Plan your tax saving investment now

We are at the mid of calendar year 2023, now is the time to make some tax-smart moves for FY2023-24. Most of us defer our tax saving investments till the last few months of the financial year, for example, in case of salaried employees- till we receive a reminder from the HR department (usually in the month of January) for submission of proofs of tax saving instruments. We don't view tax planning as part of our financial plan; consequently, we end up investing casually without aligning tax saving investments to our financial goals. In the process, we invest in instruments which might not help create wealth in the long-term.

Investments in tax saving instruments should command the same well-researched and careful approach that other investments do. After all, it is your hard earned money. The best time to start thinking about tax planning is now. Starting early gives you ample time to draw up a financial plan, research about the best tax saving investments and allocate resources between them in alignment with your financial goals.

Importance of starting/planning early

- You can make better choices and right investment decisions.
- You could save tax more efficiently and may capitalize on investment returns.
- You avoid the last minute paper work and mistakes.
- You can eliminate the circumstance where you could end up not having enough money to spare for a lump sum investment at one go.

The best approach to tax planning is to invest throughout the year in a certain ratio such that by the end of the year you've taken advantage of most of the tax saving opportunities. The strategy of investing throughout the year in a staggered manner will not put liquidity pressure at the end of the year.

By composing the right mix of investments for your portfolio, you can pay less tax and may get an opportunity to earn optimal returns. The Section 80C of Income Tax Act offers a broad range of options, each suited to a different need. Choose an option that fits into your overall financial plan. An Equity Linked Savings Scheme (ELSS) provides investors tax benefits combined with long-term wealth creation through equity exposure and comes with one of the shortest lock-in among all tax-saving instruments.

Investing in an ELSS through a Systematic investment plan (SIP) will not only be easier on the pocket, but will also, provide the benefit of rupee cost averaging and help to take an advantage of the power of compounding. This strategy is prudent as it decreases the risk of abrupt market declines which may deplete your portfolio. SIPs lead to continuous investing regardless of fluctuating price levels in the market.

Let's assume that of the Rs. 1,50,000 amount available under Section 80C of Income Tax Act, your Provident Fund (PF) contribution (in case you are a salaried employee) in the year amounts to Rs. 90,000 leaving you with Rs. 60,000 to invest in other tax saving instruments.

By starting a monthly SIP of Rs. 5,000 in an ELSS fund you could cover the entire amount in a span of 12 months. This would not only reduce your load to save for tax investment at the end of the year but will also help benefit from the power of compounding right away!

Next step

Start a monthly SIP in an ELSS fund to get triple benefits - tax savings, systematic investing and an opportunity to harness the potential upside of investing in the equity market. Please consult your financial advisor on suitability of product to your investment appetite and applicability of tax related to your investments.

Note: SIP in ELSS will lock your investment on each Investment installment (i.e., for 3 years).

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