as fees for your school-going children or housing instalments may not be practically available. In the wake of increasing inflation, you may also expect higher returns than the assured terms offered by PPF/NSC. For such citizens, a good option is to go for ELSS. It has only three years' lock-in period. Dividend income is tax-free. Returns are not assured but over the last three years, such schemes have given a return of more than 25%. However, one has to bear in mind that risk and reward go together. This is not risk-free and returns are subject to market fluctuations. A good way to reduce risk is to go for existing, performing ELSS which at least guarantees a good track record and another option is to go for a Systematic Investment Plan (SIP) that will reduce volatility.