

Tax planning at the beginning of the year

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THIS year, there is something to cheer about if your net taxable income is in excess of ₹ 10 lakh as you will have an additional savings of around ₹ 2,000 every month as a result of the increase in exemption limit and change in the 20 per cent tax slab but when it comes to investment in tax saving instruments there is hardly anything to rejoice as the government slashed the EPFO interest rate by 1.25 percentage point to 8.25 per cent and clarity is still awaited on the Rajiv Gandhi Equity Savings Scheme. There is another dampener. All those who were investing into the infrastructure bonds to claim additional tax benefit on ₹ 20,000 under Section 80CCF will not be able to do so in FY2012—13 as the Budget did not mention it.

But if you plan your investments properly you may save some extra money for yourself in taxes.

INVESTMENT STRATEGY

While investors do their tax

planning towards the end of the financial year, experts say that they should always begin it towards the beginning of the year as it provides them double benefit—less burden towards the end of the year along with some investment gains.

“For those who invest in fixed income instruments like PPF, should put in the entire amount in April itself as doing so provides you the interest benefit of the same for the entire year. Those looking for equity instruments should do it through 9-12 month SIP beginning April,” said Vishal Dhawan, a Mumbai based financial planner.

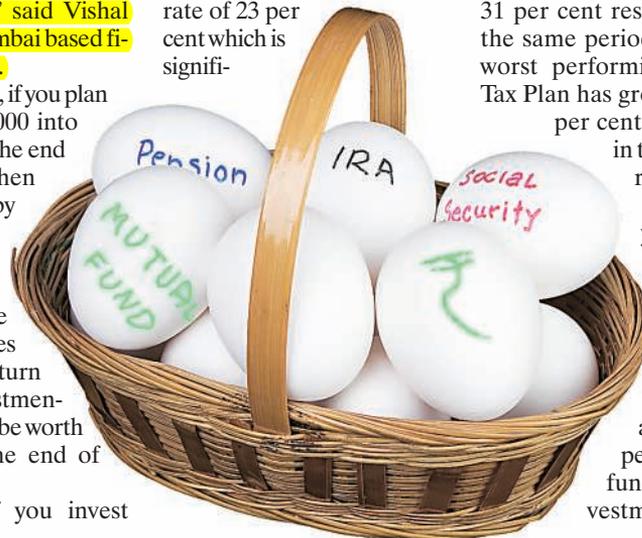
For example, if you plan to invest ₹ 60,000 into ELSS towards the end of the year, then you may do so by SIP mode and invest ₹ 5,000 over the next 12 months. If the ELSS generates 12 per cent return then your investment amount would be worth ₹ 63,412 by the end of the year.

Similarly if you invest

₹ 60,000 in PPF in April itself then in one year's time the investment would have grown to ₹ 65,160 at 8.6 per cent.

WHERE SHOULD YOU INVEST?

Even as the equity markets remained volatile over the last three years, tax savings through equity mutual funds seem most attractive as the average return generated by ELSS over the last three years stood at a compounded annual growth rate of 23 per cent which is significant.



cantly higher than 8.6 per cent p.a offered by PPF. While the direct tax code does not include ELSS as one of the schemes that can qualify for tax benefits under section 80C, 2012-13 may be the last year when you can claim the benefit of this scheme and look for high returns over a long period.

In the last three year period ICICI Prudential Tax Plan generated 33 per cent annualised return while Canara Robeco Equity Tax saver and HDFC Tax saver generated 32 and 31 per cent respectively in the same period. Even the worst performing Escorts Tax Plan has grown by 12.6 per cent per annum in the same period.

So, if you had invested ₹ 50,000 in April 2009 for your tax saving in an average performing fund, your investment would

be worth ₹ 93,000.

OTHER INVESTMENTS

If your taxable income is less than ₹ 10 lakh, you can look at Rajiv Gandhi Equity Scheme. While the details of the scheme are yet to be announced, the scheme offers an additional deduction of ₹ 25,000 on investment of ₹ 50,000 in a year in direct equity. Experts however caution to take exposure into direct equity for tax benefit which has a 3 year lock-in.

Another instrument that investors may look at is the tax free bonds of infrastructure companies through which the government plans to raise up to ₹ 60,000 crore in a year. The instrument allows retail investors to invest upto ₹ 5 lakh and may offer tax free returns of around 8 per cent tax free return (depending on the yield at the time of launch). This however does not qualify for tax deduction.

So, with the beginning of the new financial year, get on with your tax planning for the year rather than waiting for the March 2013 to come. ♦ sandeep.singh@expressindia.com