UTI Mutual Fund

The ABC of tax planning

UTI SWATANTRA

An investor education initiative

INDEX

Decoding tax planning

TAX! – A simple three-letter word can be a major cause of your financial worries. Taxes reduce your take-home income. Unfortunately, you can't ignore them. But fortunately, you can minimise them.

How?

Through tax planning!

As the name suggests, tax planning refers to planning your taxes. In simple words, tax planning is organizing your finances with the aim of saving tax. It involves making the most of the exemptions and deductions available under the Income Tax Act, 1961 in order to lower your tax liability.

To plan your taxes, you must:

- **Know your total income as well as your taxable income**
- **Know your tax bracket**
- **Avail of the deductions and exemptions available**
- **Make tax-saving investments**

Exemptions, deductions and tax slabs – The must-knows!

When you start tax planning, you need to know about the exemptions and deductions that the Government of India allows to reduce your taxable income. You also need to be aware of the income tax slabs according to which you would be taxed.

Let's look at the exemptions and deductions first and then move on to the tax slabs.

Exemptions and deductions:

The various sections under Chapter VI-A of the Income Tax Act, 1961, such as 80C, 80D, 80CCC, 80CCD, etc., allow you to claim tax exemptions and deductions to lower your tax liability. Certain components of your salary structure, such as house rent allowance (HRA), leave travel allowance (LTA), etc., along with expenditures like donations, loan interests, insurance premiums, and more, qualify for income tax deductions and exemptions under different sections. Here are some examples of the deductions that can help lower your tax outgo:

Section 80C

- Investments in a Public Provident Fund (PPF)
- Employee's share of PF contribution
- Life insurance premiums
- Children's tuition fee
- Home loan principal repayment
- Premiums paid for ULIPs (Unit Linked Insurance Plans)
- Amount paid towards subscription to National Saving Certificate
- Amount paid towards subscription to Equity Linked Savings Scheme of Mutual Funds

Section 80CCC	Deduction on the amount deposited in an annuity plan of LIC (Life Insurance Corporation) or any other insurer for receiving pension
Section 80CCD(1)	Up to (i) in the case of an employee, 10% of his salary in the previous year or in case of any other assesse, 20% of gross total income in the previous year subject to overall limit of Rs. 1.5 lakh of the contribution to NPS (National Pension Scheme).
Section 80CCD(2)	Employer's contribution to NPS subject to specified limits.
Section 80CCD(1B)	Additional contribution by an assessee to NPS (up to Rs. 50,000)
Section 80EE	Interest on home loan for first-time homeowners whose loan has been sanction between 01st April 2016 to 31st March 2017 by a bank/housing finance company (up to Rs. 50,000)
Section 80TTA(1)	Interest income to an assessee other than senior citizen, from a savings account with a banking company/co-operative society carrying on the business of banking or post office (up to Rs. 10,000)
Section 80TTB	Exemption for senior citizens on interest earned from a savings account with a banking company/co-operative society carrying on the business of banking or post office (up to Rs. 50,000)
Section 80GG	Deductions in respect of rent paid when no HRA is received from the employer
Section 80D	Medical insurance, preventive health check-up and medical expenditure for self, spouse, parents, or children, as applicable.
Section 80DD	Deduction for maintenance including medical treatment for dependents with specified disability/severe disability (Rs.75,000/- / Rs. 1,25,000/-)
Section 80DDB	Medical expenditure on self or dependent relatives for diseases mentioned under Rule 11DD (upto Rs.40,000/- and Rs.1,00,000/- in case the expenditure is incurred for senior citizen)
Section 80E	Interest on education loan
Section 80U	Deduction of Rs.75,000/- / 1,25,000/- for an assessee suffering from specified disability/severe disability
Section 80GGC	Contribution by individuals to political parties
Section 80G	Donations to certain funds, charitable institutions, etc.

The aggregate of deduction under section 80C, 80 CCC and 80 CCD(1) cannot exceed Rs.1,50,000/- in an assessment year.

It may be noted that the above deductions are available to the category of persons as mentioned in the provisions of the Income Tax Act and are subject to compliance of certain conditions and limits as laid down in the relevant sections pertaining to the deductions under the Income Tax Act, 1961.

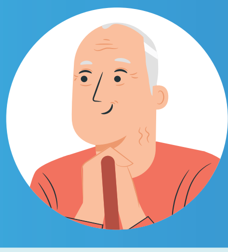
New Tax Regime

The Finance Act 2020 has provided an optional tax regime under section 115BAC for the taxpayers, wherein they can opt for lower tax rates after foregoing specific exemptions/ deductions/ tax benefits as mentioned therein. The list of tax benefits required to be foregone amongst others includes the benefits under Chapter VI-A (other than section 80 CCD) of the Income Tax Act 1961. If the taxpayer does not opt for the new tax regime, he/ she can continue to avail of all the tax benefits, as discussed above subject to the relevant provisions.

Income tax slabs

You have to pay tax as per the income you earn. The Government of India presently offers two taxation egimes with different tax slabs. You can choose either one as per your needs.

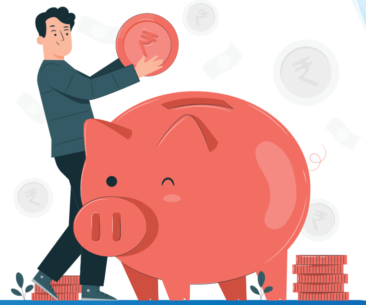
Here are the different tax slabs under the two tax regimes

	Old tax regime for taxpayers			New tax regime for all age groups
	Below the age of 60	Between the age of 60 and 80	Over the age of 80	
Income tax slabs				
Below Rs. 2.5 lakh	0	0	0	0
Rs. 2.5 lakh to Rs. 3 lakh	5%	0	0	5%
Rs. 3 lakhs to Rs. 5 lakh	5%	5%	0	5%
Rs. 5 lakhs to Rs. 7.5 lakh	20%	20%	20%	10%
Rs. 7.5 lakh to Rs. 10 lakh	20%	20%	20%	15%
Rs. 10 lakh to Rs. 12.5 lakh	30%	30%	30%	20%
Rs. 12.5 lakh to Rs. 15 lakh	30%	30%	30%	25%
Above Rs. 15 lakh	30%	30%	30%	30%

Note: Keep in mind that if you opt for the new tax regime, you cannot claim certain deductions and exemptions.

Understanding popular Section 80C investments

Under Section 80C of the Income Tax Act, 1961, you can claim a tax deduction of up to Rs. 1.5 lakh for qualified investments and expenses incurred during a financial year*. These include:

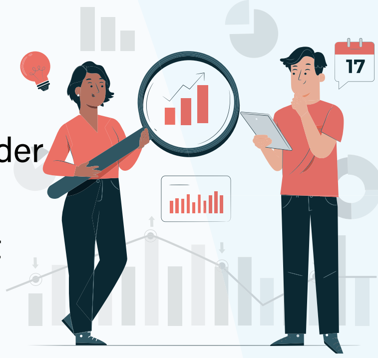


Life Insurance Premiums	Life insurance plans offer financial protection to you as well as your loved ones in your absence. The premiums you pay can be claimed as a deduction.
Public Provident Fund (PPF)	This is a long term savings-investment account with safe returns and tax benefits.
Sukanya Samriddhi Yojana	This is a savings scheme offered by the Government of India for parents of girl child below the age of 10. The scheme matures after 21 years from the date of opening the account or till the girl's marriage after she turns 18 years.
Five Year Bank Deposit	Fixed deposits are a fixed income investment option that can be opened with a bank. A 5-year deposit can be used as a tax-saving tool.
Home Loan Principal Repayment	The repayment amount of the principal on a home loan is eligible for a tax deduction.
Stamp Duty and Registration Charges	Stamp duty and registration charges associated with the purchase or construction of house property can be claimed as a tax deduction.
Senior Citizens Savings Scheme	This is a savings scheme offered to the senior citizens of the country.
National Savings Certificate (NSC)	This is another fixed-income investment scheme that can be opened with a post office.

*The old tax regime allows you to save tax on investments up to Rs.1.5 lakh per annum, under Section 80C of the Income Tax Act, 1961. However, you will not be able to claim such a deduction and other deductions if you opt for the new tax regime.

ELSS vs the rest

The following table brings out the distinctive features and benefits of ELSS and other similar investment options under Section 80C. It can help you understand the differences between the various types of investment plans and select the product best suited to your financial objectives:



Growth of Rs. 1.5 lakh invested each year for last 10 years (Rs. 15 lakhs in total) in various tax-saving avenue

Particulars		PPF	NSC	FD	ELSS Category Average
Investment to save tax every year on 1 April (since 2012 to 2022)		Rs. 1.50 lakh	Rs. 1.50 lakh	Rs. 1.50 lakh	Rs. 1.50 lakh
CAGR over the last 10 years		6.97%	6.90%	5.81%	16.41%$
Investment Value as of January 31, 2022		Rs. 21.89 lakhs	Rs. 21.82 lakhs	Rs. 20.54 lakhs	Rs.37.07 lakhs
Features					
Lock-in-period		15 Years	5 Years	5 Years	Perpetual with 3 years lock-in
Liquidity		Premature withdrawal allowed*	Not Available	Not Available	Any day post the completion of the lock-in period##
Yearly returns range**	Lowest	7.10%	6.80%	5.40%	-23.86%
	Highest	8.80%	8.60%	9.25%	71.18%
	Average	8.13%	8.01%	7.13%	18.39%
Risk profile		Low	Low	Low	Moderate to High
Mode of contribution		Lumpsum / Monthly#	Lumpsum	Lumpsum	Lumpsum/SIP
Taxation on withdrawals		Interest accrued is Tax-free	Interest accrued is taxable	Interest accrued is taxable	LTCG taxable @ 10%

As you can see, ELSS comes out as one of the best options in several aspects.

DISCLAIMER

Source: For FD rate - Fixed deposit rates of SBI, For NSC & PPF - Ministry of Finance, For ELSS - MFI Explorer

Above comparison of various 80c options are purely for understanding of these investment options and is not an offer to sell or a solicitation to buy/ sell any mutual fund units / securities. The information / data here in alone are not sufficient and should not be used for the development or implementation of an investment strategy. The same should not be construed as investment advice to any party.

Assuming that the said investments (lump sum) are made on 1st April of each year from 2012 to 2021 in each of the tax savings options as mentioned above.

ELSS - Average returns of 25 funds (having full 10 years track record) in the ELSS category (growth option) has been considered for calculation of returns. Past performance may or may not be sustained in future.

$ ELSS category returns based on the average returns over the 10 years period, there was high variation in returns among different schemes with higest & lowest CAGR being 18.87% & 10.91% respectively.

* Premature withdrawal under PPF is available from 7th financial year. However, the full amount can be withdrawn after 15 years.

**Based on the last 10 years return history of respective tax-saving options

#Cannot exceed 12 contributions in a financial year.

##3 years lock-in for each of the investments made.

Long term capital gains (LTCG) accrued from selling equity shares and equity-oriented mutual funds are exempt from tax up to Rs 1 lakh in a financial year. The gains in excess of Rs 1 lakh are taxed at flat 10%

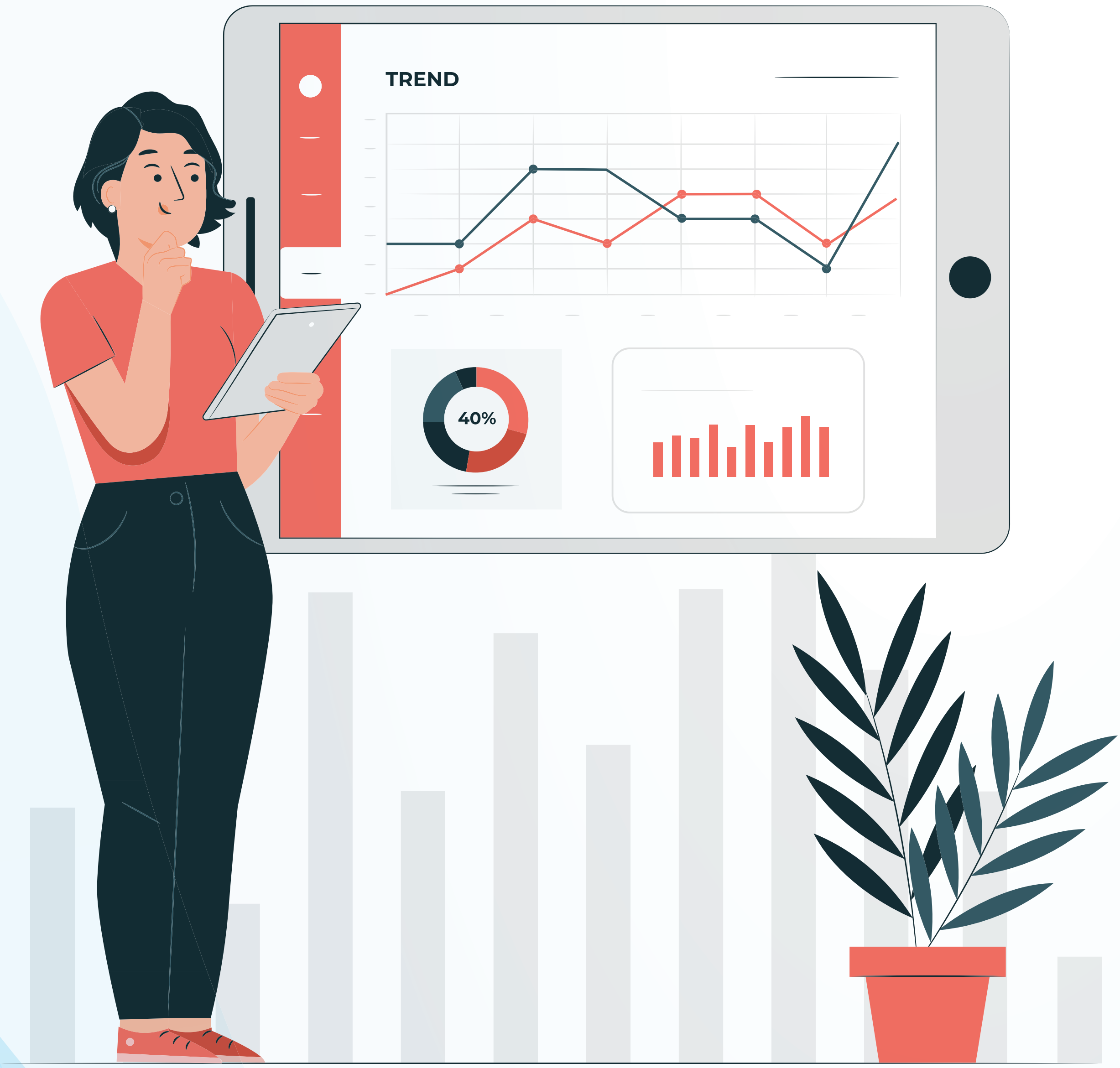
SIP - Systematic Investment Plan; CAGR - Compound Annual Growth Rate

Data as of January 31, 2022

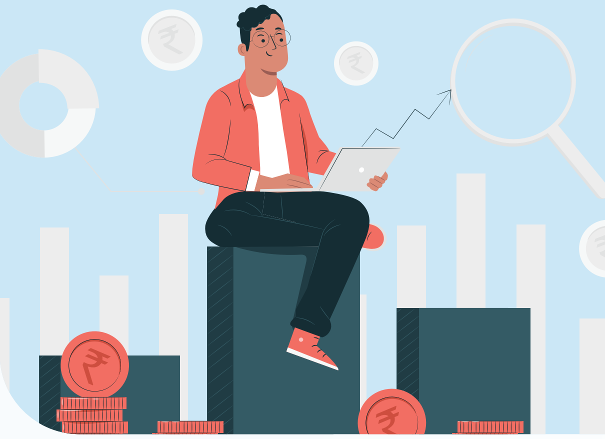
Wait...There's more! Keep reading

Taking a closer look at ELSS

Equity Linked Savings Scheme or ELSS can help you reduce your taxable income by up to Rs. 1.5 lakh per annum. Thus, if you are in the highest tax bracket, you can save up to Rs. 46,800* in taxes in a year. ELSS is a type of Mutual Fund scheme that invests a major part of its funds in Equity or Equity-related products. It is a diversified Equity scheme that invests across market capitalisations, sectors, themes, etc. Thus, ELSS helps introduce a layer of diversification in investment portfolios.



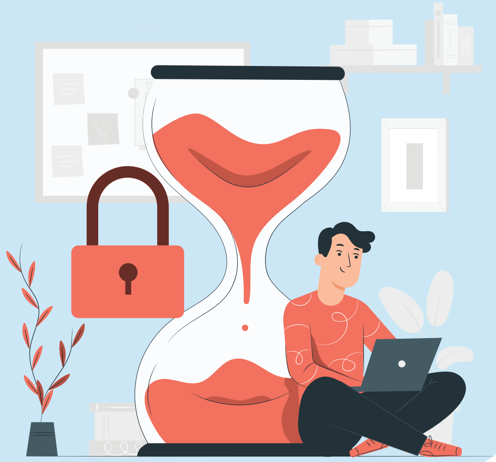
Risk-return profile



ELSS is considered to be a moderately high-risk investment. But since it is an Equity Fund, it may have the potential to perform and deliver in the long run. You can start investing in ELSS with an amount as low as Rs. 500*, and go up as your income and future goals increase.

Lock-in period

ELSS has a three-year lock-in period. Lock-in implies that you cannot redeem your funds or transfer your fund's units to another scheme during this time span. However, compared to other tax-saving tools such as the NPS, PPF, ULIP, bank deposit etc., the lock-in period in ELSS is the shortest. Thus, it offers more flexibility and liquidity.

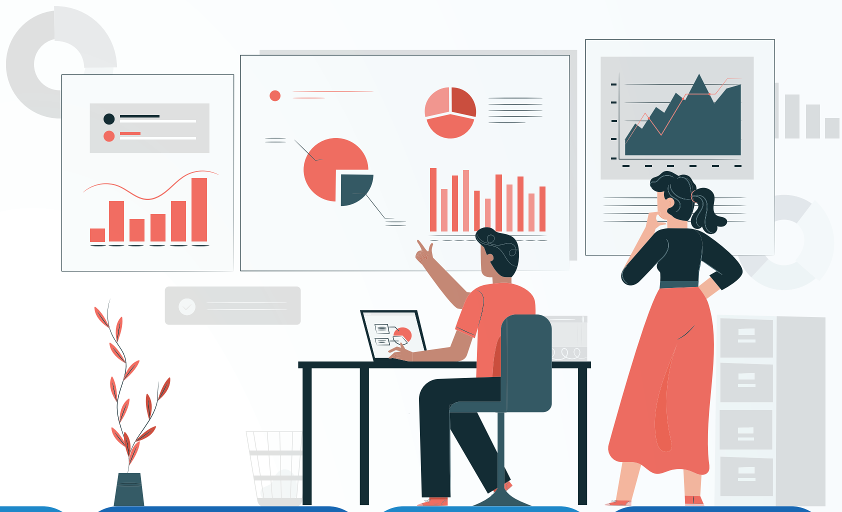


Mode of investing

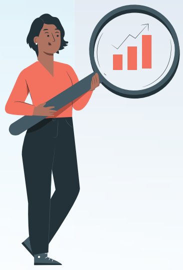
Another useful feature of ELSS is that it allows you to choose between a Systematic Investment Plan (SIP) and a one-time lump sum investment. SIPs can be a viable option if you do not have a large sum of money to invest at once. However, if you do have a surplus of funds, you can make a lump sum investment in ELSS.

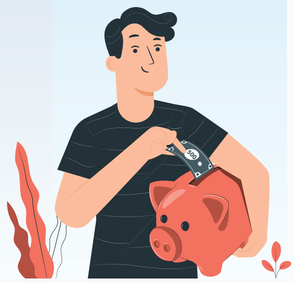
*On the investment of Rs.1.5 lakh per annum for the highest tax bracket of 30%, under Section 80C of the Income Tax Act, 1961. (As per prevailing tax laws).

Reasons why ELSS makes for a smart choice



Tax-efficient	Shortest lock-in period	Potential to generate higher returns	Balance between risk and reward	Minimum investment
You can claim tax deductions on your investment of up to Rs. 1.5 lakh per annum.	As compared to other investments, ELSS has the shortest lock-in period, offering easier access to the invested funds. Though, to benefit from its return potential, it is advisable to stay invested for the long term.	The returns from ELSS, the highest as compared to other similar investment options, may help you counter inflation.	The risk factor depends on the market conditions. But the high return potential may help balance out the risks.	The minimum investment of Rs. 500** can easily fit into every budget.





*Rs 1.5 lakh is the overall limit of tax deductions allowed under Section 80C.

**The minimum SIP amount may vary across AMCs or schemes. Please refer to the Scheme Information Document of the respective scheme/s.

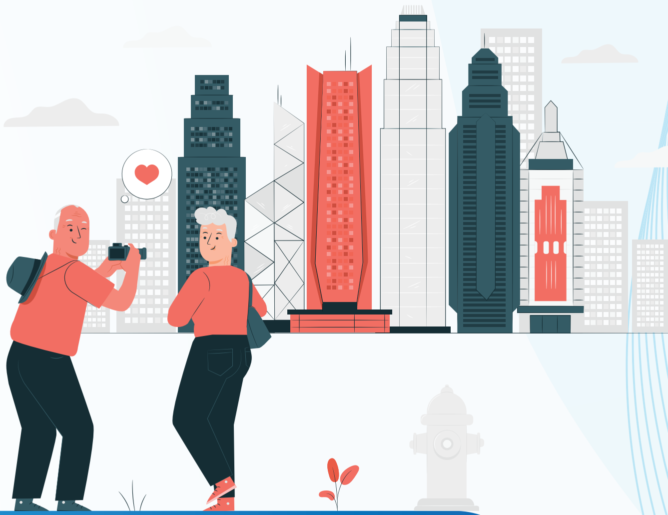
ELSS: Hit two birds with one stone

ELSS investments allow you to enjoy the dual benefits of wealth creation and tax savings. The return potential of Equity provides better opportunities to create wealth. The tax-saving feature, on the other hand, may ensure that you do not lose excess money in taxes.

ELSS fits into retirement planning too

Due to the short lock-in period, ELSS may seem like an effective short-term investment. But it is, in fact, preferred for retirement planning. The longer you stay invested, the higher are your chances of creating wealth since Equities are known for performing in the long run.

While building your retirement funds for tomorrow, you can save tax with ELSS today. Besides, with ELSS, you can choose the SIP route and invest in small instalments over 20-25 years. This will allow you to feel lighter on your pocket. You will not block all your money at once. Thus, ELSS may help you generate a savings pool for retirement comfortably over time.



Here's an example of how long-term investments through SIPs can help you secure your retirement.

Monthly SIP amount	Rs. 12,500	Rs. 12,500
Investment tenure	25 years	25 years
Assumed returns	10%	12%
Total investment	Rs. 37.5 lakh	Rs. 37.5 lakh
Investment value	Rs. 1.6 crore*	Rs 2.1 crore*

*Amount not adjusted for inflation and tax

*The above illustration is based on monthly SIP investment with an assumed annual rate of 10% & 12%. The above figures are only for illustration purposes for understanding the concept and based on the assumed rate of return. No Mutual fund scheme guarantees any returns and investment in mutual fund schemes is subject to market risk. For SIP calculations above, it is assumed that the investment is made on the 1st day of every month or subsequent business day. The returns are computed by the CAGR method.

Bottom line: It helps to stay invested in ELSS beyond its lock-in period.

SIP vs Lumpsum: Take your pick

A Systematic Investment Plan (SIP) is a method of investing regularly in Mutual Funds schemes. When you start an SIP, a fixed amount is deducted from your bank account at regular intervals and is invested in the scheme of your choice. Most Mutual Fund Houses allow investors to invest via monthly or quarterly SIPs.

Lumpsum, as the name suggests, is making a one-time investment.

Benefits of choosing SIP over lumpsum investments

No need to time the market

SIPs ensure that you avoid timing the market. This is because you continue to invest through all market cycles.

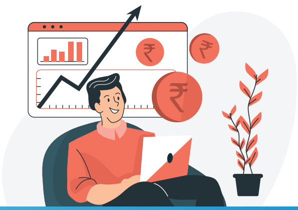
Rupee cost averaging

You can buy more units when markets are low and fewer units when the markets are high. Thus, SIPs help average out your cost of investments and level out the impact of market fluctuations. This is known as rupee cost averaging.

Power of compounding

With regular investments for a long time, you allow compounding to work on your money which in turns helps your money grow.

Financial discipline



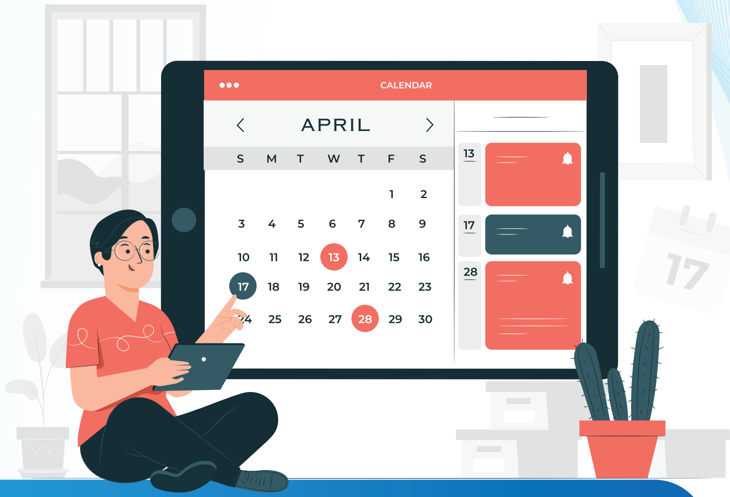
If you save and invest a fixed sum regularly, you tend to refrain from frivolous spending and, in turn, tend to become financially disciplined.

Liquidity

By spreading your investment amount throughout the year, you don't block all your money at once.

Tax planning: Be the early bird

Tax planning should preferably begin as soon as you start earning and embark on your investing journey. Moreover, you must start planning right from the beginning of the year. With early tax planning, you can enjoy the following advantages:



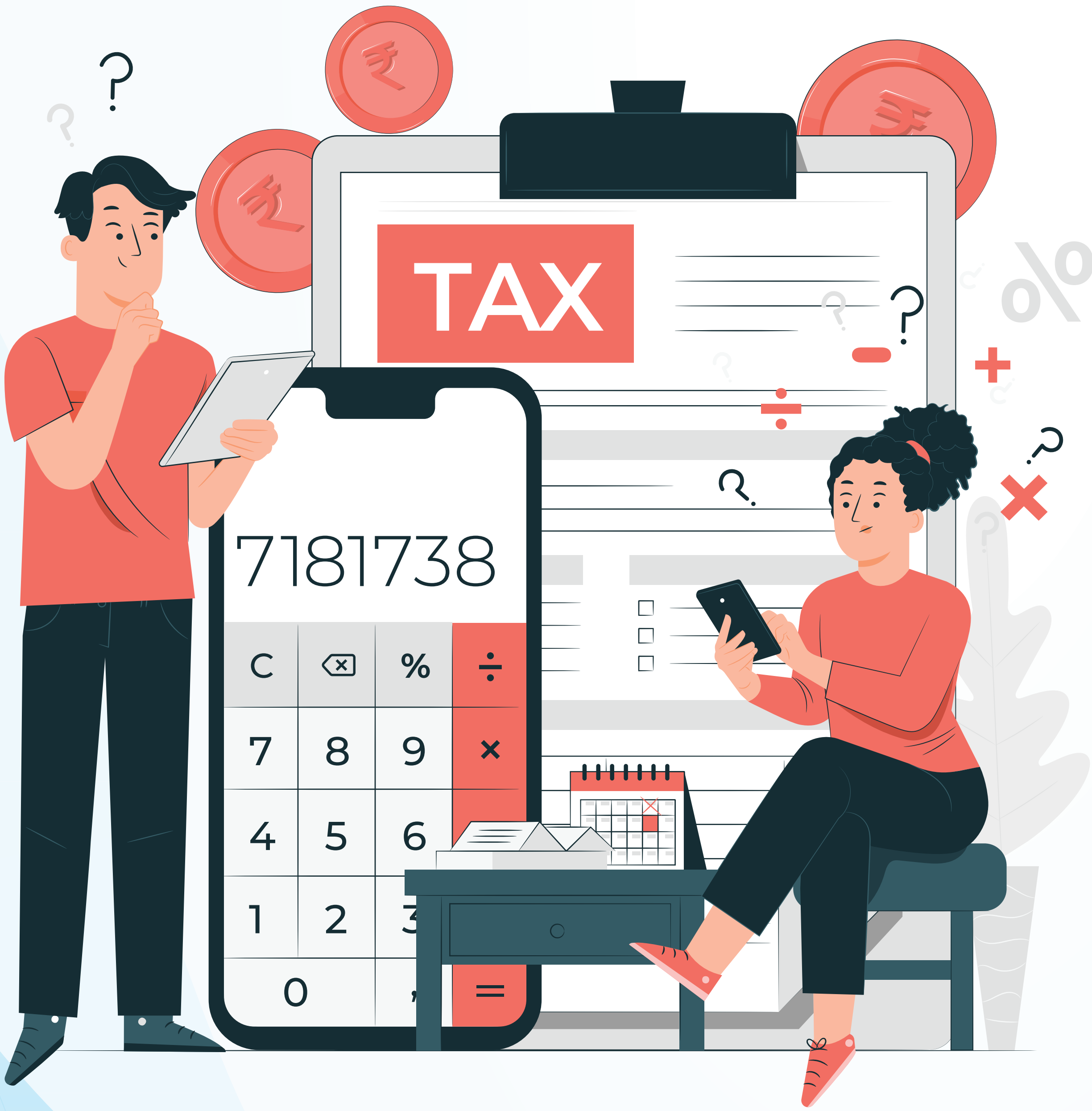
No last-minute chaos	Leaving tax planning to the last minute can be a nightmare. You may have to make lumpsum investments or pay heavy taxes. However, proper tax planning can ensure that you save and invest throughout the year and reduce your tax liability too.
Better financial readiness	If you invest your money, you always have a financial pool to rely on in case of an emergency. Without tax planning, not only do you lose money in taxes but you may also not have adequate funds for financial contingencies.
Benefit from the power of compounding	The earlier you start investing, the more time you have to grow your money. The power of compounding helps you build wealth over time.
Better decisions	With ample time on your hands, the investment decisions you make are based on thorough research. Last-minute decisions may not hold the same merit.
Improved savings	Early tax planning enables you to save money. You make the most of the exemptions and deductions under the Income Tax Act, 1961. This translates to high savings.

When in doubt, calculate it out!

Want to calculate your tax dues but not sure how and where to start? Are the numbers involved in tax planning leaving you confused?

Use an online tax calculator to determine your tax liability in a few steps.

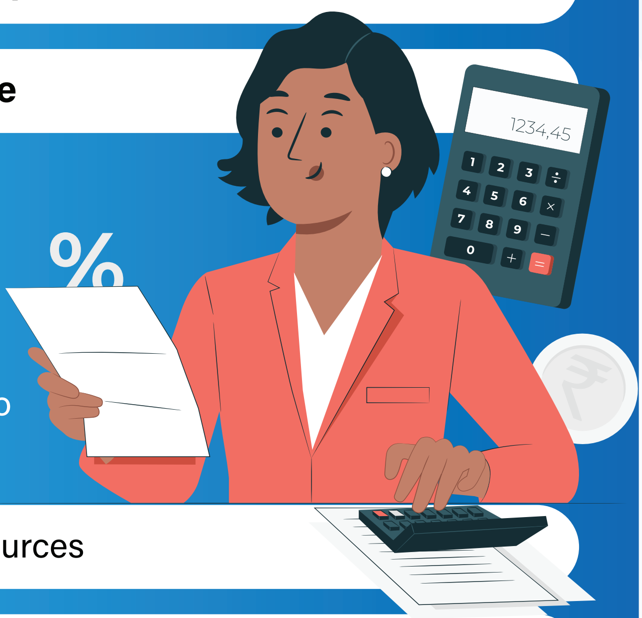
What's more? Within a click, you can also find out how much you need to invest to save tax.



Some must-know topics:

Tax planning tips to improve your tax game

- Pick the right instrument
- Know about the tax slabs
- Use Section 80C and other tax benefits to your advantage
- Understand your salary slip
- Plan your taxes in advance

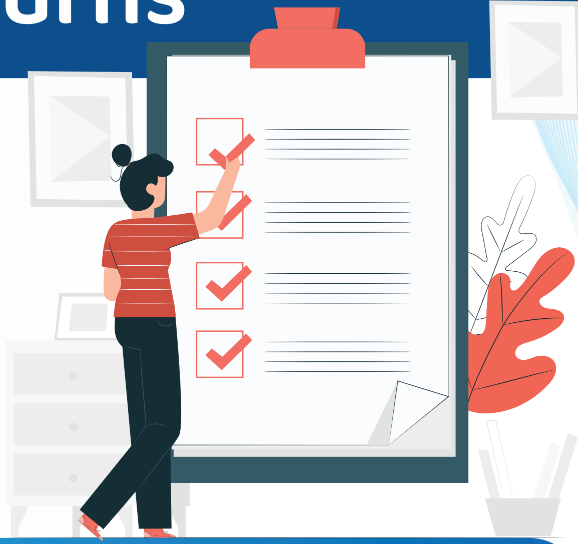


Mistakes to avoid while planning taxes

These tax planning errors can cost you money, so make sure to avoid them:

- Not mentioning all income sources
- Investing only to save tax

Documents for filing Income Tax Returns



The documents necessary to file your income tax return, inter alia, includes and should be readily available with a person/investor:

- ITR form: Choose from ITR-1, ITR-2, ITR-3, ITR-4, ITR-5, ITR-6, ITR-7
- Aadhaar card
- PAN card
- Form-16 issued by your employer
- Form 26AS
- Monthly salary slips
- Bank statements or passbook of savings account
- Interest statement of fixed deposits
- Documents showing proof of investments and expenses under Section 80C to 80U such as PPF, ULIPs, NSC, NPS, ELSS, LIC, investments made under Sukanya Samriddhi Yojana, repayment of the home loan principal, stamp duty and registration charges, interest on a home loan, education loan, etc and such other document as may be required.

Note: The above information is provided for general information only and the tax implications may vary for the assesses. Each investor is advised to go through carefully the scheme documents and also consult his or her own professional tax advisors/ consultants with respect to the tax implications under the Income Tax Act, 1961. UTI Mutual fund, UTI Asset Management Company Limited and UTI Trustee Company Private Limited, assumes no responsibility for the above contents or for any loss, by whatever name called and howsoever it arises, to any person/investor for their reliance on the above information.

It's quiz time! Are you ready to test your tax knowledge?

1. What is the primary purpose of tax planning?

a) Tax saving
b) Wealth creation
c) Neither a nor b
d) Both a and b

2. Which of the following tax-saving investments has the shortest lock-in period?

a) Fixed Deposits
b) National Pension Scheme
c) Public Provident Fund
d) Equity linked Savings Scheme

3. Equity Linked Savings Scheme is a

a) Debt Fund
b) Tax-saving equity linked Mutual Fund scheme
c) Hybrid Fund
d) Insurance policy

4. How many tax regimes are available in India at present?

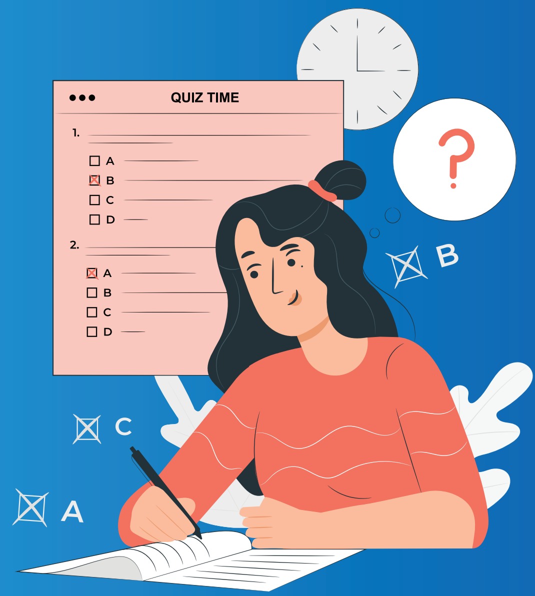
a) Two regimes
b) One regime
c) Three regimes
d) None of the above

5. What is the limit of tax deductions under Section 80C of the Income Tax Act, 1961?

a) Rs. 1.8 lakh in a financial year
b) Rs. 1.5 lakh in a financial year
c) Rs. 2.5 lakh in a financial year
d) Rs. 2 lakh in a financial year

6. Is there a limit to the maximum investment allowed in a tax-saving Mutual Fund scheme?

a) Yes, up to Rs. 1.5 lakh
b) Yes, up to Rs. 2 lakh
c) Yes, up to Rs. 50,000
d) No limit



Answers

1: d) Both a and b. **2:** d) Equity Linked Savings Scheme **3:** b) Tax-saving equity linked Mutual Fund Scheme **4:** a) Two regimes **5:** b) Rs. 1.5 lakh in a financial year **6:** d) No limit

Complete your KYC – your passport to investing in Mutual Funds

Know your customer (KYC) is a one-time mandatory process that new investors must complete to start investing in any Mutual Fund scheme.

Start your tax-saving and investing journey by completing the KYC process, if you haven't already.

To know more about tax planning and picking the right investment product for your goals, you can also at your option reach out to a Mutual Fund Distributor.

Happy tax planning!

Disclaimer

This eBook has been designed for informational purposes only and it does not provide any advice. Investors should consult tax professionals before making any tax-related decisions.

This creative is under Investor Education and Awareness Initiative of UTI Mutual Fund. To know about the KYC documentary requirements and procedure for change of address, phone number, bank details, etc. please visit https://www.utimf.com/servicerequest/kyc. Please deal with only registered Mutual funds, details of which can be verified on the SEBI website under "Intermediaries/market Infrastructure Institutions". All complaints regarding UTI Mutual Fund can be directed towards service@uti.co.in and/or visit www.scores.gov.in (SEBI SCORES portal). This material is part of Investor Education and awareness initiative of UTI Mutual Fund.

Equity Linked Savings Scheme (ELSS) is an open-ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit. Minimum investment in equity & equity related instruments - 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance). As per the present tax laws, eligible investors (Individual/HUF) are entitled to deduction from their gross total income, of the amount invested in equity linked saving scheme (ELSS) up to Rs. 1,50,000/- (along with other prescribed investments) under Section 80C of the Income Tax Act, 1961. Subject to prevailing tax laws.

SIP is a feature offered for disciplined investment of a certain amount on a pre-decided date in a specific mutual fund scheme, regularly over a period of time.

Past performance is not indicative of future performance.

Calculation on goal calculator is for illustration purpose only and not an indication of the performance of any schemes. Calculation is based on assumed rate of return and actual return may vary. Performance may or may not be sustained in future.

Don't Delay,
Start Planning Your Taxes Right Away!

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.