Understanding Income Tax & various tax saving instruments

Tax! It's such a little word. But the best of us find it terrifying. Perhaps it's because we know so little about it. While we fulfil out tax obligation every year, we also owe it to ourselves to make the most of tax savings and create real wealth for the future.

Your tax bracket

It is but obvious that everyone who earns income has to pay tax, but how much – that is the questions that your tax bracket answers. Your 'taxable income' or 'Income after deduction' defines your tax bracket.

There are three categories of individual taxpayers:

1. Individuals (below the age of 60 years) which includes residents as well as non-residents

2. Resident Senior citizens (60 years and above but below 80 years of age)

3. Resident Super senior citizens (above 80 years of age)

Part I	Part II	Part III	
Citizens below 60 Yrs of Age	Senior Citizens (60 Yrs to 80 Yrs)	Senior Citizens (80 Yrs Old & Above)	Tax slabs
Income up to 2.5 Lakh	Income up to 3 Lakh	Income up to 5 Lakh	No Tax
Income from 2.5 Lakh to 5 Lakh	Income from 3 Lakh to 5 Lakh	--	5%
Income from 5 Lakh to 10 Lakh	Income from 5 Lakh to 10 Lakh	Income from 5 Lakh to 10 Lakh	20%
Income more than 10 Lakh	Income more than 10 Lakh	Income more than 10 Lakh	30%

- *@4% Health and Education Cess for individuals in the Tax*
- *Surcharge: 10% of income tax, where total income exceeds Rs 50 lakh up to Rs 1 crore.*
- *Surcharge: 15% of income tax, where the total income exceeds Rs 1 crore to Rs 2 crore*
- *Surcharge : 25% of income tax, where the total income exceeds Rs 2 crore to Rs 5 crore*
- *Surcharge : 37% of income tax, where the total income exceeds Rs 5 crore*
- *Rebate under section 87A : The rebate is available to a resident individual if his total income does not exceed Rs 5 lakh. The amount of rebate shall be 100% of income tax or Rs 12,500 whichever is less.*

Source: HSBC Mutual Fund, Income Tax Department website

Note: Tax slabs are given for information purpose only it is further to be read with present laws as applicable in respective Financial Year (Assessment year) and read with any notification issued by Income tax authority from time to time. Investors should consult their tax consultant if in doubt about whether the product is suitable for them.

Determine your tax-saving instrument

While Section 80C of the Income Tax Act offers you a range of options for tax saving such as Equity Linked Saving Scheme (ELSS), Public Provident Fund (PPF), National Pension Scheme (NPS) and National Savings Certificate (NSC) etc., your choice must depend on your income, risk appetite and return expectations.

Life insurance basically safeguards you against life risk or as per the insurance coverage in determined terms, except for Unit Linked Insurance Plans (ULIPs), which invest a part of the money into stock market and the other part is dedicated to insurance as per its feature, which may not provide opportunity to earn return. Fixed rate interest bearing instruments such as PPF and NSC are better suited for risk averse investors since they are backed by the government or by established financial institutions. However, they may or may not be able to beat inflation in the long term.

An Equity Linked Saving Scheme (ELSS), however, is an equity scheme, which invests in the stock market and may provides capital gains over the long term. ELSS is an open ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit.

A mantra that precedes every investment plan – start early. Most investors start the hunt for tax saving instruments during the end of the financial year, when the fear of tax hits them. Investments in tax saving instruments demand attention and research. Starting early can help you make better choices, save tax more efficiently and capitalize on the investment returns.

Planning to reduce taxes is a critically important piece of the overall financial planning process. In order to minimize the anxiety associated with the time of tax filing and avoid surprises, adding a financial advisor could be beneficial.

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