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For Busy Employees

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Businesses

Introduction

As a taxpayer, you know the pain of paying taxes. But with little planning and awareness about the tax saving allowances and investments, you can bring down your tax liability.

In this handbook, we cover the common tax saving avenues and a quick analysis of available investment options to help you save taxes.

As they say “Money Saved is Money Earned”...

Things we will cover:

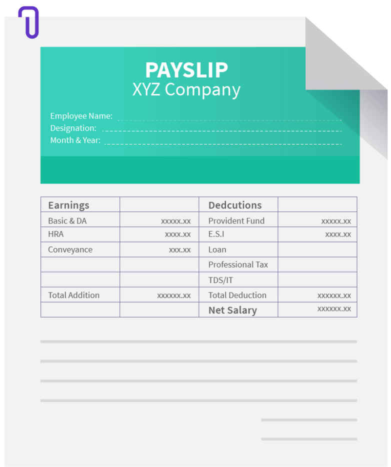
Tax Saving Avenues to Consider

Analysis of Tax Saving investments

Quick Reference to Section 80C Deductions

FAQs

Tax Saving Avenues to Consider for FY 2017-18



A simple analysis of your payslip can help you take maximum advantage of tax benefits. There are allowances such as HRA and Leave travel allowance etc, that you can claim while filing your return and lower your tax liability.

Tax Saving Avenues for FY 2017-18

Category	Condition	Tax Benefit Limit
HRA	Monthly Rent (Landlord's PAN required if total rent paid exceeds 1 lakh in F.Y)	HRA calculator
Medical Insurance	Premium paid	Rs 25,000 for self ; Rs 30,000 for parents
Home Loan Tax benefit	Interest portion of EMI paid during the year	Rs 2 lakhs for self-occupied property and no limit for rented property (read here)
NPS tax benefit (80CCD)	NPS investment for the year	50,000
Tax benefit on Education Loan (80E)	Interest payout for the year	No monetary limit
Other common deductions	Investment in ELSS mf, PPF, NSC Employee's contribution to EPF Expenses like LIC premium, school tuition fees (See full list here)	Rs 1,50,000

Analysis of Tax Saving Investments

There are multiple tax saving instruments where you can invest such as PPF, ELSS etc. When you invest in these, the amount invested is used to reduce taxable income upto Rs 1.5 lakh under Section 80C. Let us see some of these tax saving avenues :-

Public Provident Fund- PPF is a very popular tax saving avenue among salaried employees.PPF offers tax free earnings on maturity and guaranteed returns as set by the government every year. Minimum investment can be started from as low as Rs 500 per year. There is complete security of the invested capital. Facilities to make partial withdrawal and loans, tenure extension and easy account opening from banks or post offices can be availed.However, a drawback of PPF is that you cannot raise your investment as your income goes up. A maximum of Rs 1.5 lakhs can be invested in PPF. One cannot close his or her account prematurely , which results in lower flexibility as compared to SIP or FD where you can close it whenever you want.

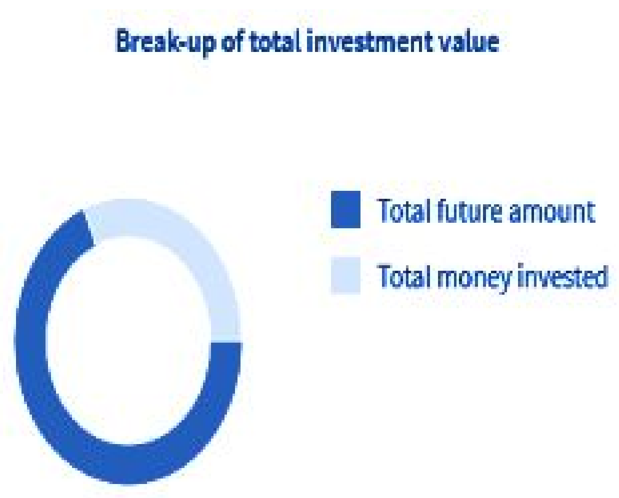
Employee Provident Fund- An employee’s contribution to the Employee Provident Fund (EPF) account also earns a tax break under Section 80C of upto Rs 1.5 lakh. This amounts to 12% of salary that is deducted by an employer and deposited in the EPF or other recognised provident fund. The current interest rate on the EPF is 8.6%.

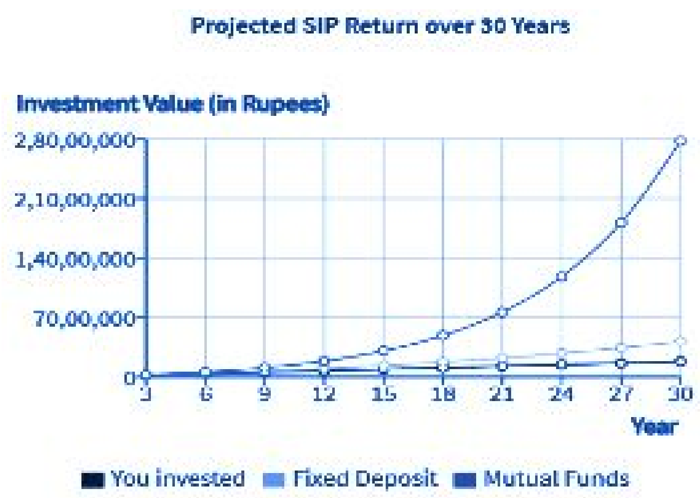
Tax Saving Fixed Deposits- Tax saving Fixed deposits are like regular fixed deposits, but come with a lock in period of 5 years and tax break under Section 80C on investments upto Rs 1.5 lakh.Different banks offer different interest on the tax saving FDs which range from 7-9%. The returns are guaranteed and the FDs offer 100% capital protection. But upon maturity the interest is added to the investor’s taxable income.

National Saving Scheme (NSC)-NSCs are eligible for tax breaks for the financial year in which they are purchased. Investments of upto 1.5 Lakh can be made to save taxes under Section 80C.NSCs can be bought from designated post offices and come with a lock-in period of 5 years. The interest is compounded annually but is taxable. The current interest rate for FY-2017-19 is 7.8%.

Equity Linked Saving Scheme (ELSS)- Equity linked saving scheme (ELSS) is one of the smartest investment instrument to maximise your tax saving efforts. ELSS involves investment of majority of your deposit in equity related products. ELSS funds are managed by professional fund managers who are experts in predicting market trends and make sure your money is invested in the right way. Investments in ELSS can be done via SIPs. In case there is remaining balance in 80C to claim, a lump sum ELSS investment can be done as well.The lock in period in case of ELSS is just 3 years which is lowest as compared to traditional tax saving options like PPF, NSC, bank fixed deposits etc and returns are usually 12-15%. Additionally, since ELSS funds are equity-oriented funds, all gains on investments held for over one year are tax-free for the investor.

Let's use our calculator to see the returns.If you invest Rs 5000 for 10 years at expected annual returns of 14% in equity mutual funds, you can see the following projected SIP return over the next 30 years





Comparative Analysis of Tax Saving Investments

Product	Amount that needs to be invested		Tax Treatment
	Minimum	Maximum	
PPF	Rs 500	Rs 1,50,000	Exempt on withdrawal
EPF & VPF	12% basic for EPF	No limit for VPF	Withdrawal prior to 5 years is taxable
Tax saving bank FD	Rs 100	Rs 1,50,000	Interest is taxable
NSC	Rs 100	No max limit	Interest is taxable
ELSS	Rs 500	No max limit	Exempt on withdrawal

Quick Reference to Section 80 Deductions

You can read more about 80C deductions in detail here

<table>
<tr><th>Section</th><th>Deduction</th><th>FY 2017-18</th></tr>
<tr><td>Section 80C</td><td>• Investment in PPF
• Employees PF contribution
• NSCs
• Life Insurance Premium payment
• Children’s Tuition Fee
• Principal Repayment of home loan
• ELSS
• Senior Citizens savings scheme
• Subscription to notified securities/notified deposits scheme
• Subscription to Home Loan - Account Scheme of the National Housing Bank
• Contribution to notified annuity Plan of LIC
• Subscription to equity shares/ debentures of an approved eligible issue</td><td rowspan="3">Rs 1,50,000</td></tr>
<tr><td>80CCC</td><td>For amount deposited in annuity plan of LIC or any other insurer for pension from a fund referred to in Section 10 (23AAB).</td></tr>
<tr><td>80CCD(1)</td><td>Employee’s contribution to NPS account</td></tr>
<tr><td>80CCD(2)</td><td>Employer’s contribution to NPS account</td><td>Maximum up to 10% of salary (no monetary ceiling)</td></tr>
<tr><td>80CCD(1B)</td><td>Additional contribution to NPS</td><td>Rs 50,000</td></tr>
</table>

80TTA	Interest Income from Savings account (not applicable on interest income from fixed deposits)	Maximum up to 10,000
80GG	For rent paid when HRA is not received from employer	Least of - Rent paid minus 10% of total income Rs. 5,000 per month 25% of total income
80E	Interest on education loan	Interest paid for a period of 8 years
80EE	Interest on home loan for first time homeowners	Rs 50,000 (in addition to Rs 2 lakhs) provided conditions laid down are fulfilled
80CCG	Rajiv Gandhi Equity Scheme for investments in Equities	Lower of 50% of amount invested in equity shares or Rs 25,000
80D	Medical Insurance: Self, spouse, children	Max Rs 25,000
	Medical Insurance: Parents more than 60 years old OR (from FY 2015-16) claim medical expenses for uninsured parents more than 80 years old	Max Rs 30,000
80DD	Medical treatment for handicapped dependant or payment to specified scheme for maintenance of handicapped dependant Disability is 40% or more but less than 80% Disability is 80% or more	Rs 75,000 Rs 1,25,000

80DDB	Medical Expenditure on Self or Dependent Relative for diseases specified in Rule 11DD	Whichever is lower *Rs 40,000 or actually amount paid(where person is less than 60 years old) * Rs 60,000 or actually amount paid(if more than 60 years old) * Rs 80,000 or actually amount paid(if more than 80 years old)
80U	Self-suffering from a disability	Rs 75,000 (in case of physical disability including blindness or mental retardation) Rs 1,25,000 (severe disability)
80G	Donations	Refer ClearTax guide to 80G – here
80GGB	Contribution by companies to political parties	Non cash amount contributed (not allowed if paid in cash)
80GGC	Contribution by individuals to political parties	Amount contributed (not allowed if paid in cash)
80RRB	Deductions on Income by way of Royalty of a Patent	Lower of Rs 3,00,000 or income received.

FAQs

Let's find answers to some common questions on tax saving?

1. **Can I claim HRA, if I am staying in my dad's house?**

   Yes, you can claim HRA, condition is that you enter it into the rental agreement with your father and pay the rent. In this case, the rent will become your father's taxable income.

2. **I bought a house on loan in this financial year. How do I claim tax benefit?**

   You can claim tax benefit on the interest paid on home loan and also on principal repaid. Read our guide for details.

3. **My employer won't accept investment proof for FY 17-18 after february, 2017. Will I get tax benefit If I invest in tax saving instrument in March, 2018?**

   The amount that you invest at any time in the financial year is eligible for tax benefit. For example, in your case if you invest in ELSS mutual fund even if in the last week of March, 2018. This investment will reduce your tax liability for FY 17-18, irrespective of whether you have submitted the proof to your employer or not. You can do so by claiming this benefit while filing your return of income for FY 2017-18.

4. **Most of the tax saving investments that I have heard like PPF, NSC have minimum 5 years lock-in-period? I am looking for a investment option with better return and lesser lock-in-period.**

   Equity Linked Savings Scheme or ELSS are tax-saving mutual funds that you can use to reduce taxable income by upto Rs 1.5 lakh under Section 80C. ELSS funds have a lock-in period of 3 years and give returns more than traditional tax saving investments like PPF, NSC.

Contact Us

We at clearTax take pride in our ability to quickly resolve customer queries. Should you have any query, reach out at **support@cleartax.in** or call at **080-67458744** and let our experts help you out.