NSDL
Technology, Trust & Reach

The Financial Kaleidoscope

Defining the different shapes of investment

January - February 2022

Investment & Tax Planning

From The Editor's Desk

Dear Reader,

With the financial year fast drawing to an end, it's time for most of us to review the investments made for saving tax. On one hand, we have to conclude the current financial year and on the other, plan the investments for the next one. Tax planning is not just about knowing the basics of taxation and investment but also about building long term habits and discipline.

Given the sensitive nature of the phrase 'tax planning' and a lot of myths and misinformation surrounding the term, it is necessary to understand the legalities involved in any decision you make. Over the years, the Government of India and the Income Tax department have enhanced a lot of systems and processes to make it more taxpayer-friendly.

This edition of 'The Financial Kaleidoscope' sheds light on important aspects of investment and tax planning that are relevant to retail investors. From a basic understanding of taxation to filing returns, we have tried to explain a few popular investment instruments. We hope you will find this newsletter useful. Please do share it with your friends, colleagues, or anyone else who might be interested in learning the finer points of personal finance.

Most probably you would be aware that LIC has filed application (DRHP) for its IPO with SEBI. It is expected that existing policy holders may get some price discount and / or reservation in allotment for this IPO. Those who are not LIC policyholders will also be eligible to participate in the IPO. Anyone who wants to apply for shares in IPO needs to mention his / her demat account in the application. Existing policy holders who had their PAN recorded in recordsof LIC on or before February 28, 2022 will be eligible for reservation. Visit www.licindia.in>>Home>>Online-PAN-Registration for more information on this.

We also invite you to participate in the 'Knowledge Wins Contest' and share your feedback and suggestions at the link given later in this newsletter.

Recordings of NSDL webinars are available on the NSDL Investor Education channel on YouTube. So, if you have missed out on attending any webinar of your choice, you may visit our channel and subscribe to the same to see all videos at your convenience.

Regards,
NSDL – Your Depository

What is Tax Planning?

Tax planning is the process of analyzing and managing your finances from an income tax perspective. More specifically, it is done to reduce the tax liability through a combination of investments and by claiming deductions and exemptions available under various provisions of the Income Tax Act.

In other words, tax planning is the optimal utilization of exemptions, benefits, and rebates with suitable investments.

Importance and benefits of early tax planning

Conventional financial wisdom tells us that it is never too early to start investing. Starting early offers several benefits:

- **Well researched and planned financial goals**

Starting tax planning early gives you time to research and visualise measurable financial goals. Understanding the various provisions and deductions available under the Income Tax Act can help make smart investment choices. It may also induce change in spending patterns and getting accustomed to new financial habits.

- **Avoid paying extra tax**

For salaried individuals, employers are considered responsible for deducting applicable tax based on an employee's salary and their investment declarations. This is done in the form of Tax Deducted at Source (TDS) from the salary and paid on behalf of the employee. If sufficient tax-saving declarations are not made, employers may deduct a higher tax towards the end of the year and while you may get a refund later, your money will remain blocked for that duration.

- **Liquidity for tax-saving investments**

More often than not, people wait till the end of the year to make a lumpsum investment in tax-saving instruments. However, this can be difficult in uncertain economic conditions. Any volatility in the market can add unnecessary strain or financial burden and may even cause you to miss the investment targets. Thus, spreading the amount and allocating funds throughout the year allows you to manage liquidity.

- **No last-minute hassle**

Planning early and recording financial transactions throughout the year helps avoid last-minute rush and hassles. Knowing potential tax liability in advance also facilitates better cash flow and allows you to tap all available deductions and exemptions in an organised manner. Keeping the documentation of all financial transactions handy also minimises errors, omissions and glitches while filing income tax returns.

Difference between tax planning, tax avoidance and tax evasion

The terms tax planning, tax avoidance and tax evasion are often confused and used inter changeably. From a legal perspective, the three are very distinct and the implications of not understanding them can be quite damaging. The table below will help to analyse these three terms better -

	Tax Planning	Tax Avoidance	Tax Evasion
Meaning	To save on taxes by using provisions of the law	To avoid payment of taxes by using loopholes in the law	To evade paying tax through fraudulent means
Attributes	Done with bonafide intentions and is legal	Done with malafide intentions, may be legal, but immoral	Done with malafide intentions, illegal and immoral
Outcomes	Helps an individual reduce tax liability and enhances financial planning	Can be questioned by the authorities and could lead to litigation	Could lead to financial penalties, imprisonment

In a nutshell, tax planning is legal and done within the provisions of the law. On the other hand, tax evasion is a punishable crime.

Deductions and investment avenues for tax planning

The Income Tax Act offers deductions on certain investments and payments. These deductions are applied before computing your income tax liability. Some of the popular tax-saving instruments are:

- **Equity Linked Savings Scheme (ELSS)**

Also known as tax saving mutual fund, ELSS is an equity-based mutual fund offered by registered Asset

Management Companies or mutual fund houses. Linked to the equity market, it has the potential to earn smart returns and is recommended for people with a slightly higher appetite for risk. Investments up to ₹1,50,000 for a minimum duration of 3 years are eligible for deduction. Investors can use their existing Demat account to make

- **Unit Linked Insurance Plan (ULIP)**

A combination of insurance and investment, ULIPs are offered by insurance companies. A portion of the money paid is allocated to provide life insurance and the balance is invested in equity or debt instruments. Investment up to ₹1,50,000 qualifies for deduction under Section 80C and gains upon maturity are exempt from tax, provided the annual premium paid is less than or equal to ₹ 2.5 lakhs.

- **Sukanya Samriddhi Yojana (SSY)**

This is a tax-saving deposit scheme launched by the Government for the all-round development of the girl child. Sukanya Samriddhi Account can be opened at the Post Office or any authorised bank by the parent or guardian of a girl child before she turns 10 years old. An annual deposit of up to ₹1,50,000 is tax deductible. The Interest on the deposit is compounded annually and is fully exempt. All withdrawals and receipts upon maturity are also exempt from tax.

- **Public Provident Fund (PPF)**

It is one of the most popular tax-saving investment schemes offered by banks and post offices. It is a long-term investment with a lock-in period of 15 years with provision for partial withdrawal every year after 7 years. Individuals can contribute a minimum of ₹500 and a maximum of ₹1,50,000 in multiples of ₹50 in an account in a financial year. The best feature of PPF is the triple tax exemption it offers - on the amount of contribution, the interest earned and the proceeds upon maturity.

- **National Pension System (NPS)**

It is a retirement-focused, long-term investment option open to all Indian citizens between the age of 18 and 70 years. The basic idea behind NPS is simple but very powerful. Invest while you are earning and get regular income in the form of an annuity when you retire. Restriction on withdrawal before retirement provides a long time to allow the money to grow. There are many prudent restrictions about the avenues where money contributed by NPS subscribers can be invested by pension fund managers. This helps in generating a decent rate of return on the corpus at comparatively less risk and relatively lower cost.

- **Some other popular investment options / deductions**

Section	Description	Annual Deduction Limit (in ₹)
80C	Investment in stipulated instruments, payment of insurance premium, contribution to PPF, repayment of housing loan, etc.	1,50,000
80CCC	Contribution towards pension products offered by LIC or other insurers - up to ₹150,000	
80CCD	Employee's contribution towards a pension scheme - up to 10% of salary	
80D	Premium paid for medical insurance for self, spouse, and children	25,000 (50,000)[1]
	Premium paid for medical insurance for parents	25,000 (50,000)[1]
80DD	Expenditure on maintenance and medical treatment for dependents with a disability	75,000 (125,000)[2]
80DDB	Expenditure on medical treatment of specified serious diseases and ailments for self or dependents	40,000 (100,000)[1]
80U	Deduction for persons with disability	75,000 (125,000)[2]
80E	Interest paid on education loan (for up to eight years)	Full amount
80G	Donation to approved funds and charitable institutions.	100% or 50%
80GGC	Donation to registered political parties or electoral funds	100%

(Notes: 1. Senior citizens 2. For severe disabilities)

Understanding capital gain and capital loss on investment

Capital gain in the case of investments like shares and mutual funds is the profit made on sale or redemption. If the selling price is more than the purchase price, it is called capital gain. And if the selling price is lower, the difference is known as capital loss.

The terms long-term capital gain (LTCG) and short-term capital gain (STCG) refer to the duration for which a financial asset or investment was held. If equity share or equity-oriented mutual funds are sold before 12 months, the profit earned is considered STCG. If the holding period is more than 12 months, then it is considered LTCG.

The Income Tax Act has no provisions to allow setting off of losses against any income or other heads except against capital gains. Long-term capital loss can only be set off against Long term capital gain and Short Term Capital Losses can be set off against both LTCG and STCG. Both Short Term and Long Term Capital Losses can be carried forward for eight years after the year the loss is incurred.

So, if you booked a loss of ₹25,000 on a stock after holding it for over a year, you can set it off against any long-term capital gain and any remaining loss can be carried forward for eight years.

● **Tax on Equity and Debt Mutual Funds**

Type of gain	Equity Fund	Debt Fund
LTCG	Exempted till ₹1,00,000. Then tax @ 10% without indexation.	20% with indexation
STCG	15%	As per income tax slab

● **How to calculate STCG and LTCG while filing returns?**

Calculating STCG and LTCG while filing IT returns requires 4 elements: the purchase price, the selling price, date of purchase and sale.

For example: Let us consider an individual who has purchased 1,000 shares of a company at ₹100 each for a total cost of ₹1,00,000. If he sells the shares within 1 year for a price of ₹125 per share, he will make a STCG of ₹25,000 and if he sells it at ₹150 per share after 1 year, he will book a LTCG of ₹50,000.

Different tax regimes and how to identify which tax regime suits you?

The new optional tax regime

In 2020, Finance Minister Mrs. Nirmala Sitharaman announced a new optional tax regime. The biggest change was the removal of all deductions and exemptions available under the old tax regime. It is for the taxpayer to choose the tax regime. To understand which regime suits you, let's begin by understanding the key differences between the two regimes through an example of a typical salaried individual under the age of 60 years:

Income Tax Slab	Income Tax Rate	
	Current Regime	New Regime
Up to ₹2,50,000	Nil	Nil
₹2,50,000 – ₹5,00,000	5%	5%
₹5,00,001 – ₹7,50,000	20%	10%
₹7,50,001 – ₹10,00,000		15%
₹10,00,001 – ₹12,50,000	30%	20%
₹12,50,001 – ₹15,00,000		25%
₹15,00,000 and above		30%

Which tax regime suits you?

Both tax regimes have their pros and cons. While the old system has higher tax rates, it also offers multiple options to reduce tax liability. But then again, multiple deductions and complications can add work and complexity. The new regime on the other hand is simpler with reducing tax rates as you move higher up the tax slab. But avenues for saving tax are few and with a focus on liquidity in hands of the taxpayer, the motivation for overall saving is lesser.

As income sources and deductions differ for every individual, it is not possible to apply one rule for all. Taxpayers must evaluate and compare the tax liability under both regimes and then decide which one to opt for. In case a taxpayer has already made investments in different tax saving instruments and avails the benefit of the deduction for HRA, LTA, etc. it may be more beneficial to opt for the old tax regime.

Filing Income Tax Return (ITR)

An ITR is a document that captures an individual's income, exemptions and deductions claimed during an assessment year. It also includes tax payments made by a taxpayer or on their behalf in the form of tax deducted at source by employers on salary etc.

It is mandatory for all Indian citizens with an annual income of more than ₹2,50,000 to file an ITR even if you are not liable to pay income tax. Most salaried individuals are expected to file their returns by July 31 and failure to do so can attract a penalty.

Benefits of filing an ITR

● **Getting loans or raising funds:** An IT return is a summary of your financial health so getting a loan or raising funds becomes easier. In most cases, it is a compulsory document.

● **Travelling abroad:** IT returns have become a mandatory requirement for visa applications to many countries. Returns from recent years are used to gauge the financial stability of an individual and are key in deciding whether or not to grant the visa.

● **Claim refund:** If you donot have any tax liability or any excess tax has been deducted by your employer or any other party at the source, you can claim a refund of all such taxes. This is ascertained during the process of filing your IT return.

The process of filing an income tax return

● **Gather the relevant information and documents:**

➢ **Form 16:** This is a certificate of tax deducted at source

(TDS) by your employer(s). It includes details of your salary including complete salary break-up, tax-exempted allowances, perquisites, etc. It is mandatory for all employers to issue Form 16 to their employees. The TDS is connected to your PAN, so ensure that your PAN is mentioned correctly in the Form 16.

➢ **Form 16A:** Form 16A is TDS certificate on Income 'Other than Salary.' For example, if you work as a freelancer, you will be issued Form 16A by the clients to whom you provide service.

➢ **Form 26AS:** Issued by the Income Tax department, it is a statement provided to taxpayers with details of all taxes paid by and refunds due to them. It also includes TDS deducted, paid on your behalf by employers, banks and other and entities who have made payments to you.

➢ **Proof of deductions:** Ensure you have supporting documents for all deductions claimed under various sections of Income Tax Act. This includes receipts for life and medical insurance premium, receipts for tax-exempted donations, signed rent receipts with details of landlord's PAN, statement of interest from banks, receipts of earnings from investments among others.

- **Choose the right ITR form:**

ITR forms have been designed based on the category of taxpayers. The following ITR forms are applicable for individual taxpayers –

➢ **ITR-1 or SAHAJ:** For salaried individuals and pensioners, who have income from one house or earn 'Income From Other Sources' (such as returns on investments). The total income should not exceed ₹50,00,000 and should not include 'Capital Gains', gains from other businesses or professions or winnings from lotteries or horse racing.

➢ **ITR-2:** For individuals with a total income of more than ₹50,00,000 and who do not have additional income from 'Business or Profession'.

➢ **ITR-3:** For all individuals who have additional income from 'Business or Profession'.

➢ **ITR-4 or SUGAM:** This is based on presumptive earnings for the year, for a cumulative annual amount upto ₹50,00,000.

- **e-filing of income tax return:**

It is mandatory to file Income Tax Return at (www.incometax.gov.in/iec/foportal). There are few exceptions such as Super Seniors over the age of 75 and taxpayers with an annual income under ₹5,00,000.

✓ **Register:** Register on the above portal with PAN and basic details.

✓ **Select ITR form:** Choose Assessment Year and the right ITR Form.

✓ **Enter general information:** PAN, Aadhaar and other relevant information.

✓ **Compute income and tax payable:** Include details of all incomes and deductions claimed. After including details of the taxes already paid you will get the next payable tax liability.

✓ **Pay tax or claim refund:** If your total tax due is more than the total tax paid, you will be directed to e-Pay for paying the tax online. Alternately, if the total tax paid is more, you would be able to claim refund.

✓ **Submit ITR:** After going through all these steps, submit your ITR and download the acknowledgment.

✓ **e-Verification:** Unverified ITRs are not processed by the IT department, so this is the last but important step. Your ITR can be e-Verified on the portal using EVC, Aadhaar or Demat account or through your net banking portal.

Importance of PAN

PAN is one of the most crucial documents, not just for tax purposes but also as a proof of identity.Often there are reasons for change in PAN information like name change after marriage, change in address, mobile number or email ID.Sometimes people lose PAN card or may like to change the photograph on the PAN card.
Important thing to remember in all such cases is that once allotted, PAN does not change. While number does not change, information on the PAN card or in the record of income tax department may be updated by filling up application for **'Reprint of or change/correction in PAN Data'.** Please visit https://www.onlineservices.nsdl.com/paam/endUserRegisterContact.html **or** https://www.pan.utiitsl.com/csf.html for more information.

Consequences of non-compliance

- If an individual required to furnish an ITR fails to do so within the time prescribed, they would have to pay interest on tax due and a late filing fee of ₹5,000.

Do's and Don'ts of tax planning

Dos	Don'ts
Start early, think long term: Like wealth creation, it is advisable to start early and think long term from a tax perspective too	**Don't think tax planning is an independent activity:** It is rather part of your overall financial plan and is done to reduce your taxable income and tax liability
Prioritise health and life: Ensure adequate cover in the form of health and life insurance	**Don't evade tax:** Understanding what is tax planning and what is evasion or avoidance, can be very helpful
Look beyond basic deductions: Besides the most popular section 80C, the IT Act offers several other avenues for reducing tax liability	**Don't forget to opt for the right tax regime:** Ensure to check the suitability of the tax regime every year based on your income and financial plan
Plan cash flow for investments: Plan for and make your tax-saving investments through the year to avoid a cash crunch at the end of the year	**Don't go for block investments:** Like all investments, tax-saving instruments also vary in returns, it is advisable to evaluate options to spread the risk
Stay organised: Keep records and receipts for all financial transactions as well as old tax returns and documents in an organised manner	**Don't wait till the last day:** Racing against the deadline to make tax-saving investments and to file your ITR may cause errors and omissions

1. Participate in the quiz and essay contests organised by SEBI and NISM

On the occasion of the 75th year of independence, which is being celebrated as **'Azadi ka Amrit Mahotsav'**, SEBI and NISM are conducting quiz and essay contests on the financial market. Quiz contest is open for college students through their colleges. The essay contest is open for all Indian citizens above 18 years and can be written in 14 different languages. Winners will get attractive prizes and all participants will receive a certificate.

For more information and registration details visit [https://quiz.nism.ac.in/.](https://quiz.nism.ac.in/)

2. Implementation of CAPTCHA on NSDL e-Services facility

NSDL has implemented CAPTCHA (Completely Automated Public Turing test to tell Computers and Humans Apart) on NSDL e-Services facility for enhanced security feature during Client/User authentication. CAPTCHA test is a randomly generated sequence comprising of letters and/or numbers that shall appear as a distorted image. User shall enter the displayed characters in the provided text box as User Authentication before login into the e-Services facility. **Reference:** Circular No. NSDL/POLICY/2022/002 dated January 4, 2022 available on NSDL website.

3. Mandatory update of certain attributes of KYC of clients extended till March 31, 2022.

Last date for mandatory update of 6-KYC attributes namely Name, Address, PAN, Mobile Number, Email ID and Income range in respect of all existing accounts has been extended from December 31, 2021 to March 31, 2022. Demat account would be frozen in case of non-compliance. **Reference:** Circular No. NSDL/POLICY/2021/0132 dated December 31, 2021 available on NSDL website.

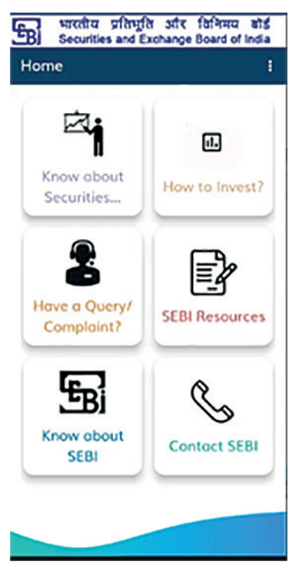
4. Investor Charter

To make the Indian securities market more Transparent, Efficient and Investor friendly by providing a safe, reliable, transparent, and trusted record-keeping platform for investors to hold and transfer securities in dematerialized form, an Investor Charter is framed.

Click here to read in detail about your rights, Do's and Don'ts, grievance mechanism etc.

5. Saa₹thi – Mobile App from SEBI for Investors

SEBI has come out with a new mobile App Saa₹thi which aims to create awareness among the investors about the basic concepts of the securities market, KYC process, trading and settlement, mutual funds, recent market developments, investor grievances redressal mechanism etc.



6. Increasing Awareness regarding Online Mechanisms for Investor Grievance Redressal Attention of Participants

Participants are advised to encourage their clients to lodge their complaints through online mechanisms more specifically through SCORES portal and SCORES mobile application for effective redressal of grievances. The clients can also lodge online complaints / grievances directly with depository/depository participant through link / option available on their website

Reference Circular No.: NSDL/POLICY/2022/012 dated January 20, 2022 available on NSDL website.

7. DPM Plus enhanced - Online Facility for Clients to nominate or opt-out of nomination

NSDL has introduced an online facility for Clients to nominate in their demat account or opt-out of nomination. Visit https://eservices.nsdl.com/instademat-kyc-nomination/#/login Participants of such Clients will be able to verify the declaration form with demat account and submit their confirmation/rejection. After confirmation by the Participant, the demat account of the Client will be updated in the NSDL Depository System.

Reference Circular No.: NSDL/POLICY/2022/016 dated January31, 2022 available on NSDL website.

8. SEBI circular on issuance of Securities in dematerialized form in case of Investor Service Requests

SEBI has directed that listed companies shall henceforth issue the securities in dematerialized form only while processing the following service requests submitted by investors –

i. Issue of duplicate securities certificate,
ii. Claim from Unclaimed Suspense Account,
iii. Renewal / Exchange of securities certificate,
iv. Endorsement,
v. Sub-division / Splitting of securities certificate,
vi. Consolidation of securities certificates/folios,
vii. Transmission,
viii. Transposition.

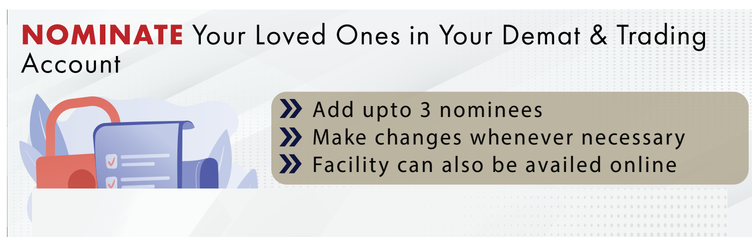
The securities holder/claimant shall submit duly filled up request form for any of the above-mentioned purposes in prescribed format (Form ISR – 4 – which can be found on the website of the Issuer Companies and the RTAs).

The RTA / Issuer Companies shall verify and process the service requests and thereafter issue a 'Letter of confirmation' in lieu of physical securities certificate(s).

The 'Letter of Confirmation' shall be valid for a period of 120 days from the date of its issuance, within which investor should submit a request to Depository Participant for dematerializing the said securities.

In case the investor does not submit the demat request within the aforesaid period, RTA / Issuer Company shall credit the securities to the Suspense Escrow Demat Account of the Company.

Reference Circular No.: NSDL/POLICY/2022/018 dated February 3, 2022 available on NSDL website.



Knowledge Wins Contest [redacted]

What is the maximum tax benefit amount one can get by investing in National Pension System (NPS)?

To send your replies: visit/click www.nsdl.co.in/knowledge-win-contest.php
or
Scan this QR code

25 Lucky Winners get FREE GIFTS

Previous Month's Winners

Aashiya Topiwala - Ahmedabad
Abhirup Nandy - Kolkata
Ajay Singh - Azamgarh
Ankur Bajaj - Mumbai
Badyopadhyay Sanandita - Kolkata
Dinesh Jadhav - Dhule
Hitendrabhai Dhaduk - Rajkot
Inderjeet Babbar - New Delhi
Kavassery Krishnamoorthy - Trivandrum
Nilesh Kelkar - Mathura
Om Prakash - Jodhpur
Prashant Patel - Ahmedabad
Rajan Raizada - Amritsar
Rajat Prajapati - Kosamba
Rakesh Verma - Dehradun
Rashmikant Kansara - Ahmedabad
Sanjay Kole - Hooghly
Sunil Chandra - Patna
Suresh Dadi - Khammam
Suyash Chaturvedi - Agra
Talanki Prabhakar - Bangalore
Urvi Chhadva - Mumbai
Veeresh Trivedi - Nagpur
Vinod kumar Kothari - Chittorgarh
Vinod Yadav - Agra

NSDL Head Office

Trade World, A wing, 4th Floor, Kamala Mills Compound, Lower Parel, Mumbai - 400013
1800 1020 990 / 1800 224 430

Branch Offices

● Ahmedabad ● Bengaluru ● Chennai ● Gift City Gandhinagar ● Hyderabad ● Jaipur ● Kochi ● Kolkata ● Lucknow ● New Delhi

Published by Mr. Prashant Vagal (Editor) on behalf of National Securities Depository Limited Investor Education Fund Trust.

Printed at Vcore Connect Unit no - 214, 2nd Floor, Ajay Industrial Estate, Anjeer wadi, Mazgaon, Byculla, Mumbai - 400010