Value Research

Your Guide to the Best Investments

2021-22

A comprehensive guide to all savings and investment alternatives

Incorporating Savings & Investment Yearbook 2021-22

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Backtested by CRISIL**

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TRUSTMF Short Term Fund

(An open ended short term debt scheme investing in instruments such that the Macaulay Duration# of the portfolio is between 1 to 3 years)

Provisional [ICRA] AAAmfs

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**CRISIL has been engaged for - construction and periodic rebalancing of model portfolio and universe, backtesting & ongoing investment process validation.

TRUSTMF Short Term Fund aims to build a portfolio of the highest rated issuers for investors to benefit from the persistent steepness in the Yield Curve in the 1-3 year segment.
The TRUSTMF Short Term Fund will follow a structured investment approach backed by unique LimitedACTIV® methodology, with the objective of delivering consistent risk-adjusted returns. The robust methodology has been developed in collaboration with CRISIL**, the knowledge partner for initial debt schemes of TRUST Mutual Fund.

RISKOMETER & Product Suitability Label

*This Product is suitable for investors who are seeking:

- Income over short term
- Investment in debt & money market instruments with portfolio Macaulay Duration between 1 - 3 years

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Investors understand that the principal will be at low to moderate risk

#Macaulay duration is the measure of the weighted average time taken to get back the cash flows and is one comprehensive parameter portraying the risk return profile of the bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. It is expressed in number of years or days. For further details please refer to the scheme information document.

Backtested or simulations are designed from certain factual events, scenarios etc. and also have certain inherent limitations. They represent a trend. Past performance may or may not be sustained in future.

@ Note for "Provisional ICRA AAAmfs": TRUSTMF Short Term Fund is rated as "Provisional ICRA AAAmfs". Such rating is considered to have the highest degree of safety regarding timely receipt of payments from the investments that they have made. This range should however, not be construed as an indication of the performance of the scheme or of volatility in its returns. The rating should not be treated as a recommendation to buy, sell or hold units issued by the scheme.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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Contents

Scan this QR code to view the current rates on the schemes in this book.

Preface

Dear Reader,

When you start on a journey, you need to look at a map.

It's good to look at an up-to-date map even if you have been on that journey many times and you think you know the way. Routes may have changed, new roads built and old ones blocked. Entirely new destinations may have become possible. Picking a habitual route and just following it can work most of the time but it's not the best way to travel.

That's an analogy, of course, but a very appropriate one. I constantly come across savers to whom this applies. They keep investing in the same things in the same way and believe that they are making the best choice. Old-time PPF fans are a major example, as are the most basic savers who will not touch anything but bank FDs. Often, the choice is the best one, but only in the circumstances of twenty or thirty years ago. The world of personal finance has moved on. New things are possible now and many of the old ones are no longer such a great choice.

Most publications that my team creates at Value Research focus on specific types of investments. Before you subscribe to one of our magazines, you must decide whether you are interested in stocks, in which case you will choose Wealth Insight and if mutual funds are your choice, then it will be Mutual Fund Insight. Of course some people are interested in both and they buy both.

Mutual funds and stocks are unique in that they are entire worlds unto themselves. There's constant change and to keep up with your investments you do need to read a monthly magazine. However, for many other instruments, while you do need to take an overview, a once-per-year update is quite enough. For something like the Sukanya Samriddhi Yojana or the Senior Citizens Savings Scheme, you should have an accurate idea of what they offer, what are they useful for and what are the nuances. For so many instruments, an occasional in-depth refresher is quite adequate.

That's exactly what this annual updater gives you. Your Guide to the Best Investments consists of an easy-to-read listing of various types of savings and investment instruments that a typical investor is likely to invest in.

Presented in the simple way that is the hallmark of Value Research, this handbook brings together resources and information on various savings and investment options available, highlighting the factors that you should look out for before making any investment decision. As each product has unique features, common investor concerns such as risks, safety, guarantees, key benefits, minimum investments and lock-in are addressed in detail.

How would you use this book? The purpose of this book is to provide an overview of the characteristics of each investment and suitability. My advice would be to rapidly read through it once, without trying to absorb each detail. That will build a map in your mind about what the whole landscape is like and help you narrow down to what all you might need. Then you can take your time and go through each option and move towards building a final route that you will follow.

As it happens, a new feature that we have added this year can serve as a literal map to guide you: a flowchart through which you can figure out the best investments for any purpose by answering some simple questions.

Of course, as I said earlier, asset types like mutual funds and stocks will require further knowledge, but for almost everything else, this book should be enough.

Live long and prosper

Dhirendra Kumar
CEO, Value Research

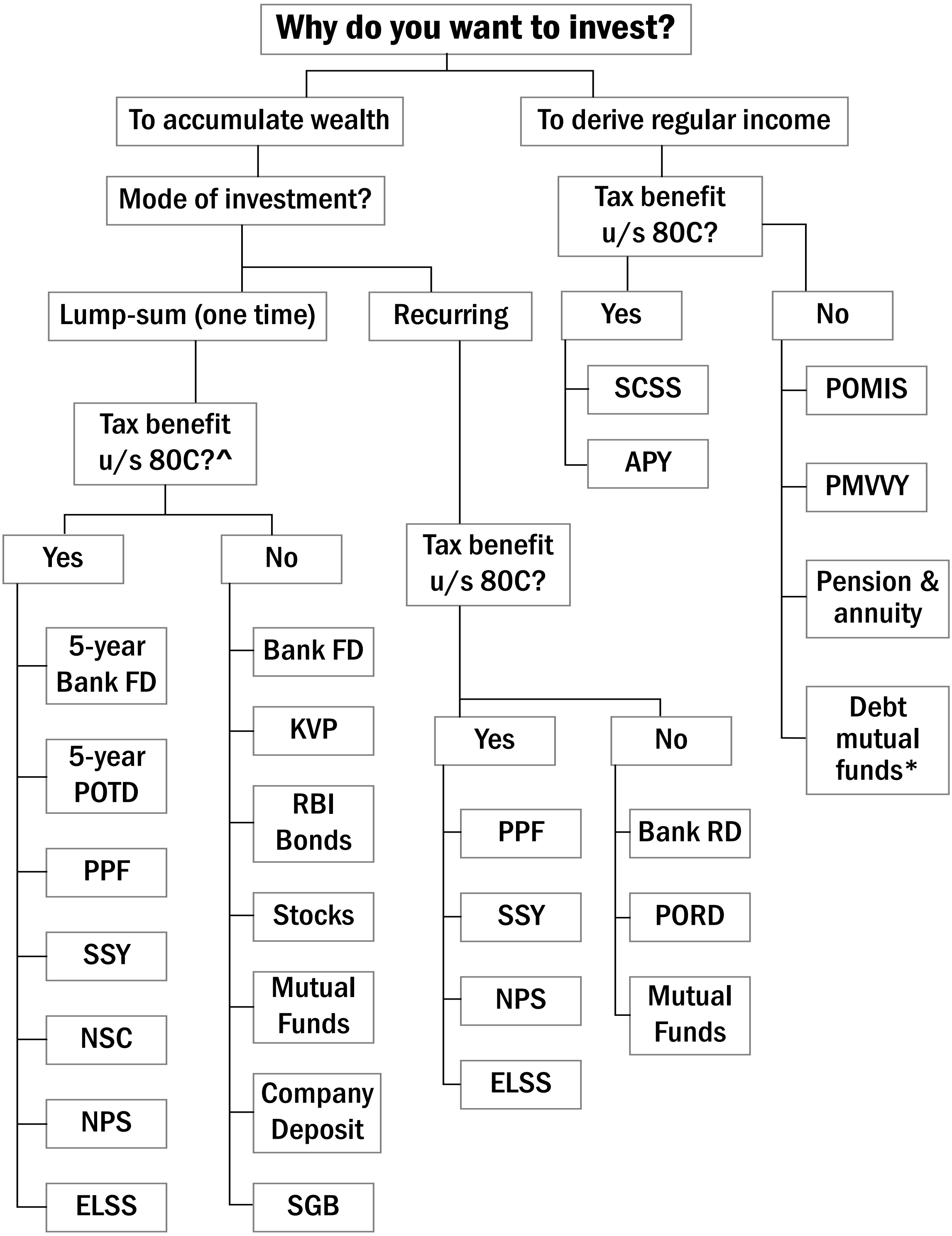
Choosing the right saving scheme

With so many investing options at your disposal, it can be daunting to choose the right one!

To make this job easy for you, here is a quick primer that can help you decide the most suitable saving and investing avenue as per your investing goals and preferences. Once you know which category of the flow chart you fall into, you can compare the available options within that category in summary tables below.

For more details on each scheme, please refer to the respective chapters.

Choosing the right saving scheme



*A systematic withdrawal plan from a debt-oriented mutual fund

^Section 80C of the Income-tax Act allows a deduction of up to ₹1.5 lakh from the taxable income on certain investments and expenses

FD – Fixed Deposit; **POTD** – Post Office Time Deposit; **PPF** – Public Provident Fund; **SSY** – Sukanya Samriddhi Yojana; **NSC** – National Savings Certificate; **NPS** – National Pension System; **ELSS** – Equity Linked Savings Scheme (Tax-saving mutual fund); **KVP** - Kisan Vikas Patra; **SGB** - Sovereign Gold Bond; **RD** – Recurring Deposit; **PORD** - Post Office Recurring Deposit; **SCSS** – Senior Citizen Savings Scheme; **APY** – Atal Pension Yojana; **POMIS** – Post Office Monthly Income Scheme; **PMVVY** – Pradhan Mantri Vaya Vandana Yojana

Table-1: Investment objective - Accumulation

Scheme	Mode of investment	Tax benefit u/s 80C	Rate of return	Nature of return	Investment amount (₹)	Tenure	Taxability of returns	Premature withdrawal
5-year Bank FD	One time	Up to ₹1.5 lakh	5.4% *	Fixed	Min: 1,000 Max: No limit	5 years	Taxable**	Not allowed
5-year POTD	One time	Up to ₹1.5 lakh	6.70%	Fixed	Min: 1,000 Max: No limit	5 years	Taxable**	Not allowed
NSC	One time	Up to ₹1.5 lakh	6.80%	Fixed	Min: 1,000 Max: No limit	5 years	Taxable#	Not allowed
PPF	Both one time and recurring	Up to ₹1.5 lakh	7.10%	Revised every quarter	Min: 500 p.a. Max: 1.5 lakh p.a.	15 years	Tax-free	Partially allowed from 7th year onwards
SSY (in the name of a girl child)	Both one time and recurring	Up to ₹1.5 lakh	7.60%	Revised every quarter	Min: 250 p.a. Max: 1.5 lakh p.a.	21 years##	Tax-free	Partially allowed in specified situations

* Rate of interest as offered by SBI as on July 22, 2021. For FD, the applicable rate depends on tenure ranging from seven days to 10 years; ** Exempt up to ₹50,000 for senior citizens; # Interest earned on NSC can be claimed as a deduction under Section 80C as it is automatically reinvested; ## Deposits are to be made for the first 15 years

FD – Fixed Deposit; **POTD –** Post Office Time Deposit; **NSC –** National Savings Certificate; **PPF –** Public Provident Fund; **SSY –** Sukanya Samriddhi Yojana;

Scheme	Mode of investment	Tax benefit u/s 80C	Rate of return	Nature of return	Investment amount (₹)	Tenure	Taxability of returns	Premature withdrawal
NPS (Tier I)^	Both one time and recurring	Up to ₹2 lakh^^	Not guaranteed	Market linked	Min: 1,000 p.a. Max: No limit	Till retirement	Partially taxable^^	Partially allowed after 3 years and in specified situations
ELSS	Both one time and recurring	Up to ₹1.5 lakh	Not guaranteed	Market linked	Min: 500 Max: No limit	3 years	Gains above ₹1 lakh taxable	Not allowed
Bank FD (except 5 year FD)	One time	No benefit	2.9 – 5.4%*	Fixed	Min: 1,000 Max: No limit	Up to 10 years	Taxable**	Allowed with a penalty
KVP	One time	No benefit	6.90%	Fixed	Min: 1,000 Max: No limit	10 years 4 months$	Taxable	Allowed after 30 months with a penalty
RBI bonds	One time	No benefit	7.15%	Revised semi-annually	Min: 1,000 Max: No limit	7 years	Taxable	Allowed only for senior citizens after a minimum lock-in period with a penalty

^ In NPS (Tier II) account, there are no limits on deposits and withdrawals but there are no tax benefits as well; **^^** On maturity at 60 years of age, it is mandatory to buy annuity for at least 40% of the corpus. Regular annuity income received is taxable; ***** Rate of interest as offered by SBI as on July 22, 2021. For FD, the applicable rate depends on tenure ranging from seven days to 10 years; ****** Exempt up to ₹50,000 for senior citizens; **$** Fluctuates with the rate of interest
NPS – National Pension System; **ELSS –** Equity Linked Savings Scheme (Tax-saving mutual fund); **Bank FD** – Bank Fixed Deposit; **KVP -** Kisan Vikas Patra

Scheme	Mode of investment	Tax benefit u/s 80C	Rate of return	Nature of return	Investment amount (₹)	Tenure	Taxability of returns	Premature withdrawal
Stocks	One time	No benefit	Not guaranteed	Market linked	No limit	No fixed tenure	Taxable$$	No restriction on withdrawal
Mutual Funds (other than ELSS)	Both one time and recurring	No benefit	Not guaranteed	Market linked	Min: 100 Max: No limit	No fixed tenure	Taxable$$	No restriction on withdrawal
Company deposit	One time	No benefit	Depends on the tenure & issuer	Fixed	Min: 1,000 Max: No limit	Depends on the issuer	Taxable	Allowed with a penalty
SGB	One time	No benefit	2.5% + gold appreciation	Market linked	Min: 1 gm Max: 4 kg (in one FY)	8 years	Interest – taxable Capital gains -exempt if redeemed at maturity.	Allowed from 5th year onwards. However, units can be sold on stock exchange anytime.
Bank RD	Recurring	No benefit	4.4 – 5.4%*	Fixed	Min: 100 per month Max: No limit	Up to 10 years	Taxable**	Allowed with a penalty
PORD	Recurring	No benefit	5.8%	Fixed	Min: 100 per month Max: No limit	5 years	Taxable**	Allowed with a penalty

$$ Long-term capital gain from stocks and equity-oriented mutual fund schemes is exempt up to ₹1 lakh; * Rate of interest as offered by SBI as on July 22, 2021. For FD and RD, the applicable rate depends on tenure ranging from seven days to 10 years and 180 days to 10 years respectively; ** Exempt up to ₹50,000 for senior citizens

SGB - Sovereign Gold Bond; **Bank RD -** Bank Recurring Deposit; **PORD -** Post Office Recurring Deposit;

Table-2: Investment objective – Deriving regular income

Scheme	Income payment frequency	Tax benefit u/s 80C	Rate of return	Nature of return	Investment amount (₹)	Tenure	Taxability of returns	Premature withdrawal
SCSS*	Quarterly	Up to ₹1.5 lakh	7.40%	Fixed	Min: 1,000 Max: 15 lakh	5 years	Taxable**	Premature closure is allowed with a penalty
APY	Monthly	Up to 10% of salary or 20% of gross total income subject to maximum ₹1.5 lakh	Monthly fixed pension varying from Rs.1,000 – Rs.5,000	Fixed pension	Based on the entry age and the minimum guaranteed pension required	Minimum 20 years^	Pension is taxable	Allowed with a penalty
POMIS	Monthly	No benefit	6.60%	Fixed	Min: 1,000 Max: 4.5 lakh	5 years	Taxable**	Allowed after 1 year with a penalty
PMVVY (available only to senior citizens)	Monthly/ quarterly/ semi-annual/ annual payout	No benefit	7.4% (FY 2021-22)	Fixed	Min: 1.57 lakh Max: 15 lakh	10 years	Taxable	Premature exit is possible in the case of critical illness

* Available only to senior citizens and retirees meeting specified conditions; ** Exempt up to ₹50,000 for senior citizens; ^ The minimum age of joining APY is 18 and the maximum age is 40. APY guarantees a minimum fixed pension to the subscriber after the age of 60

SCSS – Senior Citizen Savings Scheme; **APY –** Atal Pension Yojana; **POMIS –** Post Office Monthly Income Scheme; **PMVVY –** Pradhan Mantri Vaya Vandana Yojana

Scheme	Income payment frequency	Tax benefit u/s 80C	Rate of return	Nature of return	Investment amount (₹)	Tenure	Taxability of returns	Premature withdrawal
Pension & Annuity	Monthly pension after vesting period	Up to ₹1.5 lakh	Fixed pension	Fixed pension	Depends on the policy	Depends on the policy	Partially taxable^^	Depends on the policy
SWP of debt mutual funds	No fixed periodicity	No benefit	Not guaranteed	Market linked	No limit	No fixed tenure	Taxable	No restriction on withdrawal

^^ On maturity up to one third of the corpus can be withdrawn tax-free and the remaining paid out as an annuity is taxable

1

Savings Bank Account

A bank account is a financial account with a banking institution, recording the financial transactions between you (the account holder) and the bank. The purpose of a bank account is to encourage savings and bring financial transactions to the banking network. There are several types of bank accounts that you can opt for, depending on your needs. For instance, a businessman will prefer a current account, while a salaried individual will opt for a savings bank account.

Savings bank accounts are meant to promote the habit of saving among people while allowing them to use their funds when required. Main advantages of a savings bank account are its high liquidity, safety and a moderate interest on the

Investment Objective and Risks

- The most important reason to open an account is the automatic access that it offers to other financial instruments, such as investments, loans and savings.
- The savings bank account offers several facilities and features that one should explore to make the optimum use of cash flows.
- The balance, including interest, in an account above ₹5 lakh is exposed to the risk of a bank folding up.

Suitable for	Not Suitable for	Alternatives
● A must for everyone to make financial transactions and park a portion of savings to meet short-term needs and contingencies	● Investments for medium- and long-term goals, given their low rate of return	● Cash

savings. The savings bank account is the traditional home for cash savings. Today, a savings bank account is a necessity and an essential component of an individual's finances.

Capital & Inflation Protection

The capital in a savings bank account is not completely safe. The balance in the account, including the interest earned, is insured up to a maximum of ₹5 lakh. This sum is insured by the Deposit Insurance and Credit Guarantee Corporation (DICGC) for all commercial banks, branches of foreign banks functioning in India, small finance banks, co-operative banks, local area banks, regional rural banks and payment banks. It is advisable to check whether your bank is covered under the DICGC because if a bank has not been paying the premium for the insurance scheme for three consecutive half-year periods, it ceases to be insured. To view the list of banks insured by DICGC, go to, https://www.dicgc.org.in/FD_ListOfInsuredBanks.html. This insurance cover includes all accounts of one

Features

ELIGIBILITY
You need to be a resident Indian. For non-resident accounts, please refer to the chapter on Investing for NRIs

ENTRY AGE
- No age is specified and minors can open an account, with the natural guardian operating it
- Minors above 10 years can operate the account on their own

ACCOUNT MAINTENANCE AND CHARGES
- The minimum balance required depends on the account location, which could be urban, semi-urban or rural
- The minimum balance required depends on the account type, such as no-frills, savings, salary-linked, deposit-linked
- A pre-defined number of transactions per month are free, beyond which transactions are charged

INTEREST
- Fixed rate up to ₹1 lakh, with a minimum of 2.7 per cent at the moment, though some banks offer a higher rate than this
- Variable interest rate on the balance above ₹1 lakh in the account
- The interest is calculated based on the daily balance in the account

TENURE
- As long as the account is active

ACCOUNT-HOLDING CATEGORIES
- Individual
- Joint
- Hindu undivided families (HUFs) not engaged in any trading or business activity
- Companies or associations or trusts
- Minors through the guardian

NOMINATION
- Facility is available

EXIT OPTION
- You can close the account on any day within banking hours

depositor held with different branches of the same bank. However, deposit insurance coverage limit is applied separately to the deposits in different banks.

A savings bank account does not provide protection against inflation. This means that whenever inflation is above the rate that a savings bank account earns, the account earns no real returns.

Guarantees

The interest rate in a savings bank is guaranteed up to the first ₹5 lakh balance in the account. This rate varies across banks, since the Reserve Bank of India deregulated the savings bank deposit interest rate on October 25, 2011. Banks are now free to determine the interest on the balance in a savings-bank account, which has to be uniform for all types of accounts up to ₹1 lakh but varies for the accounts with a higher balance.

Liquidity

The savings bank account is highly liquid and one can withdraw cash from one's account through a bank branch during banking hours. Today, automated teller machine (ATM) access is offered by most banks to savings-bank account holders. The ATM allows 24-hour withdrawals within limits on a single day. Various banks have declared that there will be charges on cash transactions and ATM withdrawals above a certain limit. This varies from bank to bank, hence needs to be checked with your bank. Apart from this, one can also transfer funds electronically through National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS), Unified Payment Interface (UPI) and Immediate Payment Service (IMPS). While earlier NEFT and RTGS were available only during banking hours, both are now available round-the-clock on all days like IMPS, with effect from December 2019 and December 2020, respectively. This was a further step taken by the Reserve Bank of India (RBI) to boost digital payments after it waived off processing charges and time-varying charges levied on banks for transactions processed in RTGS and NEFT systems in July 2019.

For RTGS, the minimum amount that can be transferred is ₹2 lakh. However, there is no such limit for NEFT and IMPS. There's no upper capping for both RTGS and NEFT transfer, while the same is ₹2 lakh per transaction in the case of IMPS. Though NEFT and RTGS seem to be similar in the case of limits, they are different in terms of their processing. RTGS is faster and therefore generally used for high-value transactions.

Tax Implications

Interest earned on the savings bank account up to ₹10,000 per annum is exempt from tax under Section 80TTA. This section allows an income-tax deduction to an individual (up to 59 years of age) or a HUF for the interest earned on a savings bank account held with a bank, post office or a co-operative society. Interest amounts above this limit are treated as income and taxed accordingly. However, no Tax Deducted at Source (TDS) is taken from the same. The interest earned is taxable under the head 'income from other sources'. Similar tax benefits are available to senior citizens under Section 80TTB which offers some additional perks. This section gives respite from income-tax on interest earned on all types of deposits (including fixed deposits) up to ₹50,000 per annum.

Banking on the Move

The advent of mobile telephone has touched our lives like never before. Today, banks are making it easier than ever before for account holders to access account information on their mobile devices. Some banks are offering new services or improving existing ones that allow people to access their accounts while on the go.

You can access your bank account through your registered mobile phone number with your bank. The features offered in mobile banking are of two types: one where your bank sends you mobile updates and the second, where you send a request, such as a money transfer, which the bank acknowledges.

With evolving technology and improving mobile handsets, banks are creating software for the mobile-banking interface, opening yet another window to banking. Now you can download the application (app) of your bank and do all sorts of transactions on your mobile or tablet.

Types of Savings-Bank Accounts

The following are the major types of bank accounts:

No Frills/Basic Savings

- This account is aimed at those who have limited cashflows.
- It allows you to bank with a zero balance.
- There is no stipulation on minimum or average balance.
- If the balance in a no-frills account exceeds ₹50,000 or if the cumulative value of credit transactions exceeds ₹1 lakh in any financial year, the account will no longer be treated as 'no frills'.

Salary Account

- This account is offered by companies to their employees. Monthly salaries are credited directly to these accounts.
- The account comes with concessions on maintaining a minimum balance, number of withdrawals, additional cheque-book facility and other

GOING ONLINE

Online banking has many names, such as online banking, Internet banking, PC banking and electronic banking. Most banks today offer online banking, allowing you to access your account online, which is convenient and allows you to control your account from anywhere. Online banking permits you to pay bills online, shop online, transfer the money between accounts, access account information anytime and manage different types of accounts with a particular bank. Online banking opens a new window to your finances. You can invest in stocks, buy insurance, pay renewal premiums, recharge your mobile phone, pay credit-card bills and even pay taxes, depending on the facilities offered by your bank.

features, including a free ATM-cum-debit card, in most cases.

Sweep-in or Multiplier Account

- This account provides the liquidity of a savings account, coupled with high-interest earnings of a fixed deposit. This is achieved through a fixed-deposit account linked to a savings account.
- The balance in this account is never idle. A fixed deposit from the surplus funds in your savings bank account, subject to a minimum balance as stipulated by the bank, is created in multiples of sums stipulated by the bank for a tenure of one year or more.
- The account also provides maximum liquidity. All linked fixed deposits are enabled for automatic reverse sweep in multiples as stipulated by the particular bank on a last-in-first-out (LIFO) basis, when the balance in the savings account falls below the specified minimum sum. This way, the amount that is reversed earns interest rates applicable for the period that the deposit was held with the bank.

Miscellaneous Accounts

Banks have created other miscellaneous accounts to cater to different target groups by bundling features:

- **Privilege banking**: Offers additional services for a fee or on maintaining a higher minimum balance.
- **Children's account**: Meant for children. Children can operate this account based on the conditions pre-set by the parent or the guardian.
- **Accounts for women**: Targeted at women. These accounts have special features, such as privilege cards and special discounts.
- **Senior-citizen account**: Aimed at those above 60 years. The account offers access to special counters in the bank branch, besides additional interest on deposits and low or no minimum-balance maintenance requirements.

Where to Open an Account

You can open an account at any nationalised, private-sector or foreign bank.

How to Open an Account

Once you have selected the bank to open an account, you will need the following documents:

- An account-opening form, which the bank will provide.
- Two passport size photographs.
- Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application.
- Address and identity proof, such as the Aadhaar card; a copy of the passport; PAN (permanent account number) card or declaration in form no. 60 or 61 as per The Income-Tax Act, 1961; driving licence; voter's ID; or ration card.

Carry the original identity proof for verification at the time of account opening. These days, you can also open an account online without visiting the bank branch.

How to Operate an Account

- You need to credit the initial account opening sum to your account.
- You get a savings-account passbook, with your photo affixed. However, some banks, especially private and foreign banks, do not issue a passbook. Instead, they deliver an account statement.

Types of Transactions

- Cash, cheque, demand draft, money transfer and ECS

Pradhan Mantri Jan Dhan Account

The Pradhan Mantri Jan Dhan Account is a no-frills account meant to provide banking access to all, especially for the poor. It can be opened in any bank with zero balance. However, in order to get a cheque book, one has to fulfil the minimum-balance criterion.

Documents Required

In order to open the Jan Dhan account, you need an Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application, along with an identity proof and address proof. The following documents can be used for these purposes: voter ID card, driving licence, PAN card, passport and NREGA card. In the absence of these, one can use an identity card issued by the central/state government departments, statutory/regulatory authorities, public-sector undertakings, scheduled commercial banks and public financial institutions. A letter issued by a gazetted officer with a duly attested photograph can also work.

Benefits

The Jan Dhan account has many features like a general account, such as interest payment on the deposit, money transfer and a debit card. Apart from these, here are some special benefits:

- Accidental-insurance cover of ₹1 lakh (enhanced to ₹ 2 lakh for new accounts opened after August 28, 2018).
- Life-insurance cover of ₹30,000 (for accounts opened between August 15, 2014 and January 26, 2015.
- Overdraft facility of up to ₹10,000 to eligible account holders.
- Direct-benefit money transfer to the beneficiaries of government subsidies.

POINTS TO REMEMBER

- Savings bank accounts offer a safe and convenient way of keeping money for day-to-day expenses or emergencies.
- The interest they yield is exempt from tax up to ₹10,000 per annum.
- There is a penalty if the balance falls below the minimum stipulated sum and if cheques or ECS transfers get dishonoured.
- Transactions beyond a limit at the bank ATMs or other banks' ATMs are charged as per the bank policy.

2

Bank Fixed Deposit

A bank fixed deposit is also known as a term deposit, which earns better interest as compared to the interest that the account balance earns in a savings bank account. This is a type of financial instruments in which, a certain sum of money is placed with the bank for a specified time period at a fixed interest rate.

The interest rates offered by banks on such deposits depend on the number of days, weeks or months, for which the deposit is maintained. There is great flexibility in the maturity period, which ranges from seven days to 10 years. The interest is higher in the case of a longer maturity period and can be compounded quarterly, half-yearly or annually. However, it varies across banks. The main draw for such

Investment Objective and Risks

- The prime objective of the bank deposit is to earn a better interest on savings as compared to what an ordinary savings-bank account offers. Such deposits are preferred by risk-averse investors, who find the guaranteed fixed returns extremely reassuring to invest in.
- Risks: Interest-rate changes pose risks to existing deposit holders. For instance, you may have locked in your money in a deposit at a lower interest rate. However, owing to economic factors, the bank starts to offer a higher rate on deposits later.
- If the bank where you have the deposit does not have deposit-insurance-and-credit guarantee, you run the risk of losing the capital and interest.

Suitable for	Not Suitable for	Alternatives
● Conservative investors seeking assured returns from a lumpsum investment for goals up to five years away	● Long-term wealth creation, given their inability to provide any meaningful returns above the rate of inflation ● Investors looking to invest small amounts regularly	● National Savings Certificate ● Post office time deposits ● Company deposits ● Debt mutual funds can offer better, though not guaranteed, returns

deposits is the guaranteed interest that deposits earn.

Capital & Inflation Protection

The capital in a bank is fully protected up to ₹5 lakh by the Deposit Insurance and Credit Guarantee Scheme of India.

The deposit is not inflation protected, which means whenever inflation is above the deposit interest rate, the deposit earns no real returns. However, when the interest rate is higher than the inflation rate, it does manage a positive real rate of return.

Features

ELIGIBILITY

You need to be a resident Indian with a savings bank account. For non-resident term deposits, please refer to the chapter on Investing for NRIs.

ENTRY AGE

- You need to be over 18 years
- Minors can open a deposit with the natural guardian operating it

INVESTMENTS

- Minimum: ₹1,000
- Maximum: No limit

INTEREST

- Depends on the tenure of the deposit (See table for current rates)
- Currently goes from 2.90 per cent to 5.40 per cent per annum

TENURE

- Currently offered up to 10 years

ACCOUNT HOLDING CATEGORIES

- Individual
- Joint
- Hindu Undivided Families (HUF) not engaged in any trading or business activity
- Companies or Associations or Trust
- Minor through the guardian

NOMINATION

- Facility is available

EXIT OPTION

Early closure of a deposit is permitted with a penalty

To view the current rates on the schemes in this book, go to **vro.in/s34211**

Guarantees

The interest rate is fixed and guaranteed for the duration of the deposit at the commencement of the deposit.

Liquidity

The fixed deposit has a lock-in period but allows withdrawals on the payment of a penalty.

Tax Implications

A special type of deposit with a maturity period of five years in a scheduled bank is eligible for tax deduction under Section 80C. However, the interest earned on all types of fixed deposits is considered as an income from other sources when computing income tax except for senior citizens who are eligible to take a deduction of interest earned from bank deposits for maximum ₹50,000. Effective from FY 2019-20, tax is deducted at the source on the interest income of above ₹40,000 at a rate of 10 per cent. For senior citizens, TDS is applicable on the interest income of above ₹50,000.

GOING ONLINE

Having an online banking user id and password is like having the key to several doors. One such door is the ability to open a hassle-free fixed deposit from the comfort of your home or office or anywhere as long as you have access to net banking. You can seamlessly transfer funds from your savings account to the higher interest-earning fixed deposits.

- Flexibility in deciding the amount, tenure, interest payment and maturity of your deposit
- At the time of maturity, the balance automatically transfers to your bank account

! As per the term deposit scheme 2006, issued by the Central Government of India, the five-year tax-savings fixed-deposit scheme will not have the following facilities: premature withdrawal, loan against fixed deposit and auto-renewal facility.

Various Types of Bank Fixed Deposits

Fixed deposit

In this type of deposit, both the tenure and the interest rate for the tenure are fixed.

Tax-saver fixed deposit

- These deposits with a five-year lock-in period are tax deductible under Section 80C.

Where to Open a Deposit

You can open a deposit at any nationalised, private sector or foreign bank.

How to Open a Deposit

- Select the bank branch.
- Choose a nominee.
- Your existing bank account counts as being KYC compliant if you open the FD at the same bank.

How to Operate a Deposit

- You can issue a cheque to the bank through your existing savings bank account to start a deposit.
- A deposit receipt or certificate is issued with deposit details.

Interest Rates for Term Deposits below ₹2 crore

Maturity Period	General	Senior Citizen*
7 days to 45 days	2.9	3.4
46 days to 179 days	3.9	4.4
180 days to 210 days	4.4	4.9
211 days to less than 1 year	4.4	4.9
1 year to less than 2 years	5.0	5.5
2 years to less than 3 years	5.1	5.6
3 years to less than 5 years	5.3	5.8
5 years and up to 10 years	5.4	6.2

Rates of Interest (% p.a.) as on July 22, 2021
*Interest rates for senior citizens

Source: https://sbi.co.in/web/interest-rates/deposit-rates/retail-domestic-term-deposits

POINTS TO REMEMBER

- Bank Fixed Deposits offer a high level of safety.
- Senior citizens enjoy an exemption of up to ₹50,000 on the interest component and are offered higher interest rates which are usually 50 basis points more than the existing rates.
- Money can be withdrawn prematurely from these deposits by paying a penalty.

To view the current rates on the schemes in this book, go to vro.in/s34211

3

Bank Recurring Deposit

A bank recurring deposit (RD) is a type of deposit wherein one saves predefined sums of money every month in an account for a fixed tenure. The committed monthly investment earns higher interest as compared to a savings-bank account. The recurring deposit provides an element of compulsion, making you save at a higher interest depending on the tenure of the deposit.

The interest rates offered by banks on such deposits depend on the number of days, weeks or months for which, the recurring deposit is maintained. There is great flexibility in the maturity period, which ranges from six months to ten years. The interest is higher in the case of longer maturity periods but largely depends on the prevailing interest rates.

Capital & Inflation Protection

The capital deposited in any bank account is fully protected up to ₹5 lakh by the Deposit Insurance and Credit Guarantee Scheme of India.

The recurring deposit is not inflation protected, which means that whenever inflation is above the deposit interest rate, the deposit earns no real returns. However, when the interest rate is higher than the inflation rate, it does manage a positive real rate of return.

Investment Objective and Risks

The prime objective of the recurring deposit is to earn more interest on savings as compared to an ordinary savings-bank account and instil the discipline to save regularly.

Interest-rate changes pose risks to existing deposits. For instance, you may have locked in at a lower interest rate, but due to economic factors, the bank starts to offer a higher rate on deposits later.

The bank has special power to end an RD account before its maturity.

Suitable for

- Conservative investors seeking assured returns by investing regularly for medium-term goals up to five years away

Not Suitable for

- Long-term wealth creation, given their inability to provide any meaningful returns above the rate of inflation

Alternatives

- SIP in debt mutual funds can offer better, though not guaranteed, returns
- Post-office recurring deposits

Guarantees

The interest rate is fixed and guaranteed for the duration of the recurring deposit at the time of the commencement of the deposit.

Liquidity

The recurring deposit has a lock-in period but allows withdrawals on the payment of a penalty.

Features

ELIGIBILITY

You need to be a resident Indian with a savings-bank account

ENTRY AGE

- You need to be over 18
- Minors can open a deposit, with the natural guardian operating it

INVESTMENTS

- Minimum: ₹100 per month
- Maximum: No limit
- Senior citizens qualify for special interest rates

INTEREST

- Depends on the tenure of the deposit
- Currently available from 4.40 per cent to 5.40 per cent per annum

TENURE

- Currently offered for six months to 10 years

ACCOUNT-HOLDING CATEGORIES

- Individual
- Joint
- Hindu undivided families (HUFs) not engaged in any trading or business activity
- Companies or associations or trusts
- Minor through the guardian

NOMINATION

- Facility is available

EXIT OPTION

- Premature closure of a deposit is permissible with a penalty

To view the current rates on the schemes in this book, go to **vro.in/s34211**

- Loans/overdraft up to 90 per cent of the deposit balance are available at the discretion of the bank at a rate fixed by the bank, which varies from time to time. The loan interest rate will typically be more than the interest rate of the RD account.
- The deposit can be closed prematurely by paying a penalty.

Tax Implications

There is no tax advantage on these deposits and the interest earned on maturity is treated as an income from other sources when computing income tax. However, senior citizens are eligible to take a deduction of interest earned from bank deposits for maximum ₹50,000. Effective from FY 2019-20, tax is deducted at the source on interest income above ₹40,000 at a rate of 10 per cent. For senior citizens, this limit is ₹50,000.

Where to Open a Deposit

You can open a recurring deposit at any nationalised, private sector or foreign bank.

How to Open a Deposit

- Select the branch of a bank to open the deposit.
- Choose a nominee.
- You can use your existing bank account details for KYC compliance.

How to Operate a Deposit

- You can issue a cheque to the bank through your existing savings- bank account to start a deposit. Future payments can be made through direct debit from your account to the

GOING ONLINE

With an access to online banking, you can initiate recurring deposits and regularly save without any defaults with the seamless transfer of funds from your savings account to the recurring-deposit account.

- Flexibility in deciding the amount, tenure, interest payment and maturity of your deposit
- At the time of maturity, the balance is automatically transferred to your bank account.

RD account. For that, you need to give prior instructions.

- A recurring-deposit passbook is issued with deposit features by some banks.
- The passbook needs to be updated to track monthly deposits.

Types of Transactions

- Cheque
- Money transfer
- Electronic clearing service (ECS)

Rates (%) for Some Key Periods

Maturity period	General	Senior citizen*
180 days to 210 days	4.4	4.9
211 days to less than 1 year	4.4	4.9
1 year to less than 2 years	5.0	5.5
2 years to less than 3 years	5.1	5.6
3 years to less than 5 years	5.3	5.8
5 years and upto 10 years	5.4	6.2

SBI rates (%) as on July 22, 2021.
*Interest rates for senior citizens.
Note: Interest rates are subject to periodic changes. Rates are allotted based on the date and time of receipt of the funds by the bank.
Source: https://www.sbi.co.in/web/interest-rates/deposit-rates/retail-domestic-term-deposits

POINTS TO REMEMBER

- The saver contributes fixed amounts at fixed intervals.
- The interest on bank recurring deposits does not carry any tax benefits but senior citizens enjoy an exemption of up to ₹50,000 on the interest component.
- There are penal provisions in the case of partial or early foreclosure.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

4

Post Office Recurring Deposit

The Post Office Recurring Deposit (PORD) is a systematic savings plan, where you save small but finite equal sums of money each month for a period of 60 months. The savings in the PORD earn fixed interest, which can be used to accumulate sizeable and predetermined savings over time.

Capital & Inflation Protection

The capital in the PORD is completely protected, with guaranteed returns, as the scheme is backed by the Government of India.

The PORD is not inflation-protected. Whenever inflation is above the guaranteed interest rate, the scheme earns no real returns. But when the inflation rate is below the

Investment Objective and Risks

- The main objective of the PORD is to provide an assured return, compounded quarterly, on every monthly deposit made over 60 months. Though it offers no tax incentives, it is a preferred instrument amongst small savers because of the government backing that it offers.
- There is no risk associated with this investment.

Suitable for	Not Suitable for	Alternatives
• Conservative investors seeking assured returns by investing regularly for medium-term goals around five years away	• Long-term wealth creation, given their inability to provide any meaningful returns above the rate of inflation	• SIP in debt mutual funds can offer better, though not guaranteed, returns • Bank recurring deposit

guaranteed rate, it does manage a positive real return.

Guarantees

The principal and interest on Post Office Recurring Deposit are absolutely guaranteed. The interest rate is currently 5.80 per cent per annum compounded quarterly. The interest rate on this deposit is notified quarterly and is aligned with G-sec rates of the similar maturity, with a spread of 0.25 per cent. However, it will remain unchanged for the depositor once he has made the deposit.

- The tenure of the account is of five years.
- There is a facility of continuing the PORD for a maximum period of five years on completion of the first five-year tenure with or without further deposit. The extended account can be closed any time during the period of extension.

Features

ELIGIBILITY
You need to be a resident Indian preferably with a post office savings account

ENTRY AGE
- No age limit is mentioned
- Minors above 10 years can open an account in their name directly

INVESTMENTS
- Minimum: ₹100 and above in multiples of ₹10 thereof
- Maximum: There is no upper limit

INTEREST
- 5.80 per cent compounded quarterly

TENURE
- 60 months (5 years)

ACCOUNT-HOLDING CATEGORIES
- Individual
- Joint
- Minor through the guardian
- Minor above 10 years

NOMINATION
- Facility is available

EXIT OPTION
- Premature closing of the account is permitted with a penalty

To view the current rates on the schemes in this book, go to **vro.in/s34211**

> Portability of the account from one post office to another is available. The account is automatically renewed for the period for which, it was initially opened.

Liquidity

One-time withdrawal of up to 50 per cent of the balance is allowed after one year. However, it is treated as a loan and can be repaid in one lump-sum or in equal monthly instalments till maturity of the PORD along with interest @ 2% + RD interest rate applicable to the PORD account. The account can also be closed prematurely after three years from the date of account opening but in such a case, Post Office Savings Account interest rate will be applicable.

> **GOING ONLINE**
>
> You can access your post office RD account online by visiting the eBanking portal of Department of Posts (DOP) and availing internet banking facility. However, this facility is available only to those customers who have valid active single or joint B* savings accounts.

Tax Implications

There is no tax advantage on these deposits and the interest earned on maturity is treated as income from other sources when computing income tax.

Where to Open an Account

You can open the account in any post office.

How to Open an Account

Once you have selected the post office to open the PORD account, you will first need to open a post office savings account to link the monthly payment to the PORD and you will need the following documents:

- An account opening form, which the post office will provide

*Joint B accounts are the accounts that can be operated by either of the account holders/ either of the survivors.

- Two passport size photographs
- Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application
- Address and identity proof such as the Aadhaar card, a copy of the passport, PAN (permanent account number) card or declaration in Form 60 or 61 as per the Income-Tax Act 1961, driving licence, voter identity card, or ration card
- Carry the original identity proof for verification at the time of account opening
- Choose a nominee

How to Operate the Account?

- You need to credit the initial account opening sum to the account with a pay-in slip.
- Payment can be made in cash, by cheque or instructing the bank to transfer money to the PORD.

PORD Rates (%) over the quarters

Maturity period	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
5Y recurring deposit	5.8	5.8	5.8	5.8	5.8	5.8	7.2

POINTS TO REMEMBER

- The post office recurring deposit is a guaranteed savings instrument. Your interest is also guaranteed for the tenure of the deposit.
- You save a finite amount of money in it each month for 60 months.
- It is exposed to inflation risk and its rates are linked to government securities of the corresponding maturity.
- There are also no tax benefits on the principal or interest component. However, senior citizens enjoy an exemption limit of up to ₹50,000 on the interest earned.

To view the current rates on the schemes in this book, go to vro.in/s34211

5

Post Office Time Deposit

The Post Office Time Deposit (POTD) is similar to a bank fixed deposit, where you save money for a definite time period, earning a guaranteed return through the tenure of the deposit. At the end of the deposit's tenure, the maturity amount comprises the capital deposited and the interest earned.

Capital Inflation Protection

The capital in the POTD is completely protected, with guaranteed returns, as the scheme is backed by the Government of India.

The POTD is not inflation protected, which means whenever inflation is above the guaranteed interest rate, the scheme earns no real returns. However, when the inflation

Investment Objective and Risks

The main objective of the POTD is to provide an assured return on the deposit, depending on the duration of the deposit.

There is no risk associated with this investment.

Suitable for	Not Suitable for	Alternatives
• Conservative investors seeking assured returns from a lump sum investment for goals up to five years away	• Long-term wealth creation, given their inability to provide any meaningful returns above the rate of inflation • Investors looking to invest small amounts regularly	• National Savings Certificate • Bank fixed deposit • Company deposits • Debt mutual funds can offer better, though not guaranteed, returns

rate is below the guaranteed return, it does manage a positive real rate of return.

Guarantees

The interest rate on the POTD is guaranteed for the tenure of the deposit. It currently varies from 5.50 per cent for a yearly deposit to 6.70 per cent for a five-year deposit. The interest rates on this deposit are notified every quarter and are aligned with G-sec rates of the similar maturity, with a spread of 0.25 per cent. However, the rates will remain unchanged for the entire term of a deposit after one has made an investment.

Liquidity

The POTD has a lock-in but the money can be withdrawn from it after a period of six months by paying a penalty. One can borrow against the deposit or withdraw the deposit prematurely.

Features

ELIGIBILITY
You need to be a resident Indian, preferably with a post office savings bank account

ENTRY AGE
- No age limit is mentioned
- A minor above 10 years can open an account on his/her own name directly

INVESTMENTS
- Minimum: ₹1,000 and in multiples of ₹100 thereof
- Maximum: There is no upper limit

INTEREST
- Interest rates of 5.50 per cent to 6.70 per cent, depending on the tenure of the deposit
- Interest payable annually but calculated quarterly

TENURE
- One, two, three or five year(s)

ACCOUNT-HOLDING CATEGORIES
- Individual
- Joint
- Minor through the guardian
- Minor above 10 years

NOMINATION
- Facility is available

To view the current rates on the schemes in this book, go to **vro.in/s34211**

- Premature withdrawal or closure of the POTD is permitted after the completion of six months of initiating the deposit.
- Withdrawal after six months but before the completion of a year will attract PO Savings Account Interest rate.
- Withdrawal after a year earns 2 per cent less than what the deposit for that specific tenure earns.

Tax Implications

There is no tax benefit on deposits with less than a five-year tenure. The interest earned on maturity is treated as an income from other sources when computing income tax. The five-year deposit qualifies for an income-tax deduction on the sum deposited under Section 80C.

GOING ONLINE

Similar to recurring deposits, time deposit accounts can also be accessed online on the eBanking portal of Department of Posts (DOP) through the internet banking facility.

Where to Open an Account

You can open the account at any head or general post office.

How to Open an Account

Once you have selected the post office in which to open your POTD account, you can open a POTD for which, you will need the following documents:

- A deposit-opening form provided by the post office.
- Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application.
- Address and identity proof, such as the Aadhaar card; a copy of the passport; PAN (permanent account number) card or

- Portability of the account between post offices is possible.
- Facility of extending the deposit on maturity is available.

declaration in Form 60 or 61 as per the Income Tax Act, 1961; driving licence; voter ID; or ration card.

- Carry the original identity proof for verification at the time of account opening.
- Choose a nominee.

How to Operate the Account

- You need to credit the initial account opening sum to the account with a pay-in slip.
- Payment can be made by cash or cheque.

Time Deposit Rates (%) over the quarters

	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
1-year time deposit	5.5	5.5	5.5	5.5	5.5	5.5	6.9
2-year time deposit	5.5	5.5	5.5	5.5	5.5	5.5	6.9
3-year time deposit	5.5	5.5	5.5	5.5	5.5	5.5	6.9
5-year time deposit	6.7	6.7	6.7	6.7	6.7	6.7	7.7

POINTS TO REMEMBER

- The Post Office Time Deposit is an instrument effectively guaranteed by the government.
- There are no tax benefits on the principal or the interest paid on it. However, senior citizens enjoy an exemption of up to ₹50,000 on the interest component.
- The five-year POTD qualifies for 80C tax deduction up to ₹1.5 lakh.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

6

Post Office Monthly Income Scheme

The Post Office Monthly Income Scheme (POMIS) is a guaranteed-return investment available at the post office. On the deposit that you make with the post office, you get an assured monthly income. Currently, one earns a 6.60 per cent interest per year on the deposit, which is paid every month and hence, comes the name 'monthly income scheme'. Once you make the deposit, you get the interest payout a month from the date of making the investment rather than at the start of every month.

Capital Protection & Inflation Protection

The capital in the POMIS is completely protected as the scheme is backed by the Government of India, making it

Investment Objective and Risks

The main objective of the POMIS is to provide an assured monthly return to account holders and help them create guaranteed regular income. Although it offers no tax incentives, it is a popular instrument among small savers for the government backing that it enjoys.

Suitable for	Not Suitable for	Alternatives
● Investors looking to derive assured regular income from their savings	● Investors who do not need any regular income	● SWP from debt-oriented mutual funds, which can offer better, though not guaranteed, returns ● Annuity plan of a life-insurance company ● Senior Citizens Savings Scheme* ● Pradhan Mantri Vaya Vandana Yojana* *For senior citizens only

totally risk-free with guaranteed returns. The POMIS is not inflation protected, which means whenever inflation is above the current guaranteed interest rate, the scheme earns no real returns. However, when the inflation rate is below what it offers, it does manage a positive real rate of return.

Guarantees

The interest rate for the POMIS is guaranteed and currently 6.60 per cent. The interest rate is notified every quarter in line with G-sec rates of similar maturity, with a spread of 0.25 per cent. The interest applicable to you for the duration of the deposit will be the rate at which, you make the deposit.

Liquidity

Withdrawals from the POMIS can be made after the expiry of one year from the date of deposit by paying a penalty.

Features

ELIGIBILITY
You need to be a resident Indian, preferably with a post office savings account

ENTRY AGE
- No age limit is mentioned
- Minors above 10 years can open an account in their own name directly

INVESTMENTS
- Minimum: ₹1,000
- Maximum: ₹4.5 lakh in a single account
- Maximum: ₹9 lakh in a joint account

INTEREST
- 6.60 per cent per annum paid monthly

TENURE
- Five years

ACCOUNT-HOLDING CATEGORIES
- Individual
- Joint
- Minor through the guardian
- Minor above 10 years

NOMINATION
- Facility is available

EXIT OPTION
- Premature closing of the account is permitted with a penalty

To view the current rates on the schemes in this book, go to **vro.in/s34211**

- Premature withdrawal or closure of the POMIS account is permitted after the completion of one year from the date of opening of the account after deducting a penalty for early withdrawal or closure. The penalty varies from 1–2 per cent, depending on the completed tenure of the account.
- If the account is closed on or before the completion of three years of opening the account, an amount equal to 2 per cent of the deposit is deducted and the remainder is paid to you.
- If the account is closed after the completion of three years from opening the account, an amount equal to 1 per cent of the deposit is deducted and the remainder is paid to you.

Tax Implications

There is no tax advantage on these deposits and the interest earned on maturity is treated as an income from other sources when computing income tax.

Where to Open an Account

You can open the account at any head or general post office.

How to Open an Account

You will first need to open a post-office savings account to link the monthly payout from your MIS account and you will need the following documents:

- An account-opening form, which the post office will provide.
- Two passport-size photographs
- Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application
- Address and identity proof, such as the Aadhaar card; passport; PAN (permanent account number) card or declaration in Form 60 or 61 as per the Income-Tax Act, 1961; driving licence; voter identity card; or ration card.
- Carry the original identity proof for verification at the time of account opening
- Choose a nominee

How to Operate the Account

You need to credit the initial account opening sum to your account with a pay-in slip. No online facility is available.

POMIS Rates (%) over the quarters

	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
5-year MIS	6.6	6.6	6.6	6.6	6.6	6.6	7.6

POINTS TO REMEMBER

- It has a term of five years and a maximum limit of ₹4.5 lakh in an individual account.
- Portability of the account between post offices is possible.
- Interest income is taxable.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

7

Public Provident Fund

The Public Provident Fund (PPF) is a long-term savings instrument established by the central government. It offers tax benefits on contributions as well as withdrawals after the lock-in period. This scheme came into force on July 1, 1968, and is backed by the government with the objective to provide old-age income security to the self-employed and those working in the unorganised sector. Though the scheme is voluntary, assured returns and income-tax benefits have fuelled its popularity.

Capital Protection & Inflation Protection

The capital in a PPF account is completely protected, as the scheme is backed by the Government of India, making it fully

Investment Objective and Risks

The primary objective of saving in the PPF account is to avail tax deduction on deposits, guaranteed returns on investment and tax-free withdrawal on the maturity. Savings in this product are completely risk-free because of the government backing.

Suitable for	Not Suitable for	Alternatives
• Risk-averse investors seeking assured returns by investing regularly for long-term goals, which are 15 or more years away	• Investors who can assume some risk by investing in equity-linked investments, which can generate much higher returns in a 15 year period	• NPS (for retirement savings) • Tax saver equity mutual funds (ELSS)/ Direct stock investing (for those who can assume risk)

risk-free with guaranteed returns. The PPF account is not inflation protected, which means whenever inflation is above the latest guaranteed interest rate, the deposit earns no real returns. However, when the inflation rate is below the guaranteed rate, it does manage a positive real rate of return.

Guarantees

Interest rates are aligned with G-sec rates of the similar maturity, with a spread of 0.25 per cent. The government has decided to review the PPF rates quarterly. For the second quarter of FY21–22, the rate has been set as 7.10 per cent compounded annually.

Liquidity

The PPF is liquid, despite the 15-year lock-in stipulated with this account. Liquidity is offered in the form of loans against the PPF from the third year and withdrawals are subject to conditions from the seventh year.

Also, it is now possible to close your PPF account pre-maturely at a penalty of 1 per cent on the interest. However, it can be done only after five years from the end of the financial year in which

Features

ELIGIBILITY
You need to be a resident Indian

ENTRY AGE
- No age is specified for account opening

INVESTMENTS
- Minimum: ₹500 per annum
- Maximum: ₹1.5 lakh per annum
- Investment can be made in lump sum or instalments in multiple of ₹50
- No limit on the no. of instalments in a financial year (earlier it used to be 12)

INTEREST
- 7.10 per cent compounded annually
- The interest shall be calculated for the calendar month on the lowest balance in the account between the close of the fifth day and the end of the month.

TENURE
- 15 years
- On completion of 15 years, the account can be extended with or without deposit in a block of five years at a time. There is no limit on the no. of extensions. However, once the PPF account is continued without deposits for more than a year post maturity, then the account holder cannot make deposits in the subsequent years.
- The PPF account matures after 15 years but the contribution has to be made for 16 years in all. This is because the 15-year period is calculated from the end of the financial year in which the account is opened. Effectively, the PPF account matures on the first day of the 17th year. However, it can be extended indefinitely for five years at a time.

ACCOUNT-HOLDING CATEGORIES
- Individual
- Minor through the guardian

NOMINATION
- Facility is available

EXIT OPTION
- Premature closure of a PPF account is not permissible except in the case of the death of the account holder or after completion of five years from the end of the financial year in which the account is opened if the money is required for the treatment of a critical illness or to fund higher education.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

!

- Loans against the PPF are available from the third year of opening the account to the sixth year, wherein the loan amount will be up to a maximum of 25 per cent of the balance in the account at the end of the second year immediately preceding the year in which loan is applied (i.e. if loan taken during 2021-22, 25% of balance credit on 31.03.2020). However, the loan has to be repaid along with interest rate of two per cent per annum within 36 months. Any loan taken after December 12, 2019 will attract reduced interest rate of one per cent per annum.
- In a financial year, one withdrawal of up to 50 per cent of the balance at the end of the fourth preceding year or at the end of the preceding year, whichever is lower, can be made (i.e. withdrawal can be taken in 2021-22, up to 50% of balance as on 31.03.2018 or 31.03.2021 whichever is lower) . However, this withdrawal can be made from seventh year onwards.

the account is opened, provided the money is required for the treatment of serious ailments of the account holder, spouse or dependent children, for the higher education of the account holder or dependent children or change in residency status to NRI.

Tax Implications

The scheme has the exempt-exempt-exempt (EEE) status, where the deposits, the interest earned as well as the maturity amount are tax-free.

The sum invested in the PPF account is eligible for tax deduction under Section 80C, subject to a maximum of ₹1.5 lakh in a financial year. On maturity, the entire amount, including the interest, is tax-free.

Where to Open an Account

You can open the account at various places such as:

- Any head post office or general post office
- Branches of nationalised banks: State Bank of India, Bank of Maharashtra, etc.
- Private-sector banks: ICICI Bank, Axis Bank, etc.

! The PPF account is not subject to attachment under any order or decree of a court in respect of any debt or liability.

How to Open an Account

Once you have selected the location to open an account, you will need the following documents:

- An account-opening form
- Two passport size photographs
- Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application.
- Address and identity proof, such as the Aadhaar card, passport, PAN (permanent account number) card or declaration in Form 60 or 61 as per the Income-Tax Act, 1961, driving licence, voter's identity card or ration card
- Carry the original identity proof for verification at the time of account opening
- Choose a nominee

Making the Most of PPF

Year	Rates (%)
2003-04	8
2004-05	8
2005-06	8
2006-07	8
2007-08	8
2008-09	8
2009-10	8
2010-11	8
Apr-11 to Nov-11	8
Dec-11 to Mar-12	8.6
2012-13	8.8
2013-14	8.7
2014-15	8.7
2015-16	8.7
2016-17	8.1
2017-18 (Avg)	7.78
2018-19 (Avg)	7.8
2019-20 (Avg)	7.93
2020-21	7.1

How to Operate a PPF Deposit

- You need a pay-in slip with the initial account-opening sum to be credited to your account

- You get a PPF passbook with your photo affixed, stating the nominee's name.
- You can also manage your PPF account online via net banking.

PPF Rates (%) over the quarters

	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
PPF	7.1	7.1	7.1	7.1	7.1	7.1	7.9

POINTS TO REMEMBER

- The PPF account enjoys tax benefits for contributions up to ₹1.5 lakh. Its interest and maturity proceeds are also exempt from tax.
- It has a 15-year tenure which can be extended in instalments of five years. Loans against it can be taken from the third year onwards and withdrawals are permitted from the seventh year onwards.
- Interest income can be optimised by making contributions by the fifth of the month in which deposits are made. This is because interest in PPF account is calculated for the calendar month on the lowest balance in the account between the close of the fifth day and the end of the month.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

8

Sukanya Samriddhi Yojana

The Sukanya Samriddhi Yojana (SSY) is a tax-free small savings scheme for the girl child. It was launched on January 22, 2015. The parents or legal guardians of girls aged 10 or below can open an SSY account in the name of the girl child in designated branches of public-sector banks or in a post office, with a minimum amount of ₹250.

Entry Age

The parents or legal guardians of a girl child aged 10 or below can open an SSY account.

Minimum Investment

The account can be opened with a minimum deposit of ₹250.

Investment Objective and Risks

The Sukanya Samriddhi Yojana is a special initiative for the girl child and aimed at encouraging saving for the welfare of the girl child. There is no inflation protection in the scheme, though the capital is protected.

Suitable for	Not Suitable for	Alternatives
● Parents of a girl child looking to accumulate money for her over the long term by investing regularly	● Parents who can assume some risk by investing in equity-linked investments, which can generate much higher returns in the long run	● Equity mutual funds/Direct stock investment (for those who can assume risk)

Earlier, it was ₹1,000. Failure to make a minimum deposit of ₹250 in a year can lead to deactivation of the account. It can then be revived only after paying a penalty of ₹50 for each defaulted year, along with the missing payments. Deposits can be made multiple times in a year, with a total upper limit of ₹1.5 lakh.

Capital Protection and Inflation Protection

The capital in a Sukanya Samriddhi Yojana account is completely protected, as the scheme is backed by the Government of India, making it fully risk-free with guaranteed returns. Since the returns are linked to the government bond yield, there is no assured inflation protection.

Liquidity

The contributions under the SSY cannot be withdrawn before the girl turns 18 or passes the 10th standard. Premature closure is allowed after five years only on fulfilment of stipulated conditions. As of now, there is no loan facility available.

Guarantees

The interest rate for the SSY is 75 basis points over the ten-year

Features

ELIGIBILITY

You need to be a resident Indian and parent/legal guardian of the girl child. A maximum of two accounts for two girls.

ENTRY AGE

- Parents or legal guardian of a girl child who is ten years or less can open an SSY account

ACCOUNT OPENING FEE

- No fee. A minimum cash deposit of ₹250 is required to open an account

ACCOUNT MAINTENANCE AND CHARGES

- Failure to make a minimum deposit of ₹250 in a year can lead to the deactivation of the account
- A deactivated account can then be revived only after paying a penalty of ₹50 for each defaulted year, along with the missing payments

INTEREST

- The interest rate for Q2 FY21-22 is 7.60 per cent. The rate is revised every quarter and the new rate will be applicable to the subscriber

OTHER FEATURES OFFERED

- The scheme has an exempt-exempt-exempt (EEE) model
- The account can be opened at any post office in India where banking service is provided or at any branch of an authorised commercial bank
- The corpus will continue to earn interest if the account is not closed on maturity

TENURE

- Deposit is to be made for 15 years from the date of account opening
- The account will mature 21 years after the date of opening or at the time of marriage of the girl child (after attaining age of 18 years)
- One withdrawal of up to 50 per cent of the corpus available at the end of preceding FY is allowed for education expenses after the girl turns 18 or passes 10th standard
- Premature closure is allowed after five years of account opening on fulfilling conditions like death of account holder, life-threatening disease of account holder or death of the guardian by whom the account is operated.

ACCOUNT-HOLDING CATEGORIES

- Girl child under 10 years of age through the parents or the legal guardian. The account can be operated by the account holder herself after attaining the age of 18 years.

NOMINATION

- Not available

To view the current rates on the schemes in this book, go to vro.in/s34211

> ! The SSY account can be opened only for the girl child and the girl child must not be older than 10. Also, the minimum lock-in period is eight years.

government bond yield. For Q2 FY21-22, the deposit will fetch an interest rate of 7.60 per cent. The rates will be revised every quarter and the new rates will be applicable to all the subscribers.

Tax Implications

The scheme has the exempt-exempt-exempt (EEE) model, where the deposits, the interest earned as well as the maturity amount are tax-free. The sum invested in the SSY scheme is eligible for tax deduction under Section 80C subject to a maximum of ₹1.5 lakh. On maturity, the entire amount, including the interest, is tax-free.

Where to Open the Account

The account can be opened at any post office in India where banking service is provided or at any branch of a commercial bank authorised by the central government to open an account under Sukanya Samriddhi Account Rules, 2019.

How to Open the Account

The parent/guardian can approach any post office or bank with the birth certificate of the girl child, along with the ID and address proof of the parent/guardian.

Additional information

The depositor can open only one account in the name of one girl child and a maximum of two accounts for two girls. However, the third account can be opened in the case of the birth of twin girls in the second birth, or if the first birth itself results in three girl children.

SSY Rates (%) over the quarters

	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
Sukanya Samriddhi Yojna	7.6	7.6	7.6	7.6	7.6	7.6	8.4

POINTS TO REMEMBER

- This is a savings instrument created for the benefit of the girl child.
- It can only be opened by the parent/legal guardian of a girl below 10 years of age and matures 21 years after the date of opening of the account or at the time of the marriage of girl child after attaining the age of 18 years (one month before or three months after date of marriage).
- The principal is eligible for a tax deduction and the interest earned on it is tax-free.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

9

Senior Citizen Savings Scheme

Retirement brings with itself several complications and doubts, but there are savings products that are safe and ensure guaranteed retirement income. The Senior Citizen Savings Scheme (SCSS), launched in 2004, is a deposit scheme introduced by the Government of India to provide guaranteed returns to senior citizens. This scheme ensures a regular income stream for senior citizens post-retirement.

Capital Protection and Inflation Protection

The capital in the SCSS is completely protected, as the scheme is backed by the Government of India. The SCSS is not inflation protected, which means whenever

Investment Objective and Risks

The main objective of the SCSS is to provide an assured return every quarter to senior citizens, which helps them create a guaranteed regular income flow.

Suitable for	Not Suitable for	Alternatives
• Senior citizens looking to derive an assured regular income from their savings	• Investors who do not need any regular income	• Pradhan Mantri Vaya Vandana Yojana • Annuity plan of a life insurance company • Post Office Monthly Income Scheme • SWP from a debt-oriented mutual fund, which can offer better, though not guaranteed, returns

inflation is above the current interest rate, the deposit earns no real returns. However, when the inflation rate is below the current interest rate, it does manage a positive real rate of return.

Guarantees

Interest rates are aligned with G-sec rates of the similar maturity, with a spread of one per cent. The government has decided to review the SCSS rates quarterly. However, once a subscriber has enrolled, the rates will remain unchanged for the tenure. For the second quarter of FY21–22, the rate has been set as 7.40 per cent compounded annually. The payout of interest is quarterly.

Liquidity

The SCSS is liquid, despite a five-year lock-in. One can make withdrawals subject to conditions and penalties.

Tax Implications

The sum invested in the SCSS on or after April 1, 2007, is eligible for a tax deduction under Section 80C of the Income-Tax Act.

Features

ELIGIBILITY

You need to be a resident Indian to open an account

ENTRY AGE

- 60 years
- 55 years for those who have retired on superannuation or under a voluntary or special voluntary scheme
- The retired personnel of defence services (excluding civilian-defence employees) are eligible to invest on attaining the age of 50 years subject to the fulfilment of the specified conditions

INVESTMENTS

- Minimum: ₹1,000
- Maximum: ₹15 lakh (₹30 lakh jointly with spouse)
- Deposits have to be in multiples of ₹1,000. Only one deposit allowed

INTEREST

- Currently 7.40 per cent per annum compounded annually
- The interest is paid on the last working day of March, June, September and December

TENURE

- Five years; can be extended by three more years

ACCOUNT-HOLDING CATEGORIES

- Individual
- Jointly with spouse
- Multiple accounts allowed

NOMINATION

- Facility is available

EXIT OPTION

- Premature closing of the account is permitted with a penalty

To view the current rates on the schemes in this book, go to **vro.in/s34211**

!

- The facility of pledging the deposit in the SCSS account to obtain loans is not permitted, as it defeats the purpose of regular income.
- Premature withdrawal or closure of the SCSS account is permitted after deducting a penalty for early withdrawal or closure. The penalty varies from 1–1.5 per cent, depending on the completed tenure of the account.
  - If the account is closed before one year, no interest will be payable and any interest paid in the account shall be recovered from principle as a penalty
  - If the account is closed after the first year and before the end of the second year, an amount equal to 1.5 per cent of the deposit is deducted as a penalty.
  - If the account is closed on or after the second year, an amount equal to 1 per cent of the deposit is deducted.

Interest earned above ₹50,000 is fully taxable and is also subject to TDS. As per section 80TTB, senior citizens are allowed to take deduction of interest earned from all type of deposits with banks, co-operative banks and post office subject to an overall maximum limit of ₹50,000.

Where to Open an Account

GOING ONLINE

If one has an online bank account with a bank, which also offers SCSS, the two can be linked, which enables online access to the SCSS.

The SCSS account can be opened at any head post office or general post office. Select branches of several designated nationalised banks – Indian Bank (including merged Allahabad Bank), Union Bank of India (including merged Andhra Bank and Corporation Bank), State Bank of India, Bank of Baroda (including merged Dena Bank and Vijaya Bank), Bank of India, Bank of Maharashtra, Canara Bank (including amalgamated Syndicate Bank), Central Bank of India, Indian Overseas Bank, Punjab National Bank (including merged United Bank of India), UCO Bank and IDBI

Bank offer the SCSS. ICICI Bank is the only private bank that offers the SCSS.

How to Open an Account

Once you have selected the bank to open the SCSS account, you will first need to open a savings bank account. You will need the following documents:

- An account-opening form, which the bank will provide
- Two passport-size photographs
- Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application.
- Address and identity proof, such as the Aadhaar card, passport, PAN (permanent account number) card or declaration in Form 60 or 61 as per the Income-Tax Act, 1961, driving licence, voter's identity card or ration card.
- Carry the original identity proof for verification at the time of account opening.

SCSS Rates (%) over the quarters

	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
5-year SCSS	7.4	7.4	7.4	7.4	7.4	7.4	8.6

POINTS TO REMEMBER

- Portability of the account from one bank to another is available.
- ECS transfer of interest to the savings account can be done.
- There is a penalty in the case of early closure of the account.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

10

National Savings Certificate

The National Savings Certificate (NSC) is a popular and safe small-savings instrument that combines tax savings with guaranteed returns. This scheme is backed by the government and is available at post offices. The distribution reach of India Post has made it popular.

Capital and Inflation Protection

The capital in the NSC is completely protected, as the scheme is backed by the Government of India. The NSC is not inflation protected. This means whenever inflation is above the current guaranteed interest rate, the deposit earns no real returns. However, when the inflation rate is below the guaranteed interest rate, it does manage a positive real rate of return.

Investment Objective and Risks

The main objective of investing in the NSC is to get tax deduction on deposits and guaranteed returns on investment.

Suitable for	Not Suitable for	Alternatives
● Conservative investors seeking assured returns from a lump sum investment for goals up to five years away and tax exemption under Section 80C	● Long-term wealth creation, given their inability to provide any meaningful returns above the rate of inflation ● Investors looking to invest small amounts regularly	● Five-year bank fixed deposit ● Five-year Post Office Time Deposit ● Debt mutual funds can offer better returns but do not provide tax exemption ● Company deposits, though they do not provide tax exemption

Guarantees

The interest rate on the NSC is guaranteed. Currently, the interest rate on NSC is 6.80 per cent on the five-year option, compounded annually. The ten-year option of the NSC has been discontinued. From FY 2016–17 onwards, the interest rate on the NSC is revised every quarter as per the prevailing government-bond rates. However, once you have invested in the NSC, the rate applicable that time will remain the same throughout the investment tenure.

Liquidity

Liquidity in the NSC is available in the form of loans since you can borrow against your NSC savings.

Exit Option

The investment in the NSC is locked-in for its tenure. Premature encashment is possible in case of the death of the certificate holder. The NSC is also transferable.

Features

ELIGIBILITY

You need to be a resident Indian to buy the NSC

ENTRY AGE

- No age is specified for opening an account

INVESTMENTS

- Minimum: ₹1,000
- Maximum: No limit
- Certificates are available in multiples of ₹100

INTEREST

- 6.80 per cent compounded annually as of Q2 FY22

TENURE

- Five years

ACCOUNT-HOLDING CATEGORIES

- Individual
- Joint
- Minor through the guardian
- Minor above 10 years

NOMINATION

- Facility is available

To view the current rates on the schemes in this book, go to **vro.in/s34211**

> **!** You can pledge NSC certificates to obtain loans. The amount and rate at which the loan is permitted depends on the lending institution.

Tax Implications

The sum invested in the NSC is eligible for a tax deduction under Section 80C up to the ₹1.5 lakh limit stipulated in a financial year, including the accrued interest on the existing certificates. Since the interest earned on the NSC is automatically reinvested, it can be claimed as a deduction under Section 80C. But if the accrued interest is not added to the ₹1.5 lakh deduction under Section 80C, then the entire income is taxable on maturity.

Where to Buy

The NSC can be bought from any head or general post office.

> **GOING ONLINE**
>
> The application process for NSC is not available online, however, you can download the form online. Also, you can access your account summary and transactions online under the DOP eBanking portal.

How to Buy

- You need to fill the NSC application form available at the post office.
- Carry the original identity proof for verification at the time of buying.
- You can buy the certificate with cash, cheque or demand draft drawn in favour of the postmaster of the post office from where the NSC is being bought.
- Choose a nominee.

> **!** In case of loss or damage of NSC certificates, duplicate certificates can be obtained on furnishing an indemnity bond in a format prescribed by the post office.

- Certificates are transferable to another person before maturity subject to stipulated conditions.
- One can give the power of attorney to another person for purchase or payment.

Additional Information

- NSC certificates are encashable at any post office in India, provided one has obtained transfer rights.
- NSC certificates are transferable across post offices.
- Interest income is taxable (if not claimed under Section 80C) but no tax is deducted at the source.

NSC Rates (%) over the quarters

	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
5-year NSC	6.8	6.8	6.8	6.8	6.8	6.8	7.9

POINTS TO REMEMBER

- The NSC is a government-guaranteed instrument.
- Investments in the NSC, as well as the interest thereon, are eligible for a deduction under Section 80C up to ₹1.5 lakh.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

11

Kisan Vikas Patra

Kisan Vikas Patra (KVP) is a popular and safe small-savings instrument that doubles the invested money in 10 years and four months at the current rate. This scheme is backed by the government. After withdrawing it, the government relaunched it on November 18, 2014. The money raised through the KVP is used in welfare schemes for farmers.

Capital Protection & Inflation Protection

The capital in the KVP is completely protected, as the scheme is backed by the Government of India. The KVP is not inflation protected. This means that whenever inflation is above the current guaranteed interest rate, the deposit earns no real returns. However, when the inflation rate is

Investment Objective and Risks

The main objective of the KVP is to double the sum deposited. The objective of doubling the investment is easy for any investor to understand. The government backing and guarantee make it a popular route of investments for small savers.

Suitable for	Not Suitable for	Alternatives
• Conservative investors seeking assured returns from a lump-sum investment	• Investors who can assume some risk by investing in equity-linked investments, which can generate much higher returns in the long term	• Equity mutual funds/ Direct stock investing (for those who can assume risk) • RBI Savings Bonds • Company Deposits • Bank fixed deposits, though the rate of return is lower

under the guaranteed rate, the KVP can manage to give a positive real rate of return.

Guarantees

The interest rate in the KVP is guaranteed. Currently, it is 6.90 per cent compounded yearly. The KVP rates are notified every quarter as per the prevailing government-bond rates. However, once you have made an investment, the rate will remain unchanged for you throughout the tenure.

Liquidity

Liquidity is offered as loans and withdrawals, which are subject to conditions. The minimum lock-in period is 30 months, after which it can be encashed by paying a penalty. Also, it can be transferred from one person to another any number of times.

Tax Implications

There is no tax benefit on the deposit or the interest that the KVP earns. There is no tax deducted at the source.

Features

ELIGIBILITY
One has to be a resident Indian to purchase this product

ENTRY AGE
- No age limit is mentioned

MINIMUM INVESTMENTS
- Minimum: ₹1,000
- Maximum: There is no upper limit

INTEREST
- 6.90 per cent compounded yearly

TENURE
- The maturity period may change based on rate changes. Currently it is 124 months; 10 years four months

OTHER ASPECTS
- Premature encashment is allowed

ACCOUNT-HOLDING CATEGORIES
- Individual
- Joint
- Minor through the guardian
- Minor above 10 years

NOMINATION
- The facility is available for the existing investors

EXIT OPTION
- Premature withdrawal is permitted at a cost for investors

To view the current rates on the schemes in this book, go to **vro.in/s34211**

> **!** Premature closure of the KVP is permitted wherein a pre-fixed value of the KVP is paid.

Where to Buy

One can buy the KVP at any head post office, general post office, any designated nationalised bank or State Bank of India.

> **GOING ONLINE**
>
> The application process for KVP is not available online; however, you can download the form online. You can also access your account balance and nominee details online on the DOP eBanking portal.

How to Buy

- You have to fill the KVP application form available at the post office or the designated banks.
- Original identity proof for verification at the time of buying is required.
- You can choose a nominee.

Other Information

- The KVP can be encashed at any post office or nationalised bank in India, provided one has obtained a transfer certificate to the desired post office or bank.
- The KVP is transferable across post offices and designated banks for existing investors.
- Interest income is taxable but no tax is deducted at the source.

KVP Rates (%) over the quarters

	Jul-Sep 2021	Apr-Jun 2021	Jan-Mar 2021	Oct-Dec 2020	Jul-Sep 2020	Apr-Jun 2020	Jan-Mar 2020
Kisan Vikas Patra	6.9	6.9	6.9	6.9	6.9	6.9	7.6

POINTS TO REMEMBER

- Kisan Vikas Patra has a tenure of 124 months currently and the minimum investment limit is ₹1,000. Maturity period may change based on rate changes.
- Its interest rate is notified every quarter and is linked to the prevailing interest rate offered by government securities. It is currently set at 6.90 per cent.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

12

Pradhan Mantri Vaya Vandana Yojana

Prime Minister Narendra Modi announced his intention to launch a scheme for senior citizens in his New Year's eve address in 2016. This eventually crystallised into Pradhan Mantri Vaya Vandana Yojana (PMVVY). The scheme (though marketed as a pension) is essentially a fixed deposit with LIC and has a guaranteed interest rate of 7.4 per cent (for FY 2021-22) for a period of 10 years. Effective from FY 2020-21, annual reset of rate of return will occur in every FY. But the interest rate will remain constant for you for the entire tenure of the scheme. On the expiry of this term, you will get your principal back.

(₹)

Investment Objective and Risks

- The investment objective of the PMVVY is to provide senior citizens with a guaranteed rate of return on their long-term deposits. PMVVY deposits are vulnerable to inflation.

Suitable for	Not Suitable for	Alternatives
●Senior citizens looking to derive assured regular income from their savings	●Investors who do not need regular income	●Senior Citizens Savings Scheme ●Annuity plan of a life insurance company ●Post Office Monthly Income Scheme ●SWP from a debt-oriented mutual fund which can offer better, though not guaranteed, returns

Capital and Inflation Protection

The capital in the PMVVY is fully protected. However, there is no inflation protection.

Guarantees

The interest rate on the PMVVY is guaranteed. You can choose monthly, quarterly, semi-annual or annual payout. Opting for an annual payout raises your return slightly.

Liquidity

Premature exit is possible in the case of critical illness and 98 per cent of your deposit will be refunded. The scheme was earlier open till March, 2020. However, it has been further extended till March, 2023. You can buy it online or offline from LIC.

Exit Option

The deposit in the PMVVY is locked in for its tenure with the exception of the exit option mentioned above. However on the death of the depositor, it will be returned to the beneficiary.

Features

ELIGIBILITY

You must be 60 years old or above

INVESTMENT

- Minimum: ₹1.57 lakh
- Maximum: ₹15 lakh

INTEREST

- 7.4 per cent (for FY 2021-22) and is subject to annual reset

TENURE

- 10 years

OTHER FEATURES

- Premature exit is available in the case of a critical illness. 98% of the deposit will be refunded in such a case.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

Loan

Loan facility is available on completion of three policy years. The maximum loan that can be granted will be 75 per cent of the deposit. The rate of interest to be charged for the loan amount shall be determined at periodic intervals. For the loan sanctioned till April 30, 2021, the applicable interest rate is 9.5 per cent p.a. and will be recovered from the pension amount payable under the policy. However, the loan amount will be recovered from the claim proceeds at the time of exit.

Tax implications

The interest on the PMVVY is fully taxable. There are no tax deductions on the capital contributed to the PMVVY.

How to buy

You can invest in the PMVVY offline by visiting a LIC office or online through www.licindia.in

Minimum and maximum pension available*

Mode of Pension	Minimum pension (₹)	Maximum pension (₹)
Monthly	1,000	9,250
Quarterly	3,000	27,750
Half-yearly	6,000	55,500
Yearly	12,000	1,11,000

* Subject to annual reset of interest rate

Minimum and maximum purchase price available*

Mode of Pension	Minimum purchase price (₹)	Maximum purchase price (₹)
Monthly	1,62,162	15,00,000
Quarterly	1,61,074	14,89,933
Half-yearly	1,59,574	14,76,064
Yearly	1,56,658	14,49,086

* Subject to annual reset of interest rate

POINTS TO REMEMBER

- The PMVVY currently carries a guaranteed interest rate of 7.4 per cent for its tenure of 10 years.
- It is open for applications till March, 2023.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

13

Floating Rate Savings Bonds 2020 (Taxable)

The Floating Rate Savings Bonds 2020 (Taxable), popularly known as the RBI 7.15% Bonds, currently offer a 7.15 per cent taxable rate of interest over a tenure of seven years. They have replaced the Government of India's 7.75% (taxable) bonds - informally called RBI 7.75% bonds. They are called floating-rate bonds as the interest rate on these bonds is reset every six months starting from January 01, 2021 and is always set at a spread of 35 basis points over the prevailing NSC (National Saving Certificate) rate.

Capital and Inflation Protection

Your capital in these bonds is fully protected. Since the interest rate on them is fixed, there is no inflation protection.

Investment Objective and Risks

- To provide savers with a fixed rate of interest over the medium term. Savers in these bonds are protected from reductions in the interest rate but not from inflation.

Suitable for

- Conservative investors seeking assured returns from a lump-sum investment

Not Suitable for

- Investors who can assume some risk by investing in equity-linked investments, which can generate much higher returns

Alternatives

- Balanced mutual funds (for those who can assume risk)
- Bank fixed deposits, though the rate of return is lower
- Company deposits

Guarantees

The interest rate on these bonds is currently guaranteed at 7.15 per cent for a tenure of seven years.

Liquidity

These bonds are not listed and traded and you cannot take loans against them. You are effectively locked-in for a tenure of seven years. However, pre-mature encashment is allowed with a penalty for senior citizens after a minimum lock-in period, which varies from four to six years depending on the age bracket in which the senior citizen falls.

For an individual in the age bracket of 60-70 years, the lock-in period is six years. If the investor is in the age bracket of 70-80, it is five years and four years if his age is 80 or more.

Exit Option

You can only exit from these bonds after their maturity at the end of seven years.

Features

ELIGIBILITY
- Resident Individual
- HUF

ENTRY AGE
- There is no minimum entry age. In the case of minors, the bonds can be purchased by parents/legal guardians

INVESTMENTS
- Minimum: ₹1,000
- Maximum: No limit

INTEREST
- 7.15 per cent (interest paid at half-yearly intervals on Jan 01 and July 01 every year. There is no option to pay interest on a cumulative basis)

TENURE
- Seven years

ACCOUNT-HOLDING CATEGORIES
- Individual
- Joint
- Minor through guardian

NOMINATION
- Facility is available

EXIT OPTION
- There is no exit option from these bonds before maturity, except for senior citizens

To view the current rates on the schemes in this book, go to **vro.in/s34211**

Tax implications

The interest on these bonds is fully taxable. There is no deduction on the principal investment.

Where to buy

They can be purchased from the branches of SBI, other nationalised banks and any other banks that have been specified by the RBI.

POINTS TO REMEMBER

- The RBI's 7.15% bond carries a 7.15 per cent interest rate at present over a seven-year tenure. Interest is reset and also paid semi-annually.
- It is completely illiquid and you cannot sell it in the secondary market or borrow against it.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

14

Health and Other Related Insurance

Health insurance works as a financial-protection tool against medical expenses. It usually provides either direct payment or reimbursement for the expenses associated with illness, injuries and hospitalisation, as detailed in the scope of the policy cover.

The cost and range of protection provided by a health insurance policy depend on the insurer and the type of policy purchased by the policyholder. Some policies also cover pre- and post-hospitalisation expenses.

Capital Protection & Inflation Protection

The sum assured in a health-insurance policy is guaranteed as per the terms of the policy as long as the premiums are

Investment Objective and Risks

The main objective of a health-insurance policy is to protect against healthcare risks that you are exposed to. The policy provides reimbursement or payments towards healthcare costs incurred by the policyholder in the event of poor health and hospitalisation, as mentioned in the policy document.

Suitable for	Not Suitable for	Alternatives
●Everyone to mitigate the financial risk of any unforeseen medical emergencies	●Those who have sufficient health coverage for self and family under a govt. or employer-sponsored plan ●Those who have sufficient accumulated wealth to comfortably provide for any medical costs that may arise	●No alternatives

paid regularly and the policy is in force. Health insurance is not inflation protected, which means whenever insurance needs to increase or the cost of healthcare goes up, one needs to buy an additional cover. Some policies do provide the facility of adding to the cover with time, which can address inflation at an additional cost.

Guarantees

The sum assured is guaranteed. However, the premium is not fixed and increases with the age of the insured. This is because of the increased risk.

Portability

Health-insurance policies are portable, which means that one can move from one insurer to another by transferring one's existing policies to a new insurer. Portability also enables the transfer of the credit gained by the policyholder for pre-existing conditions if the policyholder chooses to switch from one insurer to another or from one plan to another plan of the same

Features

ELIGIBILITY

Any adult can buy health insurance; children can also be covered under the policy

ENTRY AGE

- From 18 up to 65 in most cases
- Policies for senior citizens can be taken from the age of 60
- Policies for children are also available, with the entry age being three months
- Dependent children can be added to the policies taken by parents

MAXIMUM AGE TILL WHICH COVER IS OFFERED

- Typically 85 years
- Some policies offer lifetime coverage

POLICY TENURE

- Most policies are annual-renewal policies
- Some insurers provide policies with a tenure of up to three years

PREMIUM

- Depends on the insured person's age and health condition
- Depends on the policy type and sum assured

SUM ASSURED

- Depends on the policy type
- Depends on the policy tenure

OTHER ASPECTS

- Premium frequency is annual. In some cases, it can be two or three yearly
- There is also a grace period in premium payment. However, no risk is covered during the grace period

POLICY HOLDING

- Individual
- Family
- Group

NOMINATION

- Not available

Health-related Insurance Variants

Insurance type	What it offers
Accident cover	
Death	Lump-sum payment in the case of death due to accident
Permanent total disability	Lump-sum payment in the case of loss of limbs, resulting in permanent total disability.
Permanent partial disability	Lump-sum payment in the case of permanent partial disability; for instance, partial vision or hearing loss.
Temporary disability	Lump-sum payment in the case of a temporary disability arising from an accident; for instance, a fractured leg.
Individual health plan	These are traditional healthcare plans modelled on the old mediclaim-type policies offered by insurers. Typically, the benefits include room and other hospital services, such as X-ray, lab expenses and operating-room use. The cover extends to pre- and post-hospitalisation expenses on medication and diagnostics, subject to limits and conditions in the policy.
Family-floater plans	An extension of the individual plan, these cover a family by spreading risk across the members. For instance, a ₹2 lakh cover is spread across four family members: two adults and two children.
Arogya Sanjeevani plans	IRDAI has mandated all insurance companies to provide these plans from April 2020. It is a simple and affordable health-insurance product with basic features that cover healthcare expenses up to ₹5 lakhs. This coverage includes pre- and post-hospitalization expenses, hospital room rent, ICU services etc. They are available in both individual and family floater alternatives.
Senior-citizen health plans	Entry after the age of 60 but offer lower cover and more stringent terms and conditions.

Insurance type	What it offers
Group health plans	For employees in organisations; these come with certain benefits tailored specifically to fit the needs of the group.
Hospitalisat-ion-cash plans	Pay a fixed sum for each day spent in the hospital; they are totally independent of the room rental and treatment costs.
Critical-illness plans	Cover a host of high-cost, low-incidence critical-health conditions, such as heart attack, cancer, stroke or kidney failure
Life-insurance plans with riders (accident benefit, critical illness, hospital cash, waiver of premium, etc.)	Riders are add-ons to the basic insurance policy to supplement the insurance cover. These are defined-benefit plans with fixed payouts and may not compensate in full for the cause.

insurer, provided the previous policy has been maintained without any break.

- A policy can be ported only at the time of renewal
- Apart from the waiting-period credit, all other terms of the new policy, including the premium, are at the discretion of the new insurance company
- At least 45 days before renewal, you need to inform your existing company about the switch and the company you want to switch to. You must renew your policy without a break (there is a 30-day grace period if porting is under process)

!

- The facility of pledging a health-insurance policy to obtain loans is not permitted, as it defeats the purpose of insurance.
- The only premature exit that surrenders the policy at no loss is during the free-look period.

Other Risks

Premium rates may go up or down on renewal. The scope of policy cover can also change depending on the insurer, since health insurance is typically an annual contract.

Tax Benefits

The premiums paid towards health insurance are tax deductible under Section 80D of the Income Tax Act.

- Premium up to ₹25,000 for the assessee (including spouse and dependent children).
- Additional deduction up to ₹25,000 on the premium paid for parents.
- For senior citizens, premiums are deductible up to enhanced limit of ₹50,000.

Above limits also include a maximum payment of ₹5,000 (for assessee, spouse, parents and dependant children) for a preventive health check-up.

Where to Buy

A health-insurance policy can be bought from individual health insurance agents, banks, insurance brokers or on the internet.

How to Buy

Once you have evaluated the amount of insurance you need and found the insurer offering the policy, you will need to fill the proposal form provided by the insurer. Further,

- You will need documents to prove your date of birth, identity proof, such as a copy of driving licence or voter's card. Alternatively, Aadhaar card can be used for this purpose, which is now mandatory.
- You may have to undergo medical tests depending on your age or the cover that you are seeking.

Exclusions in Health-Insurance Policies

Here are a few common exclusions in most health insurance policies.

- **No-claim/waiting period on pre-existing diseases:** Diseases that have been in existence before the policy commencement are not covered, even if you were unaware of their existence. Some companies now relax this requirement by covering them after the passage of two-four years from the commencement of the policy. Some do so after four no-claim years on a policy.
- **Cool-off period:** This is the period when claims are not paid on the medical expenses incurred on the treatment of any health-related condition occurring within 30 days of the policy coming into force (except through bodily injuries due to accidents). Also, in some cases, such as in cataract surgery, there are sub-limits on reimbursement even after the cool-off period.
- **Eye-related expenses:** Expenses on the laser treatment of eyesight and costs of spectacles or contact lenses are not usually covered.
- **Dental and cosmetic surgeries:** Expenses incurred on dental treatment or cosmetic surgery are typically excluded.
- **War injuries:** Injuries due to wars and invasions or any claim directly or indirectly caused or contributed by nuclear weapons are not covered.
- **Smoker's premium:** Some insurers have a higher premium for smokers. If you were a smoker in the past, you must have a five-year period of abstinence to be termed a non-smoker.
- **Others:** Treatment through non-allopathic methods, such as Ayurveda or Unani medicine, is not compensated.

There are also provisions that curb the facilities you can avail of during hospitalisation. Insurers restrict certain discretionary costs associated with hospitalisation by introducing sub-limits for reimbursement in the manner shown below.

- **Room rent:** 1.5 per cent of the sum insured per day. If your insurance cover is ₹2 lakh, room rent will be capped at ₹3,000 per day.
- **ICU charges:** 3 per cent of the sum insured per day
- **Doctor's fees:** 40 per cent of the sum insured

POINTS TO REMEMBER

- A health-insurance policy can be returned during the free-look period, which varies from 15 days to a month, depending on whether it is bought online or offline.
- Health insurance premia up to ₹25,000 (including medical check-up) are tax-deductible under Section 80D.
- Do go through the policy terms and conditions.

15

Life Insurance

Life insurance is chiefly a risk-management tool meant to offer financial protection to your dependents in the event of your death. If you are adequately insured, your life insurance should enable your dependents – spouse, children or parents – to maintain their current lifestyle and pursue their financial goals.

Capital Protection & Inflation Protection

The sum assured in a life-insurance policy is guaranteed as per the terms of the policy as long as the premiums are paid regularly and the policy is in force. Life insurance is not inflation protected because it is a fixed-cover, fixed-tenure product.

Investment Objective and Risks

The only objective of life insurance is protection. There are, of course, life-insurance policies that offer investments, but at Value Research, we ask investors not to mix their insurance and investments and get an adequate term life cover.

Suitable for	Not Suitable for	Alternatives
●Those who have financial dependants	●Those who do not have financial dependants ●Those who have sufficient accumulated wealth to provide for the future financial needs of their dependants	●No alternatives

However, some policies have started providing an increasing life cover, which increases every year at a fixed percentage.

Guarantees

The sum assured is guaranteed and the premium is fixed for the tenure of the policy. Policies, other than term insurance, may guarantee a minimum return, which varies across insurers and policies. Policies from the Life Insurance Corporation of India carry a sovereign guarantee.

Liquidity

Life-insurance policies (except Term Life Insurance) are liquid, depending on the policy type and the number of years a policy has been in force.

Tax Implications

Premiums paid towards a life-insurance policy qualify for tax deductions under Section 80C up to a limit of ₹1.5 lakh in a financial year.

Features

ELIGIBILITY

All citizens of India and persons of Indian origin (PIOs)

ENTRY AGE

- 18 years and above
- Upper limit varies across insurers and policy types.

TENURE

- Typically up to the age of 80 years, depending on the policy type and insurer

SUM ASSURED

- Depends on the policy type, tenure, premium, your health and income

PREMIUM

- Depends on the insured's age, the sum assured, policy type and policy tenure
- Premium frequency can be monthly, quarterly, half-yearly, yearly or single (premium)

POLICY HOLDING

- Individual
- Joint

NOMINATION

- Facility is available

EXIT OPTION

- Policyholders can terminate their policies at a financial loss

- The facility of pledging the life-insurance policy to obtain loans is possible with policies that are with profits, such as endowment plans.
- Premature withdrawal or closure of life policies is permitted depending on the policy type. Policies that offer premature withdrawal do so after three or five full years of the policy's existence, depending on the policy type. The premiums paid during this tenure, along with profits, if any, are paid back after deducting penalties for the early closure of the policy. The penalties vary across insurers and policy types.

Where to Buy a Life Policy

Life insurance can be bought from different sales points such as:

- Life insurance agents representing a particular insurer
- Banks representing a particular insurer
- Corporate agents representing a particular insurer
- NBFCs representing a particular insurer
- Brokers representing many insurers
- Directly online from an insurer
- Telemarketing
- Retail stores and malls
- Policies packaged with banking products
- NGOs or self-help groups for rural areas
- Internet sales through third-party websites

How to Buy a Policy

Once you have evaluated the amount of insurance you need and the insurer offering the policy, you need to fill the proposal form provided by the insurer and you will need to provide:

- Documents that provide your date of birth and identity proof such as Aadhaar card, passport, driving licence or voter ID card. However, Aadhaar card is now mandatory.
- Income proof in the case of high-value covers
- A medical examination certificate, depending on your age or the cover
- Nominee details

- If the premium paid exceeds 10 per cent of the sum assured of the life-insurance policy, the amount eligible for deduction under Section 80C will be limited to 10 per cent of the sum assured. For people with disability or specified disease, the limit is 15 per cent.
- The proceeds from maturity or claims on a life-insurance policy are exempt under Section 10(10D).

How to Manage the Policy

- Premiums can be paid by cash or cheque or electronically
- A policy certificate is issued with details, including your name, premium, policy tenure, and terms and conditions

All About Riders

Riders are additional (protection) benefits attached to the basic (life) insurance policy. They are generally limited in size relative to the base sum assured and may have separate terms and conditions, possibly with additional exclusion clauses. Simply put, riders are options that allow you to enhance your insurance cover, qualitatively and quantitatively.

- **Critical illness:** Added to a life-insurance policy, it provides an additional cover to the insured in the event of a ‘critical illness’. In most cases, the extra cover is paid upon the diagnosis of a critical illness. The illnesses covered and the premiums you have to pay vary among insurers, but most insurers cover cancer, coronary artery bypass, kidney or renal failure, major organ transplant, paralytic stroke, etc.
- **Disability or dismemberment benefit:** This rider provides for an additional cover equal to the sum assured on the base policy in the event of disability as a result of an accident. If the accident results in total and permanent disability, the rider provides for other benefits: a proportion of the benefits will be paid to the insured person every year until he recovers. Some insurers provide

Life Insurance Policy Variants

Policy type	Salient features
Term plan	This is a no-frills policy in which the nominee gets the sum assured if the policyholder dies during the tenure of the policy. Nothing accrues if you outlive the policy term, though there are some costly policies that pay premiums back. Term insurance premiums are typically low.
Saral Jeevan Bima	This is a standard individual term life insurance policy that IRDAI has mandated all life-insurance companies to provide from January 01, 2021. With a maximum sum assured of ₹25 lakh, it will have the same features across all insurers (though prices may differ) just like the standard health-insurance product 'Arogya Sanjeevani'.
Endowment plan	• If you die during the policy term, your nominee gets the sum assured plus some returns, depending on the policy performance. • If you survive the policy term, you still get back the sum assured and returns earned by the policy.
Child plan	Similar to an endowment plan, it is a savings-oriented plan that is used to create savings for a child's education or marriage.
Money-back plan	In this variant of the endowment plan, a part of the sum assured is returned to the policyholder at periodic intervals throughout the policy tenure. The balance, along with profits earned, is returned at the end of the tenure.
Whole-life plan	A variant of the endowment plan, it provides cover to the policyholder throughout his lifetime and not just over a fixed term.
Pension plan	The policy works in two ways. One, it is an accumulation tool that collects premiums and earns a return. Two, on attaining the vesting age (the year the payout happens), the accumulated fund is paid back as an annuity. Pension plans also offer insurance.
Annuity	• In an annuity, the insurer agrees to pay the insured a stipulated sum of money periodically. • The purpose of an annuity is to protect against risks as well as provide money in the form of pension at regular intervals.

Policy type	Salient features
ULIP (Unit-linked insurance plan)	• ULIPs combine insurance and investments in equity and debt markets. • They are expected to deliver inflation-beating returns in the long term, irrespective of short-term market fluctuations. • ULIPs offer several fund-investment options with insurance and leave the asset-allocation decision in the hands of investors.

the 'waiver of premium' benefit as well in the event of a disability.

- **Waiver of premium:** This rider gets activated in the event of a person (who has taken a life-insurance policy) becoming 'completely disabled,' (or loses his ability to earn a living due to the disability) owing to an injury. Even though the premium is not paid during this period, the policy cover is not terminated; it continues as if the premiums were being paid. In other words, this rider acts as 'disability insurance' against your life insurance policy.
- **Accidental-death benefit rider:** This rider comes into effect in the case of death due to an accident during the term of the policy. It adds to the sum assured in the life policy only in the case of death due to an accident.

GOING ONLINE

Online insurance buying is very helpful. Life insurance can be bought online through the websites of insurers, brokers or third-party aggregators. However, in some cases, the process is not completely online and there are certain obligations that require physical interventions such as signatures on forms and health check-ups.

- You can access third-party websites that feature policies from several insurers to compare product features and premiums before deciding on the insurance cover best suited to your needs.
- Certain policies are differently priced for online sales and available at a significant discount as compared to other sales channels.

- **Level term cover:** This rider provides you with an additional life cover for a specific interval, which is less than the tenure of the policy. It is useful when you have additional responsibilities or financial liabilities.
- **Guaranteed insurability option:** In effect, this rider 'ensures your insurability' in the future. It gives you the right to purchase additional insurance (of the nature of your base policy) at different stages in your life without any need to undergo any further medical examination.

POINTS TO REMEMBER

- Do not mix insurance and investments. Stick to Term Life Insurance wherever possible. Also try to take life cover as early as possible because it attracts lower premium.
- There is a free-look period during which, you can return the policy if you are not happy with it. This period varies from 15 days to a month, depending on the insurer.
- You can take additional covers in the form of riders.
- Understand the working of the policy through its tenure, along with terms and conditions. While comparing policies, pay attention to claim settlement ratio (out of total claims submitted to the insurance companies, how many claims are accepted and paid out by them) & amount settlement ratio (out of total claims accepted, how much amount is actually paid out by them).

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Pension and Annuity

'Annuity' means a fixed sum of money that is paid out to the purchaser every year in return for a lump sum, usually for as long as the purchaser lives. An annuity is typically priced on the basis of product features, longevity and interest rates. Annuities in India are typically 'deferred annuities' or annuities that are purchased on the maturity of a pension plan or NPS scheme. However, immediate annuities that begin paying out immediately after purchase are also available.

Capital & Inflation Protection

The annuity payout is fixed and guaranteed as per the terms of the policy through the tenure of the annuity. An annuity

Investment Objective and Risks

The main objective of an annuity is to provide income in retirement. An annuity can be purchased on retirement or earlier. It can be structured to provide fixed as well as variable income, with or without an insurance cover. There are several options within annuities, which address the specific needs of individuals seeking a defined income source in retirement.

Suitable for	Not Suitable for	Alternatives
● Investors looking to derive an assured regular income from their savings	● Investors who do not need any regular income	● SWP from debt-oriented mutual funds, which can offer better, though not guaranteed, returns ● Post Office Monthly Income Scheme ● Senior Citizens Savings Scheme* ● Pradhan Mantri Vaya Vandana Yojana* *For senior citizens only

is not inflation protected, as the payout is fixed and does not match the inflation-adjusted cost of living. However, certain annuity variants offer increasing annuity payouts, which attempt to match inflation.

Guarantees

The annuity is assured and guaranteed according to the terms and conditions of the annuity contract.

Liquidity

Annuities typically do not have exit options. Certain types of annuity contracts may offer some level of liquidity.

Tax Benefits

In the accumulation phase of a deferred annuity plan, the contributions qualify for tax deductions under Section 80CCC, with a limit of ₹1.5 lakh in a financial year. At the time of vesting, up

Features

ELIGIBILITY
You should be a resident Indian

MINIMUM ENTRY AGE
- Most issuers offer it to adults above 18 years

MAXIMUM ENTRY AGE
- 65 years in most cases

TENURE
- Fixed option
- Lifelong

PAYOUT
- Fixed sum
- Increasing or decreasing annuity, depending on the plan

OTHER ASPECTS
- Annuity payout can be monthly, quarterly, half-yearly or yearly

POLICY HOLDING
- Individual
- Joint, either-or survivor

NOMINATION
- Facility is available

> ! • The facility of pledging annuity to obtain loans is not permitted, as it defeats the purpose of the annuity.

to one-third of the corpus can be withdrawn tax-free under Section 10(10A), with the remaining paid out as an annuity, which is treated as income and taxed accordingly.

The five payout options offered in an annuity are as follows:

- **Life annuity:** Annuity for life
- **Life annuity with return of purchase price:** Life annuity for the annuitant with return of the originally paid amount on death of the annuitant to the beneficiary
- **Joint life, last survivor without return of purchase price:** The annuity is first paid to the annuitant. After the death of the annuitant, the spouse receives a pension equal to the annuity paid to the annuitant.
- **Joint life, last survivor with return of purchase price:** The annuity is first paid to the annuitant. After the death of the annuitant, the spouse receives a pension equal to the annuity paid to the annuitant. After the death of the last survivor, the originally paid amount is returned to the nominee.
- **Life annuity guaranteed for five/10/15 years and thereafter:** A guaranteed annuity is paid for the chosen term (five, 10 or

Annuity Variants

There are several annuity options available, which can be modified and tailored to suit an individual's unique requirements.

Annuity features	Variants
Frequency of premium	• Single • Regular
Payout start time	• Immediate • Deferred
Duration of payouts	• Life annuity • Term certain
No. of people benefitting	• Single life • Joint/survivor
Nature of purchaser	• Individual • Group

15 years) even if the annuitant is not alive. After that, the annuity continues as long as the annuitant is alive.

Where to Buy Annuity

All life insurers offer deferred annuities, while many offer immediate annuities.

How to Buy

Once you have evaluated the amount of annuity needed, look at the available options and fill the appropriate proposal form. You will need to provide the following:

- Date of birth and identity proof, such as the Aadhaar card, passport, driving licence, PAN or voter ID card
- Medical-examination certificate if you include an insurance cover with the annuity
- Nominee details
- Bank account details where the annuity payout will be transferred

How to Manage the Policy

- You can buy an annuity through a cheque, demand draft or electronically.
- You will be given a policy certificate with the details like your name, annuity type and tenure, with terms and conditions listed.

Other information

- There is a free-look period during which, you can return the policy if you are not happy with it. It varies from 15 days to a month, depending on the insurer.
- Understand the costs and charges on the facilities offered.
- Understand the working of the policy through its tenure, along with the terms and conditions.

POINTS TO REMEMBER

- An annuity pays you a fixed sum of money, typically for the rest of your life.
- Annuities are protected in terms of capital but not inflation.
- Shop around to get the best annuity deal.

17

National Pension System

National Pension System (NPS)

The NPS is an initiative of the government to extend pension benefits to all Indian citizens. It is mandatory for central-government employees and the employees of some state governments to invest in the NPS. As per the earlier government directive, private-sector employees were proposed to be given a choice between the Employees' Provident Fund Organisation (EPFO) and the NPS which was later withdrawn. The employee contribution is generally 10 per cent of the basic salary and DA, with a matching contribution made by the employer. For central-government employees, the contribution by the government has been raised to 14 per

Investment Objective and Risks

The main objective of the NPS is to instil the discipline to save and invest in an old-age pension. The NPS is a defined-contribution scheme regulated by the Pension Fund Regulatory and Development Authority (PFRDA), where the investment is to be maintained until retirement. On retirement, a part of the corpus is allowed to be withdrawn as a lump sum and the balance is mandatorily paid out as a pension annuity.

Suitable for	Not Suitable for	Alternatives
• Conservative investors seeking to build their retirement corpus and tax exemption under Section 80CCD	• Investors who can assume more risk by investing in equity mutual funds, which can generate better returns in the long term	• Equity mutual funds/ Direct stock investing

cent. You can open two types of account under NPS – Tier I and Tier II. Now there is an additional account called Tier II – Tax Saver Scheme (NPS - TTS) available only for central-government employees.

Capital Protection & Inflation Protection

Your capital is not protected, as the NPS invests a certain amount in equities. The returns are, therefore, market-linked. However, equities are expected to beat inflation over the long term, thus building a certain level of inflation protection into the NPS.

Liquidity

In the case of the NPS, after three years of being in the scheme, you can withdraw up to 25 per cent of the contributions for defined expenses. These defined expenses are children's higher education or marriage, construction or purchase of the first house and treatment of critical illness for self, spouse, children or dependent parents. The regulations

Features

ELIGIBILITY
Any citizen of India, whether resident or non-resident

ENTRY AGE
- Between 18 and 65 years on the date of application

APPLICABLE FEES AND CHARGES

	Charge head	Charges
CRA	One-time account opening cost and issuance of PRAN	₹4 to 40*
	Annual maintenance charges	₹57.63 to 95**
	Charges per transaction or deposit	₹3.36 to 3.75**
POP	Initial subscriber registration and contribution upload	₹200
	Subsequent non-contribution transaction	₹20
	Any subsequent contribution (offine mode)	0.25% of contribution Min - ₹20 Max - ₹25,000
	Contribution through eNPS	0.10% of contribution Min - ₹10 Max - ₹10,000
	Persistency charge (> 6 months & ₹1000 contribution)	₹50 p.a.
Custodian	Asset Servicing charges	0.0032% p.a
PF	Investment Management Fee	0.01-0.09% of AUM p.a.^
NPS Trust	Reimbursement of Expenses	0.005% p.a

* Depending upon CRA (NSDL/Karvy) and mode of transaction (offline/online). ** Depending upon CRA (NSDL/Karvy). ^ Rate depends on the Pension Fund chosen.
Source: http://www.npstrust.org.in/content/charges-under-nps

MINIMUM INVESTMENT
- Initial contribution, along with the subscription application, is ₹500 for the Tier I account and ₹1,000 for the Tier II account (both regular and TTS).
- Minimum amount to be deposited annually in the Tier 1 account is ₹1,000. There is no annual minimum for the Tier II account (both regular and TTS).

INTEREST
- Not guaranteed

ACCOUNT-HOLDING CATEGORIES
- Individual
- A non-resident Indian can join if he is KYC compliant and between age 18 and 70 years

NOMINATION
- Facility is available

- Value of your investments in NPS may go up or down, depending upon the forces and factors affecting financial markets in general.
- Tax laws may change, affecting the return on investment (ROI).

have defined 13 critical illnesses and have extended this facility to accidents or other ailments of a life-threatening nature, including COVID-19.

The point to note is that the 25 per cent limit will be calculated on the contributed amount, not on the account balance. Suppose you have contributed ₹5,000 per month for three years. You would be eligible to withdraw ₹45,000, i.e., 25 per cent of ₹1.8 lakh. You can make up to three withdrawals (with a gap of five years) during the tenure.

Exit Option

Tier I: If you wish to exit before age 60, you must use 80 per cent of the corpus to buy an annuity. You can withdraw 20 per cent of your corpus, but it will be taxed as per your income-tax slab.

60 per cent withdrawals from the NPS are tax-free for those who retire at 60 years. You will have to use the balance to purchase an annuity. However, if the total corpus does not exceed ₹5 lakh, the entire amount can be withdrawn as a lump sum without any need to purchase an annuity.

Tier II - Regular: In this voluntary account, you are free to withdraw your savings whenever you wish. There are no limits on deposits and withdrawals.

Tier II – TTS: You can withdraw your money after a lock-in period of three years without any limit.

Tax Implications

Tax deduction on investments up to ₹1.5 lakh (under Section 80CCD) and ₹50,000 [under Section 80CCD(1B)] can be availed in a financial year. 60 per cent of the amount received at the completion of the term is tax-free. However, this tax benefit is not available for Tier II - Regular NPS account.

The NPS in a Snapshot

	Tier I	Tier II
Registration	Registration through the Pension Accounting Office (PAO) for government subscribers and through point-of-presence service providers (POP-SP) for all others	Registration only through POP-SP for the government as well as all other subscribers; PRAN number to act as KYC; no separate documentation required. Tier II – TTS is available only for central-government subscribers
Contribution	Government subscribers ● Mandatory contribution through the PAO or the Cheque Drawing and Disbursement Office (CDDO) for government subscribers (10 per cent of basic + DA per month by the subscriber and the government). Other subscribers ● An initial contribution of ₹500 at the time of account opening ● Minimum ₹1,000 annual contribution	● Voluntary contribution through POP or POP-SP for government as well as other subscribers ● Minimum ₹1,000 at the time of account opening
Withdrawals	Partial withdrawals allowed. At 60 years of age, 60 per cent of the withdrawals would be tax-free	Tier II – Regular: No limit on withdrawals Tier II – TTS: Withdrawals are allowed after a lock-in period of three years

Where to Open the Account

You can open an NPS account with many PoP (Point of Presence) including some public and private banks. To view the list of empanelled POP, visit https://enps.nsdl.com/eNPS/ National PensionSystem.

> **GOING ONLINE**
>
> Opening an online NPS account is easy if you already have an online account with the institutions where the NPS has a point of presence (PoP). All you need to do is to log into your existing account with these institutions and open an NPS account without any additional documentation. You can also visit https://enps.nsdl.com to open an account online.

How to Open an Account

- Visit a point of presence (PoP). Fill out the prescribed form and submit the required documents for KYC compliance. Alternatively, you can open an account online at enps.nsdl.com and follow the steps mentioned therein.
- Once registered, the Central Record Keeping Agency (CRA) will send you a Permanent Retirement Account Number (PRAN), which is unique to all subscribers.
- Select the amount to invest and investment option.

If you are not KYC compliant, you will need the following:

- Aadhaar card. In the absence of the same, you need to provide a copy of the acknowledgement of your Aadhaar application along with an address and identity proof.
- Self-declaration stating that you are not a pre-existing member of the NPS
- Coloured passport-size photograph

Types of NPS Accounts

The NPS works on a defined-contribution basis and has three types: Tier I, Tier II - Regular and Tier II –TTS.

- **Tier I:** This is a mandatory no-withdrawal pension account and is eligible for tax benefits.

- **Tier II - Regular:** It's a voluntary-withdrawal savings account from which, individuals can withdraw money anytime. It has no attendant tax benefits.
- **Tier II – TTS**: It offers tax benefits under section 80CCD and allows withdrawals after a three-year lock-in. This scheme is available only for central government employees.

List of Pension Fund Managers (PFMs)

The following is the list of NPS managers:
- HDFC Pension Management Company
- ICICI Prudential Life Insurance Company
- Kotak Mahindra Asset Management Company
- LIC Pension Fund
- SBI Pension Funds
- UTI Retirement Solutions
- Birla Sun Life Pension Management

Currently, the following annuity service providers are empanelled with the PFRDA:
- Life Insurance Corporation of India
- HDFC Life Insurance Co. Ltd.
- ICICI Prudential Life Insurance Co. Ltd
- SBI Life Insurance Co. Ltd
- Star Union Dai-ichi Life Insurance Co. Ltd
- Kotak Mahindra Life Insurance Co. Ltd.
- IndiaFirst Life Insurance Co. Ltd.
- Max Life Insurance Co. Ltd.
- Canara HSBC Oriental Bank of Commerce
- Bajaj Allianz Life Insurance Company Ltd.
- Tata AIA Life Insurance Company Ltd.
- Edelweiss Tokio Life Insurance Company Limited

Investment Options: ECGA of the NPS

The NPS offers different funds with varying exposure to equity (E), corporate debt (C), government securities (G) and alternative investment schemes (A). Of these asset classes, equity carries the maximum risk (and chances of maximum returns) and government securities carry minimum risk (and least returns). The following are the investment options available:

- **Active-choice investment:** The investor can mix the E, C and G options as per their choice. The maximum allocation towards alternative investments is 5 per cent. For equity, it can be 75 per cent for someone who is less than 50 years. Earlier, it was 50 per cent. This limit reduces by 2.5 per cent per year as the person grows older and thus becomes 50 per cent at age 60 years and above.
- **Auto-choice investment:** Here investment allocation is done based on the investor's age. In the default version of this scheme (moderate life-cycle fund), the equity portion is 50 per cent till age 35, after which it reduces 2 per cent per year until it becomes 10 per cent by age 55. The corporate debt portion is 30 per cent till age 35, after which it reduces 1 per cent per year until it becomes 10 per cent by age 55. Other options within auto-choice are the aggressive and conservative life-cycle funds, which begin with an equity allocation of 75 per cent and 25 per cent, respectively. These are reduced as the NPS subscriber's age advances.

  The newly introduced Tier II - TTS scheme has a fixed mandate of investing between 10 and 25 per cent in equity and the remaining in fixed income for the pension funds. Exposure to cash and money-market securities has been restricted to a maximum of 5 per cent. There is no investment choice to the subscriber.

POINTS TO REMEMBER

- The NPS has a long lock-in, as it is a pension product.
- Contributions get tax benefit under Section 80CCD up to ₹2 lakh.
- NPS has some equity exposure, depending on the subscriber's choice.

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Other Pension Schemes

Atal Pension Yojana (APY) and the newly launched Pradhan Mantri Shram Yogi Maan-dhan (PMSYM) and National Pension Scheme for Traders & Self Employed Persons Yojna (NPSTSY) are pension-oriented savings schemes focused on people in the unorganised sector. PMSYM was launched in the Budget 2019-20 (I) followed by NPSTSY (also called Pradhan Mantri Karam Yogi Maan-dhan Scheme) in the second Union Budget 2019-20 after the Lok Sabha elections. On the other hand, APY was launched in 2015. Under all these schemes, people aged 60 or above are eligible for the pension.

Aimed at bringing retail traders, small shopkeepers and self-employed persons under an organised pension system, NPSTSY scheme offers pension benefits to around three

Suitable for	Not Suitable for	Alternatives
● Blue-collar workers looking for a guaranteed pension at a negligible contribution	● Investors with a higher income who can afford to invest a higher amount	● Pradhan Mantri Shram Yogi Maan-dhan ● National Pension Scheme for Traders & Self Employed Persons Yojna

crore beneficiaries with an annual turnover of less than ₹1.5 crore. Apart from the eligibility criteria, both PMSYM and NPSTSY are similar to each other. However, you can take benefit only under one of the two schemes.

Some insights into APY, PMSYM and NPSTSY are as follows :

Atal Pension Yojana

Investment Objective and Risks

The main objective of APY is to provide a fixed amount of pension to unorganised-sector workers who find no coverage under other social-security schemes.

Capital Protection

The benefit of minimum pension is guaranteed by the Government of India.

Entry Age

The minimum age of joining APY is 18 and the maximum age is 40.

Liquidity

Voluntary exit before 60 years is permitted under this scheme. However, in the case of a voluntary exit, only the contributions made by the subscriber are returned with an accrued income. All other contributions, comprising the government contributions and the income accrued on it, are withdrawn. However, if the beneficiary dies, the spouse can still continue with the scheme and upon the death of both the contributor and his/her spouse, the nominee will be given the accumulated corpus.

Guarantees

APY guarantees a minimum fixed pension to the subscriber after the age of 60. This pension amount varies from ₹1,000 to ₹5,000, depending on the contribution made by the subscriber. The contribution amount is calculated based on the entry age and the minimum guaranteed pension that the subscriber decides to receive. For example, a 18-year-old choosing to get a minimum pension of ₹1,000 would have to contribute ₹42 per month. However, if he joins at the age of 40, he will have to contribute ₹291 every month to get a guaranteed pension of ₹1,000 after the age of 60. The government also made a co-contribution of 50 per cent of the total contribution, or ₹ 1,000 per annum, whichever is lower, to all eligible subscribers who had joined between June 2015 and December 2015 for a period of five years i.e., for financial years 2015-16 to 2019-20.

How to Open the Account

Many nationalised and private banks offer the APY. The subscriber needs to have a bank account and an Aadhaar card. Also, the Aadhaar card needs to be linked to the bank account.

Pradhan Mantri Shram Yogi Maan-dhan and National Pension Scheme for Traders & Self Employed Persons Yojna

Investment Objective and Risks

Pradhan Mantri Shram Yogi Maan-dhan (PMSYM) and National Pension Scheme for Traders & Self Employed Persons Yojna (NPSTSY) assures a fixed monthly pension of ₹3,000 after the age of 60 at a negligible contribution. The main objective of these schemes is to provide guaranteed pension to the workers of the unorganised sector who are not covered by any other social security scheme. However, the PMSYM scheme is available only for those whose monthly salary is not more than ₹15,000 and the benefit of NPSTSY can be availed only if the annual turnover does not exceed ₹ 1.5 crore.

Suitable for	Not Suitable for	Alternatives
• Blue-collar workers looking for a guaranteed pension at a negligible contribution	• Investors with a higher income who can afford to invest a higher amount	• Atal Pension Yojana

Capital Protection

The benefit of a minimum pension is guaranteed by the Government of India.

Entry Age

The minimum age of joining PMSYM & NPSTSY is 18 years and the maximum age is 40 years.

Liquidity

Under these schemes, voluntary exit before 60 years is permitted. However, in the case of a voluntary exit within a period of less than ten years from the date of joining the scheme, only the contributions made by the subscriber are returned with the interest equivalent of a savings account. In case the subscriber exits after completion of a period of ten years or more but before his age of sixty years, then his contributions are returned with the interest equivalent of a savings account or accumulated interest thereon as actually earned by the Pension Fund, whichever is higher. All other contributions, including government contributions and the income accrued on it, are withdrawn. If the beneficiary dies during the receipt of the pension, the spouse of the beneficiary shall be entitled to receive 50 per cent of the pension. However, if the beneficiary dies before the age of 60, the spouse can still continue with the scheme.

Guarantees

These schemes guarantee a fixed monthly pension of ₹3,000 from the age of 60. The monthly contribution would vary from ₹55 to ₹200, depending on the entry age to guarantee a pension of ₹3,000. For example, anyone entering at the age of 18 will have to contribute ₹55 per month. If he joins at the age of 40, he will have to contribute ₹200 per month. Under both the schemes, the subscriber also receives a guaranteed contribution of the equal amount by the government. For example, if an 18-year-old subscriber is contributing ₹55 per month, another ₹55 will also be contributed to his account by the government.

How to Open the Account

The beneficiary needs to visit the nearest Customer Service Centre (CSC), along with his Aadhaar card and bank account details. Once the beneficiary is enrolled and the first installment is paid, the monthly contributions can be put on auto-pilot through the ECS mandate.

Comparison

The following is a comparison of Atal Pension Yojana, Pradhan Mantri Shram Yogi Maan-dhan and National Pension Scheme for Traders & Self Employed Persons Yojna.

Atal Pension Yojana	Pradhan Mantri Shram Yogi Maan-dhan	National Pension Scheme for Traders & Self Employed Persons Yojna
ELIGIBILITY		
Individuals with a bank account	Unorganised workers with a monthly salary of less than ₹15,000	Self-employed shop owners, retail owners and other vyaparis whose annual turnover does not exceed Rs 1.5 crore
Should not be a income-tax payer, to receive government co-contribution	Individuals with a bank account	Individuals with a bank account
Should not be a subscriber to any other statutory social security scheme	Should not be an income-tax payer	Should not be an income-tax payer
	Should not be a subscriber to any other statutory social-security scheme	Should not be a subscriber to any other statutory social-security scheme
ENTRY AGE		
Minimum: 18 years Maximum: 40 years	Minimum: 18 years Maximum: 40 years	Minimum: 18 years Maximum: 40 years
PENSION YOU GET		
Varies between ₹1,000 to ₹5,000 depending on the option chosen by the subscriber while entering the scheme	₹3,000 per month	₹3,000 per month
MINIMUM INVESTMENT		
₹42 per month for a pension of ₹1,000 if you enter at the age of 18	₹55 if you enter at the age of 18	₹55 if you enter at the age of 18
₹291 per month for a pension of ₹1,000 if you enter at the age of 40	₹200 if you enter at the age of 40	₹200 if you enter at the age of 40

Atal Pension Yojana	Pradhan Mantri Shram Yogi Maan-dhan	National Pension Scheme for Traders & Self Employed Persons Yojna
LIQUIDITY		
Voluntary exit is possible. In that case, only the contributions made by the subscriber are paid, not the contribution made by the government (for accounts opened between June 2015 & December 2015).	Voluntary exit is possible. However, only the subscriber contribution, along with the interest equivalent to the savings account is paid if exit is made within a period of less than ten years from the date of joining the Scheme. After that, subscriber contribution, along with the interest equivalent to the savings account or accumulated interest thereon as actually earned, whichever is higher, is paid. Government contribution as well as the accrued income on it is not paid.	Voluntary exit is possible. However, only the subscriber contribution, along with the interest equivalent to the savings account, is paid if the exit is made within a period of less than 10 years from the date of joining the scheme. After that, subscriber contribution, along with the interest equivalent to the savings account or accumulated interest thereon as actually earned, whichever is higher, is paid. Government contribution as well as the accrued income on it is not paid.
CO-CONTRIBUTION BY GOVERNMENT		
No co-contribution if the account is opened after FY 2015-16	Equal contribution by the government	Equal contribution by the government
NOMINATION		
Facility is available	Facility is available	Facility is available

POINTS TO REMEMBER

- APY, PMSYM and NPSTSY are government-backed schemes and guarantee a fixed monthly pension after the age of 60.
- These are meant for blue-collar workers.
- PMSYM and NPSTSY subscribers receive an equal contribution by the government in their pension account.

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Stocks and Equity

A stock is an actual share in the ownership of a business. If you buy a hundred shares of a company whose ownership is divided into one crore shares, then you are the owner of one in one lakh parts of the company. Since your share is tiny, you don't have any say about how the company is run. But you can gain financially from your ownership.

Investment Objectives and Risks

There are two ways to gain from your ownership of shares:

Capital gains: Profit made by selling a share at a higher price than you bought it at.

Dividends: A part of the company's profit that is distributed by the company.

Most investors have capital gains as their primary goal, with dividends playing only a supporting role. Stocks have the highest risk and the potential to earn the highest returns among all the investment products featured in this book.

Suitable for	Not Suitable for	Alternatives
• Investors looking to accumulate wealth over a long-term horizon of five years or more	• Those with an investment horizon of less than five years • Investors who cannot withstand temporary declines in the value of their principal • Those who lack the skill, time or inclination to research stocks and monitor them regularly	• Equity mutual funds

Stocks or Mutual Funds?

For most investors, investing in equity mutual funds is a better way to get the gain of stock investing with lower risk and less hard work. However, mutual funds do carry fees and are subject to certain constraints. Thus, sophisticated investors who are willing to devote a reasonable amount of time to analysing and evaluating stocks may find investing in stocks more suitable.

Investing vs Trading

Stock investing encompasses two different kinds of activities. One involves identifying fundamentally sound companies and investing in them for the long term. The other involves identifying trends in stock prices and trading in them for short periods in the hope of a large and quick profit. The period may be as short as a few days or even hours. The first is called 'investing' and the second is called 'trading' or 'speculating'. Trading is a high-involvement activity that generally carries high risk.

Capital Protection & Inflation Protection

There is no capital protection while investing in stocks. There is no guaranteed inflation protection with stock investing. However, over the long term, stocks are capable of beating inflation better than any other investment product.

Guarantees

There are no guarantees in stock investments.

Liquidity

Generally speaking, stocks are extremely liquid investments. There's no lock-in of any kind. You can sell your investment at any time and realise your money within two days. However, the ability to sell your stocks depends on someone else's willingness to buy them. This is rarely problematic for the 200–300 largest companies. However, for smaller companies, selling your stock may take time.

Where and How to Invest

All stock trading must be routed through a stockbroker. The actual trading is done through a stock exchange, of which the stockbroker is a member. For all practical purposes, there are only two stock exchanges in India, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Both have computerised systems and all trading is computerised.

One basic prerequisite for trading in stocks is to have a depository account (DEMAT). This is like a bank account which, instead of money, holds your shares. There are two depositories in India, National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). Your stockbroker will facilitate the setting up of your depository account.

Opening an account with a depository involves going through the 'know your customer' (KYC) process, much like other financial transactions. You will need the following documents for KYC: an identity proof, (PAN card copy, copy of the passport, driving licence, etc.) and address proof (Aadhaar card, voter's ID card, etc.)

How to Exit Stocks

Selling a stock is also a transaction to be executed through your stockbroker. After your stock is sold, you will get the money credited to your bank account within two business days after the transaction.

Choosing a Stockbroker

Choosing a stockbroker is an important decision. Stockbrokers range from large online services like ICICIdirect, Edelweiss and HDFC Securities to smaller outfits that serve customers in a more personalised manner. For a small investor, an online service may make more sense. Besides carrying out the actual transaction, a stockbroker may give you investment advice. However, the quality of this advice tends to be highly variable and it is for you to judge its actual utility. There is another category of brokers called discount brokers who just facilitate buying and selling of stocks and don't indulge in investment advisory services. These include the likes of Zerodha and Upstox.

Taxation

- Dividends earned on or after April 01, 2020 from the stocks in a year are taxable in the hands of the investor at the applicable tax-slab rate. Earlier, they were liable to Dividend Distribution Tax (DDT) at 10 per cent which was charged by the company and were taxable in the hands of the investor only in the case of dividend exceeding ₹10 lakh received in a year.
- Dividend income in excess of ₹5,000 is now subject to TDS at 10 per cent.

- Capital gains are taxed at 15 per cent if you sell a stock within a year. There is a tax of 10 per cent on the gains exceeding ₹1 lakh if you sell a stock after holding it for more than a year.
- A 0.1 per cent tax called, STT, is imposed on the value of each stock in case of delivery of shares (whether buying or selling). In the case of intraday transactions, 0.025 per cent tax is charged at the time of selling only. You don't have to get involved in paying the STT, as it is deducted by your stockbroker.

POINTS TO REMEMBER

- Stocks are ownership shares in companies.
- They have no capital or interest guarantees but their returns carry the potential to beat inflation in the long run.

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Mutual Funds

Mutual funds combine the savings of a large number of investors and manage them as a single pool of money. Instead of investors worrying about what stock, bond or commodity to invest in, professional fund managers do the job. Mutual funds are run by mutual-fund companies, also known as asset management companies (AMCs). Each AMC operates several fund schemes that suit different types of investment needs.

In most funds, it is possible to start investing with as little as a few hundred rupees. Also, unlike many other investments, mutual-fund investments are highly liquid and can be withdrawn without any delay.

Diversity of Funds

There are a wide variety of mutual funds, with a wide range of risk levels, profit potentials, and the qualities of fund management.

As you would expect, funds that invest in equity offer the highest potential returns with the highest levels of risk. At the other extreme, some funds invest in short-term bonds and deposits, which offer returns that are in the range of what bank deposits offer with a higher degree of safety than equity funds. Moreover, funds are quite diverse in terms of their quality. This means that not all funds are able to deliver what they promise and investors also have to keep an eye on the track records of specific funds, the fund manager and AMCs.

Type	Suitable for	Not suitable for	Alternatives
Liquid funds	Investors looking to park their money for a few days to about six months	Investing for a time horizon of more than six months, given their low return potential	Savings bank accounts
Short-duration debt funds	Investing for goals one-five years away	Investing for a time horizon of more than five years	Bank fixed deposits Post Office Time Deposits National Savings Certificate Recurring deposits (for accumulating gradually)
Equity-oriented funds	Investors looking to accumulate wealth over a long-term horizon of five years or more	Investment horizon of less than five years and for investors who cannot withstand temporary declines in the value of their principal	Direct stock investing, provided you have the required skills and can devote time to research

Value Research makes it easy

One potential problem for mutual-fund investors is the bewildering choice of funds available. This problem is easily solved by using Value Research's publications and website. Value Research analyses every mutual fund in India and rates it on a scale of one to five stars.

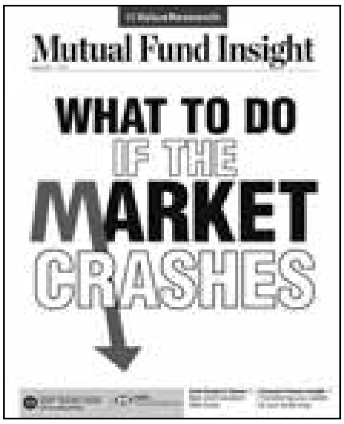
Moreover, Value Research's analysts maintain a list of funds under the banner of 'Fund Analyst's Choice'. This is a carefully chosen list of funds, which have been classified according to common investing needs.

Once you have invested in funds, you can use www.ValueResearchOnline.com to track your investment portfolio through the most-advanced portfolio manager available in India. Investors can access ValueResearchOnline.com and the portfolio manager for free. One may also subscribe to the premium account which assists investors in many more ways. For instance, you can use the Portfolio Planner tool which suggests suitable funds as per your investment objective.

We also publish a monthly magazine, Mutual Fund Insight. Every issue of it has news, data, analysis and interviews of interest to mutual-fund investors as well as a complete scorecard containing up-to-date information on every mutual fund.

Our annual, Best Funds, is a handy guide to investing in mutual funds. It contains detailed guidelines on building a winning portfolio and tracking your portfolio. It also has expert analysis and detailed data on more than 42 handpicked funds and performance data on every mutual fund in India.

Go to www.ValueResearchOnline.com to start with all these immediately.



Benefits of Mutual Funds

Instant and easy diversification: A tenet of safe investing is to spread your money across different investments. Mutual funds are an easy way to do this. Funds spread money across a large number of investments.

Professional research and investment management: There are hundreds of companies to track and their prospects could change without warning. Mutual funds employ professional, full-time investment managers and research staff. Their cost and effort get shared 'mutually' among all the investors of a fund.

Variety: Mutual funds are available for all kinds of returns and risk levels and suitable for all kinds of time horizons. No matter what kind of investment you want, you can choose one as per your requirements.

Convenience: You can easily make investments and withdraw any amount that you like. Investments can be made by filling up a simple form or by going online with direct debit from your bank account. Similarly, redemptions can be made directly into your bank account within three working days. If you want to directly buy shares to have a diversified set, you will need a lot of money. However, through a mutual fund, you can invest in a diversified set of stocks for far less.

Tax efficiency: When you buy or sell any investments, you have to pay tax on the profit you make. However, this doesn't happen when the buying and selling are done on your behalf by a mutual fund. To maximise profits, the fund manager could keep buying and selling stocks as needed, but you have to pay tax only when you redeem your investments from the fund.

Transparent, well-regulated industry: Mutual funds are obligated by law to release comprehensive data about their operations and investments. Almost all funds release net asset values (NAVs) daily and most release their complete portfolios every month. SEBI regulates the fund industry very tightly and is constantly refining the applicable rules to protect investors better.

Providing access to inaccessible assets: Some investments can be made only through mutual funds. For instance, it's not easy for individuals to buy government bonds, but they can buy funds that invest in such bonds. While investing directly in foreign stocks could be tricky, you can easily invest in global markets by investing in funds that reside in the India but invest in international markets.

Capital Protection & Inflation Protection

Mutual funds do not offer any capital protection in a legally enforceable way. Mutual funds invest in market-linked investments and losses are always possible. However, AMCs are allowed to run 'capital-protection-oriented' funds. These funds invest a high proportion in safe fixed-income securities and a small proportion in equities. Investors who stay invested for a fixed period of time are unlikely to suffer any capital loss. Mutual funds do not offer any kind of contractual or formal inflation protection. However, when you invest in well-chosen equity funds for a period of several years, your chances of beating inflation is better than that in any other type of investment.

Liquidity

As per SEBI rules, all mutual funds must offer liquidity. However, there are nuances. Liquidity depends on whether a fund is open-ended or closed-ended. Open-ended funds are perpetual funds that are always available for investment or redemption. In the case of open-ended funds, the AMC itself redeems the money at the NAV-based selling price within three working days.

Closed-ended funds are launched for a fixed period (generally three to ten years) and you can invest in them only at the time of the initial offer. For closed-ended funds, AMCs get the fund listed on a stock exchange so that you can sell your units like a stock through a stockbroker. However, this is not a great option because the stock-exchange price of a fund is generally a lot less than the NAV. In practice, you should consider closed-ended funds to be locked in for their full duration.

Tax-saving funds have a three-year lock-in. These funds help you save tax as per Section 80C of the Income Tax Act but you cannot redeem them for three years as per the tax law.

Where and How to Invest

You can invest in mutual funds directly through the AMC or through an intermediary.

Directly through the AMC: To invest directly through an AMC, you can get the AMC's details through its website. Most AMCs also have a toll-free phone helpline, which can also be a good starting point if you do not use the internet. All AMCs have direct plans for their existing fund schemes. These are meant for investors who want to invest themselves without any help of an intermediary. Hence, they have a lower expense ratio compared to regular schemes, which are available through intermediaries. This means that you, as an investor, will get an opportunity to earn a slightly higher return from your mutual fund as compared to that of the corresponding regular scheme, despite the same portfolio. Direct plans don't charge annual recurring commissions, so they have lower annual charges and a different (higher) NAV as compared to regular plans.

Intermediaries: There are a wide variety of intermediaries available. These include banks, stockbrokers and a large number of individuals and small financial-advisory companies. All intermediaries have to be registered with the Association of Mutual Funds of India (AMFI), which also maintains a searchable online directory at www.AmfiIndia.com. The website also has a list of intermediaries who have been suspended for some malpractice.

Investing in a fund involves going through a 'know your customer' (KYC) process, much like other financial transactions. You will need the following documents for the KYC process: an identity proof (PAN card copy, copy of the passport, driving licence, etc.) and address proof (Aadhaar card, voter's ID card, etc.)

How to Exit from a Fund

If you invest online in a fund or if you have registered for online transactions, then you can seek online redemption and the proceeds will be deposited in your bank account. For offline investors, there is a redemption slip that comes with your account statement. This has to be filled up, signed and deposited at the nearest 'investor service centre'. The intermediary you have invested through will facilitate the process. In all cases, redemption proceeds come to your bank account.

SIP, SWP and STP

There are some special 'systematic' ways of investing in and redeeming your money from mutual funds. They are enormously useful in making you a more disciplined investor as well as in enhancing your returns.

Systematic investment plan (SIP): An SIP is regular investment in a fund for a fixed sum at a fixed frequency. Generally, the frequency is monthly. SIPs neatly solve two main problems that prevent investors from getting the best possible returns from mutual funds. Firstly, since SIPs mean investing with a fixed sum regularly, regardless of the NAV or the market level, investors automatically buy more units when the markets are low. This results in a lower average price, which translates into higher returns. If you invest a large sum at one go, you could end up catching a high point of the markets. That would reduce your gains if the market falls. An SIP is a good way to invest at an average price over a period.

Secondly, SIPs are also a great psychological help while investing. Investors inevitably try to time the market. When the market falls, they sell and they don't invest any more. When it rises, they invest more. This is the opposite of what should be done. An SIP puts an end to all these by automating the process of investing regularly.

Systematic withdrawal plan (SWP): SWPs mean regular redemptions from a fund. There are a number of variations. Investors can redeem a fixed amount, a fixed number of units or all returns above a certain base level. These provide a convenient way for regular income from a fund.

Systematic transfer plan (STP): An STP is a regular transfer from one fund to another. It's like an SIP but the source of money is another fund. The most frequent use of an STP is when you have a lump sum to invest in an equity fund. For the reason listed above, it is always better to invest gradually through an SIP. In order to do so, you can put the lump sum in a debt fund of an AMC and simply give instructions to transfer a fixed amount to a chosen equity fund every month.

Tax implications on Dividend received by Unitholders

	Individual/HUF	Domestic company	NRI
Dividend			
Equity-oriented schemes*	Applicable tax-slab rate	30% / 25%^^	Applicable tax-slab rate
Debt-oriented schemes	Applicable tax-slab rate	30% / 25%^^	Applicable tax-slab rate
Tax Deducted at Source on dividend received	10% on dividend income in excess of ₹5,000	10%	20%

*Securities transaction tax (STT) will be deducted on equity funds at the time of redemption/switch to other schemes/sale of units.

^^If total turnover or gross receipts does not exceed ₹400 crore during the FY 2019-20

Capital Gains Taxation

	Individual/HUF*	Domestic Company**	NRI#
Equity-oriented schemes: Long-term capital gains apply to the units held for more than 12 months. Short-term capital gains are applicable to the units held for 12 months or less.			
Long-term capital gains	10% on gains exceeding ₹1 lakh	10% on gains exceeding ₹1 lakh	10% on gains exceeding ₹1 lakh
Short-term capital gains	15%	15%	15%
Other than equity-oriented schemes: Long-term capital gains are for the units held for more than 36 months. Short-term capital gains are for the units held for 36 months or less.			
Long-term capital gains	20% after indexation	20% after indexation	Listed: 20% (with indexation), Unlisted: 10% (without indexation)
Short-term capital gains	Taxed as per applicable slab	30% / 25%^^	Taxed as per applicable slab rate

Tax Deducted at Source (Applicable only to NRI Investors)

	Short-term capital gains	Long-term capital gains
Equity-oriented schemes	15%	10%
Other than equity-oriented schemes	Highest applicable rate of 30%	Listed: 20% (with indexation) Unlisted: 10% (without indexation)

*Surcharge of 10% for income above ₹50 lakh and 15% for income above ₹1 crore is applicable. Additionally, for other than equity-oriented schemes, surcharge increases to 25% for income above ₹2 crore and 37% for income above ₹5 crore.

**Surcharge at 7% to be levied for domestic corporate unitholders where income exceeds ₹1 crore but is less than 10 crore and at 12% where income exceeds ₹10 crore.

#Short term/ long term capital gain tax will be deducted at the time of redemption of units in case of NRI investors only. Surcharge of 10% for income above 50 lakh, 15% for income above 1 crore is applicable. Additionally, for other than equity-oriented schemes, surcharge increases to 25% for income above ₹2 crore and 37% for income above ₹5 crore.

^^If total turnover or gross receipts does not exceed ₹400 crore during the FY 2019-20.

Load

Load is a small percentage of your investment that can be deducted by the AMC during redemption. The actual percentage (and whether it will be charged at all) depends on the type of fund and the holding period. Typically, there would be a load of 1 per cent if you redeem your investment within a year and no load after that. Earlier, an entry load was also charged at the time of investment, but in August 2009, it was abolished by SEBI.

Taxation

Investments in equity-linked savings schemes (ELSS) qualify for tax deductions under Section 80C. Apart from this, other types of mutual funds have tax liability, depending on the types of assets they invest in. Taxability of capital gains and dividend is detailed in the tables on the previous page. Tax implication is different for NRIs, especially in the case of TDS on short- and long-term capital gains.

Value Research Fund Classification

There are about 1,671 fund schemes in the market as on July 22, 2021. Value Research divides this entire universe into 47 categories. Grouping funds in these categories helps create a portfolio for every possible investor profile.

Of the 47 categories, 21 are pure equity categories, 8 are hybrids (equity and debt) and 17 are pure debt categories with the last one being gold. For equity-fund categories, the size (market capitalisation) of the companies that these funds invest in is used, except the ELSS which consists of all funds that are compliant with the section 80C of the Income-Tax Act. For hybrid-fund categories, the categorisation is based on the balance between debt and equity that a fund maintains. For debt-fund categories, funds are slotted according to the residual maturity of the securities they invest in. Across all these three categories, the underlying principle is to slice the universe along a risk–return continuum.

This process serves two goals. First, readers can zero in on the exact balance of risk and return that they are looking for and second, funds can be compared with others that are genuinely their peers without the comparison getting muddied by whatever marketing positioning a fund may take. The entire categorisation is based on actual portfolios that fund managers are running and not their self-stated intentions.

Fund Classification

Equity Funds	Debt Funds	Hybrid Funds
Large-Cap: Funds investing at least 80% in large caps	**Long duration:** Funds investing in debt instruments with Macaulay duration greater than 7 years	**Aggressive hybrid:** Funds investing 65–80% in equity and the rest in debt
Large & mid cap: Funds investing at least 35% each in large and mid caps	**Medium to long duration:** Funds investing in debt instruments with Macaulay duration between 4 and 7 years; under anticipated adverse situation, 1 year to 7 years	**Balanced hybrid:** Funds investing at least 40–60% in equity and the rest in debt
Multi Cap: Funds investing at least 25% each in large, mid and small caps	**Medium duration:** Funds investing in debt instruments with Macaulay duration between 3 and 4 years; under anticipated adverse situation, 1 year to 4 years	**Conservative hybrid:** Funds investing 10–25% in equity and the rest in debt
Mid Cap: Funds investing at least 65% in mid caps	**Short duration:** Funds investing in debt instruments with Macaulay duration between 1 year and 3 years	**Equity savings:** Funds investing at least 65% in equity and at least 10% in debt
Small Cap: Funds investing at least 65% in small caps	**Money market:** Funds investing in money-market instruments having maturity up to 1 year	**Arbitrage:** Funds investing in arbitrage opportunities
Flexi cap: Funds investing at least 65% in equity with no particular cap on large, mid or small	**Low duration:** Funds investing in debt instruments with Macaulay duration between 6 and 12 months	**Dynamic asset allocation:** Funds which dynamically manage the asset allocation between equity and debt
Value-oriented: Funds following the value strategy	**Ultra-short duration:** Funds investing in debt instruments with Macaulay duration between 3 and 6 months	**Multi-asset allocation:** Funds investing in 3 different asset classes, with a minimum 10% in all three
ELSS: Funds with a lock-in of 3 years and tax benefit under Section 80C	**Liquid:** Funds investing in debt and money-market securities with maturity of up to 91 days	**Gold:** Funds investing in gold
International: Funds investing predominantly in foreign equities	**Overnight:** Funds investing in securities having maturity of 1 day	
Sector Funds	**Dynamic bond:** Debt funds	
Banking: Funds investing at least 80% in a particular sector or theme		
FMCG: Funds investing at least 80% in a particular sector or theme		
Infrastructure: Funds investing at least 80% in a		

Equity Funds	Debt Funds	Hybrid Funds
particular sector or theme **Pharma:** Funds investing at least 80% in a particular sector or theme **Technology:** Funds investing at least 80% in a particular sector or theme **Thematic:** Funds investing at least 80% in a particular sector or theme **Dividend Yield:** Funds investing at least 80% in a particular sector or theme **MNC:** Funds investing at least 80% in a particular sector or theme **Energy:** Funds investing at least 80% in a particular sector or theme **PSU:** Funds investing at least 80% in a particular sector or theme **Consumption:** Funds investing at least 80% in a particular sector or theme	investing across durations **Corporate bond:** Funds investing at least 80% in AA+ and above-rated corporate bonds **Credit risk:** Funds investing at least 65% in AA and below-rated corporate bonds **Banking and PSU:** Debt funds investing at least 80% in the debt instruments of banks, PSUs, public financial institutions and municipal bonds **Floater Debt:** funds investing at least 65% in floating-rate instruments (including fixed-rate ones converted to floating rate) **Gilt:** Funds investing at least 80% in government securities **Gilt with 10-year:** Funds investing at least 80% in government bonds such that the Macaulay duration of the portfolio is 10 years **FMP:** Fixed maturity plans of pre-defined term	

Solution-oriented Schemes	Other Schemes
Retirement Fund: Scheme having a lock-in for at least 5 years or till retirement age whichever is earlier **Children's Fund:** Scheme having a lock-in for at least 5 years or till the child attains age of majority whichever is earlier	**Index Funds/ ETFs:** Minimum investment in securities of a particular index (which is being replicated/ tracked)- 95% of total assets **FoFs (Overseas/ Domestic):** Minimum investment in the underlying fund- 95% of total assets

POINTS TO REMEMBER

- Invest systematically and regularly in mutual funds through SIPs to make the most out of long-term investing and the power of equities.
- There are several strategies adopted by investors depending on their risk appetite, requirements and understanding of mutual funds. One can find these strategies and investing styles in several books and on our website (www.ValueResearchOnline.com)

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Company Deposits

Like a bank fixed deposit, a company fixed deposit is a deposit with a company, typically a non-banking finance company (NBFC) at a fixed rate of return over a fixed tenure. The rate of interest depends on the maturity of the tenure. Company deposits are governed by Section 58A of the Companies Act.

Capital Protection

The capital in a company fixed deposit is not protected if the company is unable to meet its financial obligations.

Inflation Protection

The company deposit is not inflation protected. This means that whenever inflation is above the guaranteed interest rate

Investment Objective and Risks

The prime objective of investing in a company deposit is to earn a higher interest rate compared to a bank fixed deposit. Company deposits are a good source of regular income, the frequency of which could be monthly, quarterly, half-yearly or yearly.

Suitable for	Not Suitable for	Alternatives
• Conservative investors seeking assured returns from a lump sum investment for goals up to five years away	• Long-term wealth creation, given their inability to provide any meaningful returns above the rate of inflation • Investors looking to invest small amounts regularly	• National Savings Certificate • Post Office Time Deposits • Bank fixed deposits • Debt mutual funds may offer better, though not guaranteed returns

offered by the deposit, the deposit earns no real returns. However, when the interest rate is higher than the inflation rate, the company deposit does manage a positive real rate of return.

Guarantees

The interest rate on the company deposit is guaranteed as long as the company can manage to pay the depositors. However, company deposits are known to be delayed and at times, companies default on payments.

Liquidity

Corporate deposits are liquid to the extent that companies may permit depositors to prematurely terminate their deposits by paying a penalty.

Credit Rating

A company deposit has to have a credit rating from a credit-rating agency, such as CRISIL, CARE or ICRA.

Features

ELIGIBILITY

You must be a resident Indian. NRIs can also invest in them in certain cases

ENTRY AGE

- 18 years or older
- Minors can open this deposit, with the natural guardian operating it

INVESTMENTS

- Minimum: ₹1,000
- Maximum: No limit

INTEREST

- Depends on the tenure of the deposit and the issuer

ACCOUNT-HOLDING CATEGORIES

- Individual
- Joint
- As specified by the issuer

NOMINATION

- Facility is available

> **!** If a lender, such as a bank or an NBFC, is willing to accept the company deposit as collateral, you can pledge the deposit to obtain loans. The amount and rate at which the loan is permitted depend on the lending institution.

Exit Option

Premature encashment of the deposit is permissible but the penalties imposed for such encashment are generally higher than those imposed for bank FDs.

Tax Implications

The sum invested in a company deposit or the interest that it earns is not eligible for any tax concessions. The interest earned on a deposit on a yearly basis is added to the total income and taxed accordingly.

Going Online

Most company deposits are offered offline. At times, they are sold online through a broking account.

Where to Make Deposits

Deposits can be made directly with the companies offering them or through the distributors selling them.

How to Buy

- You need to fill out the deposit application form.
- You may need to submit the original identity proof for verification at the time of buying
- You can invest in deposits with cash, a cheque, online transfer or a demand draft drawn in favour of the company or the specified entity.

> **!** In the case of default by a company, the investor cannot sell the deposit documents to recover his investment.

Tips and Strategies

- The assured return on a company deposit, like any other deposit, can be used to create an income ladder. Certificates can be bought every month or quarter for appropriate denominations, which on maturity will act as a steady income stream.
- To spread the risk of holding company deposits, make deposits with different companies for different periods.

POINTS TO REMEMBER

- Company deposits are risky.
- Tax is deducted at source only when interest is above ₹5,000 in a financial year.
- Interest income is available in monthly, quarterly, half-yearly or yearly frequency.
- There is limited regulatory help in the case of delays or defaults.
- Invest in deposits with high ratings.

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Capital-Gains-Tax-Exemption Bonds or 54EC Bonds

The capital-gains-tax-exemption bond or the 54EC bond is a bond that grants the investor an exemption from the long-term capital gains (LTCG) tax arising as a result from the sale of land, building, or both.

Capital Protection & Inflation Protection

The capital in 54EC bonds is completely protected, as they are backed by the Government of India. The 54EC bond is not inflation protected. This means that whenever inflation is above the interest rate offered on the bond, the scheme earns no real returns. However, when the inflation rate is below the rate offered by the bond, it does manage a positive real rate of return.

Investment Objective and Risks

The main objective of this five-year bond is to avoid paying income tax on LTCG. The gains made need to be invested in this bond within six months from the sale or transfer of a land/building. However, the interest earned on these bonds is fully taxable.

Suitable for	Not Suitable for	Alternatives
• Investors looking to save tax on long-term capital gains from the sale of a land, building or both	• Investors who do not have any LTCG tax liability arising from the sale of a property	• Invest in a residential property to claim a deduction under Section 54F, provided you don't have any other residential property

Guarantees

The interest rate on the bond is guaranteed and varies across bond issuers.

Liquidity

The 54EC bond is completely illiquid during the five-year lock-in.

Tax Implications

To claim tax exemption with 54EC bonds, the following conditions should be satisfied:

- A long-term specified capital asset, i.e., a land or building held by the assessee for more than two years.
- The amount invested in 54EC bonds needs to be only to the extent of the capital gains on the asset and not net consideration received on the sale of the long-term capital asset.
- The amount exempted from tax under this section is the amount of capital gain or the amount invested in the capital-gain bond, whichever is lower, up to a maximum of ₹50 lakh.

Features

ELIGIBILITY

You need to be a resident Indian

ENTRY AGE

- No age limit is mentioned

INVESTMENT

- Minimum: 1 bond of ₹10,000
- Maximum: 500 bonds of ₹10,000 in a financial year
- The bond has a face value of ₹10,000

INTEREST

- 5.00 per cent payable annually on March 31 each year

TENURE

- Five years

PAYMENT

- Cheque or demand drafts
- Direct transfer through NEFT or RTGS

NOMINATION

- Facility is available

EXIT OPTION

- Premature termination of the bond is not permitted

To view the current rates on the schemes in this book, go to **vro.in/s34211**

! The facility of pledging 54EC bonds is not permitted. These bonds are non-transferable and non-negotiable. You can't use them as security against any loan or advance.

- The capital gain should be invested in the capital-gain bond within six months from the date of transfer or sale of the specified capital asset.

The interest income from 54EC bonds is added to your total income and taxed as per the tax slab applicable.

Where to Buy the Bond

54EC bonds are issued by NHAI, REC,PFC and IRFC. One can buy the bond directly from the issuer. Many banks, including State Bank of India, IDBI Bank, HDFC Bank, Canara Bank, Punjab National Bank and Syndicate Bank are authorised to sell these bonds.

GOING ONLINE

The option to hold the bonds in the demat mode is permitted, which can be useful when the bond comes up for redemption on maturity and is credited to your savings account linked with the demat account.

How to Buy

- You will need to fill the form provided by the bond issuer.
- You will need a self-attested copy of the PAN card (in case of a joint application, you will need self-attested copies of the PAN cards of all the applicants).
- A cancelled cheque for the electronic-clearing-service (ECS) facility (in case you opt for the said facility and allotment of bonds has been opted for in the physical mode)

! The investment in a 54EC bond does not attract any tax, however, the annual interest payout is treated as an income and taxed accordingly.

- Address and identity proof, such as a copy of the passport, PAN card, driving licence, voter's identity card or ration card
- Carry the original identity proof for verification at the time of buying

POINTS TO REMEMBER

- The bonds issued under Section 54EC grant you exemption from long-term capital gains on land/building up to a limit of ₹50 lakh.
- The capital gain should be invested in the capital-gain bond within six months from the date of transfer or sale.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

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Sovereign Gold Schemes

Indians' love for gold is well known. However, it is a significant contributor to the current account deficit. Given this, the Indian government has come up with Sovereign Gold Bonds, the Gold Monetisation Scheme and gold coins. Let's look at them, one by one.

Sovereign Gold Bond Scheme

With the intent to provide gold-like returns, along with some interest, the government has launched Sovereign Gold Bond Scheme. Sovereign Gold Bonds (SGBs) are offered every year in tranches. The first tranche was offered in November 2015. In the financial year 2021-22, six tranches of SGBs has already been notified.

Investment Objective and Risks

The main objective of the Sovereign Gold Bond Scheme is to reduce the demand for gold in the physical form by encouraging people to buy it in the paper form. The rate of interest is currently fixed at 2.50 per cent per year, payable on a half-yearly basis.

Suitable for	Not Suitable for	Alternatives
• Investors who want to make a lump-sum investment in gold for a period of five to eight years	• Investors who wish to buy gold in the physical form	• Gold exchange traded funds • Gold mutual funds

Gold bonds are issued by the RBI on behalf of the government. Under the scheme, gold bonds are issued in multiples of 1 gm.

The Scheme offers a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. SGBs are free from issues like making charges and purity. These bonds can be held in demat form, eliminating the risk of loss of scrip.

Capital Protection & Inflation Protection

There is no capital protection in Sovereign Gold Bond Scheme. Investors get returns linked to gold prices. There is a provision of interest payment. The interest payout is fixed and guaranteed for the tenure of the scheme. This scheme is not inflation protected. The price of the gold bond is linked to gold prices. If gold prices combined with interest payments, outpace inflation, the bond gives positive real returns but not otherwise.

Guarantees

The interest payout is fixed and guaranteed for the tenure of the scheme. The quantity of gold for which, the investor buys gold bonds is protected.

Liquidity

Features

SOVEREIGN GOLD BOND SCHEME

ELIGIBILITY

- Restricted for sale to resident Indian entities, including individuals, HUFs (Hindu undivided families), trusts, universities and charitable institutions

INVESTMENTS

- Investors are required to buy a minimum of one gm of gold. The maximum limit that can be subscribed is four kg for an individual in a financial year and 20 kg for other subscribers.

INTEREST

- A fixed rate of 2.50 per cent per annum payable semi-annually on the initial value of the investment. This is taxable.

TENURE

- The tenure of the bond is eight years, with an option to exit from the fifth year onwards. Capital-gains tax on maturity is exempt for individuals.

GOLD MONETISATION SCHEME

ELIGIBILITY

- Restricted for sale to resident Indian entities, including individuals, HUFs (Hindu undivided families), trusts, universities and charitable institutions

TENURE

- One to three years; five to seven years; twelve–fifteen years

MINIMUM DEPOSIT

- 30 gram (any form - bullion or jewellery)

INTEREST AND TAXATION

- Interest paid in gold or rupee terms as per the bank scheme. Fully tax exempt, no capital gains

INDIAN GOLD COIN

- Purity: 24-carat purity and 999 fineness. As per the new rules, it will be made available in 24-carat purity of 995 fineness also.
- Availability: Distributed through designated and recognised MMTC outlets, jewellers, banks and post office.

To view the current rates on the schemes in this book, go to vro.in/s34211

The scheme has a lock-in period of five years. Gold bonds can be transferred, however. Also, if you hold these bonds in demat form, then you can trade them on the stock exchange anytime, even before five years, but liquidity and price risk may exist.

Taxation

Capital-gain tax arising on the redemption of SGB (i.e. at the time of maturity after eight years) to an individual has been exempted. The indexation benefit will be provided to LTCG arising to any person on the transfer of bonds.

Exit Option

The tenure of the bond is for a minimum of eight years, with the option to exit in the fifth, sixth or seventh year. To redeem the gold bond, investors can approach the intermediary concerned 30 days before the coupon payment date. Request for premature redemption can only be entertained if the investor approaches the intermediary at least one day before the coupon-payment date. Redemption proceeds are credited to the customer's bank account. On maturity, the investor gets the equivalent rupee value of the quantum of gold invested.

Where and How to Buy

Gold bonds can be bought through banks, post offices and the Stock Holding Corporation of India. They are available both in demat and paper forms. Know-your-customer (KYC) norms are the same as those for the purchase of physical gold.

Gold Monetisation Scheme

The Gold Monetisation Scheme allows you to earn interest on the gold you own. It also saves the storage cost for gold. To gain benefit from the scheme, you need to deposit gold in any physical form, jewellery, coins or bars. This gold will then earn interest based on its weight. You get back your gold in the equivalent of 995 fineness gold or Indian rupees, as you desire (this option is to be exercised at the time of deposit).

The deposited gold is lent by banks to jewellers at an interest that is a little higher than the interest paid to the customer. The minimum quantity of deposits is pegged at 30 gm to encourage even small deposits.

Tenure

The designated banks accept short-term (one to three years) bank deposits, as well as medium (five to seven years) and long-term (twelve to fifteen years) government deposits. Premature withdrawal is allowed with a penalty subject to a minimum lock-in period which differs from bank to bank.

How to Open an Account

You need to first go to a collection and purity-testing centre to ascertain the purity of your gold. You can deposit your gold if it clears the criterion set for gold content. You will be provided with a certificate of purity and gold content. You will need to present the certificate to the bank where you want to open the account. Remember that since the gold that you deposit will be melted, you won't get back the gold in the same form as you had deposited.

Taxation

The earnings from the scheme are exempt from capital-gains tax, wealth tax and income tax.

Redemption

You can take cash or gold on redemption, but the preference has to be stated at the time of deposit.

Interest

Interest to be paid to the depositors of gold can be valued in gold or denominated in INR as per the bank's scheme. For example, if it is paid in gold and a customer deposits 100 gm of gold and gets 1 per cent interest, then, on maturity, he has a credit of 101 gm. On the other hand, if it is paid in rupee form, it will be calculated on the value of gold prevailing on the date of creation of deposit. The interest rate is decided by the banks concerned.

Indian Gold Coin

The Indian Gold Coin is part of the Indian Gold monetisation program. The government has launched the Indian gold coin, with the Ashoka Chakra on one side and Mahatma Gandhi's picture on the other. It is the only BIS hallmarked coin in India. The coin is available in denominations of 5 gm and 10 gm. Recently, the government has allowed minting of Indian Gold Coin in smaller denominations of 1 gm and 2 gm also. Gold bars/bullion of 20 grams are also available. The Indian Gold Coin has advanced security features and tamper-proof packaging.

POINTS TO REMEMBER

- Sovereign Gold Bonds (SGBs) instruments are linked to the price of gold and pay an interest of 2.50 per cent. You do not need to deposit physical gold to invest in them.
- The Gold Monetisation Scheme offers you interest on your deposits of physical gold with the interest payable in gold.
- Indian Gold Coins allow you to purchase gold coins and bars of guaranteed purity.

To view the current rates on the schemes in this book, go to **vro.in/s34211**

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Investing for NRIs

There are three categories of residents in India under the Income-tax Act - resident, resident but not ordinarily resident and non-resident depending on the number of days spent in India.[1] A similar but

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[1]**Non-Resident:** Under the Income-tax Act, 1961, an individual is a non-resident if he/she fails to satisfy both of the following conditions:
(1) He is in India for a period of 182 days or more in that year; or
(2) He is in India for a period of 60 days or more in the year and for a period of 365 days or more in 4 years immediately preceding the relevant year.
However, if an individual leaves India for the purpose of employment, business or any other purpose without the intention of returning in a certain period, only condition (1) is applicable. Budget 2020 amended this rule for Indian citizens earning more than ₹15 lakh in a relevant year from Indian sources. For them, both conditions are applicable and the limit of 60 days is to be taken as 120 days.
Also, Indian citizens earning more than ₹15 lakh in a relevant year from Indian sources and who don't have a domicile or residence in any other country, will be deemed to be Resident of India.
Resident but not ordinarily resident: Under the Income-tax Act, 1961, an individual is a resident but not ordinarily resident if he fails to satisfy either of the following conditions: (1) He is resident in India for at least 2 years out of 10 years immediately preceding the relevant year; (2) His stay in India is for 730 days or more during 7 years immediately preceding the relevant year.
Also, as per Finance Act 2020, an Indian citizen who earns more than ₹15 lakh from Indian sources and has stayed for 120 days or more but less than 182 days during the relevant year is a not ordinarily resident.

not identical definition is laid down in the Foreign Exchange Management Act (FEMA). Special rules on bank accounts, investments and taxation have been laid down for non-resident Indians.

Bank Accounts

Non-Resident Ordinary (NRO) Account

This is a rupee-denominated savings bank account for non-resident Indians. It is a non-repatriable account, meaning that the money in this account cannot be transferred outside India by its holder. Interest on this account is added to the income of the NRI and taxed like other income. They can also create Fixed Deposits (FDs) from the balance in the NRO account. The interest from such deposits is taxable. They can transfer money from the NRO account to the NRE account by obtaining the 15 CA/CB certificate from a chartered accountant that applicable taxes on the amount being transferred have been paid.

Non-Resident External (NRE) Account

This is a rupee-denominated savings bank account geared towards holding the foreign earnings of NRIs. Its interest is not taxable in India and its balance is fully repatriable (transferable) outside India. They can also create Fixed Deposits (FDs) from the balance in the NRE account and the interest thereon is exempt from tax. Premature termination of an NRE deposit before the passage of one year will lead to forfeiture of all interests on the deposit.

FCNR Account

This is a foreign currency fixed deposit available to NRIs. The interest on this account is exempt from tax and the balance in the account is fully repatriable outside India. Premature termination of an FCNR deposit before the passage of one year will lead to forfeiture of all interests on the deposit.

Taxation of different sources of income for NRIs

Income Type	Holding Period	Type	Taxation	TDS
Capital gains on equity mutual funds	Long term if holding period greater than one year	Long term	10% on gains exceeding ₹1 lakh	10%
		Short term	15%	15%
Capital gains on stocks		Long term	10% on gains exceeding ₹1 lakh	10%
		Short term	15%	15%
Capital gains on debt funds	Long term if holding peri-od greater than three years	Long term	20% with indexation	20% with indexation
		Short term	Applicable tax-slab rate	30%
PPF	NRIs cannot open new PPF accounts. Existing PPF accounts enjoy exemption on contributions, interest and withdrawals			N/A
Dividends	–	–	Applicable tax-slab rate	20%
NRO interest	–	–	Marginal Rate (Highest slab is 30%)	30%
NRE interest	–	–	Exempt	N/A
FCNR interest	–	–	Exempt	N/A

POINTS TO REMEMBER

- NRI investors in mutual funds and stocks are subject to TDS at the highest applicable tax slab unless the investment itself is exempt.
- The NRE and FCNR bank accounts available to them are both tax-exempt and free from restrictions on transfers outside India.

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Income-Tax Planning

Income tax is an instrument used by the government to achieve its social and economic objectives. Simply put, it is a tax that income-earning individuals pay to the government in return for benefits, such as law and order, healthcare, education and a lot more. With proper planning, your tax liability can be reduced and optimised effectively, leaving you with a greater share of income in your hands.

The income earned during 12 months between April 1 and March 31 (the financial year) is taken into account while calculating income tax. Under the Income-tax Act, this period is called the 'previous year'.

A related term is assessment year. It is a 12-month period from April 1 to March 31 immediately following the previous year. In the assessment year, a person files his return for the income earned in the previous year. For example, for FY2020–21, the AY is 2021–22. You are required to pay tax if your income in a particular year is above the minimum threshold in the category you fall in. There are, however, certain other criteria that also affect your liability to pay income tax, such as your residential status.

Gross Total Income

The gross total income is the sum of income from all sources that an individual has or the total income he earns in a financial year. It can fall into one of the five following heads.

> ! **Budget 2018 re-introduced standard deduction in lieu of conveyance and medical allowance for salaried individuals.**

1. Income from Salary

Income can be charged under this head only if there is an employer–employee relationship between the payer and payee. Salary includes basic salary or wages, any annuity component, gratuity, advance of salary, leave encashment, commission, perquisites in lieu of or in addition to salary and retirement benefits. The aggregate of the above incomes after exemptions is known as gross salary.

An allowance is a fixed monetary amount paid by the employer to the employee for expenses related to office work. Allowances are generally included in the salary and taxed unless there are exemptions available. Some allowances are fully taxable such as Dearness Allowance, City Compensatory Allowance, Servant Allowance, Overtime Allowance etc. Specific exemptions and deductions are available such as:

> ! **Basic salary, along with commissions and bonuses, is fully taxable.**

Features

ELIGIBILITY

- Any individual or a group of individuals or artificial bodies that have earned income during a financial year is/are required to pay income tax
- The IT Act recognises the earners of income under different categories:
- Individuals
- Hindu undivided family (HUF)
- Trust
- Firms and companies
- Association of Persons (AOP), Body of Individuals (BOI), Local authority
- Co-operative Society, Artificial Juridical Person (AJP), Government Organisations

ENTRY AGE

- No age is specified
- Income arising or accruing to a minor is to be included in the total income of the parent whose total income (before such inclusion) is greater
- Income of the minor child arising as a result of some manual work done by him or from an activity involving the application of his skill, talent or specialised knowledge and experience are not to be included with the income of the parents. For example, the income of a child actor or singer derived from acting or singing is not covered by the clubbing provision mentioned above

OTHER ASPECTS

- You need a PAN (permanent account number) to file returns
- You can choose between old or new tax regime

- **Standard deduction:** A standard deduction of up to ₹50,000 is available to all assessees with an income under the head — Income from Salary.
- **House-rent allowance (HRA):** This allowance is given by the employer to take care of your rental or accommodation expenses. The employer can choose to offer you HRA in the salary package, irrespective of whether you live in rented accommodation or in your own house. It is important to understand how the income tax department treats HRA to use it efficiently. To arrive at HRA, 'salary' is defined as the sum total of basic, dearness allowance and a percentage of commissions of turnover achieved by the employee. More information regarding HRA is given later in the chapter.
- **Leave travel allowance (LTA):** LTA accounts for expenses for travel when you and your family go on leave. While this is paid to you, it is tax-free twice in a block of four years and the travel to avail LTA is restricted to India, Nepal Bhutan, Sri Lanka and the Maldives.
- **Perquisites:** Perquisites (or personal advantage) are benefits in addition to the normal salary. Examples of these are rent-free accommodation or car loan. Perquisites could be taxable or tax-free.

2. Income from House Property

Any residential or commercial property that you own is subject to tax. After allowing for two self-occupied houses, if your additional properties are not let out, they will be assumed to be earning rental income and you will need to pay income tax on them. However, in such a case, you can choose which property is to be considered as self-occupied. So, choose the ones that get you the most tax benefits.

!

- **Rent receipts need to be produced as proof to your employer to claim HRA.**
- **If you own a house which is on a home loan, you can still avail of HRA benefits, along with home-loan tax benefits if you are staying on rent.**

Income-tax authorities tax you on the capacity of the real estate (not let out) to earn income and not the actual rent. This is called the property's gross annual value and is the higher of the fair rental value, rent received or municipal value. From the gross annual value, a deduction of 30 per cent of the annual value is permitted. Also, one can deduct the property tax and any interest paid for outstanding loans taken against the property.

3. Income from Profits and Gains of Business or Profession

The income earned through your profession or business is taxed. The income chargeable to tax is the difference between credits received on running the business and the expenses incurred. The deductions allowed are depreciation of assets used for business, rent for premises, insurance and repairs for machinery and furniture, advertisements, travelling, etc.

4. Income from Capital Gains

Any profit or gains arising from the transfer of capital assets held as investments are chargeable to tax. The gain could be short term or long term. The concept of indexation, which takes inflation into account to determine your gain, is typically applied to long-term capital gains.

5. Income from Other Sources

Any income that does not fall under any of the four heads of income above is taxed as income from other sources. Examples of this would be interest income from bank deposits, lottery winnings or gifts exceeding ₹50,000 received from a person who is not a specified family member.

More about House-Rent Allowance

To be eligible for HRA exemption, you must first receive HRA in your salary and then, you must live in rented accommodation. So, if you live in a house of your own, you will not be eligible for HRA exemption. The tax-exempt HRA is the lowest of the three:

> **!** After the financial year ends, your employer will give you Form 16, which will contain all the earnings, deductions and exemptions available.

- Actual HRA received from the employer
- 50 per cent of the salary in the case of metros or 40 per cent in the case of non-metros
- Actual rent paid minus 10 per cent of the salary

A Sample Calculation of HRA

Rohit's basic monthly salary is ₹12,000 and the dearness allowance is 80 per cent of the basic salary. He resides in Delhi and pays an actual rent of ₹7,000 a month, while his employer pays him a monthly HRA of ₹6,000. His annual salary is (12,000 × 12) + (0.80 × 12,000 × 12) + (6000 x 12) = ₹3,31,200.

- The actual annual HRA received is ₹72,000.
- Since Rohit is based in Delhi, take 50 per cent of his salary (Basic + DA), which is ₹1,29,600.
- The actual rent paid is ₹84,000 and 10 per cent of his salary is ₹25,920. The difference is ₹84,000 - 25,920 = ₹58,080.
- The minimum of these is ₹58,080. So, ₹58,080 of HRA is exempt from tax, while the remaining ₹13,920 is taxed.

More about Capital Gains

A capital asset is any property held by the income-tax assessee, excluding the following:

- Personal effects not including jewellery, drawings and paintings
- Stock held for a person's business or profession (raw material, unfinished goods, ready goods,)
- Agricultural land outside urban areas
- Movable personal property (For example – personal car)

Capital assets are of two types:

- **Short-term capital asset:** This is an asset that is usually held for not more than 36 months immediately preceding the date of its

transfer. However, some assets qualify as short-term capital assets if held for not more than 12 months. These assets are:
- Equity or preference shares held in a company
- Any other security listed on a recognised Indian stock exchange
- Units of equity mutual funds
- Zero-coupon bonds

Also, unlisted shares and immovable property (eg. real estate) are considered short term if they are held for not more than 24 months.

- **Long-term capital asset:** This is an asset that is held for more than 36 months, 24 months or 12 months, as the case may be. The transfer is defined as the sale of an asset, giving up of rights on the asset, forceful takeover by law or maturity of the asset. Many transactions are not considered as the transfer, for example, the transfer of a capital asset under a will.

  Capital gains mean any profits or gains arising from the transfer of a capital asset.

Concept of Indexation

The value of a rupee today is not the same as what it will be tomorrow because of inflation. Incorporating the effect of inflation in tax calculations is called indexation. The concept of indexation allows you to show a higher purchase cost, which lowers the overall profit and reduces the tax you pay on the gains. Using the inflation index, one can adjust the purchase price of an asset to the year of sale.

The inflation index used in India for computing tax on long-term gains is called the cost-inflation index (CII). In order to use the CII, the CII for the year in which an asset is transferred or sold is divid-

> ! The 2017 Budget brought forward the base year for indexation from 1981 to 2001. Accordingly, capital gains on assets acquired before April 1, 2001, will be calculated using their fair market value in 2001.

ed by the CII for the year in which the asset was acquired or bought. Let's say the year in which, an asset (worth ₹20 lakh) is transferred or sold is 2020-21 and the CII for 2020-21 is 301. The year in which the asset is acquired or bought is 2015-16 and the CII for 2015-16 is 254. So the CII to be used is 301/254 = 1.185. This CII is then multiplied with the purchase price to arrive at the indexed cost of acquisition, which is the actual or true cost to be used at the time of tax computation or calculation. The indexed cost of acquisition is ₹20 lakh × 1.185 = ₹23.7 lakh. If the asset is sold at ₹35 lakh, then the long-term capital gain is ₹35 lakh - ₹23.7 lakh = ₹11.3 lakh. In the example above, using indexation, the tax liability comes to (20/100) × 11,30,000 = ₹2.26 lakh.

Tax Deductions

Tax deductions are the reduction that one can claim under different heads to reduce the tax liability, thereby reducing the income tax that one pays.

Section 80C

Section 80C offers a window of investment opportunities for claiming tax exemption up to ₹1.5 lakh. For instance, if you are in the highest tax bracket of 30 per cent, the investment of ₹1.5 lakh under this section will save you ₹45,000 each year. Further, an exemption for ₹50,000 can be claimed under Section 80CCD in each financial year for investment in the National Pension System (NPS). This benefit is available to everyone, irrespective of their income levels. Various financial products that qualify for Section 80C benefits are as follows:

- Life-insurance-premium payment
- Repayment of home-loan principal
- Employees' Provident Fund (EPF), wherein 12 per cent of your salary is deducted every month and an equal amount is contributed by your employer. Only your contribution towards the fund is eligible for deduction under 80C. However, the employer's contribution is also tax exempt and not included in gross total income.

Computation of Long-Term Capital Gains

Full value of consideration
Less (1) Expenditure incurred in transfer
(2) Indexed cost of acquisition
(3) Indexed cost of improvement
(4) Exemptions available if any
= Taxable long-term capital gains

Computation of Short-Term Capital Gains

Full value of consideration
Less (1) Expenditure incurred in transfer
(2) Cost of acquisition
(3) Cost of improvement
(4) Exemptions available if any
= Taxable short-term capital gains

- Tuition fees for up to two children can be claimed. However, any payment towards development fees or donation to institutions is excluded.
- Contributions to the Public Provident Fund
- Investments in the Senior Citizens Savings Scheme
- Term deposits in scheduled banks with a minimum period of five years; savings in post-office time deposits with a five-year lock-in
- National Savings Certificate, five-year government-backed securities available at post offices
- Investments in equity-linked savings scheme (ELSS)
- Investments in pension plans
- Investments in the Sukanya Samriddhi Scheme

Other Deductions

- **Section 80D:** Premium payments towards medical insurance for self, spouse, children and parents qualify for deductions. The limit is ₹25,000 for self, spouse and dependent children. Additional deduction of up to ₹25,000 for parents is allowed. For senior citizens, premiums are deductible up to the enhanced limit of ₹50,000. Above limits also include a maximum payment of ₹5,000 (for assessee, spouse, parents and dependant children) for a preventive health check-up.

Chart of Cost-Inflation Index

Cost-inflation index since FY 2001–02

FY	(CII)
2001-02	100
2002-03	105
2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129
2008-09	137
2009-10	148
2010-11	167
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018-19	280
2019-20	289
2020-21	301
2021-22	317

Moreover, for a senior citizen for whom medical insurance is not paid, a deduction is allowed for medical expenditure under this section up to ₹50,000. The same benefit is available for parents of an assessee if the above conditions are met. However, the total deduction under 80D is capped to ₹ 50,000 for self, spouse and dependent children. And the similar limit is there for parents of the assessee

- **Section 24:** Interest on a home loan, with a maximum deduction of ₹2 lakh as interest payment for a self-occupied property; there is no limit for a property that is let out.
- **Section 80CCD(1):** Investments in the National Pension System up to ₹1.5 lakh (aggregate deduction under 80C and 80CCD(1) is restricted to ₹1.5 lakh). However, you can take additional deduction of up to ₹50,000 under 80CCD(1B) of your contribution to this scheme. Also, the employer's contribution to NPS is tax-deductible up to 10 per cent of your salary under 80CCD(2).
- **Section 80E:** Interest on an educational loan for full-time studies by self, spouse or children in any graduate or post-graduate course qualifies for deduction with no upper limit. However,

there is no benefit on principal repayments.

- **Section 80G:** Donations to funds and charities are deductible from 50 to 100 per cent of the donated amount. But this deduction is not allowed for donations made in cash exceeding ₹2,000.
- **Section 80DD:** Deduction of up to ₹75,000 or ₹1.25 lakh on the medical treatment of a dependent (children, spouse, brothers, sisters or parents) with a disability. Certification by a medical authority is required.

GOING ONLINE

Unlike the traditional time-tested method of filing your returns through a chartered accountant or auditor or tax-return preparers, one can easily file returns online. There are several online tax-filing portals that have easy-to-use features which allow tax computation, preparation and filing.

- **Section 80DDB:** Deduction of up to ₹40,000 for assessees under 60 years, ₹1 lakh for senior citizens on the costs incurred for the treatment of specified illnesses such as malignant cancer, chronic renal failure and other listed diseases for self or dependent (children, spouse, brothers, sisters or parents).
- **Section 80EE:** This is of relevance only for those people whose home loan was sanctioned in the financial year 2016-17. Anyone whose home loan was sanctioned during this period for the first home can claim an additional deduction of loan interest up to ₹50,000, provided the loan amount does not exceed ₹35 lakh and the value of the house should not be more than ₹50 lakh.
- **Section 80EEA:** To amplify the affordability of housing loans, the government in Budget 2019-20 introduced this section to give an additional deduction of up to ₹1.5 lakh for the interest paid on loans borrowed up to March 31, 2020, for the purchase of an affordable house valued at ₹45 lakh or less. This deduction is provided over and above the ₹2 lakh limit under Section 24. Therefore, a person purchasing the first house

will now get an enhanced interest deduction up to ₹3.5 lakh. The benefit under this section has now been extended up to March 31, 2022.

- **Section 80EEB:** To promote the use of electric vehicles and make them more affordable to consumers, an additional deduction of ₹1.5 lakh for the interest paid on loans taken to buy electric vehicles has been announced in the Budget 2019-20.
- **Section 80GG:** Section 80GG is applicable for all those individuals who do not own a residential house & do not receive HRA (House Rent Allowance). The extent of tax deduction will be limited to the least amount of the following:
  - Rent paid minus 10 per cent the adjusted total income.
  - ₹5,000 per month.
  - 25 % of the adjusted total income.
- **Section 80 TTA:** Deduction from the gross total income of an individual or HUF, up to a maximum of ₹10,000, in respect of interest on deposits in savings account with a bank, cooperative society or post office can be claimed under this section. Section 80TTA deduction is not available on the interest income from fixed deposits.
- **Section 80 TTB:** Deduction from the gross total income of an individual who is a senior citizen and has not claimed deduction under Section 80TTA, up to a maximum of ₹50,000, in respect of interest on deposits (including fixed deposits and recurring deposits) with a bank, cooperative society or post office can be claimed under this section.
- **Section 80GGA:** Under this section, a donation made to an institution carrying on scientific research or to a university or college which is approved by the government, is tax-deductible. However, deductions over and above ₹10,000 can be claimed only if the contribution has been made by any mode other than cash. This deduction is not available to the taxpayer who has income from a business or profession.
- **Section 80GGC:** Under this section, political donations qualify for tax deductions and there is no limit on the sum donated.

However, donations made in cash/ kind are not allowed under this section.

- **Section 80U:** Under this section, an individual suffering from a disability can claim a flat deduction of ₹75,000 or ₹1.25 lakh depending upon the severity of disability. This section is available for the taxpayer and will not be given in case of dependents.

When to Pay Income Tax

- An individual having salary income and no business income must file his return not later than July 31 of the assessment year.
- The due date of filing returns by an individual who has business income and whose accounts are required to be audited is October 31.
- The return should be in the prescribed form.
- It is necessary to file a return to claim a refund of any excess tax paid or to carry forward a loss.

Union Budget 2021 has exempted senior citizens aged 75 years and above, earning only pension and interest income, from filing income-tax returns.

Rebate under Section 87A

Section 87A of the Income-tax Act allows a discount of up to ₹2,500 on the tax liability of an individual whose taxable income does not exceed ₹3.5 lakh. Taxable income for this purpose means the annual income reduced by any allowable exemptions or deductions as mentioned in the previous pages. The Budget 2019-20 (I) has hiked this discount to ₹12,500 and has also changed the maximum limit of taxable income on which, this section can be applied. Now, any individual whose taxable income does not exceed ₹5 lakh can avail the benefit under this section.

Considerations while filing returns

- Tax computation should be right.
- Fill right details, such as PAN, bank account number, address and name.

- File your return by the due date.
- Choose the right assessment year.
- Quoting Aadhaar number is compulsory at the time of filing returns and in order to obtain a permanent account number (PAN).

  Once you have paid your taxes, the income-tax department will issue you a receipt.

Using Digital Signatures

A digital signature is a private key that ensures the authenticity of an electronic document. Digital signatures are issued by the Ministry of Corporate Affairs. So, if you have a digital signature, you can e-file your tax return.

If you don't hold a digital signature, don't worry. It's not mandatory that all tax filers possess a digital signature. Those who don't have digital signatures need to fill ITR V and send it to the Income Tax Department office in Bangalore within 60 days of filing the return. Alternatively, you can eVerify your return by logging into your banking account online or providing your bank details or through a One-Time Password verification based on your Aadhaar Number.

Tax Deductions Based on Residential Status

	Deduction	Comments	NRI	RNOR	Resident
1	80C	Certain investments and expenses	Yes*	Yes	Yes
2	80CCC	Annuity plans for insurance companies	Yes	Yes	Yes
3	80CCD	Contribution to National Pension System	Yes	Yes	Yes
4	80D	Medical Insurance	Yes	Yes	Yes
5	80 DD	Medical expenditure for disabled dependents	No	Yes	Yes

	Deduction	Comments	NRI	RNOR	Resident
6	80 DDB	Expenses on curing specified diseases	No	Yes	Yes
7	80 E	Interest paid on education loan for self, spouse and children	Yes	Yes	Yes
8	80 EE	Payment of interest on home loan	Yes	Yes	Yes
9	80 EEA	Payment of interest on home loan	Yes	Yes	Yes
10	80 EEB	Payment of interest on electric vehicle loan	Yes	Yes	Yes
11	80 G	Donations to certain NGO's, temple funds	Yes	Yes	Yes
12	80 GG	House-rent deduction	Yes	Yes	Yes
13	80 GGA	Donations on scientific research or rural development	Yes	Yes	Yes
14	80 GGC	Donations to political parties	Yes	Yes	Yes
15	80 TTA	Interest on Savings account	Yes	Yes	Yes
16	80 TTB	Interest on deposits (including fixed and recurring deposit)	No	Yes	Yes
17	80 U	On Self disability	No	Yes	Yes

* There is no deduction for investment in PPF, NSC, post office five-year deposit and senior citizen saving scheme for non-residents.

Other information

- ITR V acts like a proof of filing.
- Aadhaar is now mandatory.
- You may use Aadhaar or internet banking to e-verify your return, which concludes the income tax return filing process.

Tax Slabs and Rates

Total income (₹)	Very senior citizen	Senior citizen	All resident Indians under 60 years
Up to ₹2.5 lakh	Nil	Nil	Nil
₹2.5 (3*)–5 lakh	Nil	5%	5%
₹5–10 lakh	20%	20%	20%
Above ₹10 lakh	30%	30%	30%

Very senior citizen: 80 years and above. Senior citizen: 60-79 years. These are tax rates for resident Indians and not NRIs. Additional health and education cess of 4 per cent on tax is payable. Tax credit of up to ₹12,500 to everyone earning ₹5 lakh or less is available. Taxpayers with income more than ₹50 lakhs have to pay a surcharge of 10 per cent and those with an income greater than ₹1 crore are liable to pay 15 per cent surcharge. Further, surcharge increases to 25% for income above ₹2 crore and 37% for income above ₹5 crore.
*₹3 lakh for senior citizens only.

New tax regime

Budget 2020 introduced a new tax regime giving you an option to pay income-tax at lower tax rates at the cost of forgoing deductions/exemptions.

Tax Slabs and Rates (New tax regime)

Total income (Rs.)	Tax-rate	Total income (Rs.)	Tax-rate
Up to ₹2.5 lakh	Nil	₹10-12.5 lakh	20%
₹2.5–5 lakh	5%	₹12.5-15 lakh	25%
₹5-7.5 lakh	10%	Above ₹15 lakh	30%
₹7.5-10 lakh	15%		

Additional health and education cess and surcharge are applicable same as above under the old tax regime.

However, you cannot claim any deduction under this new system like standard deduction on salary, HRA, interest on housing loan on self-occupied property (in case of let-out property, the deduction is allowed up to taxable rent received), 80C, 80D and so on.

You can choose the new tax regime at the beginning of a financial year. Though any change in choice during the year is not allowed, you can do the changes at the time of filing your return.

A salaried taxpayer can opt-in and opt-out between the old and new tax regime every year. That means you can choose the new tax regime in one year and choose the regular tax regime in another year. Non-salaried taxpayers have no such option and once they opt out of the new tax regime, they cannot opt-in again for the same in the future.

POINTS TO REMEMBER

- Income can be classified under various heads, such as salary, house property, business and capital gains.
- Provisions, such as indexation, can greatly reduce your tax bill under certain heads of income.
- Keep a track of tax filing dates to avoid losing tax benefits and incurring penalties.
- The new tax regime can reduce your tax liability but you can't claim any deductions or exemptions.

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Tax-Saving Strategies

The Income-tax Act offers ways to reduce one's tax liability by offsetting losses that one may have incurred on investments. Broadly 'setting-off' can be defined as adjusting the loss from a particular source against the profit from another source. Two different types of loss adjustments can be made:

- Current-year loss adjustment (CYLA)
- Brought-forward loss adjustment (BFLA)

Current-Year Loss Adjustment

CYLA is the adjustment of the loss incurred this year from one source against the profits earned from another source. For instance, Ram who has a salary of ₹8 lakh per year can adjust his loss on house property of ₹1 lakh against his salary. His total taxable income now becomes ₹7 lakh. Table 1 explains what losses can be adjusted against what type of income or profit. The 2017 budget restricted the amount of loss from house property that can be adjusted against other income heads to ₹2 lakh.

Brought-Forward Loss Adjustment

This is the loss that is brought forward from the previous years in order to adjust it against the profits in the current year. For example, Lakshman, who owns a house property in the current year, earns a profit of ₹5 lakh from this house property. However, in the previous year, he suffered a loss of ₹2 lakh from this house property. He, therefore, decides to bring forward his previous year's losses and adjust them against this year's profit.

The total taxable income now becomes ₹3 lakh instead of ₹5 lakh. At any current date, it is possible to bring forward the losses of the last eight years and adjust them against the current year's profit. Table 2 explains what losses can be adjusted against what type of income or profit.

Table 1: Adjusting Current Loss against Income

Income head	House property loss	Short-term capital loss	Long-term capital loss	Business/ profession loss
Salary	Yes	No	No	No
House property	Yes	No	No	Yes
Business/Profession	Yes	No	No	Yes
Short-term capital gains	Yes	Yes	No	Yes
Long-term capital gains	Yes	Yes	Yes	Yes
Other sources	Yes	No	No	Yes

Inter-Source Adjustment

Of the five heads under which income falls, there cannot be a loss from salary and 'income from other sources'. But you could

Table 2: Adjusting Previous Year(s) Loss against Different Income Heads

Income head	House property loss	Short-term capital loss	Long-term capital loss	Business/ profession loss
Salary	No	No	No	No
House property	Yes	No	No	No
Business/Profession	No	No	No	Yes
Short-term capital gains	No	Yes	No	No
Long-term capital gains	No	Yes	Yes	No
Other sources	No	No	No	No

suffer losses under other heads of income. Loss under one head has to be adjusted against any gain under the same head. This is known as inter-source adjustment (ISA). For instance, if you have two businesses and one is making a loss and the other is making profits, then the loss from the first one can be set off against the profit from the second one. Similarly, if you have two houses and one is self-occupied and the other on rent, loss from the first property can be adjusted against the income from the second property.

Inter-Head Adjustment

If there is some loss left over, even after setting it off with ISA, it can be adjusted against income from other heads. This is called inter-head adjustment (IHA). For instance, if you have a single self-occupied house property bought on a mortgage, it will show a loss, as the annual value of a single self-occupied property is taken to be nil and the adjustment of any interest will result in a negative value. Such a loss may be adjusted with salary or business income if any. However, there are two exceptions to this rule: capital losses cannot be set off with the income from any other head and loss from business cannot be set off against salary income.

Carry Forward the Loss

Adjusting Losses

Loss carried forward	Adjust against
House Property Loss	House property income
Business Loss	Business gain
Capital Loss	
Short-term	Capital gains
Long-term	Only long-term capital gains

*Losses can be carried forward for the next 8 years

Any losses that cannot be set off against the same or other heads because of the inadequacy of income can be carried forward to the subsequent year. Such a carry-forward exercise can be done for eight years. After eight years, if the loss has still not been adjusted fully, it has to be written off.

Capital Gains

Capital losses have a boundary. This means these have to be adjusted against other capital gains only and not against any other sources of incomes. Long-term capital loss (LTCL) can be adjusted only with long-term capital gains (LTCG), not short-term gains. But short-term capital loss (STCL) can be set off against either long- or short-term capital gain (STCG).

Deductions on Educational Expenses

The cost of children's education has gone up substantially in recent years. There are certain deductions eligible for education expenses under the Income-tax Act, which, to some extent, can lessen the burden of increasing education expenses. The following table has various provisions that provide tax relief.

Deduction on Education Expenses

Section	Nature of expenses	Conditions	Amount of deduction
10 (14)	Children-education allowance	For a maximum of two children	₹100 per month per child
	Allowance given to meet hostel expenditure	For a maximum of two children	₹300 per month per child
80C	Tuition fees	Paid to school, college, university or any other educational institution situated within India for the purpose of full-time education of any two children of an individual. Tuition fees should not include payment towards development fees or donation.	₹1.5 lakh per annum
80E	Interest on loan for higher education	Only interest on the loans taken from banks or an approved charitable institution for pursuing higher education for self, spouse or children. Higher education means full-time studies for a graduate or a post-graduate course like engineering, medicine, management etc.	100 per cent of interest paid on the loan without any monetary limit. Deduction is allowed for the initial year and for seven successive years or until the interest on such a loan is paid by the taxpayer in full, whichever is earlier.

Six Expenses to Save Taxes

How some of your expenses can also help you save taxes

	Expense	Criteria	Eligibility	Section
1	School or college fees	School or college fees paid for up to two children	Up to ₹1.5 lakh	80C
2	Interest paid on education loan	Interest paid on education loan for yourself or spouse or children	No limit	80E
3	Medical insurance	Premiums can be paid for self, spouse and dependent children	₹25,000 (₹50,000 if policy includes senior citizens)	80D
	Medical insurance for parents	A premium can be paid for parents	₹25,000 (₹50,000 if parents are senior citizens)	80D
4	Medical treatment	Expenses incurred on the medical treatment of dependent relative (children, spouse, brothers, sisters or parents)	₹75,000 (₹1.25 lakh if severe disability)	80DD
5	Expenses on curing specified diseases	Payment can be made for self or dependent relative (spouse, children, parents, brothers or sisters)	₹40,000 for self (₹1 lakh for senior citizens)	80DDB
6	House rent	Rent paid for your accommodation in a financial year. This is not applicable if HRA is part of your salary package	Up to ₹60,000	80GG

Nine Investments to Save Taxes

Use these nine investments to save taxes through investments

Investment	Interest or return	Investment amount (₹)	Eligible deduction	Feature	Assured income
Public Provident Fund (PPF)	7.10%	Min: 500 Max: 1,50,000	Under 80C; up to ₹1.5 lakh	Principal and interest are tax-free	Yes
Sukanya Samriddhi Yojana (SSY)	7.60%	Min: 250 Max: 1,50,000	Under 80C; up to ₹1.5 lakh	Principal and interest are tax-free	Yes
National Savings Certificate (NSC)	6.80%	Min: 1,000 Max: No Limit	Under 80C; up to ₹1.5 lakh	Interest is taxable but deduction can be claimed under 80C	Yes
Five year fixed deposit with bank or post office	Post Office: 6.70% Bank:5.40 % (Some banks offer higher rate)	Min: 1,000 Max: No Limit	Under 80C; up to ₹1.5 lakh	Interest is taxable	Yes
Equity-linked savings scheme (ELSS)	No fixed returns	Min: 500 Max: No limit	Under 80C; up to ₹1.5 lakh	Returns exceeding ₹1 lakh are taxed at 10%	No
Life-insurance	No fixed returns	Depends on the plan	Under 80C; up to ₹1.5 lakh	Tax-free on maturity sum	No

Investment	Interest or return	Investment amount (₹)	Eligible deduction	Feature	Assured income
EPF	8.50% (FY2020-21)	Up to 12% of basic salary by employee (employer portion is not taxable)	Under 80C; up to ₹1.5 lakh	Tax-free on maturity sum	Yes
National Pension System (NPS)	No fixed returns	Min: 1,000 Max: No limit	Under 80CCD(1); up to ₹1.5 lakh Under 80CCD (1B); Up to ₹50,000	Up to 60% of corpus is tax-free on retire-ment	No
Senior Citizen Savings Scheme	7.40%	Min: 1,000 Max: 15 lakh	Under 80C; up to ₹1.5 lakh	Interest is taxable but deduction of up to Rs 50,000 can be claimed u/s 80TTB	Yes

* The aggregate deduction under 80C and 80CCD(1) is restricted to ₹1.5 lakh.

POINTS TO REMEMBER

- Set-off allows you to adjust losses from some income sources against gains from others.
- Carry-forward allows you to adjust this year's losses against gains in subsequent years.
- There is a set of deductions related to health-care and education, as well as savings instruments, that will enable you to optimise your tax bill.

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Annexure and Resources

In this section, you will find tax forms for AY 2021-22 that will help you file your income tax returns, followed by investor-protection resources that will enable you to find recourse to grievances and complaints that you may have after investing in a financial product. Tax forms are available at http://incometaxindia.gov.in/

TAX FORMS

Form	Detail
ITR-1 SAHAJ	For individuals having income up to ₹50 lakh from salary, one house property or other sources
ITR-2	For individuals and HUFs not carrying out business or profession under any proprietorship and income covered in ITR-1 exceeding Rs.50 lakh, income from capital gain or more than one house property
ITR-3	For individuals and HUFs having income from a proprietary business or profession
ITR-4 SUGAM	For presumptive income from a business or profession
ITR-5	For persons other than,- individual, HUF, company and person filing ITR-7
ITR-6	For companies other than companies claiming exemption under Section 11
ITR-7	For persons, including companies required to furnish returns under Sections 139(4A), 139(4B), 139(4C) or 139(4D)

AREA OF OPERATION and ADDRESS of BANKING OMBUDSMAN

AHMEDABAD

Gujarat, Union Territories of Dadra and Nagar Haveli, Daman and Diu

Smt. N Sara Rajendra Kumar
C/o Reserve Bank of India5th Floor,
Nr. Income Tax, Ashram Road
Ahmedabad-380 009STD Code: 079
Tel. No. 26582357
Email : cms.boahmedabad@rbi.org.in

BENGALURU

Karnataka

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CHANDIGARH

Himachal Pradesh, Punjab, Union Territory of Chandigarh and Panchkula, Yamuna Nagar and Ambala Districts of Haryana.

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CHENNAI

Tamil Nadu, Union Territories of Puducherry (except Mahe Region) and Andaman and Nicobar Islands

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DEHRADUN

Uttarakhand and seven districts of Uttar Pradesh viz., Saharanpur, Shamli (Prabudh Nagar), Muzaffarnagar, Baghpat, Meerut, Bijnor and Amroha (Jyotiba Phule Nagar)

Shri Arun Bhagoliwal
C/o Reserve Bank of India74/1 G.M.V.N.
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Dehradun - 248 001
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Fax : 2742001
Email : cms.bodehradun@rbi.org.in

GUWAHATI

Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura

Shri Thotngam Jamang
C/o Reserve Bank of IndiaStation Road,
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HYDERABAD

Andhra Pradesh and Telangana

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Hyderabad-500 004
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JAIPUR

Rajasthan

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JAMMU

Union Territories of Jammu & Kashmir and Ladakh

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Fax : 2477219
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KANPUR

Uttar Pradesh (excluding Districts of Ghaziabad, Gautam Buddha Nagar, Saharanpur, Shamli (Prabudh Nagar), Muzaffarnagar, Baghpat, Meerut, Bijnor and Amroha (Jyotiba Phule Nagar)

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West Bengal and Sikkim

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Email : cms.bokolkata@rbi.org.in

MUMBAI (I)

Districts of Mumbai, Mumbai Suburban and Thane

Dr. Neena Rohit Jain
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Central Railway Station, Byculla,
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Fax : 23022024
Email : cms.bomumbai1@rbi.org.in

MUMBAI (II)

Goa and Maharashtra, (except the districts of Mumbai, Mumbai Suburban and Thane)

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Email : cms.bomumbai2@rbi.org.in

PATNA

Bihar

Shri Rajesh Jai Kanth
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Email : cms.bopatna@rbi.org.in

NEW DELHI (I)

North, North-West, West, South-West, New Delhi and South districts of Delhi

Shri R.K. Moolchandani
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Tel. No. 23725445
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Email : cms.bonewdelhi1@rbi.org.in

NEW DELHI (II)

Haryana (except Panchkula, Yamuna Nagar and Ambala Districts) and Ghaziabad and Gautam Budh Nagar districts of Uttar Pradesh

Ms. Ruchi A S H
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NEW DELHI (III)

North-East, Central, Shahdara, East and South-East districts of Delhi

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RAIPUR

Chhattisgarh

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RANCHI

Jharkhand

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44Fax : 2210511Email :
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THIRUVANANTHAPURAM

Kerala, Union Territory of Lakshadweep and Union Territory of Puducherry (only Mahe Region).

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Insurance Regulatory and Development Authority
3-5-817/818, United India Towers, 9th Floor,
Hyderguda, Basheerbagh,
Hyderabad – 500 029
Toll-Free Number: 155255 or 1800 4254 732
E-mail: complaints@irda.gov.in Online Portal: https://igms.irda.gov.in

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