Here are a few investment options that help you save tax and reap good return

A right mix of financial instruments will not only help you save tax, but also reap good returns

AS you draw up a tax-saving plan, it's crucial to remember that investing in any financial product just to save taxes may actually turn out to be harmful in the long run. While there are many tax-saving avenues available, good financial planning involves maintaining a right mix of investments in debt and equity-related instruments, which not only save tax but also benefit you financially.

Under Section 80C of the Income-Tax Act, 1961, an individual can invest up to R1.5 lakh, which includes investments in Public Provident Fund (PPF), life insurance premiums, national savings certificates of India Post, employee's contribution to Provident Fund, tax-saving mutual funds, five-year bank and post office fixed deposits. Here are some investment options that not only save tax, but also yield higher returns in the long run:

Public Provident Fund

It is the most popular tax-saving instrument and the interest rate is linked to bond yields. The interest rate is fixed every year on April 1 and is 25 basis points higher than the 10-year government bond yield of the previous year. Currently, PPF gives a return of 8.7% per annum compounded yearly.

One can deposit a minimum of R500 up to R1.5 lakh in 12 instalments, or as a lump sum. The ease of opening a PPF account and its liquidity make it a perfect financial instrument.

It suits high-risk investors and self-employed professionals who are not covered under the Employees' Provident Fund scheme. One gets tax deduction at the time of investment every year, the income generated in the scheme is tax-exempt and even the corpus at the time of withdrawal is tax-free. One can do part-withdrawal from the seventh financial year and a loan facility is available from third financial year.

National Pension Scheme

NPS is an ideal investment tool for retirement planning. A pure defined contribution pension product, NPS was introduced in 2004 for government employees and, in 2009, it was extended to all private sector employees.

For non-government employees, up to 50% of the contribution can be invested in equities and the rest between corporate and government debt paper. The biggest benefit for individual taxpayers in this year's Budget came in the form of investment in NPS as the government allowed tax benefit on investment of up to R50,000 in a year under Section 80CCD, which is over and above the benefit available on R1.5 lakh under Section 80C.

However, investments in NPS are not tax-free at the time of withdrawal though the investment and interest accumulations are not taxed. Products like PPF and EPF, on other hand, are tax-exempt at all the three stages — investment, accumulation and withdrawal. Subscribers of NPS Tier-1 account can now make partial withdrawal of up to 25% of contributions for certain specified circumstances after 10 years of being in the scheme.

Equity Linked Savings Scheme

It is a useful option for salaried investors looking at tax incentives and higher returns. However, ELSS is a more risky proposition than PPF and needs investor prudence. With good returns and a tax-free status, ELSS funds offer a great opportunity to be a part of an effective tax management. Being an equity linked fund, there is, however, no guarantee of returns as they mirror the stock markets and the financial sentiment in general. By taking the SIP route, one can stagger the investments, which would, in turn, bring down the risk sizably. An investor can put as little as R500 in ELSS, unlike other equity oriented funds where the minimum investment is Rs 5,000.

With SIP, you can invest a fixed amount every month for up to 15 years. Money is debited automatically from the investor's account through the ECS mandate and units are allocated based on the net asset value applicable for the day. ELSS funds score higher than other tax-savings scheme like PPF, National Savings Certificates and five-year fixed deposits they have a lock-in period of only three years.

Unit Linked Insurance Plans

Ulip is a market-linked insurance scheme that offer tax-saving options under Section 80C of the Income-Tax Act.

Ulips offer the advantage of life cover with an investment in equity and debt markets along with tax saving. In 2010, the insurance regulator had made changes to make the products transparent and investor-friendly. The lock-in period was raised to five years from three years, commissions paid to agents were reduced drastically and the sum assured was raised up to 10 times the premium. One can also opt for a debt market-linked Ulip and move to equity when the market is moving up to attain higher returns.

PPF

* Interest rate is fixed every year on April 1 and is 25 bps higher than the 10-year govt bond yield of the previous year

* One can deposit a minimum of R500 up to R1.5 lakh in 12 instalments, or as a lump sum

* It suits not only high-risk investors but also self-employed professionals not covered under the Employees' Provident Fund scheme

* One gets tax deduction at the time of investment every year and the income generated in the scheme is tax-exempt

* Even the corpus at the time of withdrawal is tax-free

NPS

* Tax benefit is available on investment of up to R50,000 in a year under Section 80CCD, which is over and above the benefit available on R1.5 lakh under Section 80C

* Investments in NPS are not tax-free at the time of withdrawal though the investment and interest accumulations are not taxed

ELSS:

* ELSS is riskier than PPF and needs investor prudence

* Being an equity linked fund, there is no guarantee of returns as they mirror the stock markets and the financial sentiment in general

* An investor can put as little as R500, unlike other equity funds where the minimum investment is Rs 5,000

Ulips:

* It’s market-linked insurance scheme that offers tax-saving options under Section 80C

* Offers the advantage of life cover with an investment in equity and debt markets along with tax saving

(Financial Express)