Income tax rebates: Salaried can cut their outgo drastically

Some salaried individuals would have already started their tax planning for the year. At this point, it is important to be informed about some lesser known provisions in Chapter VI-A of the I-T Act, 1961, under Section 80C. An individual in the highest tax bracket of 30% can save about R30,000 every year if he exhausts the full limit. Section 80C entitles an employee to certain deductions from the gross total income, up to a maximum limit of R1 lakh per year.

Yearly savings made in Public Provident Fund (PPF) subject to a maximum limit of Rs 1 lakh, premiums paid for life insurance, national savings certificates (NSCs), employee's contribution to provident fund (PF), tax-saving mutual funds, five-year fixed deposits in banks or post office, and pension plans all come under the purview of Section 80C. Moreover, tuition fees paid for two children will be deducted from your income under Section 80 C of the Act. The law states that the deduction will be on the actual payment of fee and not on books, bus fare etc.

Tuition fees include money paid whether at the time of admission or thereafter, to any university, college, school or other educational institution in India, for the purpose of full-time education of any two children of the salaried employee. Full-time education includes any educational course offered by a university, college, school or other institution to a student who is enrolled in a full-time course. Money paid as ‘development fees’ or donation or capitation fees or payment of similar nature will not be eligible for deduction. The law clearly mentions that full-time education includes play-school activities, pre-nursery and nursery classes. Salaried employees, however, cannot claim tax exemption under tuition fees if their child is studying abroad.

Under 80C, taxpayers can claim deduction on the amount paid as stamp duty when they buy a house. In fact, many taxpayers are not aware of this provision — the law clearly underlines that the amount paid towards stamp duty, registration fees and other expenses for the purpose of transfer of house property to the owner also qualifies for exemption. This is over and above the principal payment that qualifies under 80C. But one should note that the deduction under 80C for total amount, including principal loan repayment, stamp duty and registration charges, cannot exceed R1 lakh.

Inclusion of registration and stamp duty fees under 80C not only reduces tax liability, but also saves the property buyer from further cash outgo. Also, an individual who has taken a home loan can avail of deduction towards principal repayment in the financial year.

This will be above the R1.5-lakh rebate he gets on the interest amount paid towards the housing loan under Section 24. More importantly, even principal payment towards home loans taken from HUDCO qualifies for exemption under 80C. Also, subscription to the home loan account scheme of the National Housing Bank (NHB), or contributions made by an individual to any notified pension fund set up by NHB, also meet the deduction requirements.

Section 80CCC allows salaried individuals deduction of the amount paid or deposited out of their income to keep in force a contract for any annuity plan of LIC or any other insurer for receiving pension from the fund referred to in Section 10 (23AAB). However, the deduction shall exclude interest or bonus accrued or credited to the employee's account. Also, Section 80CCD(I) allows an employee, being an individual employed by the central government on or after January 1, 2014, a deduction of the amount paid or deposited out of his income. However, the deduction will not exceed an amount equal to 10% of his salary, which includes dearness allowance but excludes all other allowances and perquisites. Another provision eligible for exemption under Section 80C is money paid towards fixed-deposit schemes of HUDCO or other housing boards constituted for the purpose of planning, development or improvement of cities or towns.

Under Section 80CCG, a new retail investor can put money in Rajiv Gandhi Equity Savings Scheme (RGESS). Here, one can invest in one or more financial years in a block of three consecutive financial years beginning with the initial year in which the deduction has to be claimed. This tax exemption is available over and above the exemption available under 80C. The investor has the choice to invest in shares of BSE 100 or CNX 100, stocks of public sector enterprises, units of exchange-traded funds and MFs. A new retail investor with gross income of up to R12 lakh can avail of benefits under this scheme, with a permissible investment of R50,000. The exemption is available for R25,000, i.e., 50% of the invested amount.

Moreover, 80C also offers some market-linked investment options, such as equity-linked savings schemes (ELSS) and unit-linked insurance plans (Ulips). ELSS investments, which come with a three-year lock-in, are routed to the equity market through mutual fund houses. Ulips, which come with a five-year lock-in, are routed through insurance companies to equity markets.

Clearly, with astute tax planning, salaried employees can take advantage of some of these lesser-known beneficial provisions.

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