NSDL
Technology, Trust & Reach

The Financial Kaleidoscope

Defining the different shapes of investment

February 2021

From The Editor's Desk

2020 was a year to forget by most parameters, and particularly so from an economic and financial perspective due to all the uncertainties. One of the biggest side-effects of this was the derailment of personal financial goals and the erosion of wealth at an individual level. This was something which got exacerbated due to the job losses and pay-cuts that a number of employees had to face.

However, as we stand at the near end of FY 2020-21 and hope for a better financial year ahead, it is important for us to revisit our financial planning. We need to review our financial goals, reassess the risk profile and recalibrate personal finances in light of the new realities of life. If you have just started earning or are unsure about financial planning, Today is the best day to begin your journey.

And one of the core pillars of financial planning is income tax planning. To be clear, this is very different from tax evasion (i.e. avoiding the taxes one is liable to pay) which is illegal. We are talking about reducing an individual's income tax liability by availing various exemptions and deductions that are legally available.

In this issue of 'The Financial Kaleidoscope', we will try to explain certain important exemptions and deductions available to individual taxpayers in the Income Tax Act, 1961. We will take a look at the various tax saving instruments that one can invest in to save tax as well as generate tax-free income.

We hope this helps you clear some of the clutter around tax-saving that is usually heard around this time of the year. And particularly so, as we all hope for a better year and take the learnings from the year gone by to plan our future. Before you start reading the details inside, we would like you to know that information given here is just to provide you basic idea about managing the tax liability. Please do seek help from a qualified and registered investment adviser before taking an investment decision.

Regards,
Team NSDL

The Income Tax Act & Deductions

The Income Tax Act provides several avenues that offer a host of exemptions and deductions from income that help reduce the overall tax liability. There are various types of deductions available under different sections of the Act. Deductions available under Section 80C of the Act are perhaps most relevant to individual taxpayers.

Specific investments, insurance premium and pension contribution

Section 80C of the Income Tax Act allows taxpayers a deduction on investments made in specified schemes or types of investments. These include payment of Life Insurance premium, Equity Linked Saving Schemes (ELSS), contribution to Public Provident Fund (PPF), specified Fixed Deposits (FDs) for 5 years or more, National Savings Certificate (NSC), Sukanya Samriddhi Yojna, Unit Linked Insurance Plan (ULIP), Post Office Time Deposit, etc.

Individuals can also claim deductions towards repayment of home loan (for purchase or construction) as well as registration, stamp duty and other charges incurred for a buying a residential house property.

Section 80CCC provides a deduction to an individual for amount paid towards a pension fund of LIC or other insurance company**.**

Section 80CCD (1) allows a deduction for contributions made to Tier 1 account opened under National Pension System. This deduction can be upto ₹150,000 subject to it not exceeding 10% of the gross income for the year.

A unique thing about NPS is that there an exclusive and additional deduction available upto ₹50,000 under section 80CCD (1B) towards contribution made to Tier 1 account of NPS. This means one can contribute to Tier 1 account of NPS and avail deduction from income upto ₹200,000.

Across Sections 80C, 80CCC and 80CCD, taxpayers can claim a cumulative deduction of up to ₹200,000 per annum. It is not necessary for one to claim the maximum amount. But if you are liable to pay tax, it's better to invest in specified schemes and avail tax benefit as much as possible. This will not only reduce your immediate tax liability but will also help you to generate some additional income in coming years in form of interest, dividend etc.

Example:

Ramesh and Suresh are two friends, working in the same company earning similar income. Ramesh is lax about his financial planning whereas Suresh is well informed and particular about his planning and investments.

Let's compare their income tax payable at the end of the year.

Details	Ramesh	Suresh
Net taxable income	15,00,000	15,00,000
Investments under section 80C	0	1,25,000
Contribution to NPS	0	25,000
Tax payable	2,73,000	2,26,200

*All amounts in rupees (₹)

Suresh made a net saving of ₹46,800 on tax payable by investing ₹150,000.

One important thing to note here is that deduction under section 80C includes amount deducted from employee's salary towards provident fund. So if you are a salaried employee getting provident fund benefit, you may reduce the amount required to be invested to get the full benefit under section 80C, to the extent of amount deducted from your salary towards PF.

Health and disabilities

Section 80D provides deductions on payments towards premium for health insurance policies for self, spouse, dependent children, and parents. The deductions available are as follows, subject to a cap on an aggregate amount of up to ₹1,00,000:

- For self, spouse and dependent children: ₹25,000 (₹50,000 if the person insured is a senior citizen)
- For parents of the assessee: (additional) ₹25,000 (₹50,000 if the person insured is a senior citizen)
- Medical expenditure for senior citizen if no amount is paid in respect of health insurance: ₹50,000.

Section 80DD offers a deduction for expenses incurred for the medical treatment (including nursing), training and rehabilitation of a dependent with disability including autism, cerebral and other disabilities referred to in relevant laws. The deduction is also allowed on payment made to specified schemes for the maintenance of a dependent with a disability. Taxpayers can claim a deduction of up to ₹75,000 (₹1,25,000 in case of severe disability) per annum.

Section 80DDB allows a deduction for expenses incurred for the medical treatment of specified diseases such as Dementia, Parkinsons, AIDS subject to certain conditions. A deduction of up to ₹40,000 (₹1,00,000 if incurred for a senior citizen) is available per annum.

Section 80U provides a deduction for taxpayers who are certified by the medical authority as a person with a disability including autism, cerebral palsy and other specified disabilities. Individuals can claim a deduction of ₹75,000 (₹1,25,000 in the case of severe disability).

Example:

Let continue the earlier example of two friends Ramesh and Suresh.

In addition to earlier deductions, Suresh purchased health insurance for himself (premium of ₹25,000) as well as for his parents who are senior citizens (premium ₹50,000).

Let's compare their income tax payable at the end of the year.

Details	Ramesh	Suresh
Net taxable income	15,00,000	15,00,000
Investments under section 80C	0	1,25,000
Contribution to NPS	0	25,000
Health insurance for self and parents	0	75,000
Tax payable	2,73,000	2,02,800

All amounts in rupees (₹)

Suresh made a net saving of ₹70,200 on tax payable.

Donations and other contributions

Section 80G allows individuals to claim deductions on donations and contributions made towards approved funds, trusts and charitable institutions. The deductions allowed range from 100% of amount for major national causes such as PM CARES Fund, Prime Minister's National Relief Fund, Chief Minister's Relief Funds, National Defence Fund etc. Several other donations, including contributions to registered not for profit organisations, are qualified for a deduction of up to 50%.

Section 80GGC allows full deduction on the amount paid by individuals as a contribution to political parties or electoral trusts.

> "Taxes, after all, are dues that we pay for the privileges of living in a civilized society."
>
> Franklin D. Roosevelt

Summary and Limits for Deductions

Section	Description	Annual Deduction Limit (in ₹)
80C	Investment in stipulated instruments, payment of insurance premium, contribution to PPF, repayment of housing loan, etc.	1,50,000
80CCC	Contribution towards pension products offered by LIC or other insurers - up to ₹150,000	
80CCD	Employee's contribution towards a pension scheme - up to 10% of salary	
80D	Premium paid for medical insurance for self, spouse, and children	25,000 (50,000)[1]
	Premium paid for medical insurance for parents	25,000 (50,000)[1]
80DD	Expenditure on maintenance and medical treatment for dependents with a disability	75,000 (125,000)[2]
80DDB	Expenditure on medical treatment of specified serious diseases and ailments for self or dependents	40,000 (100,000)[1]
80U	Deduction for persons with disability	75,000 (125,000)[2]
80E	Interest paid on education loan (for up to eight years)	Full amount
80G	Donation to approved funds and charitable institutions.	100% or 50%
80GGC	Donation to registered political parties or electoral funds	100%

Notes: 1. Senior citizens 2. For severe disabilities

Tax Saving Instruments (TSIs)

As we have seen, Section 80C and other related sections of the Income Tax Act provide certain deductions for investments made in specified financial instruments. These instruments are popularly known as tax-saving instruments. However, while an individual's priority is to reduce their tax liability, it is important to make a planned and informed choice to make the most of these provisions.

How to choose TSI?

As with any investment decision, in addition to the risk factors associated with any investment and an individual's personal risk tolerance, selecting the right TSI boils down to two key variables that are relatively tangible and measurable to some extent:

Returns on Investment (ROI)

Earning returns is the most essential tenet of any investment. So, it makes natural sense to gauge and understand the returns that a specific investment yields. And while it is difficult to predict the future, past performance of the instrument combined with an analysis of the current market and an individual's financial needs can provide a reasonable picture.

Lock-in period

Certain investments come with a lock-in period during which an investor is not permitted to sell, pledge or hypothecate the investment for a specified duration. For example, tax-saving FDs have a lock-in period of at least 5 years, 3 years for ELSS funds and 15 years in the case of PPF. While this encourages individuals to stay invested for a long-term, it also has a direct bearing on an individual's ability to liquidate investments in case of a financial emergency. Hence, it is important to evaluate every investment on its lock-in period.

Few popular TSIs

Equity Linked Savings Scheme (ELSS): Also known as tax saving mutual fund, ELSS is an equity-based mutual fund offered by a registered Asset management Company (AMC). Linked to the equity market, it has the potential to earn smart returns and is recommended for people with a slightly higher appetite for risk. Investments up to ₹1,50,000 for a minimum duration of 3 years are eligible for deduction. Investors can use their existing Demat accounts to make investments in ELSS funds.

Public Provident Fund (PPF): It is one of the most popular tax-saving investment schemes offered by banks and post offices. It is a long-term investment with a lock-in period of 15 years with provision for partial withdrawal every year after 7 years. Individuals can contribute a maximum ₹1,50,000 every year subject to a cap of 12 deposits in a financial year. The best feature of PPF is the triple tax exemption it offers - on the amount of contribution, the interest earned and the proceeds upon maturity. However, this position may change from April 1, 2021. It is proposed in the budget this year that interest earned on PPF beyond ₹ 5,00,000 in a year, may be taxed.

National Pension System (NPS): It is a retirement-focused, long term investment option open to all Indian citizens between the age of 18 and 65 years. The basic idea behind NPS is simple but very powerful. Invest while you are earning and get regular income in the form of an annuity when you retire. Restriction on withdrawal before retirement actually provides a long time to allow the money to grow. There are many prudent restrictions about the avenues where money contributed by NPS subscribers can be invested by pension fund manager. This helps in generating a decent rate of return on the corpus.

NPS has two parts or two types of accounts –

Tier 1: It is actually a pension account which offers post-retirement fixed income with restricted withdrawal options. Contributions made to NPS Tier I account is eligible for an additional deduction of ₹50,000 under Section 80CCD. This is in addition to the deduction of ₹1,50,000 available under Section 80C.

Tier 2: This is an optional account. NPS subscriber may open it if they want. In simple terms, it works like a relatively cheaper mutual fund where money can be withdrawn as and when needed. However, it offers no tax benefit.

National Savings Certificate (NSC): This is an old government offered savings scheme available through post offices. It is a fixed income tax saving instrument. It is a relatively risk-free tax saving investment with moderate returns. NSC is advisable for those looking for a guaranteed and safe return.

Sukanya Samriddhi Yojna: A small deposit scheme was launched by government to promote the all-round development of the girl child. Sukanya Samriddhi Account can be opened at most Post Offices or many banks by the parent or guardian of a girl child before she turns 10 years. This account requires a minimum annual deposit of ₹250 with a maximum limit of ₹1,50,000 per annum eligible for tax deduction. The Interest on the deposit is compounded annually. Interest earned as well as maturity payment, both are fully exempt from tax. Interest on this scheme is reset by government on a quarterly basis. It is generally higher than the prevailing FD rates. While the tenure of this scheme is 21 years, deposits can be made for 15 years only.

Unit Linked Insurance Plans (ULIPs): A combination of insurance and investment, ULIPs are offered by insurance companies. These are eligible for tax deduction for a maximum sum of ₹1,50,000 per annum under section 80C. ULIPs can have a lock-in period between 3 to 5 years during which a portion of the investment is allocated to provide life insurance, the balance to equity or debt instruments. The gains from a ULIP upon maturity are exempt from tax.

TSIs, Wealth Creation, and You

Role of TSIs in wealth creation

At the heart of the reason we work is a dream of a financially stable life for our families and ourselves after retirement. However, transforming that dream into a vision requires a certain corpus and some financial planning. What we have described here is also the process of wealth creation. It is a methodical and gradual process where multiple components work in sync with each other to optimise the accumulation of wealth. And where legal provisions are availed and the money itself is put to work - or invested. So, if certain investments can be made with the dual benefit of saving taxes and/or generating income, it accelerates the process of wealth creation substantially.

And that is why it is good to plan and start early.

It is fairly common to see many people scamper around during the last weeks of the financial year to incur their tax saving expenses (like life insurance or medical insurance) or to make their tax-saving investments (like contributions to PPF or NPS). And while these also help save taxes, such last minute efforts prevent individuals from making the most of all the various avenues offered by the Income Tax Act. Planning and starting early offers the following benefits:

- Investing early in the financial year allows individuals to make informed choices without rushing into a decision. It also accumulates the interest for the entire year.
- Last minute and forced investments within a short period of time can cause a cash crunch. This can be particularly difficult for salaried individuals because it can disrupt other financial commitments like rent, loan repayments and EMIs.
- Also, long-term and planned investments are known to be more resilient as compared to short-term investments which can be volatile and more prone to market shocks.

And finally, there's the power of compounding, a golden principle which broadly suggests that wealth grows exponentially if gains and returns are ploughed back and reinvested thus leading to wealth creation in the long-term.

Remember you can keep many of the investments in demat account such as mutual fund units, tax saving bonds. Keeping them in demat form will save you from the need to take care of papers, associated risk of misplacement or loss of papers. Moreover, interest or dividend earned on these investments is directly credited to your linked bank account. Now even insurance policies can be kept in electronic form. To know more about how to keep insurance policies in electronic form, you may visit https://nir.ndml.in/.

How to avail various deductions?

It is very important to note that mere investing in specified schemes etc. may not be sufficient to avail the tax benefit. You need to claim the deduction actually while filing income tax return. For certain deductions, your employer may ask for evidence of payment made by you to allow tax deduction. So do remember to submit the documentary evidences as required by your employer. In case you have not done this already or missed to provide some document or have invested in some specified scheme after the date informed by your employer, you can still claim the deduction at the time of filing income tax return. In case, you have already paid income tax (due to TDS by employer), excess amount may be claimed as refund.

Investing made easy by NSDL Payments Bank

NSDL Payments Bank, a subsidiary of NSDL, is based on a singular objective of making banking simple for everyone. So much so that it's mobile app, NSDL Jiffy has become one stop shop for all banking needs. Be it savings account opening, fund transfer, online bill payments, mutual fund investments, all this can be done in just a few clicks.

The reasons one should prefer NSDL Payments Bank for mutual fund investments:

- Through NSDL Jiffy app, one can keep a regular track of the ELSS fund's performance.
- On NSDL Jiffy one can see a list of top-performing funds, thus decision-making becomes simpler.
- Easy transfer of funds from Savings account to mutual fund account.

Investing in mutual funds, including ELSS funds, is simple on NSDL Jiffy app. All one must do is follow the below steps:

- Log in to your NSDL Jiffy account. In case, one does not have an account, create one using your Aadhaar and PAN Card for KYC purposes.
- Go to the mutual fund section, Fill in all the required details in the personal profile and FATCA form.
- Click on Equity ELSS funds and pick the ELSS fund you wish to invest in and
- Finally, choose between SIP or Lumpsum.

Amendments to NSDL Business Rules - OTP for off-market transfer

As per a recent amendment, Transfer of securities in respect of off market trades shall be effected on receipt of a duly filled in securities transfer instruction form from the Clients for delivery and after obtaining client's consent through One Time Password (OTP). In case the client has a joint account, any one holder may provide such consent through OTP.

Reference: Circular No. NSDL/POLICY/2020/0163 dated December 26, 2020 available on NSDL website.

Acceptance of Delivery Instructions through Demat Gateway

It is now mandatory for the client to specify the settlement number and settlement date at the time of providing the pre-trade authorisation/mandate. Mandate provided for multiple ISINs shall not lapse if the debit is effected only for one mandate received from client. Mandate should be for a single settlement number/date. The same cannot be exercised before or after the given settlement date.

Reference: Circular No. NSDL/POLICY/2021/0007 dated February 4 2021 available on NSDL website.

Download NSDL Jiffy: https://jiffy.page.link/TFK_Newsletter

Simplification of process for e-Voting by shareholders

SEBI has directed that e-voting facility should be available to all demat account holders by way of a single login credential. Starting June 1, 2021, demat account holders will not be required to register and create separate login IDs for different e-Voting service providers (ESPs). All demat accounts should ensure that their mobile number and email IDs are correctly recorded in their demat account.

Reference – SEBI's circular - https://www.sebi.gov.in/legal/circulars/dec-2020/e-voting-facility-provided-by-listed-entities_48390.html.

Join Our Investor Awareness Webinars

NSDL conducts Investor Awareness Programs (IAPs) throughout the country to ensure investors are aware of different aspects of investing. In view of the prevailing situation, NSDL is continuing the investor awareness programs in form of webinars. The schedule of the forthcoming programs/ webinars is published online at https://nsdl.co.in/Investor-Awareness-Programmes.php.

Prior registration is required for joining the webinar. Link for registration is available along with schedule.

We shall be happy to conduct IAP for your organization / institute / society. Please write to us at info@nsdl.co.in for such requests.

Forthcoming Investor Awareness Programs

Sr. No.	Date	Timing	Topic	Language
1	03 April 2021	10.30 a.m. - 12.00 p.m.	Introduction to Securities Market	English
2	03 April 2021	05.30 p.m. - 07.00 p.m.	Investing in Gold - Why and How for retail investors	Hindi
3	09 April 2021	05.30 p.m. - 07.00 p.m.	Understanding Different Asset Classes	English
4	10 April 2021	10.30 a.m. - 12.00 p.m.	Introduction to Securities Market	Hindi
5	10 April 2021	05.30 p.m. - 07.00 p.m.	How to Buy and Sell shares in stock exchange?	Hindi
6	16 April 2021	05.30 p.m. - 07.00 p.m.	Investing in Mutual funds - Why and How for retail investors	Hindi
7	17 April 2021	10.30 a.m. - 12.00 p.m..	Introduction to Securities Market	Marathi
8	17 April 2021	05.30 p.m. - 07.00 p.m.	Understanding Margin Requirements	English
9	23 April 2021	05.30 p.m. - 07.00 p.m.	Importance of Insurance	English
10	24 April 2021	10.30 a.m. - 12.00 p.m..	Introduction to Securities Market	English
11	24 April 2021	05.30 p.m. - 07.00 p.m.	Pledge and Margin Pledge	English
12	30 April 2021	05.30 p.m. - 07.00 p.m.	Investing in Gold - Why and How for retail investors	English

More the education, more the prudence

Knowledge Wins Contest [redacted]

ELSS or Equity Linked Savings Scheme is Another Name For?

To send your replies: visit/click www.nsdl.co.in/knowledge-win-contest.php
or
Scan this QR code

25 Lucky Winners
get
FREE GIFTS

Previous Month's Winners

Ajay Tiwari - Jaipur
Dhana Sekaran - Salem
Gajendra Singh Arya - Jaipur
Gunjan Gupta - Delhi
Kalaivani Gunasekaran - Krishnagiri
Shahid Gouri - Chittorgarh
Kamlesh Teli - Nimbahera
Kanhaiya Gurjar - Karauli
Kathiresh - Thirupur

Lakashey Pajnee - Delhi
Loknath Mishra - Jaipur
Manoj Kumar - Delhi
Mukesh Kumar - Prayagraj
Purvak Jain - Sagwara
Pusha Kumari - Muzaffarpur
Pushpa Yadav - Jaipur
Rachit Sharma - Lucknow
Ragendra Singh - Kanpur

Ravi Shankar Gupta - Banda
Rekha Gupta - Delhi
Sudesh Kumar - Saharsa
Udita Jain - Satara
Vikas Rastogi - Bareilly
Vijay Kumar - East Champaran
Vinod Goswami - Bhilwara

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For any grievance related to Demat account, you can email us at relations@nsdl.co.in
For any other information related to Demat account, you can email us at info@nsdl.co.in

Terms & Conditions : 1) NSDL shall be solely responsible for the execution of this Contest. 2) This Contest is open to Indian Citizens only. 3) NSDL employees are not allowed to participate in this contest. 4) All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
5) NSDL reserves the right to discontinue the contest at any given point of time without prior intimation. 6) All winners shall be selected by NSDL and the decision taken will be final.

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