Investment Options beyond Section 80C

As the deadline for investments related to tax savings nears, individuals should look at various options to save tax under the **Income-tax Act, 1961. Section 80C** offers a tax deduction of Rs 1.5 lakh for investment in five-year bank/post office deposits, contribution to Public Provident Fund, Employees' Provident Fund, life insurance premiums, investment in ELSS and ULIPs and tuition fees for two children. However, there are other sections also that give you additional tax-saving exemptions besides **Section 80C**.

National Pension System

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An individual can claim an addition deduction of Rs 50,000 a year by investing in **National Pension System (NPS)** under Section 80CCD (1b). This deduction is above Rs 1.5 lakh under 80C. So, by investing in NPS, a taxpayer can claim deduction of up to Rs 2 lakh in a financial year. Also, if an employer puts 10% of an employee's salary in NPS, then that amount will also get tax exemption. On the other hand, investments in EPF and PPF also get tax deduction of Rs 1.5 lakh under **Section 80C**. In NPS, 40% of the total accumulated corpus has to be compulsorily used to buy annuity at retirement and is tax-exempt. Now, only the monthly or quarterly annuity income from NPS is taxed.

After the recent government's decision to completely exempt tax on returns from NPS after maturity, it has definitely become an attractive long-term investment to build retirement corpus. Though the Finance Bill, 2019, (Interim Budget) did not mention about the tax exemption, it is likely to be incorporated in the full Budget.

A series of regulatory changes by PFRDA on NPS have made the retirement product not only the cheapest in terms of cost structure, but has also given investors ample choice to construct his portfolio according to his risk appetite.

Investors can now allocate up to 75% in equities in the active choice option. Higher equity exposure will benefit young investors as equity tends to give higher returns over a longer period of investment. All NPS investors have earned double-digit returns in the past five years.

Health insurance

Under **Section 80D**, health insurance premium of up to Rs 25,000 paid for self, spouse and children will qualify for deduction. Also, health insurance premium and medical expenditure incurred for parents would get tax exemption of up to Rs 30,000 a year.

Medical treatment or rehabilitation of handicapped dependent children can be claimed as tax deduction up to Rs 75,000 under Section 80DD of the I-T Act. Also, one can claim deduction of up to Rs 5,000 for preventive health check-up for self. However, this will be within the overall limit of Rs 25,000.

Education loan

Tax deduction can be claimed for interest repayment of education loan under Section 80E of the I-T Act. The loan taken for a bank or non-banking financial company should be for higher education (including vocational as well as regular courses) of self, spouse or children. The deduction will be only on the interest paid during the financial year. No tax benefit is allowed for the principal repayment. There is no limit on the maximum amount that is allowed as deduction.

The deduction for the interest on loan will start from the year in which the repayment begins. The tax deduction will be given for eight years starting from the year in which one starts repaying. If the loan tenure exceeds eight years, then one cannot claim tax deduction for the interest paid beyond eight years.

Donations to approved charitable institutes

Donations to trusts, charitable institutions and approved educational institutions will entail tax exemption under Section 80G of the I-T Act. The exemptions can be up to 50% or 100% of the donations made. Funds in which the donations are eligible for tax exemptions include the National Defence Fund, Prime Minister’s Drought Relief Fund, National Foundation for Communal Harmony, National Children’s Fund, Prime Minister’s National Relief Fund, etc.

Also, 100% deduction is given for donations made to National Fund for Control of Drug Abuse. Similarly, donations made to Swachh Bharat Kosh and Clean Ganga Fund will also qualify for full deduction from the total income. Any monetary contribution to any political party or electoral trust is eligible for tax exemption. To get exemption, one should not pay in cash for over Rs 10,000.

Source courtesy: TaxGuru