nivesh yatra
THE JOURNEY TOWARDS FINANCIAL FREEDOM

Tax Savings under Section 80C

Use the various tax savings options to match your financial goals rather than just treating them as pure tax saving exercise

The thought of the annual income tax planning exercise makes even the most seasoned taxpayers squirm. Among the various-tax saving options, tax deductions under the Section 80C of the Income Tax Act, 1961 is highly popular. Section 80C allows individuals to claim annual tax deductions up to Rs 1.5 lakh in a financial year. There are 12 different investment avenues under this section across which one can spread their savings **(See: The Section 80C Menu).** Such a wide choice can be a bane or a boon, depending on how you wish to use the choice.

Each tax saving option has its unique characteristics which could be favourably used to achieve the desired outcome. For instance; family's financial protection is a must, which can be achieved by taking a term insurance plan. The premiums paid could be claimed as deductions. Likewise, every taxpayer has financial goals such as retirement, savings towards children's education, vacation or the down payment towards a home loan. If planned smartly, you could reach some of your financial goals while also saving taxes.

Taxpayers with school going children can claim deductions in lieu of the fee paid towards education and those servicing home loans, can claim deductions against the proportion of principal sum repaid each financial year. Likewise, with the Sukanya Samriddhi Yojana (SSY), one can build a corpus towards higher education of one's daughter. A long-term goal like retirement can also be worked on with contributions to EPF, NPS and other long-term tax saving avenues.

Then there are tax saving options especially suited to the needs of senior citizens. Deposits in SCSS can be used to save taxes and the quarterly interest on deposits can be a regular source of income. Taxpayers who are averse to risk could consider guaranteed fixed return type options such as NSC, PPF and the 5-year deposits for which the interest rate on deposits are fixed.

There is also a choice of investing in equity as an asset class with ELSS (equity linked savings scheme), which is an equity mutual fund with a three year lock-in. So, if one plans well and chooses wisely from the available tax savings options under Section 80C, taxpayers can smartly reduce their tax outgo and also smartly work towards their financial goals. ●

Low Risk, Assured returns
1. National Savings Certificate (NSC)
2. 5-year Tax Saving Fixed Deposit
3. Sukanya Samriddhi Yojana (SSY)
4. Senior Citizens Savings Scheme (SCSS)
5. Employees' Provident Fund (EPF)
6. Public Provident Fund (PPF)

Moderate to high risk, market-linked returns
7. National Pension System (NPS)
8. Life Insurance Premium
9. Pension plan premiums
10. ELSS (Equity Linked Savings Scheme)

Others
11. Children Tuition Fees
12. Repayment of Home Loan Principal

Read about equity allocation with tax savings in part 2. Issuse dated 25th November 2019.