FINANCE

SAMRAT BANDODKAR

More bang for your buck

With the increase in exemption limit in personal income tax and similarly hiking of exemption limit for investments in section 80C in the current budget, investors have more money in their hands. **The Goan**

presents the readers how best to invest and manage the extra money

▸Interest on bank FD is taxed as per an investor's tax slab. Therefore, investors in high tax bracket of say 30% should not put too much money in 5 year bank FD from tax savings point of view. This is because if an investor makes 8% on FD, his post tax returns are only 5.6% (8%*70%)

— Anup Prabhu Verlekar,
a CFP from Mapusa

▸ Over the last 15 years investing systematically in ELSS which offer section 80C benefits to investors has generated super normal returns as compared to traditional deposit products like PPF/NSC and bank deposits

— Ninad Kamat,
a CFP from Margao

KARAN SEHGAL / THE GOAN

The latest budget brought some good news to income tax payers. This was in the form of increasing exemption limit in personal income tax. From this financial year onwards, there will be no tax on the income up to Rs 2.5 lakhs if the tax payer is an individual resident in India and less than 60 years of age. Earlier, there was no tax up to Rs 2 lakhs. On the similar lines, the finance minister also raised the tax exemption limit of investments falling under section 80 C of the Income Tax Act from Rs 1 lakh earlier to Rs 1.5 lakhs now. These are the two major developments, which will give more money to tax payers to invest starting financial year 2014-15 onwards.

We at **The Goan** think this is the right time to tell our readers how best to invest the extra money in their hands and how to best manage the investments falling under the limit of Rs 1.5 lakhs. These two developments – raising income tax exemption limit and raising limits for investments falling under section 80 C – make most impact on people with income in the bracket of Rs 3 lakhs to Rs 15 lakhs per annum.

Grasping the concept

This can be explained with an example. Suppose there's an individual with an income of Rs 3 lakhs per annum. His income is exempted from tax up to Rs 2.5 lakhs. He is left with Rs 50,000, which can be put into investments falling under section 80 C to get tax exemptions. However, it is difficult to save Rs 50,000 also few vacations in the year. This means the family must be saving just more than Rs 5 lakhs a year. For such a family, Rs 1.5 lakhs limit under section 80 C makes a lot of difference. However, if someone is making Rs 20 lakhs or more a year then section 80 C is not as crucial for his investment plans.

There are several investments which fall under section 80 C. Prominent among them are provident fund (PF), public provident fund (PPF), life insurance premiums, equity linked savings scheme (ELSS), national savings certificate (NSC) and 5 year bank fixed deposits. One can put Rs 1.5 lakhs in one or more than one of these instruments to claim tax exemption. But what is the right approach towards these investments?

Right approach

The most common and the greatest mistake which investors make is think purely from tax perspective while utilizing the benefit under section 80 C. This unprofessional attitude towards investments often results in putting the entire Rs 1.5 lakhs in only one instrument which is often a PPF account or an ELSS scheme or a 5 year bank fixed deposit. We have just illustrated above that even if one makes an income of Rs 15 lakhs a year, Rs 1.5 lakhs makes a lot of difference to overall savings.

"Tax savings should be a follow-up to asset allocation and not the other way round. A salaried individual must realize that he is already investing in employee provident fund (EPF), which is a debt investment. Therefore, his portfolio will become really debt heavy One would ask why inflation is so important to consider. The answer is simple. Suppose you save Rs 100 this year and you make 8% return on it. Next year, it becomes Rs 108. However, the inflation rate is 6%. Therefore, next year Rs 106 would buy you same goods which Rs 100 bought last year. Therefore, your return is just Rs 2.

Over last 15 years, ELSS schemes of most reputed fund houses have given more than 15% return per year. This shows that ELSS schemes have given far higher return than inflation over a long period of time. And, therefore, some part of Rs 1.5 lakhs must go towards ELSS.

Insurance factor

Another common mistake people make and which comes under section 80 C investments is a lack of understanding of cost of insurance schemes. As per Income Tax Act, life insurance premium whether on term insurance, endowment schemes or unit linked insurance plans (ULIPs) all come under Rs 1.5 lakhs limit.

Most people put their money in endowment schemes or ULIP where returns are typically around 8%. That kind of rate ment plan or a ULIP can be put in a ELSS scheme, which gives a higher return.

It is actually life insurance where the recent policy announcements come in handy. Our calculations in the table show that a person making Rs 400,000 and above will save Rs 10,000 purely because of announcements in latest budget.

Ninad Kamat, a CFP from Margao, added, "Since the ceiling for section 80C investments has been increased to Rs.1.5 lakhs in this year's budget one could seriously consider taking a term plan especially if one is less than 30 yrs of age and has dependents to support financially. A term cover of at least Rs 1 crore is a must, for which the premium is lower than Rs 1,000 per month for people of less than 30 years of age."

After taking such a policy, the policyholder can be rest assured that in the event of his death his family's accommodation needs and education of his children can be met by the policy amount.

There is a compelling case for him to take a term insurance policy from Rs 10,000 thus saved in tax post the recent announcements. Vishal Dhawan, involve a higher premium outgo. However, the higher premium can be paid out of money being saved on account of recent budget announcements"

Best options

Apart from these things investors must consider lock in period of several investment options under section 80 C. Investments in PPF have a lock in period of 15 years, investments in ELSS have a lock-in period of 3 years and needless to say 5 year bank fixed deposits have 5 years lock in period. Investors must make sure that they have sufficient money at hand to meet short to medium term needs after making these investments, since these are long-term in nature.

Anup Prabhu Verlekar, a CFP from Mapusa, insisted that even though money going into section 80 C investments is tax free, one must consider tax implications on the return as he explained, "In the case of PPF and ELSS, the money being invested is tax exempt, the return is tax exempt and the money withdrawn at the end of maturity is tax exempt. However, in case of bank fixed deposit and NSC, only money being invested is tax free, interest on such bank FD and NSC is

▸Tax Slabs for FY 2014-15		Tax Slab for FY 2013-14	
▸Income Per Year (Rs.)	**Tax Rate**	**Income Per Year (Rs.)**	**Tax Rate**
▸0 to 2,50,000	No Tax	0 to 2,00,000	No Tax
▸2,50,001 to 5,00,000	10%	2,00,001 to 5,00,000	10%
▸5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%
▸Above 10,00,000	30%	Above 10,00,000	30%
▸Yearly Income:	**Rs 4,00,000**	**Yearly Income:**	**Rs 4,00,000**
▸Tax till Rs 2,50,000	Nil	Tax till Rs 2,00,000	Nil
▸Rs 1,50,000 invested in section 80 C investments	Nil	Rs 1,00,000 invested in section 80 C investments	Nil
▸Overall Tax	**Nil**	**Overall Tax** (10% tax on remaining Rs 100,000)	Rs 10,000

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even on a salary of Rs 3 lakhs per year. Therefore, such developments won't make too much of a positive impact for anyone making less than Rs 3 lakhs a year.

On the other hand, let us take the case of a person with Rs 15 lakhs salary per year. A family comprising of a husband, a wife and two kids. Assuming the wife doesn't work and the family's income source is only Rs 15 lakhs per annum. The family must be spending close to Rs 80,000 per month to have a very typical upper middle class lifestyle – what's with going to malls, watching movies in multiplexes, kids going to decent schools and if he invests too much in PPF. Most debt investments do not give you more than 9% per annum interest rate, which is only slightly higher than inflation rate. Individuals who are working in organized set up and are anyway investing in EPF, should consider investing in ELSS schemes which give a lot higher return than the inflation rate," said B Srinivasan, a certified financial planner (CFP) based out of Bangalore.

Srinivasan hit the nail on its head. The empirical data shows that only equity products give much higher returns than inflation on a long course of time. even a bank FD or a national savings certificate (NSC) can give. Granted that a FD or a NSC will not give insurance cover but for an insurance cover, one can always take a term insurance plan which gives insurance cover at much lesser premium. The flip side to term insurance plan is the policyholder doesn't get anything. It is only his family and dependents who get sum assured in the event of his death.

However, what he can do while he is alive is take a term insurance and the money he saves on low premium of term insurance compared to an endow- a CFP from Mumbai explained further, "All investors must analyze their life-insurance cover every 2-3 years keeping in consideration their financial goals, expenses and loans. Since the recent budget announcements have given more money to investors to invest, one may consider increasing his life coverage if required. The best approach for most people is to go for a term insurance plan. In case, one already has a term plan, analyse if it is sufficient in the event of death. If it is insufficient, one can scrap the existing plan and go for a plan which offers an adequate coverage, which may taxable depending upon the tax bracket of the individual. Therefore, PPF and ELSS are the best investment options regardless of your tax bracket."

To conclude, the recent budget announcements have given a chance to investors to correct mistakes which they may have committed earlier. One, it is a must to buy a term insurance plan. Two, this is a right opportunity to increase exposure to ELSS provided investments have already been made in EPF or PPF. Three, the objective should be strategic investment management and not just short term tax management.