

There are different confusions regarding the deduction u/s 80C of the Income Tax Act for certain investments. So to remove the confusions and rumors regarding the section. I am presenting a disclosure regarding the section in details.

Note:- Please note that since there is no applicability of the new budget till date(date of uploading the article), hence the description is based on previous years rules. But updates of the budget is highlighted in the article.

Section 80C has been inserted on and from Assessment Year 2006-07. The section provides deduction for specified qualifying amounts paid or deposited by the assessee in the Previous Year related to the applicable assessment year.

Features of 80C :-

- 👉 Under section 80C, deduction is available from GTI {Gross Total Income(income from the five heads after adjusting losses of CY and BF losses)}.
 - 👉 The deduction is available only to Individual and HUF category assesses.
 - 👉 Deduction is available on the basis of specified qualifying investments/contributions/deposits/payments (Gross qualifying amount) made by the assessee during the previous related to applicable Assessment Year.
 - 👉 The Gross qualifying amount is allowed as deduction irrespective of the fact whether or not such amount is paid or deposited by the assessee out of his taxable income.
 - 👉 The maximum deduction allowable is ₹. 1,00,000 (1,50,000 as per the new budget). The aggregate amount of deduction :-
 - Under section 80C, 80CCC, 80CCD(1) and 80CCD(2) can't exceeds ₹1,00,000(applicable for the assessment years 2006-07 to 2011-12); and
 - Under this 80C, 80CCC and 80CCD(1) cannot exceeds ₹ 1,00,000(from the assessment year 2012-13).
- Stress: 80CCD(1)** – contribution by an employee(or any other individual) towards notified pension scheme.
80CCD(2) - Employer's contribution towards notifies pension scheme

Computation of Deduction under section 80C:-

The computation of deductible amount is calculated as per following steps:-

Step 1 – Gross Qualifying Amount (as per Note – 1)

Step 2 – Amount of Deduction (as per Note – 2)

Note – 1 – Gross Qualifying Amount:- aggregate of the following:-

- **Life Insurance Premium (including payment made by government employees to the Central Government Employees insurance scheme and payment made by a person under children's deferred endowment assurance policy).**

Stress: In case of an individual policy should be taken on his own life, life of spouse or any child (dependent/independent, male/female, minor/major or married/single). In case of HUF policy may be in the name of any member(s) of the family. The premium can't exceed the maximum ceiling as under:

Period of Policy	Policy on the life of a person with disability or severe disability or on the life of a person suffering from disease or ailment as per 80DDB	Policy on the life of any other person
If policy issued before 01/04/2012	20% of sum assured	20% of sum assured
If policy issued during 2012-13	10% of sum assured	10% of sum assured
If policy is issued on or after 01/04/2013	15% of sum assured	10% of sum assured

- **Payment in respect of non-commutable deferred annuity.**

Stress: Annuity Plan should be taken in the name of individual, his wife/her husband or any child of individual.

- **Any sum deducted from salary payable to a government employee for the purpose of securing him a deferred annuity (subject to a maximum of 20% of salary).**

Stress: It should be for the benefit of individual, his wife or children.

- **Contribution (not being repayment of loan) towards statutory provident fund and Recognized Provident Fund.**

- **Contribution (not being repayment of loan) towards 15 year public provident fund.**

Stress: According to the PPF scheme an individual can open PPF account in his own name or in the name of minor of whom he is guardian. However, according to the IT Act, to get the benefit of deduction u/s 80C, amount deposited by an individual in his own account or in the account of his/her spouse or in the account of any child (in case of HUF- in the account of any member of the family) is eligible for deduction.

There is no maximum ceiling under the IT Act. However under the PPF scheme, the maximum contribution is ₹ 1,50,000/- (₹. 1,00,000 up to AY 14-15).

When a deposit is made in the PPF account, senior citizen saving scheme and Time deposit scheme in Post Office by means of a cheque/draft, the day of encashment of the cheque is treated as date of deposit.

- **Contribution towards an approved superannuation Fund.**

- **Subscription to NSC(National Savings Certificate).**

Stress: Accrued interest (deemed as reinvested) is also qualified as deduction for first 5 years.

- **Contribution for participating in the ULIP of LIC Mutual Fund (formerly known as Dhanraksha plan of LIC Mutual Fund).**

Stress: In case of an individual, ULIP should be taken on his own life, life of spouse or any child (may be dependent/independent, male/female, minor/major or married/unmarried). In case of HUF, ULIP may be taken on life of any member.

- **Payment for notified annuity plan of LIC (ex: Jeevan Dhara and Jeevan Akshay) or any other insurer (ex: Immediate Annuity plan of ICICI Prudential Life Insurance Company, Tata AIG Easy Retire Annuity Plan if Tata AIG LIC).**
- **Subscription towards notified units of Mutual Fund or UTI.**
- **Contribution to notified pension fund setup by Mutual Fund or UTI (ex: Retirement Benefit Unit scheme of UTI and Kothari Pioneer Pension Plan of Kothari Mutual Fund).**
- **Any sum paid (including accrual interest) as subscription to Home Loan Account scheme of the National Housing Bank or contribution to any notified deposit scheme pension fund set up by the National Housing Bank.**
- **Any sum paid as subscription to any scheme of:-**
 - Public Sector Company engaged in providing loan-term finance for purpose/construction of residential houses in India (ex: public deposit scheme of HUDCO).
 - Housing Board constituted in India for the purpose of planning, development or improvement of cities/towns.
- **Any sum paid as tuition fees (not including any payment towards development fees/donation/payment of similar nature) whether at the time of admission or otherwise to any university/college/educational institute in India for full time education of any 2 children of an assessee (individual).**

Stress: Full time education includes any educational course offered by any university, college, school or other educational institution to a student who is enrolled full-time for the said course. Full time education includes even play-school activities, pre nursery and nursery classes. The amount allowable as tuition fees shall include any payment of fees to any university, college, school or educational institution in India except the amount representing payment in nature of development fees or donation or capitation fees or payment of similar nature. *Circular no 8/2012, dated 5th of October, 2012.* (via following link:- http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=CIR&schT=&csId=b6b49d91-602b-44e0-a5e2-b6edf7373fbd&crn=8/2012&yr=ALL&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws).
- **Any installment or part payment towards the cost of purchase/construction of a residential property to a housing board or co-operative society (or repayment of housing loan taken from Government, bank, cooperative bank, LIC, National Housing Bank, assessee's employer where such employer is public company/public sector company/university/co-operative society).**

Stress: The following payment made towards the cost of purchase/construction of a new residential house property is qualified for the purpose of deduction u/s 80C:-

- ❖ Any installment or part payment of the amount due under any self-financing or other scheme of any development authority, housing board or other authority engaged in the construction and sale of house property on ownership basis. or
- ❖ Any installment or part payment of the amount due to any company or co-operative society of which the assessee is a shareholder or member towards the cost of the house property allotted to him (it is not applicable if the assessee is not a shareholder or member of the company/co-operative society which provides house to the assessee); or
- ❖ Repayment of the amount borrowed by the assessee from:-
 - ✚ The Central Government or State Government, or
 - ✚ Any bank, including a co operative bank, or
 - ✚ The LIC of India, or
 - ✚ The National Housing Bank, or
 - ✚ Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purpose which is eligible for deduction u/s 36(1)(viii), or
 - ✚ Any company in which the public are substantially interested or any co-operative society, where such company or co-operative society is engaged in the business of financing the construction of houses, or
 - ✚ The assessee's employer where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act, or
 - ✚ The assessee's employer where such employer is a public company or public sector company, or a university established by law or a college affiliated to such university or local authority or co-operative society.
- ❖ Stamp duty, registration fees and other expenses for the purpose of transfer of such House Property to the assessee.
- ★ The following Payments are not qualified u/s 80C:-
 - ✖ The admission fee, cost of the share and initial deposit which a shareholder of a company or a member of cooperative society has to pay for becoming such shareholder or member (respectively); or
 - ✖ The cost of any addition or alteration to, or renovation or repair of, the house property which is carried out after the issue of the completion certificate in respect of the house property by the authority competent to issue such certificate or after the house property (or any part thereof) has either been occupied by the assessee or any other person on his behalf or been let out; or
 - ✖ Any expenditure in respect of which deduction is allowable under the provisions of section 24.

➤ **Amount invested in approved debentures of, and equity shares in, a public company engaged in infrastructure including power sector or units of a mutual fund proceeds of which are utilised for the developing, maintaining etc of a new infrastructure facility.**

➤ **Amount deposited in a fixed deposit for 5 years or more with a schedule bank in accordance with a scheme framed and notified by the Central Government (applicable from the AY 2007-08)(it shall be a minimum of ₹ 100 or multiples thereof).**

➤ **Subscription to any notified bonds of National Bank for Agriculture and Rural Development (i.e, the NABARD Rural development bank of NABARD)(applicable from the AY 2008-09).**

➤ **Amount deposited under Senior Citizen Saving Scheme (applicable from the AY 08-09).**
Stress:: When a deposit is made in the PPF account, senior citizen saving scheme and Time deposit scheme in Post Office by means of a cheque/draft, the day of encashment of the cheque is treated as date of deposit.

- **Amount deposited in 5 year time deposit scheme in post office (applicable from AY 08-09).**

Stress:: When a deposit is made in the PPF account, senior citizen saving scheme and Time deposit scheme in Post Office by means of a cheque/draft, the day of encashment of the cheque is treated as date of deposit.

Other Points Regarding Computation of Gross Qualifying Amount:-

The following points are also relevant at the time of calculation of GQA:-

- ➔ **Investment/deposits are qualified on payment basis** – The aforesaid sums qualify, for the purpose of this section, on “payment basis”. Payments made under this aforesaid heads during the previous year are qualified for the purpose of this section, regardless of the fact whether the payments relate to the previous year or years preceding or ensuring the previous year.
- ➔ **Minimum period of holding in some cases** – In respect of the investments/deposits/contributions eligible for deduction u/s 80C, in some cases the law provides a minimum period of holding. Such cases are given below:-

Nature of Investments/deposits	Number of item	Minimum period of holding
ULIP	8 and 9	5 years
LIP	1	2 years
Cost of purchase/construction of a residential house property including repayment of loans	16	5 years
Deposit under Senior Citizen Saving Scheme	20	5 years
Time Deposit in Post Office	21	5 years

Where a member participating in ULIP, terminates his/her participation before making contribution for 5 years, then following consequences must b noted:-

Whether any deduction would b available in respect of any contribution towards the above plan in the previous year in which the taxpayer terminates participation in the above plan before completing 5 years	Any contribution made towards the above plan in the said PY will not b qualified for deduction u/s 80C
What will b the tax treatment in respect of deduction already taken in the PY(s)	The quantum of deduction already taken in the PY(s) would b deemed as income of taxpayer in the year in which contribution to the plan is terminated.

A similar rule is applicable in respect of termination of LIC before 2 years and transfer of residential house property before 5 years. In the case of withdrawal before 5 years by the depositor during his

lifetime from amount deposited under Senior Citizen Scheme or time deposit in Post Office, the amount withdrawn (excluding interest which has already been taxed in earlier years) will be taxable in the year of withdrawal.

Note - 2 - Amount of Deduction – Gross qualifying amount is the figure derived above. However amount of deduction u/s 80C is computed as (lower of):-

Gross qualifying Amount

OR

₹ 1,50,000/-

(it may further be noted that the aggregate amount allowed as deduction u/s 80C, 80CCC and 80CCD(1) cannot exceed ₹ 1,50,000/-).