

# HANDBOOK TO INVESTMENT DECLARATION

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## 1. Introduction

As soon as the new financial year begins, employers start requesting for investment declaration from employees. Basis your declaration your projected tax out go for the year is calculated and your monthly pay is adjusted.

At this stage, actual proofs are not required. Only information is required about deductions and exemptions that you want to claim.

## 2. Tax Saving Investments to consider for FY 2016-17

Nature	What to declare	Maximum tax benefit available
To claim HRA	Monthly Rent, Landlord's PAN	Check from HRA calculator
To claim 80C deductions	PPF investments, ELSS purchases, Life Insurance Premium, School Tuition fees, Sukanya Samridhi account deposits, NSC purchases, repayment of home loan principal, Employee's EPF contribution	Rs 1,50,000
To claim 80D deduction	Medical Insurance premium	Rs 25,000 for self Rs 30,000 for parents
Home loan Tax benefit	Interest portion of EMI for the financial year	Rs 2 lakhs for self-occupied property and no limit for rented property
NPS tax benefit Section 80CCD(1B)	NPS investment for the year	50,000
Tax benefit on Education Loan 80E	Interest payout for the year	No monetary limit

### 3. FAQs

**Why does my employer want to know my investment details?**

The employer needs this information to calculate your annual taxes and adjust your monthly salary accordingly.

**How do I benefit from this declaration?**

If you declare your tax saving investments, your in hand salary will be higher, as it will include effect of deductions. You can make actual investments anytime during the year.

Do spend time planning your investments, it helps keep last minute TDS surprises at bay.

**Can I change this declaration later?**

Yes, at this stage you are only asked about your intent to save taxes. Your actual tax savings may turn out to be different.

A final adjustment based on actual proof submission is made sometime between January and March of next year.

**I don't know what my final investments will look like?**

The initial few weeks of a financial year are important if you want to be diligent about taxes. Planning in advance will help spread your investments through the year. And put you in top gear for making the most of your tax savings.

## 4. Example

**This example explains how Aditya planned his taxes and made a tax saving declaration to his employer for FY 2016-17.**

Aditya works with Super Ltd in New Delhi. He lives on rent and receives HRA of Rs 20,000. His annual salary is Rs 10 lakhs. Super Ltd has sent an email to its employees asking them to make an investment declaration. Aditya needs some help planning his taxes. We found out Aditya is paying a rent of Rs 30,000. He is also making a life insurance premium payment of Rs 15,000 every year.

Aditya is 27 years old and is planning to invest in ELSS during this year. He plans to set aside Rs 8,000 every month and start an ELSS SIP. Aditya has heard a lot about NPS in the past year and plans to open an NPS account this year.

### **Let's help Aditya submit his investment declaration!**

A maximum of Rs 1.5 lakhs can be claimed under section 80C and Aditya wants to maximize this section as it will help him save a lot of tax. Life insurance premium payments are eligible under section 80C. ELSS investments are also eligible under section 80C.

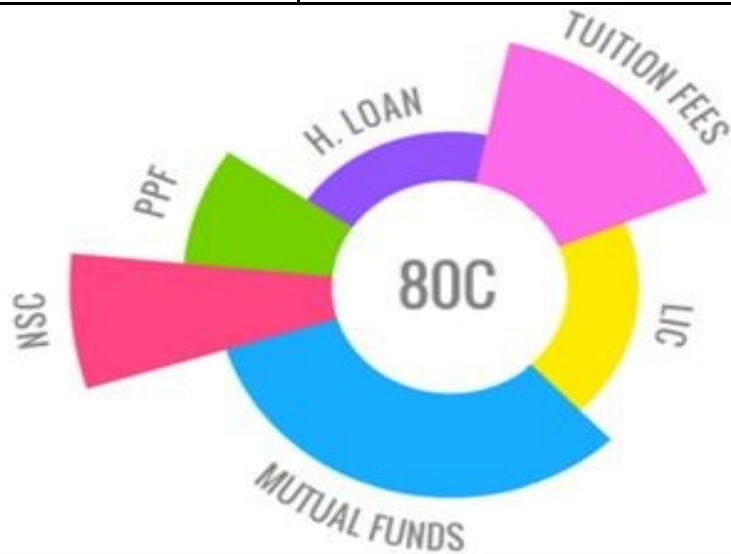
Since he is planning to make a monthly SIP of Rs 8,000, it will total up to Rs 96,000 for the whole year. Therefore, out of Rs 1.5 lakhs, Aditya has planned for  $\text{Rs } 96,000 + 15,000 = \text{Rs } 1,11,000$  for the year.

A colleague told Aditya, contribution to EPF made by him are also eligible under section 80C. Aditya's basic salary is Rs 50,000, therefore his monthly EPF contribution shall be Rs 6,000. Annual contribution is Rs 72,000. Therefore, with LIC premium, ELSS and EPF contributions Aditya will be able to exhaust Section 80C and he declares these to his employer.

Aditya is interested in opening an NPS account and therefore he decides to declare Rs 50,000 under section 80CCD(1B). Since, Aditya is receiving HRA and also lives on rent. He declares his monthly rent of 15,000. Also he decides to claim Rs 15,000 worth of medical bills as his company allows him medical reimbursements.

## Aditya's final tax declarations

Nature	Declared	Tax saved
HRA	Monthly Rent of Rs 15,000	Rs 10,000 x12 = Rs 1,20,000
80C	Life insurance premium Rs 15,000 ELSS Rs 96,000 EPF Rs 72,000	30% of Rs 1,50,000 = Rs 45,000 (Aditya is in the highest 30% bracket)
NPS 80CCD(1B)	NPS investment of Rs 50,000	30% of Rs 50,000 = Rs 15,000 (Aditya is in the highest 30% bracket)



### Tax with and without declaration

Particulars	No declaration	Declaration	Comments
	<b>Taxable component</b>	<b>Taxable component</b>	
Basic Salary	6,00,000	6,00,000	
HRA	2,40,000	1,20,000	Declared a rent of Rs 20,000
Medical Reimbursement	15,000		Declared to submit bills
Special allowance	1,45,000	1,45,000	
<b>Total</b>	<b><u>10,00,000</u></b>	<b><u>8,65,000</u></b>	
<b>Deductions</b>			
80C		1,50,000	ELSS, LIC Premium, EPF
80CCD (1B)		50,000	NPS
<b>Less Total deductions</b>		<b><u>2,00,000</u></b>	
<b>Tax outgo</b>	<b><u>1,28,750</u></b>	<b><u>59,740</u></b>	For calculations, use Easy Source's income tax calculator

## 5. Analysis of Tax Savings Products

Product	Return	Safety	Lock-in period	Tax Treatment**	Minimum and Maximum investment	Guide to action
PPF	8.1% *	Secure	15 years	Exempt	Rs 500 min and Rs 1,50,000 max	For long term, risk free, secure investment
EPF and VPF	8.75% *	Secure	Up to Retirement	Withdrawals prior to 5 years taxable	12% of basic for EPF. No restriction for VPF	Mandatory for employees, contribution eligible under section 80C
Tax saving Bank FD	varies 7%-8% *	Secure	5 years	Interest is taxable	Rs 100 min and Rs 1,50,000 max	Best for Senior Citizens with high exemption limit
NSC	8.1%	Secure	5 years	Interest is taxable	Rs 100 min and no max limit	Risk free but average returns
ELSS	Market linked/ fund performance	High Risk	3 years	Exempt	Min Rs 500, Max no restriction	Recommended for those with some risk appetite. Stay invested for 5-7 years horizon.
Ulips	Market linked/ fund performance	High Risk	min 5 years	Exempt	Min Rs 500, Max no restriction	High fund charges and not a great insurance product.
Pension Plans	Market linked/ fund performance	Medium Risk	Restricted	Exempt	Min Rs 500, Max no restriction	Low liquidity
NPS	Market linked/ fund performance	Low Risk	Withdrawals from TIER I on retirement	Withdrawals are taxable	Min Rs 6,000 for TIER I, Rs 2,000 for TIER II. Max Rs 50,000 for TIER I to get tax benefit	Attractive tax benefits under section 80CCD(1B), but low liquidity
Sukanya Samriddhi Account	8.6% *	Secure	50% after girl child is 18 years old. Maturity at 21 years or at the time of marriage of girl child.	Exempt	Rs 1000 min and Rs 1,50,000 max	For long term, risk free, secure investment and high returns. Recommended for girl child

\* For April to June quarter, to be revised each quarter

\*\* Returns and withdrawals

## 5.Quick reference 80C deductions

Section	Deduction on	FY 2016-17	FY 2015-16
Section 80C	<ul style="list-style-type: none"> <li>→ Investment in PPF</li> <li>→ Employee's PF contribution</li> <li>→ NSCs</li> <li>→ Life Insurance Premium payment</li> <li>→ Children's Tuition Fee</li> <li>→ Principal Repayment of home loan</li> <li>→ Investment in Sukanya Samridhi Account</li> <li>→ ULIPS</li> <li>→ ELSS</li> <li>→ Sum paid to purchase deferred annuity</li> <li>→ Five year deposit scheme</li> <li>→ Senior Citizens savings scheme</li> <li>→ Subscription to notified securities/notified deposits scheme</li> <li>→ Contribution to notified Pension -Fund set up by Mutual Fund or UTI</li> <li>→ Subscription to Home Loan - Account Scheme of the National Housing Bank</li> <li>→ Subscription to deposit scheme of a public sector or company engaged in providing housing finance</li> <li>→ Contribution to notified annuity Plan of LIC</li> <li>→ Subscription to equity shares/ debentures of an approved eligible issue</li> <li>→ Subscription to notified bonds of NABARD</li> </ul>	Rs 1,50,000	Rs 1,50,000



<b>80CCC</b>	For amount deposited in annuity plan of LIC or any other insurer for pension from a fund referred to in Section 10(23AAB).		
<b>80CCD(1)</b>	Employee's contribution to NPS account		
<b>80CCD(2)</b>	Employer's contribution to NPS account	Maximum up to 10% of salary (no monetary ceiling)	Maximum up to 10% of salary (no monetary ceiling)
<b>80CCD(1B)</b>	Additional contribution to NPS	Rs 50,000	Rs 50,000
<b>80TTA</b>	Interest Income from Savings account (not applicable on interest income from fixed deposits)	Maximum up to 10,000	Maximum up to 10,000
<b>80GG</b>	For rent paid when HRA is not received from employer	Least of - Rent paid minus 10% of total income  Rs. 5,000 per month  25% of total income	Least of - Rent paid minus 10% of total income  Rs. 2,000 per month  25% of total income
<b>80E</b>	Interest on education loan	Interest paid for a period of 8 years	Interest paid for a period of 8 years
<b>80EE</b>	Interest on home loan for first time homeowners	Rs 50,000 (in addition to Rs 2	Nil

		lakhs) provided conditions laid down are fulfilled	
<b>80CCG</b>	Rajiv Gandhi Equity Scheme for investments in Equities	Lower of 50% of amount invested in equity shares or Rs 25,000	Lower of 50% of amount invested in equity shares or Rs 25,000
<b>80D</b>	Medical Insurance: Self, spouse, children	Max Rs 25,000	Max Rs 25,000
	Medical Insurance: Parents more than 60 years old OR (from FY 2015-16) claim medical expenses for uninsured parents more than 80 years old	Max Rs 30,000	Max Rs 30,000
<b>80DD</b>	Medical treatment for handicapped dependent or payment to specified scheme for maintenance of handicapped dependent	Rs 75,000	Rs 75,000
	Disability is 40% or more but less than 80% Disability is 80% or more	Rs 1,25,000	Rs 1,25,000
<b>80DDB</b>	Medical Expenditure on Self or Dependent Relative for diseases specified in Rule 11DD For less than 60 years old	Lower of Rs 40,000 or the amount actually paid	Lower of Rs 40,000 or the amount actually paid

	For more than 60 years old	Lower of Rs 60,000 or the amount actually paid	Lower of Rs 60,000 or the amount actually paid
	For more than 80 years old	Lower of Rs 80,000 or the amount actually paid	Lower of Rs 80,000 or the amount actually paid
<b>80U</b>	Self-suffering from disability Individual suffering from a physical disability (including blindness) or mental retardation.	Rs 75,000	Rs 75,000
	Individual suffering from severe disability	Rs 1,25,000	Rs 1,25,000