Tax Saving Investment Guide

There is a significant factor that takes away a huge amount from your hard-earned savings— i.e., the tax. As a smart investor, your goal must not be limited to earn tax-exempt income, but to save taxes regularly. Fortunately, the Income Tax Act in India allows various provisions for tax exemptions and deductions to reduce your tax liability.

Content

Types of Tax Saving

An individual income tax is levied on the salaries, investments, or any other forms of income an individual or household earns. Many individual income taxes are progressive. That means tax rates increase as a taxpayer's income increases, resulting in higher-earners paying a larger share of income taxes as compared to lower-earners.

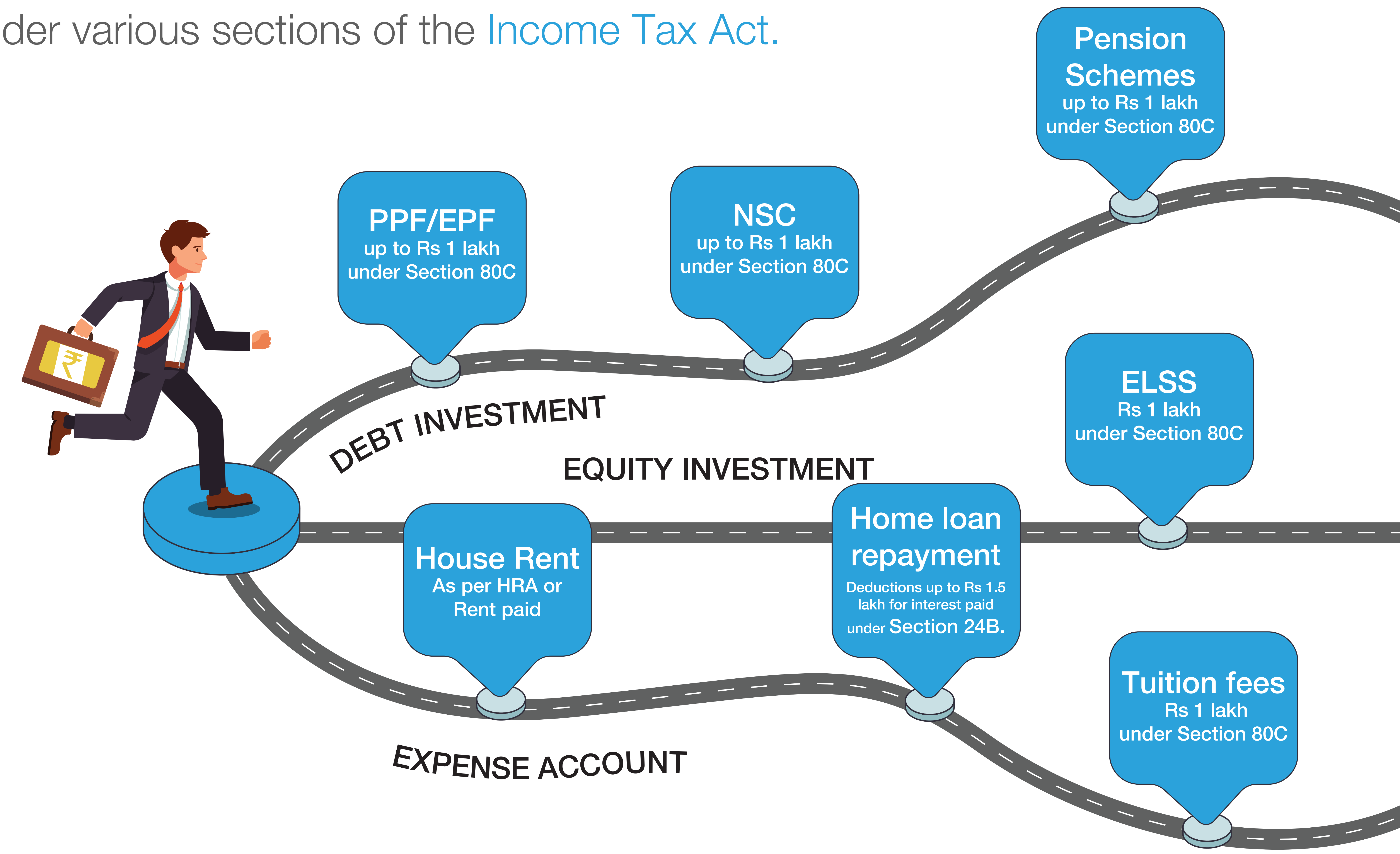
The amount of tax payable is calculated is always on the net income at the current applicable tax rate. Thus, you can reduce your tax outflow in the following ways:

a) Earn tax-free incomes
b) Invest money in tax-saving instruments

While tax-free income does not add to your taxable income for the year,

What are Tax-Saving Investments?

Tax-saving investments are those investments, wherein you can claim benefits for your amount invested as per the provisions of the Income Tax Act. There are various investments on which certain tax deductions are available under various sections of the Income Tax Act.



01 Life Insurance Plans

Life insurance is a simple investment instrument that guarantees financial security to the family members of the policyholder in case of his untimely demise. You can save taxes by buying a life insurance plan. Such plans offer you a life cover, along with a host of other benefits as well.

Purpose	To provide financial security to the beneficiaries of the policyholder in the event of his untimely death
Tenure	5 Years to Lifetime
Liquidity	You can withdraw from the policy after 5 years.
Maximum annual investment	No limit. However, ULIP plans have an annual limit of Rs 2.5 lakhs to stay tax-exempt
Tax Saving	Rs 1.5 lakhs on the invested amount Maturity value tax-exempt if the annual investment did not exceed 10% of the life cover in the plan.

02 Pension Plans

These plans fulfil the post-retirement needs of an individual. We all want to have a secured and peaceful retirement period. A pension plan can help you align you retirement goals.

Purpose	To provide regular income support to the policyholder after his retirement.
Tenure	10 years to lifetime
Liquidity	Payable after the retirement of the policyholder
Maximum annual investment	No limit
Tax Saving	Rs 1.5 lakhs on invested amount, The regular pension amount is taxable as salary income

03 National Pension Scheme

NPS is a government-run pension scheme that encourages people to regularly invest during their earning years.

Purpose	To provide a part of the savings corpus immediately to the investor after his retirement, and the rest of it as monthly pension pay-outs
Tenure	Up to 70 years of age
Liquidity	Payable after the retirement of the investor
Maximum annual investment	No limit on annual contribution
Tax Saving	• Self-contribution: Up to Rs 2 lakhs • Employer's Contribution: 14% in case of Central Govt. employee, rest 10% of (basic salary + DA) • Up to 60% maturity value available for tax-free withdrawal • The remaining 40% necessarily goes to annuity plans

The maximum deduction you can avail in NPS is determined by your annual income as per the following conditions:

Lower of

- 10% of your salary
- 20% of your gross total income (in case you're self-employed)
- ₹1.5 lakh

An additional deduction of up to Rs 50,000 is available for excess self-contribution.

04 Public Provident Fund

PPF is a long-term investment instrument that helps in building a retirement saving corpus. It is one of the popular tax-saving investments in India.

Purpose	To build a tax-free savings corpus
Tenure	15 years, extendable in the blocks of 5 years each.
Liquidity	• Loan facility available from the third year of account operation • Partial withdrawal facility from the sixth financial yrs • Maturity value is payable after the 15 years of the investment
Maximum annual investment	The maximum annual investment allowed for deduction is ₹1.5 lakhs. This limit applies even when you have multiple accounts in the name of your spouse and children.
Tax Saving	• Rs 1.5 lakhs on self-contribution • Accrued interest is tax-free • Maturity Value is exempt from tax

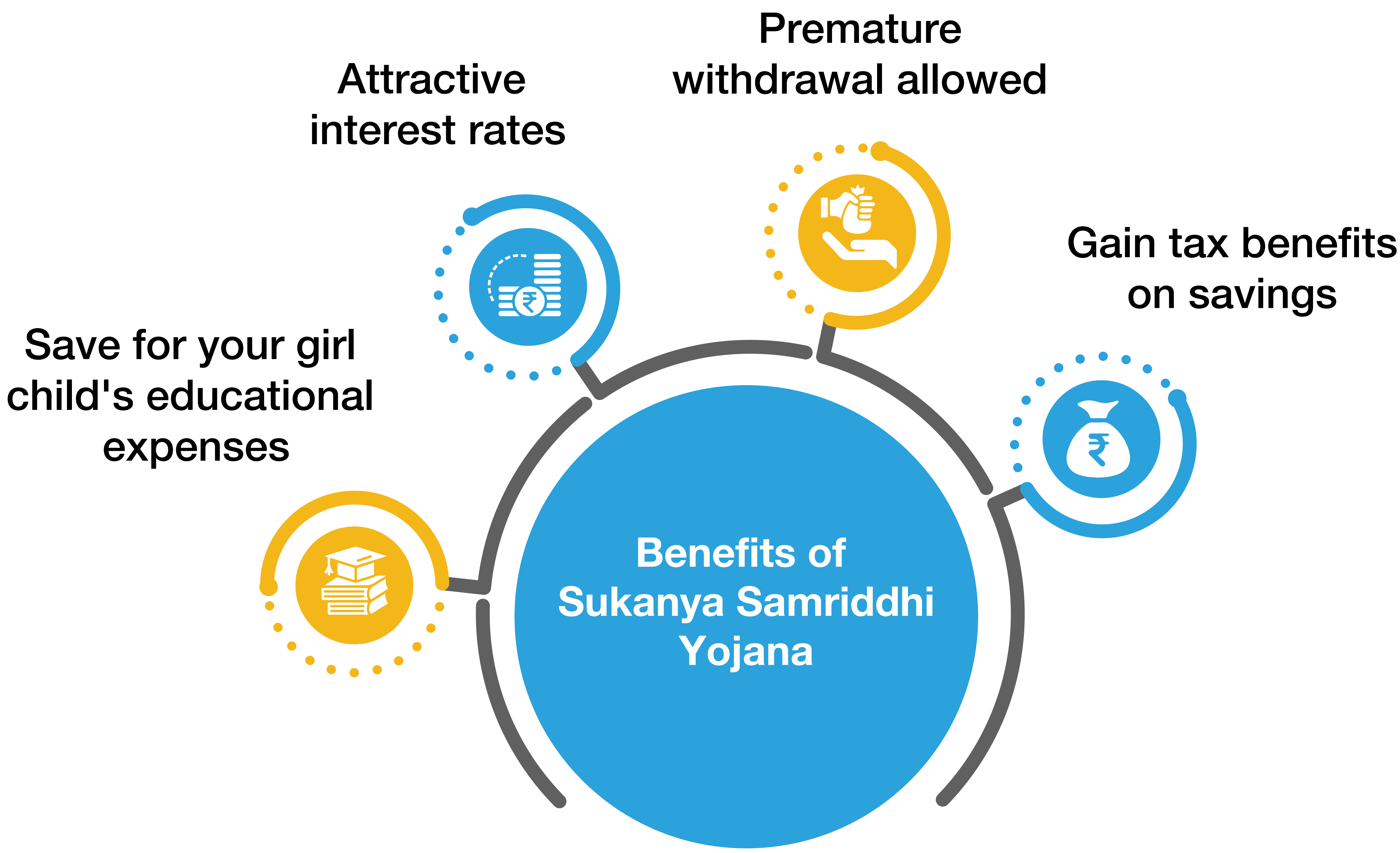
05 Equity-Linked Saving Scheme

ELSS is a tax-saver, equity mutual fund scheme, in which you can invest at least 80% of your assets.

Purpose	To build a tax-free higher growth investment corpus
Tenure	3 years or more
Liquidity	Payable after 3 years of the investment
Maximum annual investment	The maximum annual investment that can be allowed for deduction u/s 80C is Rs 1.5 lakhs.
Tax Saving	Rs 1.5 lakhs on the invested amount Maturity value is tax-free up to a gain of Rs 1 Lakh

06 Sukanya Samriddhi Yojana

This is a small savings scheme supported by the Union Government for opening a savings account in a post office or bank in the name of your girl child.



Sukanya Samriddhi Yojana ensures that your girl child has a bright and secured future.

Purpose	To save for the education of the daughters from a very early age.
Tenure	21 years or till the daughter gets married
Liquidity	Payable only after 21 years
Maximum annual investment	Rs 1.5 lakhs
Tax Saving	Up to Rs 1.5 lakhs on the invested amount Accrued Interest is tax-free Maturity is also tax-free

07 National saving certificate

NSC is a government-sponsored fixed-income investment scheme.

Purpose	To regularly invest and earn interest at minimum risk.
Tenure	5 or 10 years
Liquidity	Payable after 5 or 10 years as selected by the investor.
Maximum annual investment	No limit
Tax Saving	• Up to Rs 1.5 lakhs for invested money • Accrued interest is considered reinvested so not taxed in the same year. However, you can choose to pay the tax on this interest every year or at maturity. • Maturity interest receipt is taxable

08 Senior Citizen Savings

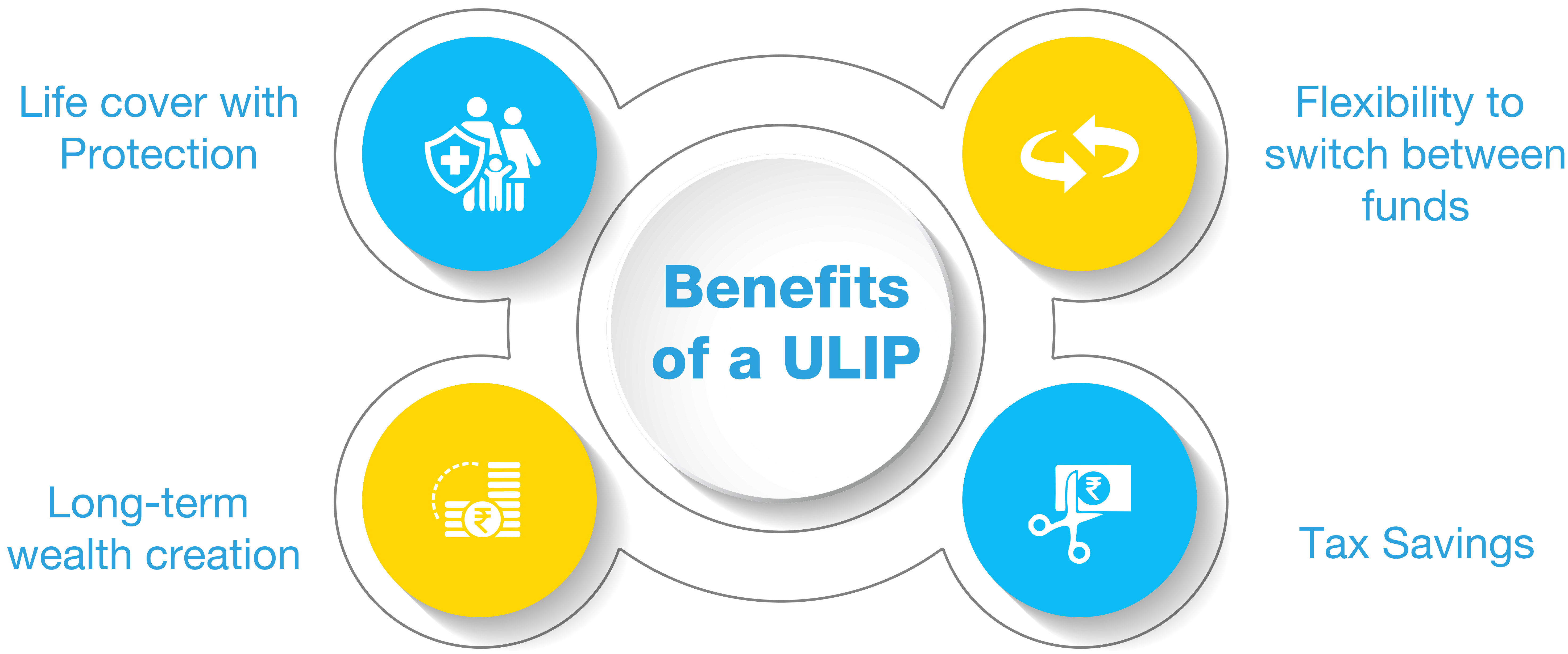
SCSS is a government-sponsored savings instrument for senior citizens.

Purpose	To provide quarterly interest payments to senior citizens (above 60 years of age).
Tenure	5 years extendible to 8 years
Liquidity	Payable on or after the expiry of 5 years or 8 years where the account was extended from the date of the opening of the account.
Maximum annual investment	The maximum investment at the time of account opening shall not be more than Rs 15 lakhs.
Tax Saving	Up to Rs 1.5 lakhs on the invested amount Interest received is taxable

09 Unit Linked Insurance Plan

Unit Linked Insurance Plan (ULIP) is an investment-oriented insurance plan that grows your money through a diversified asset portfolio. You can select the portfolio ratio among equity, debt, mutual funds, and hybrid funds.

ULIP is a long-term investment plans that are a combination of insurance and investment.



Purpose	To reap compounding growth benefits by investing money in various securities like equity, debt and mutual funds.
Tenure	5 years or as selected by the policyholder
Liquidity	Partial withdrawals after 5 years.
Maximum annual investment	However, ULIP plans have an annual limit of Rs 2.5 lakhs to stay tax-exempt
Tax Saving	Investment up to Rs 1.5 lakhs available as a deduction in a financial year If the tax-saving conditions are met, accrued growth, bonuses and maturity values are exempt from tax

10 5-Year Tax-Saving Fixed Deposit

This is a Term fixed deposit, which is a very common savings option among investors with a low-risk appetite. Here, you can park your lump sum amount and earn tax-free interest income on it.

Purpose	To create a risk-free and tax-free savings corpus. Other purposes may include • Guaranteed returns, • Choice of interest pay-out, • liquidity through an Overdraft facility
Tenure	5 or 10 years as selected by the depositor
Liquidity	Payable only after 5 years
Maximum annual investment	No limit
Tax Saving	Deduction available for investment of up to Rs 1.5 lakhs in a financial year Interest is taxable every year

11 Infrastructure Bonds

Infrastructure bonds are the debt instruments issuing by government infrastructure companies or NBFCs. These are related to ongoing government-funded infrastructure projects within India.

Purpose	To earn a safe and tax-free interest income
Tenure	Can vary between 10 to 15 years
Liquidity	Can be sold only after 5 years.
Maximum annual investment	No specific limit depends on the issue
Tax Saving	Deduction of up to Rs 1 lakh available under section 80C An additional annual investment of up to Rs 20,000 is allowed as a deduction u/s 80CCF

Why should you Buy Tax-Saving Investments?

Savings and investment income are generally charged to income tax. The types of income covered are subjected to income tax. The main objective behind investing in tax-saving instruments is to reduce the tax incidence on the savings and to decrease the burden of taxes.

Here are the key reasons why you should invest in tax-saving investments:

Maximise Tax-Free Incomes & Lower Taxable Income

This is the most evident reason behind investing in tax-saving investments. Claiming 80C deductions on the tax-saving investments and schemes is the easiest way to reduce tax incidence on the gross income.

You can easily claim a deduction of up to Rs 1.5 lakhs from your gross taxable income by investing a part of your income into a tax-saving investment.

Compounding wealth over a long tenure

An ideal tax-saving investment will save your taxes. At the same time, it will help you reap the benefits of compounding interest over time. Investments like the ULIP plans give you higher financial growth with great flexibility to withdraw your funds.

With such tax-saving investment plans, you can develop a regular habit of saving, which can gradually grow your corpus at an exponential rate.

Liquidity & Systematic tax-free withdrawals

Various tax-saving investments such as ULIP plans and ELSS offer you the maximum liquidity benefit and systematic withdrawal option. The short lock-in periods of PPF, ULIP and ELSS plans offer improved liquidity.

Subject to other conditions under section 10(10D). in case of ULIP, customer can avail benefit under section 10(10D) only for the policies for which annual premium is less then 2.5 lack.

In ELSS mutual funds, the lock-in period is even lesser, i.e., only 3 years. So, your money will not be locked up for longer tenures if you invest in tax-saving investments.

Convenience

Investing in tax-saving investments through SIP mode allows you to save and invest monthly instalments into your investment plan. This increases the convenience of investment and gradually develops the regular saving habit.

Features of Tax-Saving Investments

To invest smartly, you must have an understanding of different type investment options available as per your risk appetite. Making the right investment decision will help you stay aligned with your financial goals. A tax-saving plan should have some have the following features:

i. Regular Investment

The convenience of the tax-saving investments gradually develops the regular investment habit. This is something that gives you the benefit of compounding wealth in the long run and exponentially grows your savings corpus.

ii. Partial Withdrawal

Smart investment plans like the endowment and ULIPs have the feature of systematic partial withdrawals. This ensures that you regularly receive money for fulfilling your long-term goals like your child's education, buying a new home, etc.

iii. Portfolio Management

Smart investment plans like the endowment and ULIPs have the feature of systematic partial withdrawals. This ensures that you regularly receive money for fulfilling your long-term goals like your child's education, buying a new home, etc.Automated portfolio management is an added benefit in ULIP. If you invest in a smart ULIP, you can realign your portfolio using various portfolio management strategies. Through the perfect ratio of the multiple asset options available in your portfolio, you can reap higher growth benefits over long investment tenure.

iv. Diversified Asset Options

Retirement plans like ULIPs offer you the opportunity to invest in multiple assets ranging from equity, debt, and hybrid funds. Here, you can also realign your portfolio using various portfolio management strategies. Through multiple asset options in your portfolio, you can get higher growth benefits over a long period.

Benefits of Tax-Saving Investments

The prime benefit of investing now is that it will increase in the coming years. Such plans help you to achieve your long-term goals as well. There are a host of benefits of investing in a tax-saving investment plan:

Regular Saving Habit

Tax saving investment develops a healthy habit of keeping aside a small portion of the income for the future. Regular tax-saving gradually makes you financially independent and protects your long-term goals.

Wealth-Building

Tax-saving investments also act as lucrative schemes to build a significant savings corpus, with which you can fulfil all your long-term financial goals. You can even fulfil your wealth maximization goal with regular tax-saving.

Long Term Investment

Tax saving investments offers you the opportunity to invest for the long term. The longer will be your investment tenure, the more will be your financial growth, due to the compounding effect.

Financial Ease

It is quite easy and convenient for you to put aside a small portion of your income every month into tax-saving investments. This does not put any burden on your financial budget and helps you grow your wealth with a compounding effect.

Safeguard Your Wealth from Tax

The main objective of investing in tax saving instruments is to alleviate your tax burden and to invest your tax-free income into lucrative plans that can rather grow your money.

How to Buy Tax-Saving Investment Plans?

If you are not saving and investing, you are missing out on a lot of opportunities to shape your finances. The question is how do you start investing? Steps involved in buying a tax-saving investment plan:

Step-1. How much do you need to invest?

Firstly, you need to figure out how much tax you want to save. Understand that saving tax on present investment is not the only objective. You also need to ensure that long-term investments have minimum tax incidents later. Thus, the objective should be to invest maximum savings into tax-exempt options.

Step-2. How much money you can invest for more than five years?

The majority of tax-saving investments require five years or more to mature. Thus, allocating money in a tax-saving instrument for a goal closer than five years would be unwise.

Step-3. Select the investment option

Once you get the final amount to be saved in taxes, you can select the right investment plan for you. The following could be the different choices as per your risk appetite:

Aggressive	ULIP, ELSS, NPS
Tenure	ULIP, NPS
Liquidity	PPF, NSC, Infrastructure Bonds, ULIP, NPS, SSY, SCSS, Life Insurance Plans, Tax-saving deposits.

Step-4. Mode of Purchase

Nowadays, you can buy most tax-saving investments online. However, few investments may still require the traditional approach.

Step-5. Select the Features and Added Benefits

Plans like ULIP and life insurance have add-on features that will help you maximise your returns, safeguard your goal and family. Once you have decided on the plan, it's time for the feature selections.

Even term insurance plans have added features like regular income pay-out and accidental benefits. You cannot add these features later. Thus, you must select them before buying the plan.

Who Should Buy a Tax-Saving Plan?

Ideally, almost anyone capable of saving money and investing should consider tax-saving investments. However, the motives can be different for all:

Young Professional

As soon as you start earning, you must start doing tax savings. There are certain provisions under the Income Tax Act that provide for various deductions from the taxable salaried income. You can claim deductions on TDS on salary income up to Rs 1.5 lakhs if you have invested in tax-saving investments.

Public Provident Fund is an investment instrument that provides EEE (Triple Exemption) benefit. That means that there is tax exemption on:

1. The part of your salary invested in PPF.
2. The interest you have earned on PPF
3. The income you generate from your investment in PPF.

Other investments that provide the EEE benefit include EPF, NPS, and ELSS.

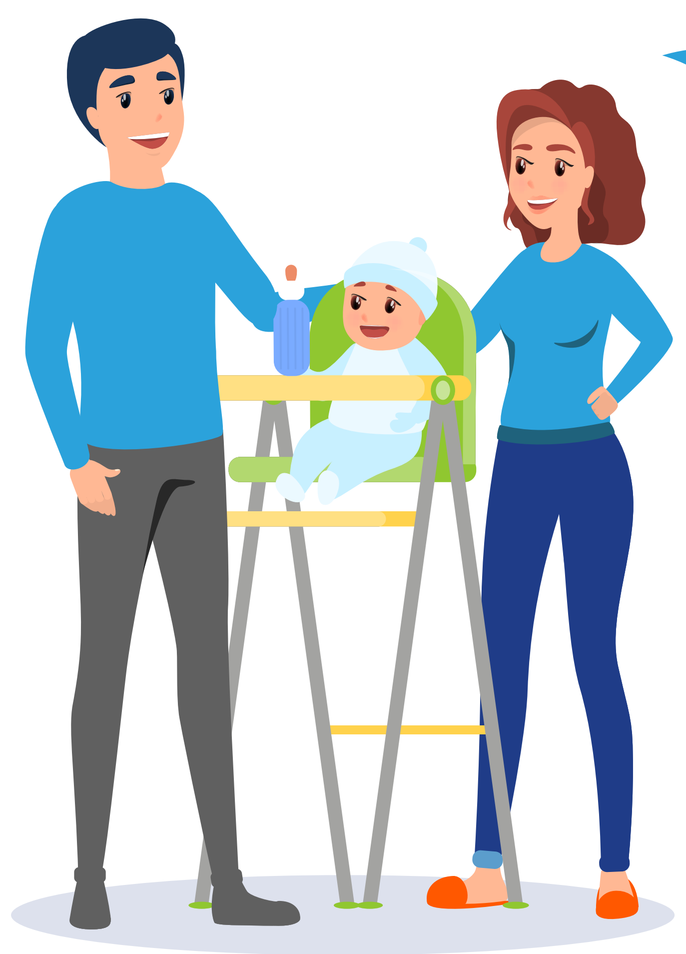
Newly Married

For newly married couples, the objectives of the investment vary according to their family needs and goals.

1. They must invest in tax-saving instruments so as to claim deductions u/s 80C up to Rs 1.5 lakhs. If both husband and wife are working, they can claim up to Rs 3 lakhs.

2. They can also invest in ELSS and ULIP plans and get the EEE benefit.

3. For individual, spouse and children the limit is 25K and for parents below age 60 it is 25K. for parents above 60 age the limit will be 50K. means max. deduction in this section will be 75K.



Fresh Parents

As parents you realise your ultimate responsibility, that is to ensure a bright future for the next generation. Tax-saving plans are the best for investing in your child’s goals.

You can consider the following plans in this stage of life:

- **Unit Linked Plans (ULIPs):** You can invest aggressively and protect your child’s goal from the unforeseen at the same time.

- **Guaranteed Life Insurance Plans:** Help you to build a corpus safe from market volatility. Also, protects your financial goal from your untimely demise. ***Guaranteed Income4Life Plan*** **by Canara HSBC Life Insurance** offers life cover till you turn 99 along with guaranteed benefits.

- **Other Investments:** Sukanya Sammriddhi Yojana for girl children or PPF for boys.

A Person Near Retirement

If you are about to retire, your aim is to earn regular tax-free income. You can invest in **Canara HSBC Life Insurance Invest 4G** that comes with the century option. You can get the following benefits:

- With this option, you will regular income benefit till 100 years of your age. You can reap exponential financial growth towards the end of the policy.

- Subject to other conditions under section 10(10D). in case of ULIP, customer can avail benefit under section 10(10D) only for the policies for which annual premium is less then 2.5 lack.

- Apart from this, you will anyway need an annuity plan. Consider pension plans from life insurers for a safe and reliable lifetime pension source.

Canara HSBC
LIFE INSURANCE

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