Investment Opportunities Under Section 80C of the Income Tax Act

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Abstract

Savings is the need of the hour, not only for retirement but also for emergencies. The Covid-19 pandemic has proven the importance of savings. By savings, means to invest so that our money grows over a period of time for meeting future needs. The questions then which would come to our mind, regarding investments decisions would be: Where should I invest? Will my money be safe? Would I have enough corpuses at my retirement? Which investment would give me good returns? Are my returns going to be taxable?

Section 80C of the Income tax Act could give us some answers to these questions. 80C of the Income Tax Act can be seen as investment opportunity:

1. *If investments are made on a long-term basis*
2. *If maximum amount is invested at the proper time*
3. *Money invested is claimed as a deduction and*
4. *Tax benefits on returns at maturity*

An individual can gain maximum benefits if the above concepts are understood properly.

The Finance Bill 2020, brought in a new tax structure called the New Tax Regime, where an individual would have to forego all deductions and certain exemptions. The Finance Bill 2020 also allowed the old tax structure to continue called the Old Tax Regime. The amount invested under 80C is available as a deduction only if one is filing returns under the old tax regime. Returns on 80C investments are quite attractive because at maturity, some of these returns are fully tax free. The paper intends to highlight these aspects covered under section 80C of the Income Tax Act.

Keywords: *Savings, Investments, Deduction, Exemption, Old and New Tax Regime, Tax Benefits*

Caution

The paper is an effort to enhance the knowledge regarding tax benefits on returns on investments made under section 80C of the Income Tax Act. The author cautions readers that:

1. the tax rules/data specified in this paper will change from time to time

2. to seek tax consultant's opinion /advice before investing
3. to check with your tax consultant, the prevailing investment and tax rules at the time of investing
4. Readers should use their own discretion and judgment while investing
5. The author is not responsible for the investment decisions made by the readers

Objectives

1. To give guidance in planning 80C investments
2. To help in taking appropriate decisions regarding 80C investments
3. To understand the tax implications of the 80C investments and on their returns
4. To gain maximum tax and maturity benefits from the 80C investment decision
5. To understand how retirement corpus can be built through 80C investments

Scope & Limitations

1. Limited only to four investments under 80C
2. Limited only to 80C investments& contributions made by an employee as an individual
3. Limited to investments made by individuals who have not completed 60 years of age (i.e., not yet Senior Citizens)
4. Decision of investment depends on individual's financial capacity to make the investment
5. Tax rules are subject to change from time to time

Introduction

There is old word of wisdom which goes like this ***"Save for the Rainy Day"***. Well, this wisdom has come true in this time of Covid 19 pandemic where a lockdown was imposed world over. The effect of this lock down was that small businesses and companies closed down thereby people losing their jobs and source of income. Big business and companies who survived the lockdown, sacked employees because of inadequate business and those who were retained, were continued with reduced income. In this situation, those who had savings by means of investments, have to some extent been able to survive the lockdown. Given this scenario, it becomes important for those who are starting their career or in the midst of their career, to understand the importance of savings not only for the rainy day but also at the time of their retirement and emergency situations. The question then comes to mind is: Where should I invest? Will my money be safe? Would I have

enough corpus at my retirement? Which investment would give me good returns? Are my returns going to be tax free?

In the light of this situation, the paper intends to understand the need for savings and the investment opportunity that are available under Section 80C of the Income Tax Act, 1961.

Budget 2020-21- New Tax Regime

The New Tax Regime with concessional rates of tax was introduced by the Government of India in Budget 2020-21. Along with the concessional rates of tax, Budget 2020-21 at the same time also allowed the old tax rates to be continued and call it the Old/Existing Tax Regime. **Individuals have a choice of selecting the Existing or New tax regime at the time of filing the returns for Assessment Year (AY) 2021-22.** Deduction under 80C can be claimed only if an individual opts for the Old/Existing Tax Regime in a financial year. If individual opts for the New Tax Regime, then he/she will not be able to claim deduction under 80C. Under New Tax Regime, deductions and certain exemptions are to be foregone by an individual.

Income Tax Rate & Slab for Individuals

Which Tax Regime is better: OLD or NEW?

Let us first understand the tax rates under the old and new tax regime. The income tax rates for Individual (Resident or Resident but not Ordinarily Resident), who is less than 60 years of age as on the last day of the relevant previous year are as follows:

Taxable Income (Rupees)	Tax Rate (Old/Existing Scheme)	Tax Rate (New Scheme) From AY 2021-22
Up to ₹ 2,50,000	Nil	Nil
₹2,50,001 to ₹5,00,000	5%	5%
₹5,00,001 to ₹7,50,000	20%	10%
₹7,50,001 to ₹10,00,000	20%	15%
₹10,00,001 to ₹12,50,000	30%	20%
₹12,50,001 to ₹15,00,000	30%	25%
Above ₹15,00,000	30%	30%

(**Source:**https://www.incometax.gov.in/iec/foportal/help/individual/return-applicable-1#taxslabs)

In order to file his/her income tax returns for AY 2021-22, an individual will have to first compute his/her tax liability under old and new tax regime and then decide which tax regime is beneficial to him/her.

Introduction to Section 80C of the Income Tax Act

Section 80C of the Income Tax Act, 1961is the most popular, common & widely utilized deduction by individuals. It specifies the various investments which are allowed as deductions in one financial year from the Gross Total Income. Some investment options under Section 80C of the Income Tax Act are given below:

	Investments allowed as deductions u/s 80C (not an exhaustive list)
1	Public Provident Fund (PPF)
2	National Pension System (NPS)
3	Equity-Linked Savings Scheme (ELSS)
4	Sukanya Samriddhi Yojana (SSY)
5	Employees Provident Fund (EPF)
6	National Savings Certificates (NSC)
7	Fixed Deposits (FD)
8	Housing Loan
9	Tuition Fees
10	Insurance Premium Paid
11	ULIP

(**Source:**https://www.policybazaar.com/income-tax/tax-saving-investments/)

Some returns on above mentioned 80C investments are fully exempted from income tax on maturity

80C investment reduces taxable income maximum up to Rs. 1,50,000 from the gross total income in a financial year thereby reducing the tax payable. This is illustrated by means of an example below.

Example:	
	Rs
Assuming Gross Total Income to be Less: Deduction under Chapter VI A (-) Maximum Investments U/s 80C	**11,50,000** (-) 1,50,000
Taxable Income	**10,00,000**
Tax saved by investing under 80C ₹1,50,000 x 30% + 4% Health & Education Cess	 45,000 1,800
Tax Saved	**46,800**

From the above example, it can be seen that an individual can save tax up to a maximum of Rs.46,800 if invested under section 80C

I. Public Provident Fund (PPF)

Introduction

In 1968, the Finance Ministry's National Savings Institute introduced PPF to the Public for the first time. Since then, PPF has emerged as a powerful investment to create long-term corpus/wealth for investors. PPF is one of the most popular long-term retirement saving schemes which focuses on savings for retirement and accrued returns on investments. PPF is guaranteed by the Government of India and is hence considered as one of the most-safest investment products. As a result, PPF gives an added advantage of safety, returns and tax savings benefits.

How to open PPF Account

An Indian citizen can open PPF account with Post Office/Nationalized Banks/some Co-operative and Private Banks with just Rs.100. Contributions either by way of cash, cheque, demand draft or through an online fund transfer can be made in PPF account. The account can be opened only in the name of one individual. PPF cannot be opened in joint names. NRI's cannot open PPF account. If an Indian citizen opens a PPF account and subsequently becomes an NRI, then he or she will be allowed to continue the account till maturity. After that, no further extension will be allowed to Indian citizen turned NRI. A parent or a guardian can open PPF on behalf of a minor. At the time of opening the PPF account or subsequently, an account

holder can designate a nominee for his/her account.

Benefits of PPF Account

Subscribers use the PPF as an instrument to build a corpus for their retirement by putting aside regular sums of money, over long periods of time. PPF is a big favourite with individual investors because of its attractive interest rates and tax benefits. The government decides every quarter the rates of interest for PPF account. For the quarter 1 April 2021 to 30 June 2021, the government has fixed the interest rate at 7.10% p.a.

In one financial year an subscriber can deposit a maximum amount of Rs.1,50,000 in PPF account. The amount deposited in PPF is deductible under Section 80C of the Income Tax Act. Deposits beyond Rs. 1,50,000 is not allowed in PPF account. On maturity the entire matured amount is tax free. It follows the EEE rule i.e., Exempt-Exempt-Exempt.

Tenure and Withdrawal

The maximum tenure for PPF account is 15 years which can be extended in a block of 5 years. The lock in period for PPF account is 5 years before partial withdrawal is permitted. PPF withdrawal is permitted only once per financial year. Subscribers cannot withdraw the entire balance out of PPF account before maturity. The maximum withdrawal permitted is 50 percent of the balance at the end of the fourth financial year or 50 percent of the balance at the end of the preceding year, whichever is lower.

A subscriber can get loan against PPF. The subscriber can fully withdraw only upon maturity i.e., after the completion of 15 years.

Timings of investment

The interest on PPF balance is credited to PPF account only on 31st March every year but interest on PPF account is calculated on a monthly minimum balance. The following points to be noted:

1) In order to earn maximum interest, a PPF subscriber should deposit contributions or the entire lump sum contribution by the 5th of the month. This means that in order derive at the monthly balance on which the monthly interest will be calculated on PPF deposit, the amount deposited in PPF A/c up to the 5th day of the month only will be considered but withdrawals made on any date during the month will be taken into account.

2) This means that deposits made in PPF account after 5th of each month will not be considered for interest calculation, but any withdrawal made from 1st to the end of the month will be considered and subscriber will lose interest on the withdrawn amount.

3) A minimum contribution of Rs.500 has to be made in a PPF account each year while the maximum amount that can be deposited is Rs.1,50,000.

Ideally, in order to earn maximum interest from investment in PPF account, the maximum amount Rs. 1,50,000 should be deposited in PPF account between 1 to 5 April of the relevant financial year.

II. National Pension System (NPS)

Introduction

The National Pension System (NPS) is a post retirement social security scheme of the Government of India with an objective of developing a sustainable and efficient voluntary defined contribution pension system in India. NPS is a long-term investment plan for retirement and is regulated by Pension Fund Regulatory and Development Authority (PFRDA).NPS can be opened by employees working in public, private and unorganised sectors. NPS cannot be opened by those working in the armed forces. The account can be opened by all Indian Citizens between 18 to 70years.NPS subscribers are allotted a Permanent Retirement Account Number (PRAN). PRAN is a 12-digit number which is unique and identifies individuals who have registered themselves under the NPS. Because of its uniqueness a PRAN once allocated cannot be changed for the subscriber throughout his/her lifetime. NPS subscribers can receive a physical copy of their PRAN on a PRAN card.

NPS is a low cost, tax-efficient, flexible and portable retirement scheme, whose returns vary in the range of 8% to 10%. The savings in NPS create a **Retirement Corpus** (Pension Wealth) through a basket of investments like Equity **(E),** Corporate Bonds **(C)** Govt. Securities **(G)** and Alternate Assets **(A)** commonly known as **E, C, G and A**

Models in NPS

NPS accounts are primarily based on two models viz:

I. **NPS All Citizens' Model:** In this model, an NPS account is held by an individual who is the subscriber i.e. account holders. The account holder is the only contributor. An individual can join and avail tax benefits of a maximum Rs.50,000 in a financial year under Section 80 CCD(1B) of the Income Tax Act. In addition, a deduction of Rs.1,50,000 is also available u/s 80CCE of the Income Tax Act. Thus, the total deduction available under this model is Rs. 2,00,000

ii. **NPS Corporate Model:** In the corporate model, the employer (Corporate -PSU's & Private

Companies) chooses to offer NPS scheme to their employees as a retirement benefit plan. In this model, both the employee and the employer are contributing to the same NPS account. The employer contributes a certain amount to the employer's NPS account on his/her behalf. Contribution of the employer should not exceed 10% of the employee's basic and dearness allowance. This additional tax benefit in a year can be available under Section 80 CCD(2) of the Income Tax Act. This also is in addition to the deduction of Rs.1,50,000 available u/s 80CCE of the Income Tax Act.

Subscribers to NPS have a choice of deciding where the subscription can be invested. There are two choices viz:

a. ***Active Choice:*** In this choice, the subscriber would decide on the percentages and asset classes in which the contributed funds are to be invested.

b. ***Auto Choice:*** This is a default choice, in which the management of investment of funds is done automatically based on the age profile and income of the subscriber.

Tiers in NPS

Subscribers have the option to open two types of NPS Accounts under the same PRAN. These are called tiers in NPS. All the tax benefits discussed above are over and above the existing deductions under Section 80CCE limit of Rs.1,50,000 and are only available under the NPS Tier I account. NPS provides two types of accounts: Tier I and Tier II. Tier I is mandatory retirement account, whereas Tier II is a voluntary saving account associated with PRAN.

Tier I: Contributions under this account are eligible for additional tax deduction benefit of up to ₹50,000/- under section 80CCD (1B), over and above Rs.1,50,000/- u/s 80C. So, the total tax deduction available is Rs.2,00,000. Withdrawals are restricted and subject to terms and conditions. Withdrawal before maturity under Tier I can be made only after completion of 3 years from date of opening the NPS a/c.

An initial minimum contribution of Rs.500 is required under Tier I at the time of opening an account & Rs.6,000 (Rs.500 per month) in a financial year and if not contributed, the account will be frozen. To unfreeze the account, a penalty of Rs.100 will be levied and the total minimum contribution for the period of freeze has to be paid.

Tier II: It is voluntary savings facility available as an add-on to any Tier I account holder. An additional amount can be invested by subscribers in Tier

II NPS Account. At any time subscriber is free to withdraw his entire accrued corpus under Tier II. **Tax benefits are not available in this account.** An initial minimum contribution of Rs.1,000 is required under Tier II at the time of opening an account. There is no minimum balance requirement or minimum annual contribution for an NPS Tier II account. There was previously a minimum balance requirement of Rs. 2,000 at the end of each financial year, but this was removed by the PFRDA in 2016. However, if subscribers do contribute, the minimum amount is Rs. 250.

Nomination facility of up-to 3 nominees for Tier I & II are available. If nomination is changed subsequently, charges of Rs. 20 plus applicable service tax for each request will be levied. After death of the subscriber, corpus would be returned to the nominee.

Tax implications on withdrawals from NPS

On maturity, 60% of the corpus can be withdrawn as a lump sum and the balance 40% is compulsorily annuitized, i.e. in order to receive a regular pension from a PFRDA-registered insurance firm, a subscriber after retirement must use 40% balance to purchase an annuity (pension). As per the choice of annuity that is available in the market/with the ASPs, the subscribers is able to purchase the annuities directly from the empanelled Annuity Service Providers (ASP)

Withdrawal Conditions

a. **Upon attainment of age of 60 years:** In case of withdrawal of NPS due to superannuation (maturity), the current NPS taxation rules stipulate that 60% of the amount can be withdrawn without payment of any tax. The remaining 40% of the NPS withdrawal has to be mandatorily used to purchase annuities to provide for the monthly pension. However, annuity pay outs are taxable in the financial year of pay out according to the slab rate of the individual investor. If the total corpus is not exceeding Rs. 2 lakhs, the subscriber will have the option to withdraw the entire corpus in lump sum.

b. **Upon Death (irrespective of cause):** In case of death of the subscriber, the entire accumulated pension wealth (100%) would be paid to the nominee/legal heir of the subscriber and there would not be any purchase of annuity /monthly pension. The nominee, if so wishes, has the option to purchase annuity of the total corpus.

c. **Exit from NPS before attainment**

of age of 60 years (irrespective of cause): In this case, the subscriber needs to purchase an annuity of at least 80% of the accumulated pension wealth to provide for the monthly pension and the balance 20% is paid as a lump sum payment to the subscriber. In case of premature exit, the lump sum withdrawal (20%) is taxable as per the applicable slab rate in the year of withdrawal. The remaining 80% of the corpus has to be mandatorily converted into annuities and is taxable as per the slab rate of the annuitant in the year of pay out. After completing a minimum 10 years in NPS, the subscriber can exit from NPS. If the total corpus is not exceeding Rs.1 lakhs, the subscriber will have the option to withdraw the entire corpus in lump sum.

It is important to note that, three withdrawals are permitted during entire NPS tenure for meeting specific financial needs of the subscriber like children's education / their marriage or purchase of house, medical treatment and so on. However, the partial withdrawal is permitted only after completion of three years in NPS

Recent Proposed Changes

Due to the current covid-19 pandemic, the government is in the process of bringing changes in the NPS rules. According to the current rule, the subscribers can withdraw 60% of the contributions and at least 40% of the contributions have to be mandatorily used to purchase government approved annuities. Further NPS subscribers can withdraw up to Rs. 2 lakh lump sum from their NPS account. Amid the second wave of corona virus pandemic, the regulatory body is proposing to allow the retired people to withdraw their entire lifetime contributions. PFRDA may soon permit NPS subscribers to withdraw their entire money at one go if pension corpus is up to Rs.5 lakh. This would provide relief to many pensioners.

The Government also has recently approved the proposal of streamlining the National Pension System (NPS). To make NPS more attractive to the investors and bring it at par with the Public Provident Fund (PPF) and Employees Provident Fund (EPF) in terms of taxability. Contribution by the government employees under Tier II NPS account will be covered under Section 80C of the Income Tax Act, 1961. The deduction of Rs.1,50,000 will also include Tier II NPS contribution along with EPF, PPF, provided the lock-in period is of 3 years.

III. Equity-Linked Savings Scheme (ELSS)

Introduction

Equity Linked Saving Scheme or ELSS is a type of mutual fund scheme that primarily invest in the stock market or Equity. Under section 80C of the Income Tax Act, Investments in ELSS will be eligible for deduction up to Rs.1,50,000. The advantage of ELSS is that, it has the shortest lock-in period of 3 years. This means that one can sell ELSS investment after 3 years, from the date of purchase. However, in order to maximise returns from ELSS funds, one must keep investments intact for the maximum possible duration. The portfolio of ELSS mostly consists of equities, while they may have some exposure towards fixed-income securities as well. Since ELSS is equity-based investment, the returns are in the range of 12% to 15% depending upon market fluctuations

Benefits and Tax Implications on ELSS

ELSS has a twin benefit of tax deductions and wealth creation.

The redemption proceeds of ELSS are not entirely tax-free. The long-term capital gains of up to Rs. 1,00,000 a year are tax-free, and any gains above this limit attracts a long-term capital gains tax at the rate of 10% plus applicable cess and surcharge. Any dividends received from ELSS investments are added to your overall income and taxed as per income tax slab rate

IV. Sukanya Samriddhi Yojana (SSY)

Introduction

Sukanya Samriddhi Yojana (SSY) is a government-backed savings scheme as part of the **'Beti Bachao, Beti Padhao Yojana'** for the benefit of the girl child. A parent or a guardian can open only one SSY account in the name of one girl child and maximum two SSY accounts in the name of two different girl child. To be eligible for opening a SSY account, the maximum age of a girl child cannot be more than 10 years. However, a grace period of 1 year is allowed. SSY has tenure equal to the time the girl child is 21 years of age.So, the lock-in period for SSY is 21 years. It allows a premature closure of the account upon the marriage of the girl child after her attaining the age of 18 years.

How to open an SSY account

The account can be opened in any authorised bank branch or a post office branch. A parent can make deposits in the account till the completion of a period of fifteen years from the date of opening of the account. Failure to make payments as per the chosen frequency can lead to deactivation of the account. It can then be revived

only after paying a penalty of Rs.50 along with the missing payments. The minimum contribution is Rs.250 and a maximum contribution is Rs.1,50,000 in a financial year.

Benefits and Tax Implications on SSY

SSY is scheme which is beneficial to the girl child and the scheme is specially meant for meeting girl child's higher education expenses or to meet the financial expenses during her marriage after her attaining the age of 18 years.The interest rate is set by the government every quarter. For the first quarter of 2021-22 i.e. 1 April 2021 to 30 June 2021, the interest rate for SSY is fixed at 7.60% p.a.

The amount deposited in SSY account is eligible for deduction under section 80C of the Income Tax Act. The maturity amount under SSY is fully exempted from tax. It follows the EEE rule i.e., Exempt-Exempt-Exempt.

Conclusion

There is a belief that wise people in employment, look forward to an independent retired peaceful life. Further they foresee rainy days and make investments accordingly. For this purpose, they financially secure their future by investing wisely while they are still in employment.

It is true that rainy days, and unforeseen circumstances cannot be predicted except retirement which will definitely come. We have to be prepared financially for these days. In fact, those who were prepared financially have survived the lockdown, pandemic and retirement.

On retirement or like the current pandemic situation, for many regular monthly income will/may stop but expenses on food, clothing, shelter, medical and other maintenance expenses will never stop! In fact, these expenses, especially medical expenses after retirement will keep on increasing due to aging health issues. We would be left to ourselves to find alternative sources of income and means for survival and would face difficult challenges if we have not planned our retirement corpus wisely. At this point in time, all wise investment decisions taken by us while in employment to build a retirement corpus wealth will only come handy. The corpus wealth generated at retirement from these investments can be used to invest in schemes which would give fair amount of monthly income which would be helpful to meet the regular expenses of survival. Higher the retirement corpus, higher income will be generated. This corpus wealth generated under 80C in some cases is fully tax free besides getting 80C deduction when invested/deposited. 80C investments provide an opportunity to build a retirement corpus if investments are planned wisely. To conclude, investment under 80C is a good opportunity to gain long term retirement benefits.

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