

Tax Bachao with IT Deductions

various tax benefits available under Sec 80C, 80CCF, 80D, 80G and 80E.

Sec 80C: Deduction in respect of Life insurance premium, contribution to PPF, principal repayment on home loan, etc.

You are entitled to a tax benefit provided you make investments in certain instruments which are eligible for deduction under Sec 80C of the Income Tax Act, 1961, with the maximum total exemption being Rs. 1, 00,000. That is, if your income is 5,00,000 you can claim tax exemption up to 1,00,000 which leaves you with a taxable income of 4,00,000.

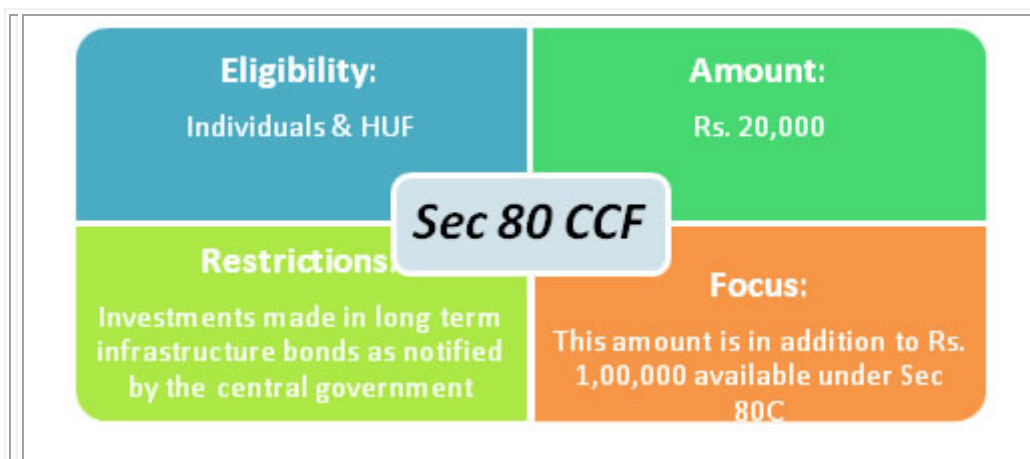
Following are a few options that permit this exemption:

<i>Instruments</i>	<i>Summary</i>	<i>Restrictions</i>
Provident Fund	Contribution to public/recognised provident fund	Lock-in-period of 15 years
Tax saver Mutual Funds - ELSS	Investment in any ELSS (Equity linked saving scheme)	Lock-in-period of 3 years
Principal repayment on home loan	Repayment of any loan borrowed for purchase or construction of residential house property.	Interest is exempt till 1,50,000 under section 24
Life insurance premium	Premium paid towards life insurance policy	Amount of premium not exceeding 20% of the policy sum insured
Others - tuition fees	Payment made as tuition fees for your child	1. Should be a full-time course 2. Maximum 2 children
-small saving schemes	Investments in National Savings Certificate, post office savings bank account, senior citizens' savings scheme and others	Interest rates, minimum investment amount if any, lock-in-period etc would differ in case of each instrument.

Sec 80CCF: Deduction in respect of subscription to long term infrastructure bonds

However, please note that this deduction has been scrapped off and will not be available from FY 2012-13.

Any investments made in long term infrastructure bonds as notified by the central government shall be allowed as deduction to the extent of Rs. 20000. This is in addition to the limit of Rs. 100000 allowed under Sec 80C of the Income Tax Act, 1961.



Sec 80D: Medical Insurance Premium

Premium paid for medical insurance up to Rs. 15000 is eligible for deduction under Sec 80D; incase of senior citizens the limit is extended to Rs. 20,000.

The following table summarizes the provision:

Description	Mediclaim premium paid in respect of		Total deduction u/s 80D
	Self, spouse & dependent children	Parents (whether dependent or not)	
No one has attained the age of 65 years	15000	15000	30000
Assessee and his family less than 65 years of age and parent is a senior citizen	15000	20000	35000
Assessee and the parent attained age of 65 years	20000	20000	40000

Sec 80E: Deduction in respect of interest on loan for higher education

However, please note that this deduction has been scrapped off and will not be available from FY 2012-13.

The amount of interest paid on loan borrowed from any financial institution or any approved charitable institution is eligible for deduction under Sec 80E of the Income Tax Act, 1961, the loan being taken for the purpose of higher education.

Eligibility:	• Individuals only
Amount:	• There is no limit on the interest amount
Restrictions:	• Deduction is allowed for initial year, i.e., when the individual starts making interest payments and immediately succeeding 7 years or until the interest is paid whichever is earlier

Sec 80G: Donations to certain funds/ charitable institutions

Donations, charity need not necessarily be one-way traffic but could result in a win-win situation for both parties. To simplify it further, donations made to certain funds or charitable institutions are eligible for deduction under Sec 80G of the Income Tax Act, 1961. So while the receiving party benefits with the donation, you receive tax benefits arising from the deduction.

Institutions eligible for deduction under this section are categorized in three segments based on the amount of deduction allowed. The three segments have:

1. 100% deduction allowed without any limit
2. 50% deduction allowed without any limit
3. a.) 100% deduction allowed of restricted amount
b.) 50% deduction allowed of restricted amount

Where restricted amount is 10% of the adjusted total income

Illustration: Mr. A an individual has total income for a year amounting to Rs. 4, 00,000. He makes a donation of Rs. 1, 50,000 to an approved charitable institution. Depending on the institution he invests in, we have 4 different scenarios that explain the benefits arising in each case.

	<i>100% deduction without any limit</i>	<i>50% deduction without any limit</i>	<i>100% deduction of restricted amount</i>	<i>50% deduction of restricted amount</i>
Adjusted total Income	4,00,000	4,00,000	4,00,000	4,00,000
Tax payable	20,000	20,000	20,000	20,000
Donation made to institutions	1, 50,000	1, 50,000	1, 50,000	1, 50,000
Amount qualified for deduction	1, 50,000	75,000	1, 50,000	75,000

Deduction under Sec 80G (restricted to 10% of income)	NA	NA	40000	40000
Taxable income post deduction	2,50,000	3,25,000	3,60,000	3,60,000
Tax payable post deduction	5,000	12,500	16,000	16,000

Note: Education cess has not been calculated

In a Nut shell

Let's understand these deductions and its impact on your tax liability by way of the following illustration:

Mr. X and Mr. Y have total income for a year amounting to Rs. 5, 00,000 each.

<i>Following are the particulars furnished by Mr. X</i>	<i>Amount</i>
Life insurance premium paid, sum of the policy assured Rs. 2,00,000	Rs. 60,000
Contribution to public provident fund	Rs. 20,000
Tuition fee payment for 3 children pursuing a full-time course	Rs. 10,000 each
Housing loan principal repayment	Rs. 30000
Invested in ELSS mutual fund	Rs. 20,000
Invested in IDFC Infrastructure bonds	Rs. 20,000
Premium paid on Mediclaim policy	Self- Rs. 15000 Parent (senior citizen)- Rs. 20000
Donation made to Prime Minister's National Relief Fund	Rs. 20000

Computation of tax liability			
Particulars	Mr. X		Mr. Y
	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Total Income for the year	-	5,00,000	5,00,000
Deduction under Sec 80C	-	-	-
*Life insurance premium paid	40,000	-	-
Contribution to public provident fund	20,000	-	-
**Tuition fee for children pursuing a full-time course	20,000	-	-
Housing loan principal repayment	20,000	-	-
Investment in ELSS mutual fund	20,000	-	-
Deductions under Sec 80C restricted to	-	1,00,000	-
Deduction under Sec 80CCF	-	-	-
Invested in IDFC Infrastructure bonds	20,000	-	-
Deduction under Sec 80D	-	-	-
Premium paid on Mediclaim policy	-	-	-

-Self	-	15,000	-
-Parent (senior citizen)	-	20,000	-
Deduction under Sec 80G	-	-	-
***Donation made to Prime Minister's National Relief Fund	-	20,000	-
Taxable Income after deduction	-	3,45,000	5,00,000
Tax liability	-	14,500	30,000
Notes:			
* Restricted to 20% of the sum of the policy assured i.e. 20% of Rs. 2, 00,000. Therefore eligible amount Rs. 40,000			
** Tuition fee paid is eligible for deduction under Sec 80C for maximum two children. Therefore Rs. 20000 shall be allowed.			
*** Donation (this fund) eligible for 100% deduction without any limit			
<i>Education cess has not been calculated</i>			

The illustration above clearly states the benefits enjoyed by an investor taking advantage of the various deductions available in a planned manner.

Conclusion:

To reiterate, an investor needs to consider his overall investment objective rather than frantically making investments with the sole purpose of saving tax. The idea is not just to throw light upon these deductions but also to explain the underlying concept of tax planning. Hope this provides you a leg-up in your tax saving investments.

Tax slabs for your reference:

Income tax slabs (in Rs) 2012-2013				
<i>General</i>	<i>Women</i>	<i>Senior Citizen</i>	<i>Very Senior Citizen</i>	<i>Tax Applicable</i>
0 to 2,00,000	0 to 2,00,000	0 to 2,50,000	0 to 5,00,000	No Tax
2,00,001 to 5,00,000	2,00,001 to 5,00,000	2,50,001 to 5,00,000	-	10%
5,00,001 to 10,00,000	5,00,001 to 10,00,000	5,00,001 to 10,00,000	5,00,001 to 10,00,000	20%
Above 10,00,000	Above 10,00,000	Above 10,00,000	Above 10,00,000	30%

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