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A COMPARATIVE STUDY OF VARIOUS INVESTMENT OPTION TOWARDS TAX SAVING SCHEMES

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Abstract:

This paper aim is to compare the various investment option towards tax savings schemes. The best time to start planning the tax-saving investments is at the beginning of the financial year. By planning this at the start of the year your investments can compound and also help in achieving the long-term goals. Tax savings is a goal in itself. Tax saving schemes is quite numerous but they are not so conspicuous or obvious to find. It may take a really trained and seasoned professional or somebody who really knows how the economy operates to find out avenues by which they can invest and make profits normally without having to spend so much on taxes. There are many smart ways to save taxes and enjoy the maximum savings possible. However, for most individuals, tax planning is a let's do it later affair. A smarter approach is to start investing in the early quarters of the financial year so that one can get time to sensibly plan and can avail the maximum returns on investment from different tax-saving investments. While choosing the right tax-saving investment plans it is important to consider the factors like safety, returns, and liquidity. Also, it is important to keep a proper understanding of how the returns will be taxed. If the returns on investment are taxable, then the scope to create wealth over the long term gets constrained. Before moving on to the list of best tax-saving investments schemes, it is important to know about the key section of the Online Income Tax Act i.e. section 80C. Most forms of tax-saving investments plan work under the parameters of section 80C of the Income Tax Act. As per this section, the investments made by the investor are eligible for tax exemption up to a maximum limit of Rs. 1, 50,000. Such investments include ELSS (Equity Linked Saving Scheme), Fixed Deposits, Life Insurance, Public Provident Fund, National Savings Scheme, and Bonds. There are very few investment avenues that provide a further tax deduction, over and above this limit. Let's take a look at the best tax-saving investments under section 80C of the IT Act. This study is based on secondary sources of data.

Keywords: Tax savings, investment option, schemes etc.

INTRODUCTION:

The best time to start planning the tax-saving investments is at the beginning of the financial year. By planning this at the start of the year your investments can compound and also help in achieving the long-term goals. Tax savings is a goal in itself. Tax saving schemes is quite numerous but they are not so conspicuous or obvious to find. It may take a really trained and seasoned professional or somebody who really knows how the economy operates to find out avenues by which they can invest and make profits normally without having to spend so much on taxes. Sometimes it may require adopting some particular strategies to minimize tax without having to evade it entirely. Often times it is important to adopt some of these practices to save money and maximize profits especially if the profits made on a particular transaction are not big enough. In such circumstances the natural thing most people do is to try to maximize their profit by reducing taxes. In as much as tax saving schemes is good for a business, it can be disturbing on the government or any institution that is a beneficiary of funds that accrue from such taxes. It may seriously affect the revenue expectations of a government. This always has its multiplier effect in that the government or the benefiting institution may not be able to meet up to its responsibilities. This may even have a negative effect on the business environment such that the responsibilities the government may have been unable to provide will end up affecting the businesses that have found a way of reducing the tax they pay to the government. A lot of financial services institute are always attracted to tax saving schemes such that they are always investing in them and even looking for other avenues to make such investments better or increase them. One of such investment instruments that are guaranteed to reduce the tax burden their clients is tax deferred annuities.

There are many smart ways to save taxes and enjoy the maximum savings possible. However, for most individuals, tax planning is a let's do it later affair. A smarter approach is to start investing in the early quarters of the financial year so that one can get time to sensibly plan and can avail the maximum returns on investment from different tax-saving investments. While choosing the right tax-saving investment plans it is important to consider the factors like safety, returns, and liquidity. Also, it is important to keep a proper understanding of how the returns will be taxed. If the returns on investment are taxable, then the scope to create wealth over the long term gets constrained. Before moving on to the list of best tax-saving investments schemes, it is important to know about the key section of the Online Income Tax Act i.e. section 80C. Most forms of tax-saving investments plan work under the parameters of section 80C of the Income Tax Act. As per this section, the investments made by the investor are eligible for tax exemption up to a maximum limit of Rs. 1, 50,000. Such investments include ELSS (Equity Linked Saving Scheme), Fixed Deposits, Life Insurance, Public Provident Fund, National Savings Scheme, and Bonds. There are very few investment avenues that provide a further tax deduction, over and above this limit. Let's take a look at the best tax-saving investments under section 80C of the IT Act.

How to Plan the Tax-saving Investments?

Even though, most of the taxpayers delay tax planning till the last quarter, which results in hassled decisions. The best time to plan the tax-saving investments is at the beginning of the financial year. If an individual starts planning for tax-saving investments at the beginning of the financial year, then the investments made can multiply over a long-term period and can help the individual to fulfill their long-term financial goals. The tax-payers can follow these pointers to plan the tax saving for the year and make a wise decision while investing in tax saving instruments plans. Check your tax-saving expenses which pre-exist such as insurance premium, the contribution made towards EPF account, children's tuition fees, home loan repayment, etc. If your tax-saving expenses cover the maximum limit of Rs.1.5 lakh then you will not require investing the entire amount. Based on the goal and risk profile, choose the tax-saving investments such as PPF, ELSS funds, Bank FDs and NPS.

OBJECTIVE:

This paper aim is to compare the various investment options towards tax savings schemes.

RESEARCH METHODOLOGY:

This study is based on secondary sources of data such as websites, articles, research papers, books, magazines and many more.

VARIOUS INVESTMENT OPTIONS TOWARDS TAX SAVINGS SCHEMES:

1. Life insurance

Life insurance plays an important role inthe individual's financial portfolio offering security to the individual's family in case of an eventuality. This makes it the breadwinner's primary responsibility to take life insurance at the earliest for the family's security. Life insurance, be it traditional (endowment) or market-linked (ULIP), offers tax benefits to policyholders on the premiums paid. There are various life insurance plans like: Regardless of its nature, life insurance plans offer tax benefits to policyholders. Premiums paid towards life insurance are covered under Section 80C of the Income Tax Act up to a maximum of Rs 1.5 lakhs. Proceeds on death / maturity are tax-free under Section 10(D). If policy's surrendered/terminated within five years, deductions claimed are added to income and taxed accordingly

- Term plans
- Endowment plans
- ULIPs or unit-linked plans
- Money back plans

3. Pension plans

Pension Plans is another form of life insurance. They serve a different end-objective from other insurance plans like term plans and endowment plans - which are called protection plans. While protection plans are geared to financially secure the individual's family on his death, pension plans aim at providing for the individual and his family if he lives on. Contributions towards pension are covered under Section 80CCC (sub-section under Section 80C) of the Income Tax Act. The aggregate limit of deduction under all the sub-sections of Section 80C cannot exceed Rs 1.5 lakhs. On maturity 1/3rd of the accumulated pension amount is tax free with the balance 2/3rd treated as income and taxed at the marginal tax rate. The amount is tax free upon death of beneficiary.

4. Fixed deposit

Investor can save tax by investing in tax saver Fixed Deposits which can fetch you tax deduction under section 80C of the Indian Income Tax Act, 1961. Bank FDs are security deposits, which is similar to other guaranteed return investment options. The only difference is that the tenure of investment applicable in Bank FDs is for 5 years. As a tax-saving investments plan, the bank FD offers tax-free income. This plan is best suitable for individuals who have a low-risk appetite and want to save money over a long-term period.

Bank FD offers guaranteed return on investment to the individuals and also ensures the safety of investment as the amount invested gets locked in up to the entire tenure. In tax-saving investment FD, one can claim up to the maximum limit of Rs. 1.5 lakh under section 80C of the Income Tax Act. The banks set the interest rate of the fixed deposit scheme which can be changed every quarter or financial year. Bank Fixed Deposit has higher interest-earning potential as compared to the savings account and allows only one-time lump-sum payment. As Bank FD has tenure of only 5 years, it does not allow premature withdrawal.

5. PPF (Public provident scheme)

The Public Provident Fund has always been a popular tax saving schemes amongst the taxpayer. One of the major reasons for this popularity is the fact that PPF falls under the category of exempt–exempt–exempt tax status. Investors can open PPF accounts with a bank or post office. Taxpayers can claim a deduction under section 80C of the income tax act for the amount invested by them during the financial year. The maximum amount eligible for deduction is Rs. 1.5 lakhs. Since PPF falls under the exempt category, the interest and maturity amount are exempt from tax. PPF account comes with a lock-in period of 15 years and it allows the investors the below options at the end of the maturity period:

- Withdrawal of proceeds from the account
- Continue for another 5 years

6. ULIP (Unit linked insurance plan)

ULIPs are long term investment products that allow you to choose equity funds, debt funds or both. ULIPs give you the flexibility to switch between funds in sync with your financial goals. By investing in ULIPs, you can save taxes under sections 80C and 10(10D) of the Income Tax Act, 1961.

7. Health insurance or Mediclaim

Health insurance or Mediclaim as it is more popularly known, covers expenses incurred from an accident/hospitalization. Mediclaim also covers pre and post-hospitalization expenses, subject to the sum assured. Health insurance offers tax benefits under Section 80D. Insurance premium upto Rs 20,000 for senior citizens and Rs 15,000 for others is eligible for tax benefit. If the policyholder pays Rs 15,000 as premium on his own policy and Rs 20,000 for his parent, a senior citizen, he can claim tax benefit of Rs 35,000 (Rs 15,000+20,000). Maturity value is tax free for sum received under critical illness insurance policies.

8. NPS

As one of the best tax-saving investments scheme, National Pension Scheme helps to provide tax-exemption under three different sections as mentioned below.

- The contribution, up to the maximum limit of Rs.1.5 lakh can be claimed for tax exemption under section 80C of the IT Act.
- Under Section 80CCD (1b) one can get additional deduction up to Rs. 50,000.
- If 10% of the basic salary of the individual is contributed by the employer in the National Pension Scheme, then the amount is not taxed.

The trio of tax benefits has increased the popularity of NPS among investors. However, in the national pension scheme, only 40% of the fund is tax exempted at the time of maturity. Also, in NPS it is mandatory to invest 40% of the corpus in the annuity plan in order to earn monthly income. The annuity paid to the investors after retirement is treated as income and is taxable. One cannot make any withdrawals in NPS before retirement, except in some specific situations. The best part is that the national pension scheme provides the flexibility to select between Auto and Active choice for distribution. If the subscriber selects the option of active choice, then they will need to mention the percentage distribution between equity, gilt and corporate. However, it should be remembered that the maximum investment that one can make into equity is 75%. With the combination of equity and bond, one can gain good returns on investment over a long-term period. Moreover, as a government-backed tax-saving investment the NPS provides safety and transparency in investment. The costs of investment in NPS are very low. One can start investing in a national pension scheme with a minimum amount of Rs. 500 and can see their investments grow in a reasonable manner.

9. Tax-saving mutual funds

Investments in tax-saving mutual funds, also known as equity-linked savings scheme (ELSS), qualify for tax benefits. Tax-saving mutual funds invest in stockmarkets, among other assets, and are more suited for investors with medium to high risk appetite. Investments are locked in for three years. Investments towards tax-saving mutual funds are covered under Section 80C of the Income Tax Act up to a maximum of Rs 1.5 lakhs. Proceeds on death / maturity are tax-free under Section 10(D).

10. National Savings Certificate

This is a fixed income tax saving investment scheme, which can be opened with any post office. The National savings certificate ensures the safety of investment, as it is a government-initiated savings scheme. The plan is specifically designed to encourage mid-income investors to make investments along with the benefit of taxability of income. Similar to bank FDs and PPF, the NSC is also considered a low-risk tax-saving investment option, which offers a guaranteed return on investment. Along with the benefit of transparency and ease of investment the tax benefits offered under the policy are:

- As a government-initiated tax saving investment scheme, one can claim tax deduction up to the maximum limit of Rs.1.5 lakh under Section 80C of the IT Act.
- The interest earned on the certificates is added back to the initial investments and is eligible for tax exemption.
- In the second year of investment in the NSC account, the investors can claim a tax deduction on the NSC investment of that year, as well as the interest earned on the previous year. This is because the interest earned is added to the investment and is compounded annually.

On maturity of this tax-saving investments scheme, the individual will receive the entire maturity amount. Since no TDS is applicable on NSC payouts; the investors are required to pay the applicable tax on it.

11. Senior Citizen Savings scheme

Senior Citizen Savings Scheme (SCSS) is a government-sponsored savings instrument for individuals above the age of 60 which gives a steady and secure source of income for their post-retirement phase and offers comparatively substantial returns. The principal amount deposited in an SCSS account is eligible for tax deductions under Section 80C of the Income Tax Act, 1961, up to the limit of Rs. 1.5 Lakh. However, this exemption is applicable only under the existing tax regime. It is not allowed if an individual chooses to file tax returns under the new system introduced in Union Budget 2020. The interest received is, however, subject to taxation as per the applicable slab of the concerned taxpayer.

12. Sukanya Samriddhi Yojana

Another tax-saving investments option is Sukanya Samriddhi Yojana. It is a small deposit scheme, which is particularly designed for the girl child. The plan is launched as part of the ‘Beti Bachao Beti Padhao’ campaign. The Plan currently offers an interest rate of 7.6% and provides the benefit of tax exemption. As one of the best tax-saving investments, the tax benefit offers under SSY are:

- The investments made in Sukanya Samriddhi Yojana are eligible for tax exemption up to the maximum limit of Rs.1.5 lakh under section 80C of the IT Act.
- The interest accrues against the SSY account gets compounded annually is also eligible for tax exemption.
- The maturity proceeds and withdrawal amount are also tax exempted.

One can open a Sukanya Samriddhi Yojana after the birth of a girl child till she turns 10. The scheme remains operative for 21 years from the date of opening the account till the girl gets married after she turns 18 years of age. Currently, Sukanya Samriddhi Yojana offers the highest tax-free return of 7.6%. As a long-term investment option, it also provides the benefit of compounding. Sukanya Samriddhi Yojana offers ease of investment to investors. Moreover, the cost of investment is also very affordable as one can make a minimum investment of Rs. 250 (this amount of earlier Rs. 1,000) and can invest up to a maximum of Rs. 1.5 lakh in a financial year. As a great tax-saving investment option, the plan ensures the safety of investment and secures the future of the girl child.

13. ELSS Mutual Funds

Equity Linked Savings Schemes are mutual fund investment schemes that invest a large percentage of their portfolio in equity. Furthermore, the fund has a mandatory lock-in period of 3 years which is the shortest amongst all the investment products. Investment in ELSS funds qualifies for deduction under section 80C of the income tax act up to a maximum of Rs. 1.5 lakh. Both lump sum investment and the amount invested through a systematic investment plan (SIP) qualify for the deduction. Since ELSS funds invest a large amount in equity, there is always some inherent risk. ELSS funds provide the dual benefit of capital appreciation and tax-savings. This makes it one of the most popular tax saving schemes amongst investors.

In general, taxpayers who want to claim tax deductions of up to Rs 1.5 lakh under Section 80C provisions and are willing to take some risk should consider investing in ELSS. These mutual funds are equity-oriented, and they invest a minimum of 60% of their portfolio in equity and equity-linked instruments. This makes it crucial to be invested in the funds for a long period of time in order to reap the benefit of the returns.

CONCLUSION:

Every human saves one part of his income for some future needs. For this purpose, people are interested to save their income through bank saving, post office saving, chit funds, share market, mutual funds, insurance. The study has concluded that ‘Tax Benefits’ are the motto of the salaried and retired people and ‘Higher Returns’ are the motto of the business people. Tax savings investment plans are instrumental to achieving the financial goals, investments schemes that are available in the market provide tax exemptions and tax deductions. In this article, we will talk about how you can reduce your tax burden by investing in tax-saving schemes at the right time. For the FY2020-2021 you can opt for the new tax regime which offers lower, concessional tax rates without any tax deductions and exemptions or you can continue with the old tax regime of higher tax rates that are combined with various tax exemptions and deductions If you are sticking to the old tax regime in FY 2020- 2021 without finalizing the financial products to invest in to reduce the tax outgo you can consider these online options to save time.

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