From PPF to NPS, top 10 tax saving investments under Section 80C

Section 80C of the Income Tax Act provides a deduction of up to Rs 150,000 in the aggregate for specified investments/ expenditure.

1. Provident Fund (PF) and Voluntary PF (VPF) Contribution

Under the PF scheme, salaried employees can contribute 12 per cent of their basic component of the salary, month-on-month with the employer making a matching contribution. Employees can also make a higher contribution by adopting a voluntary provident fund scheme (VPF). Being an EEE regime (exempt-exempt-exempt) – tax benefit available on investments, accruals and on withdrawals, and a tax free interest of 8.5% – this is an attractive investment indeed.

2. Public Provident Fund (PPF)

The PPF is yet another EEE investment. It has a 15-year lock-in period with partial withdrawals limited to 50 per cent of the corpus, allowed beyond the 5th year. A foreclosure after 5 years is permitted for medical/education purposes, subject to some conditions.

3. Life insurance premium

Life coverage through insurance provides for a safety net in the event an unfortunate event were to occur, while being tax-friendly. The deduction u/s 80C is available in respect of premia paid for self, spouse or children. The lumpsum benefit under the policy is also tax exempt provided the premia paid does not exceed 20 per cent in case of a policy taken on or before 31st March 2012 and 10 per cent for policies taken after 31st March 2012.

4. National Pension Scheme (NPS)

With the objective of moving towards a pensionable society, NPS has been made more attractive with tax benefits. In addition to the deduction within the aggregate ceiling of Rs 150,000, individual contributions to NPS are eligible for an additional deduction of Rs 50,000, limited to 10 per cent of salary for employees or 20 per cent of gross total income for others.

5. Term Deposits with a Bank or Post Office

This is a popular option for those who prefer low risk/fixed term investments. Such deposits have a lock-in of 5 years. However, the interest earned on these FDs are not eligible for any specific tax exemption.

6. Sukanya Samriddhi Scheme

This is yet another EEE scheme open to parents with a girl child, where the current rate of interest is 8.4 per cent. The account can be opened before the girl child reaches 10 years of age with withdrawals permitted beyond 18 years of age of the girl child. The objective is to help in the funding of the girl child's higher education or for marriage expenses.

7. Investment in Equity linked savings scheme (ELSS)

Investments can be made either by lump sum or SIP method in specified mutual funds, which will be locked-in for a period of 3 years from date of investment. ELSS may be suitable for those who are ready to assume the risk of the equity market to reap benefits; the capital gains taxation provisions are triggered on sale.

8. National Savings Certificate (NSC)

The National Savings Certificate is a tax instrument which is locked-in for a period of 5 years. It is considered as a steady and low risk investment. NSC is a cumulative investment scheme where the interest earned on the NSC is not just tax exempt, but is also eligible for further deduction u/s 80C.

Deductions for Expenses

Section 80C provides benefits both to specified investments as well as for expenses. Some of the specified expenses which are entitled to this benefit include:

9. Housing Loan repayment

Individuals purchasing their own property through a loan are eligible for a deduction u/s 80C in respect of the principal amount repaid.

10. Tuition Fee

Benefit is also available in respect of the tuition fee paid by a parent in respect of 2 children. However, the same expense cannot be claimed by both parents.

(Source: Financial Express)