Top tax saving investment options in India

Tax Saving investments are the flavor of the season as we approach the end of financial year 2018-19. For most of us, Tax Planning is one such activity that we keep procrastinating till the end of the financial year. Though there are smart ways to get around the tax trap and save your hard earned money, however prudent planning is the need of the hour.

Tax planning in India is a process which should be started in the early quarters of the financial year so that there is time to sketch out a prudent tax saving strategy. By starting early, there are chances that each option is weighed properly before investing in. However, a common practice in India is to choose an investment option just for the sake of availing tax benefits.

Some of the common factors to consider while choosing a tax saving option is:

- Maximum Tax Saving
- Minimum Risk
- Low cost of investment
- Reasonable Returns

Before we discuss on the top tax saving investment instruments, let us throw light on the most lucrative section of the Income tax Act 1961, Sec 80C. The most obvious reason for making 80C investments is Tax Savings. You can claim up to Rs. 150,000/- deduction from your gross taxable income by investing an equivalent amount in ELSS or other eligible 80C schemes and thereby end up saving up to Rs. 46,800- in taxes (for investors in the highest tax bracket) .

Some of the common 80C investment instruments include:

Life Insurance – This investment instrument is a wise option since it offers dual benefits – covers the risk of your life and the premium paid for regular life insurance policies qualifies for tax deduction under Sec 80C up to the extent of 10% of the sum assured (other than contract for deferred annuity). Some of the different kinds of life insurance plans available are:

(1) Term Plan (2) Endowment Plan (3) Unit Linked Insurance Plans (ULIPs) (4) Money Back

Public Provident Fund (PPF) – Contributions made towards PPF offers tax benefits of up to Rs 1.5 Lakh under Sec 80C. The interest earned and received during the me of maturity is tax free. PPF is suitable investment op on for conserva ve investors who want surety of returns and safety of capital. Though it is the most suitable investment op on, a lock-in of 15 years; where you can withdraw once a year, from the 7th year onwards with certain condi ons makes it least favorable for investors looking for shorter dura on.

Fixed Deposit for 5 Years – Unlike conven onal FDs, deposits in these are exempt from taxa on, under the Sec on 80C of the Income Tax Act 1961 (An exemp on of up to Rs 1.5 lakh). However, the minimum lock-in in these fixed deposits are for 5 years for tax planning in India.

Equity Linked Savings Scheme (ELSS) – ELSS in mutual fund is one of the most preferred tax saving instruments in India as per financial pundits for two major reasons, (i) Its equity based, and (ii) It has the shortest lock-in period compara vely. Being market linked, ELSS are high on risk parameter however;they have the poten al to offer be er returns.

Another important parameter which makes it the most preferred investment instrument in India is, investments in ELSS can be made in small propor ons through SIP instead of paying a lump sum altogether.

Conclusion: For an Indian investor planning to save income tax, the above men oned instruments are amongst the few that are on offer u/s 80C of the IT Act 1962. Depending upon dura on and the risk appe te, one can choose his instruments wisely.