TAX PLANNING CUSTOMIZED


Hemant Beniwal &
Manikaran Singal

The authors are Certified Financial Planners & are members of The Financial Planners' Guild, India

Your tax planning should always be commensurate with your financial planning. And you should start working on your financial planning the moment you receive your first pay check. For the first timers, it may be difficult to understand the basics but as they grow older in life, they start taking this process very seriously. If you do this carefully and keep on doing it religiously every year, you will see the positive effect this will leave on your overall finances.

Generation Y: Young & Restless (25)

Vikram Lakhanpal, 25 years

For youngsters, tax planning carries much importance, as this is the only way they can develop and improve their financial and savings behavior. This is also the most difficult part for them as they have never thought about their goals and requirements, and thus are in a habit of putting Rs 1 lakh savings in some policies or products as advised by friends or the company's HR people. As this is the question of their hard-earned money, they should not take this lightly and as a formality. Rather, it is always better to fix onto some goals, be it short-term like buying a car and going on vacations, medium-term such as saving for marriage expenses, or long-term which is more advisable like retirement.

Fixing of goals helps investors in deciding the product and matching its features with the requirements. In my view, this mix should be balance between short- and long-term products. One should always start with PPF, which is the safest among all the options and its interest is tax-free. To add one more long-term product in the portfolio, one should go with the New Pension Scheme (NPS). Along with tax saving, NPS will provide you with some equity exposure as well. One more long-term instrument might already be there in the form of your employee provident fund, which is a kind of compulsory savings. All these products will help you generate a good corpus in the long run.

Saving Instrument	Amount (in Rs)
Employee Provident Fund	20,000
Public Provident Fund	20,000
New Pension Scheme	20,000
ELSS (for long term)	30,000/40,000
5-year bank FD	30,000/40,000
Term Insurance	10,000
Health Insurance (Self)	5,000
Health Insurance (Parents)	15,000
Infrastructure Bonds	20,000

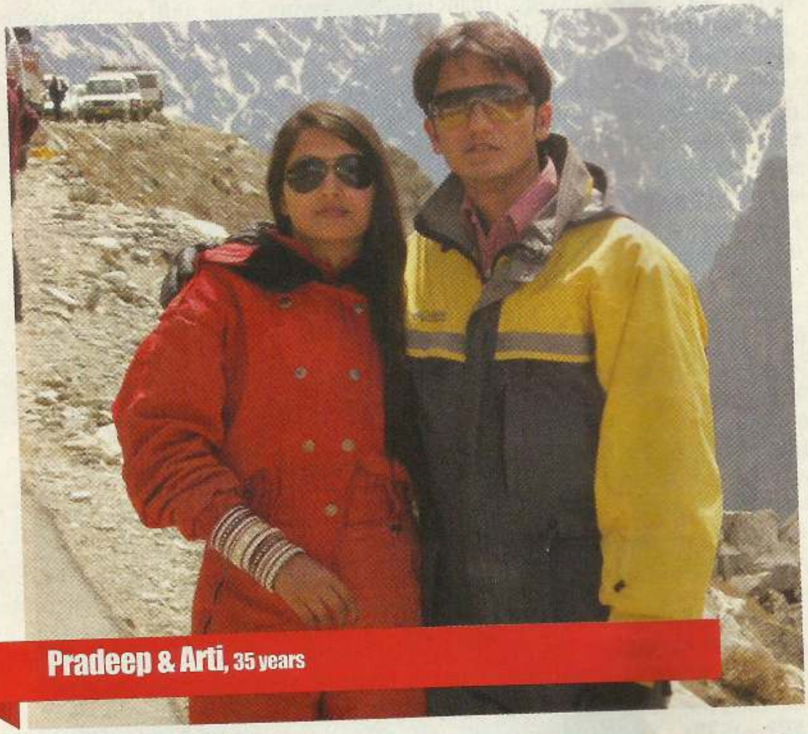
For your short-term requirements, you may go with some ELSS mutual fund or five-year bank fixed deposit. Remember that while ELSS offers the minimum lock-in among all tax-saving instruments, it is also the riskiest among all due to its 100 per cent equity exposure. So, don't buy this only looking at the lock-in; map it with some medium-term goal and keep it for at least five years.

You may select five-year bank fixed deposit as a short term instrument, but its interest is taxable. Thus you should select FDs only if you come under the lowest tax bracket. You may buy a term life insurance policy also with an adequate sum assured if you have financial dependants.

The combination advised above may sound attractive to you, especially the short-term ones, but do remember that it is always better to think of the long term since no short-term product is there in the proposed Direct Tax Code (DTC).

Besides 80C, you should also consider buying health insurance for yourself and your parents. One should not be dependent on the employer-provided cover only due to many practical reasons. This way, you can save more on your tax outgo. And also don't forget to buy infrastructure bonds for tax saving u/s 80CCF.

Just Married: Happy Go Lucky (35)



Pradeep & Arti, 35 years

Marriage brings so many changes in the couple's finances which, in turn, affect almost all the aspects of life. Managing your finances together through proper planning is as crucial as fulfilling your marital vows. Understanding how to navigate through these changes can be challenging, but planning ahead can allow you to build a strong financial foundation for your relationship. And tax planning is one of the integral parts of financial planning.

When both husband and wife are working, then tax planning will take centre-stage in their investments. A couple's financial aspirations and goals normally are different from those of a bachelor. They are more concerned about their secure financial future, so owning a house becomes more important that buying a car. If they are planning to have kids soon, they are also concerned about the financial burden which they will be bearing. The current tax-saving products comprise those instruments which could provide you with all the solutions if used judiciously.

Start with the evergreen PPF. If both of you are working, it's always advisable to have PPF in both of your names. If you want to map your PPF savings to any of your long-term goals, then be sure to track it on an annual basis. As PPF interest rates are now linked with G-Sec rates, it becomes difficult to calculate the future value of your

Instrument (Investment)	Self (in Rs)	Spouse (in Rs)
Employee PF	20,000	20,000
NPS/ELSS	50,000	50,000
Public PF	20,000	20,000
Term Insurance	10,000	10,000
Health Insurance	5,000	5,000
Health Insurance (Parents)	20,000	
Infrastructure Bonds	20,000	20,000

investments.

Monitor your investments regularly. If you want to buy a house, this could be the right time for you. If your finances permit, you may go for the home loan. It will not only help you build your dream home but also provide tax saving u/s 80C on the principal payment portion of your EMIs. But you should not stop your other savings which you are already doing to save tax. This is because the proposed Direct Tax Code does not allow the principal payment of home loan as a deduction on income.

Buying ELSS also could be a great idea but for the long term. If you understand the equities well, then opening an NPS account could also be beneficial to you, as after DTC application ELSS schemes will be out of tax saving products portfolio. So, to get necessary exposure in equity you have to have an NPS a/c.

Now is also the time to take a term insurance and health insurance policy with an adequate sum assured for both of you and your parents. These will help you in managing the uncertainties along with helping you in saving tax. You can also purchase some infra bonds as per your tax category.

Married with Kids: Family Way (45)

The moment your child joins school, you can start claiming the school tuition fees expenses for your tax saving.

Pankaj & Hema and Samarth, 45 years

While kids bring happiness in one's life, they also bring financial responsibilities. From the perspective of tax planning, in the initial years having kids may impact your savings pattern, as the expenses increase. So, you need to be very cautious on your budgeting. But some of those expenses also help you in tax saving.

The moment your child joins school, you can start claiming the school tuition fees expenses for your tax saving. You will see that your tax-saving investments get covered up with your EPF and school fees only. Luckily, the DTC includes the provision of school fees in tax-saving instruments.

But this should not stop your other savings. You should continue investing in PPF, NPS, etc., for your financial future and independence. For your child's future, it is better to open a PPF account in their name and start saving some amount every year into that. You will also receive tax benefits on investments in your child's PPF. But the upper limit is Rs 1 lakh only.

Instrument	Self (in Rs.)	Spouse (in Rs.)	Child
EPF	30000	30000	
PPF	20000	30000	10000
NPS/ELSS	30000	30000	
Term Insurance	15000	10000	
Children school fees			50000
Health Insurance	7000	7000	4000
Infrastructure Bonds	20000		

Avoid purchasing a child insurance plan, especially from the point of view of tax planning till the time DTC provisions are finalized.

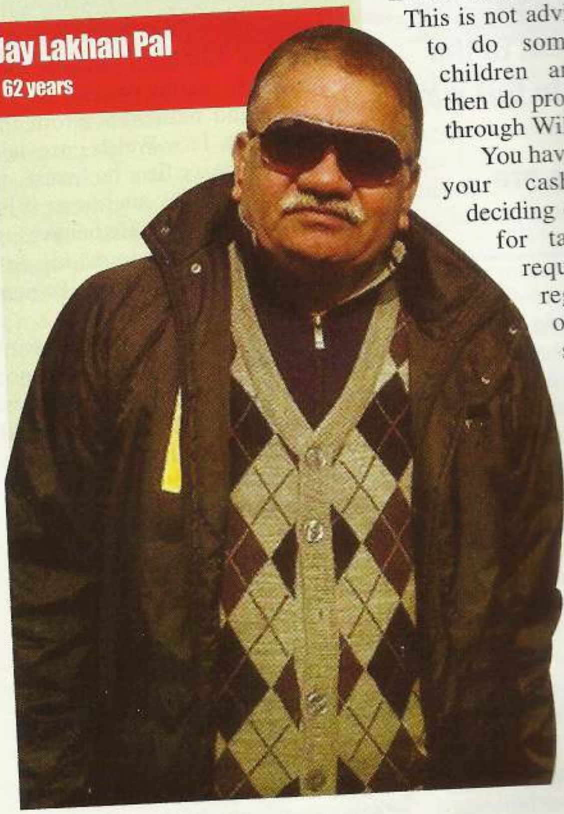
You should also increase your life insurance sum and add your child's name in your health insurance policy. Then there are also infrastructure bonds.

(See chart as attachment)

For the retired: After Salad Days (50+)

You have to be very sure on your cash flows before deciding onto the instruments for tax saving.

Jay Lakhan Pal
62 years



This is the golden period, where you are done with all the responsibilities and just have to plan as to how you can enjoy your life. But this is also the most sensitive phase as you have very limited amount available with you with no further source of income. So, you have to manage your funds very carefully in this phase.

Many a time senior citizens commit very silly financial mistakes by buying insurance plans in the name of their grandchildren. This is not advisable. If you want to do something for your children and grandchildren, then do proper estate planning through Will.

You have to be very sure on your cash flows before deciding onto the instrument for tax saving. If the requirement is of regular income, then on the first note you should go with the Senior Citizen Savings Scheme (SCSS). But since its interest is also taxable, one should be sure of one's other tax liabilities before entering this. You may also choose a five-year bank fixed deposit which, in the current scenario, looks more attractive than the SCSS due to high interest rates offered by banks.

Saving Instrument	Amount (in Rs)
Senior Citizen saving scheme	100000
Or 5-year Bank FD	100,000/50,000
Or ELSS	50,000
Health Insurance	20,000
Infrastructre Bonds	20,000

If regular income is not a concern and you are also looking for growth of your money, you may go with ELSS. It is better not to buy any life insurance product, as neither will it suit your requirement nor its fate is clear under DTC. In this phase, you should be very much particular on your health insurance. It is better to increase the coverage and take the benefit of maximum premium deductible u/s 80D.

I cannot comment on what should be done after the implementation DTC, since there's no provision of purchasing of short-term products like FDs, ELSS, NSCs, and SCSS in it.

In short, tax planning needs good consideration before taking the plunge. We should extend our prudence in expenditure to investing and saving as well.

more time and effort than many of us will to spare We are frugal at everything else, we know very well how to save money and spend as little as we can. Take this attitude to tax planning as well and plan your investments in a way that you end up paying the least amount of tax that is due under the law.

Standard treatment protocols to reduce health cost, says Irda

Irda has asked the Health Ministry to come up with standard protocols for treatment of various ailments that could bring down health costs. "This will help in streamlining health costs and standardisation of health insurance," The Hindu Business Line daily quoted J. Hari Narayan, Chairman, Irda as saying to newspersons on the sidelines of a seminar on health insurance organised by the Institute of Insurance and Risk Management in Hyderabad.A decision on this, however, would have to be taken by the Health Ministry, he added. On initial public offers by non-life companies, he said the Sebi is working on framing guidelines for public issues of non-life insurers, the report said. Recently, the regulator announced norms for public issues of life insurance players. It had formed a panel to look into the issue after which the insurance regulator would chip in. He, however, declined to give any time-frame.Earlier, addressing the delegates, Hari Narayan said non-life insurers need to focus more on introducing products to cover day-care ailments.