LAST-MINUTE OPTIONS TO SAVE

Parking your money in ELSS, infra bonds, PPF or buying an insurance cover can still help you cut down on your tax outgo

Partha Sinha | TNN

January-February-March is that period of the year when most taxpayers often begin to panic. This is because for the first nine months of the financial year a large number of them fail to budget in the taxes they have to pay the government on what they earn during the year. So the need to look for investment options that can help them save on taxes also increases during this period. Here are some of the options that can help you do exactly that.

Equity linked savings schemes

These are the schemes offered by most mutual fund houses. You can invest up to Rs 1 lakh per annum in ELSS to get this amount deducted from your taxable income. These schemes also come with a three-year lock in. This means after you invest in an ELSS to get the tax benefit, you can not withdraw the amount within the next three years. Since investors' money is locked in ELSS for at least three years, often it is found that ELSS perform better than other equity funds, although new research is challenging this notion.

While you invest in these instruments, it would be a wise idea to consider starting monthly or quarterly SIPs in these funds also. In that way, there is a higher chance that next year around the same time, you will not be forced to shop for investment options to save taxes at the last minute.

Life insurance policy

You can buy a life insurance policy and the premium paid on that would be tax deductible. Often, it is seen that since a person is buying a policy in a hurry during this time of the year, he ends up buying a cover that is not exactly suitable for his future financial goals. So, it is advisable to go through the policy document in detail and consult your financial adviser to choose the best one before you sign that cheque.

Illustration: Ram

Public Provident Fund

This is one of the most popular tax saving options for investors. This is a 15-year scheme of the government where the interest accrued is tax free. However, interest in a PPF account is not paid to the account holder every year, but adds to the total corpus, and at the end of the term the account holder gets a lump-sum.

Late last year, the maximum amount you could put in a PPF account each year was increased to Rs 1 lakh. For years, the rate of interest on PPF was fixed. But in December the government has said that from now on every year the rate will change.

Pension plans

There are pension plans from mutual funds and life insurance companies that one can invest in to claim tax deductions. However, at present due to some lack of clarity about IRDA rules governing pension products, life insurance companies are not selling new policies. Some select fund houses, however, continue to sell pension products since their products are governed by Sebi rules. Last week, Sebi chairman U K Sinha even encouraged mutual fund houses to launch more pension products. One of the main advantages of pension products from a mutual fund house is its cost advantage, which directly adds up to the returns for the investors in these plans.

Infrastructure bonds

In his budget speech in 2010, finance minister Pranab Mukherjee gave taxpayers a new option to save up to Rs 20,000 every year by investing in notified bonds of infrastructure finance companies. Popularly called infrastructure bonds, several companies are launching these bonds.

While IDFC and L&T Infrastructure Finance have already launched several tranches of these bonds (some are currently open), some other companies, including Srei, are also tapping taxpayers' money.

When you invest in these bonds, check the credit ratings of the bonds assigned by the ratings agencies. Higher the company's ratings, lower is the risk associated with the bonds. These bonds also come with a lock-in period of five years, which means one cannot sell these bonds for five years after investing in them. You can avail of the annual interest-payment option or the cumulative option. Under the second option, at the current rate of interest, your initial investment would more than double at the end of the 10-year tenure. So, you will not get any money every year.

Each year you can claim deduction of up to Rs 20,000 from your income by investing in these bonds. This is over and above the Rs 1 lakh you are allowed to invest in select instruments to save on tax.

Although you can claim tax deductions on your initial investments in these bonds, the interest that you earn every year is not tax free. Every year when you file your returns, the interest income from infrastructure bonds should be included in your income.

There are several other options to save on your taxes every year. But not all are suitable for investing at the last moment. For example, you can claim tax deductions on the amount of principal paid within your total home loan payment. Similarly, you can also claim deductions of up to Rs 1.5 lakh every year on interest paid on housing loans. But these are not the options you can consider when you have less than three months to get your finances in place. For pension, you can also look at Nations Pension Scheme (NPS), but that is also a regular investment option, and not an instrument to invest in a hurry.

For you as a taxpayer, the ideal situation is that you complete your tax planning at the start of the financial year, that is in April, and not at the start of the calendar year, that is in January.