23 most common Investments and how they are taxed?

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Fixed Income/Debt Investments:

1. Saving Bank Account:

- Interest earned in saving bank account **up to Rs 10,000 is exempted from tax** u/s 80TTA. Any interest more than Rs 10,000 is added to your income and taxed at income tax slab rates.
- There is **NO TDS** on interest earned on saving bank account.
- This is also applicable for Post Office Savings Account.

2. Bank Fixed Deposits:

- The **entire interest earned on Bank FD is added to the income and taxed according to the income tax slab rates**.
- **TDS of 10% is deducted if the annual interest exceeds Rs 10,000**. Interest across all Fixed Deposit/ Recurring Deposit accounts across all branches of a bank is taken into consideration to arrive at the total annual interest figure for TDA.
- If **NO PAN is linked to the FD account the TDS rate is 20%**.

3. Bank Recurring Deposits:

- Budget 2015 made the **tax and TDS structure for Recurring Deposit same as Fixed Deposit**.
- Earlier no TDS was deducted for RD deposits.

4. Company Fixed/Recurring Deposit:

- The entire interest earned is **added to the income and taxed according to the income tax slab rates**.
- **TDS of 10% is deducted if the annual interest exceeds Rs 5,000**.

5. NCDs/ Bonds:

- The **interest earned on bonds/NCDs is fully taxable** as per income tax slab rate.
- **TDS of 10% is deducted** if the annual interest paid exceeds Rs 5,000. However, there is **NO TDS if the bond/NCD is held in Demat form.**

<u>**Capital Gains Tax on Bonds:**</u>

- In case the bond/NCD is sold through exchange before maturity, it entails capital gains. If **the holding period is less than 1 year, it is Short Term Capital Gains and taxed according to income tax slab**.
- For holding period of more than 1 year, **the gains are Long Term Capital Gains and are taxed at flat rate of 10%**. There is no indexation benefit available.

6. Tax Free Bonds:

- As the name suggests **the interest earned on tax free bonds is tax free**.
- But if tax free **bonds are sold before maturity, it leads to capital gains**.
- Investment for less than 1 Year -> Short Term Capital Gains -> taxed according to income tax slab
- Investment for more than 1 Year -> Long Term Capital Gains -> flat rate of 10% (no indexation benefit)

Small Saving Schemes:

7. Post Office Saving Account:

- **Interest up to Rs 3,500 for single holder account and up to Rs 7,000 for joint account in Post Office Saving Account is tax free u/s 10(15)(i)**. The remainder interest will get added to your income and will be taxed at the applicable rate of income-tax.
- There is **NO TDS** on Post Office Saving Account.
- Also **this exemption is over and above tax exemption offered by 80TTA**.

Example: You have Rs 9,000 interest from Bank account and Rs 5,000 from Post Office Saving Account; you can claim Rs 3,500 tax exemption u/s 10(15)(i) for post office account and Rs 9,000 for bank account & Rs 1,000 for Post office account (total – Rs 10,000) u/s 80TTA separately.

8. PPF (Public Provident Fund)

- The interest received is tax free

9. Senior Citizen Saving Scheme:

- The interest received is added to income and **taxed at marginal income tax rates**.
- **TDS of 10% is deducted if the annual interest exceeds Rs 10,000**.

10. NSC/KVP

- The interest received is added to income and **taxed at marginal income tax rates**.
- There is NO TDS.

Retirement Plans:

11. NPS:

- **20% of the maturity corpus is taxed at income tax slab** applicable to you.
- 40% of corpus should be used to buy annuity. The monthly pay out received is fully taxable.

12. Pension Plans:

- **1/3 of pension maturity amount** can be commuted (withdrawn in lumpsum) and is **tax free**
- The rest 2/3 amount should be used to buy annuity. The monthly pay out received from annuity is fully taxable

13. EPF (Employee Provident Fund)

- **Maturity amount received form EPF is fully tax free** if you have continuous service of more than 5 years.
- In case the **service period is less than 5 years, the amount is taxable as per income tax slab rates**.
- **TDS at 10%** is deducted for premature and taxable withdrawal of funds from EPS, if the payment is more than Rs 50,000.
- In case the PAN information is not furnished the TDS would be deducted as 20%.

Mutual Funds:

For tax purpose Mutual Funds are of two types:

1. Equity Mutual Fund and
2. Non-Equity Mutual Fund.

Any scheme which has more than 65% invested in equities is treated as Equity Mutual Fund.

14. Equity Mutual Fund/Equity Oriented Balanced Fund/Arbitrage Fund:

- If the investment is held for **more than 1 year, the gains are classified as Long Term Capital Gains and are tax free.**
- In case the investment duration is for l**ess than 1 year, the gains are Short Term Capital Gains which are taxed at the rate of 15%.**
- **Dividends received are tax free.**
- **Post April 1, 2018 the long term capital gains would be taxed at 10.4% (including surcharge). Also equity mutual funds dividend would attract DDT (dividend distribution tax) of 10%.**

15. Debt Mutual Fund/ Balanced Fund/MIP/ Gold Fund/ International FoF:

- If the **investment is held for more than 3 years the gains are classified as Long Term Capital Gains and are taxed at 20% after indexation.**
- **Short Term Capital Gains are added to the income and taxed at marginal tax rates.**
- **Dividends are tax free in the hands of investor** but funds deduct DDT (Dividend Distribution Tax) of 28.32% before paying.

16. Equity:

- If the **investment is held for more than 1 year, the gains are classified as Long Term Capital Gains and are tax free.**
- In case the **investment duration is for less than 1 year, the gains are Short Term Capital Gains which are taxed at the rate of 15%**.
- **Dividend incomes up to Rs 10 Lakhs are tax free.** Any excess dividend is taxed at 10% flat rate.

- **Post April 1, 2018 the long term capital gains would be taxed at 10.4% (including surcharge).**

Gold:

17. Gold Jewelry/ Bullion/ Physical Gold:

- If the **investment is held for more than 3 years the gains are classified as Long Term Capital Gains and are taxed at 20% after indexation.**
- **Short Term Capital Gains are added to the income and taxed at marginal tax rates**.

18. Sovereign Gold Bonds

- **Interest received on gold bonds is taxed** at income tax marginal rates applicable to you
- If **bonds are held till maturity, the capital gains are tax free**
- If the investment is held for more than 3 years but before sold maturity the gains are classified as **Long Term Capital Gains and are taxed at 20% after indexation.**
- **Short Term Capital Gains** are added to the income and taxed at marginal tax rates.

19. Gold Monetization Scheme:

- The **interest received is tax free.**
- Also there is **No Capital Gains Tax** on the appreciation in the value of gold deposited.

Life Insurance

20. Endowment/Money back Policies:

- The **final proceeds are tax free** if the premium paid for all the years are less than 10% of the maturity amount.
- Surrender amount exempt from tax after 3 years
- **TDS at 2%** if the total receipts exceed Rs 1 Lakh.
- Service tax is applicable on premiums paid.

21. ULIPs:

- The **maturity amount is tax free** if the premium paid for all the years are less than 10% of the maturity amount.
- Surrender amount, early partial withdrawals exempt from tax after 5 years
- **TDS at 2%** if the total receipts exceed Rs 1 Lakh.

Real Estate:

22. Rental Income:

- A standard deduction of 30% is allowed on rental income. Thereafter the **rent received is taxed at income tax slabs** applicable to you.
- You can also **claim deduction for interest paid on home loan**. ~~There is no limit of interest deduction for rented home.~~ Budget 2017 has limited the deduction to Rs 2 lakhs irrespective of property being rented or self-occupied.
- Additional deduction can be availed for repairs, home insurance, property tax, etc.

23. Sell/Purchase of Property:

- The g**ains are long term capital gains if the property is held for more than 2 years [**Budget 2017 brought the holding time to 2 years]**. In this case it's taxed at 20% after indexation benefit.**
- **Short term capital gains is taxed at marginal tax rate** applicable to you.