

Covid19 Alert : Keep Social distance and utilize your time by joining CA CS CMA online classes at 30% disc Coupon: SAFE30 Call : 1800-3000-0505

[Home](#) / [Articles](#) / [Career](#)

Enroll. Refer. Earn
With ICICI Bank
Home Loans

ENROLL NOW T&C apply



Basics of Tax Planning And Investment For Salaried Individuals

 CA HANSINI Y. BUCH
on 23 January 2020

We are in the last quarter of the current financial year i.e. 2019-2020, which will end on 31/03/2020. This is the high time everyone should take a look at their tax planning and investments. In this article, I am sharing some important points and suggestions, especially for salaried individuals, who are in the initial years of their earning career.



Popular Articles

- 1 Coronavirus (COVID-19)| CA Firms gearing up for work from home
- 2 Articleship in a small firm - Will it affect chances to get a good job in future?
- 3 Appearing for an Interview? Here is how you need to prepare!
- 4 Why Should One Invest In Your Startup Business?

CCI Articles

You can also submit your article by sending to article@caclubindia.com



In the initial years of one's earning career, savings and investments both are equally important and both should be started as early as possible. There are so many options available, which are advisable for beginners ranging from a simple saving bank account, FDRs, PPF to mutual funds.

Being a beginner and new to the field, you may take advice from any senior or obtain information from electronic media, print media, internet or may take help of a consultant. All these will help you to take an informed decision. But ultimately, it's your money and you will be the final decision maker of your personal finance.

We observe that sometimes people take weird financial decisions, which create a problem in their good tax planning and wealth creation in future. Some of the examples of such behavior are:

(1) People earn income, spend some of it and the excess amount remain idle in the savings bank account and people don't invest them anywhere.

[submit article](#)

Stay updated with latest Articles!

[Subscribe](#)

CCI Online Courses

 [GST certification](#)
Professional Course

 [Online Excel Course](#)
Professional Course

 [GST Annual Return](#)
Professional Course



Browse by Category

(2) They delay their plan to invest in PPF (Public Provident Funds) or ELSS (Equity Linked Saving Scheme), for the sake of taking a car loan, and that too with a misconception that they will get deduction for the interest paid on that loan.

(3) They are investing all their savings in mutual funds only, with the misconception that they get tax exemption on all the money they invest in mutual funds.

(4) They just don't utilize or underutilize the amount of deduction they can claim u/s. 80C (which is at present Rs. 1,50,000/-)

Above are some common financial mistakes, that people make due to lack of information, proper guidance and clarity of the law.

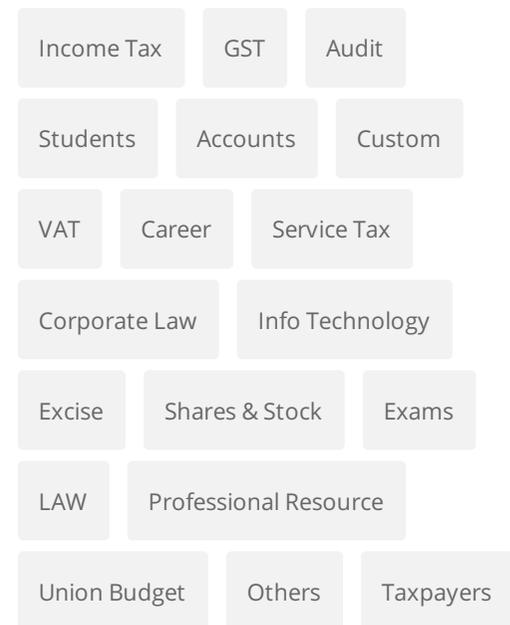
Result being, they end up paying unnecessary high tax in spite of having not so high income bracket and sometimes it has adverse impact on their long term wealth creation goals, too.

Therefore, in this article, I have tried to explain the basics of tax planning and investments by putting my thoughts and suggestions in simple words, which will help you in managing your personal finance.

(1) Follow the hierarchy of investment :



- You should have at least two savings accounts, indifferent banks, and keep at least that much balance in savings accounts by which you can manage your living of 3 to 4 months, if your income stops now.
- Fixed deposits, as we all know, are comparatively less risky option of investment and therefore, in case of present scenario of falling interest rates also, one should not completely ignore it. Go for FDRs in both nationalized as well as reputed private banks. Get your FDRs renewed on maturity until you really need the funds for a purpose. This will form a strong



Download the latest
Question Papers for
free

[click here](#)

financial base for you in the long run, so that you can divert your incremental income to a riskier option of investment which also comes with possibilities of high returns i.e. Equity.

- Along with FDRs, you can also keep a portion of your income to invest in debt mutual funds which are comparatively less risky option.
- At the same time, secured Non-Convertible Debentures (NCD) issued by companies with sound fundamentals and good track records, is also a good option. They behave like FDs with different maturity periods, different interest rates with monthly/annually interest service intervals. The rates offered by the companies on NCDs are normally higher than that on bank FDRs.
- A good portion of your savings must go to both PPF and ELSS (parallel with FDRs, if possible). You can start with a small amount and keep on increasing it, with increase in your income. Both the schemes have multiple benefits. The amount invested in PPF and ELSS is deductible for income tax purpose u/s. 80C. Moreover, interest received on PPF is (which is approximately 7.9% at present) also exempt from income tax. Last but not the least; both the schemes help you in wealth creation for your long term financial goals.
- Mutual Funds, being the indirect way to invest in equity market, are the most popular and advisable tools to take advantage of return on equity. Make sure, you stay invested for long term in Mutual Funds to get the best results. You should start investing some monthly amount through SIP route and you can go for lump sum investment also. The decision depends on your knowledge and understanding about the market. You can also take advice of a consultant, to make an informed choice of plan which best suits your income and financial goals.

(2) Make full utilization of limit available under section 80C:

Section 80C, under which you can claim a deduction up to Rs. 1,50,000/-, is a very basic tool to save your tax. One should plan to save and invest in such a way that at least this limit does not remain underutilized, as can be seen in case of many individuals. The major components

to this are known to all viz., life insurance premium, school fees, PPF, ELSS and principal amount of housing loan repaid.

Here the important point is, you should use all these components to fully utilize the limit and should not depend on one. For example, if you take a life insurance policy of unnecessary high premium just to cover the entire 1.5 lakh limit by this single tool only, it is not at all advisable planning.



Enroll CA CS CMA classes with streaming and Pendrive option

- ✓ 65k+ students enrolled
- ✓ Learn from best faculties in India
- ✓ Free 30 Hr online streaming with pendrive

[Learn more](#)

(3) Clear the misconception that you will get tax deduction for all the EMI served by you:

Many salaried persons have a misconception that they get deduction of the interest paid on all type of loans from their income for income tax purpose. Actually it is not true. Only business assesseees can take deduction of interest on loans borrowed and that too, which are taken for business purpose only. Salaried person cannot claim deduction of any interest paid on gold loan, vehicle loan or any personal loan. Even EMIs paid for your home appliances are also not deductible from your income. Only interest paid on housing loan and, as per the announcement in the previous budget, on loan taken to purchase electronic vehicle are deductible from income (subject to some conditions). So make sure you borrow wisely and if really in need.

(4) Don't think all your mutual fund investments are tax free:

This is another misconception. Some people start doing SIPs as per the advice of their consultant or on their own and think that they will get tax deduction for all SIPs debiting from

their bank account. This is not the case. Only amount invested in specific ELSS schemes is deductible from your income for income tax purpose. Therefore, you should enquire beforehand, whether the mutual fund scheme you have chosen is tax saving or not and plan your investments accordingly.

(5) Obtain the receipts of all the donations made by you:

As we all know, donations made to certain trusts and institutions are eligible for either partial or full deduction from income tax, subject to certain conditions. You should make such donations through bank only and avoid donations in cash. The important point to note here is, you must have a receipt of the donation made which should contain the name, address and PAN of the donee as well as the section under which the donation made is exempt and up to which extent. It is a necessary proof that should be on hand at the time of tax planning and return filing.

(6) Contact your consultant well in advance:

This is something very important. Please note that investments made during the period from 1st April to 31st March will only be considered for tax calculation purpose for the relevant assessment year. That is why you should review your investments and tax planning well in advance. It is also advisable to contact your consultant / Chartered Accountant, at least once, before the end of the financial year. Reason being, if he finds any mistake in any area or has any suggestions, then you have enough time to implement it. Therefore, please show your tentative income and investment details to your consultant, at least once, before the end of the financial year.

I hope that above points will help you to take a wise and well informed financial decision about your tax planning and investments.

The author CA Hansini Y. Buch is a practicing Chartered Accountant.

Tags : [Career](#)

Recommended Read

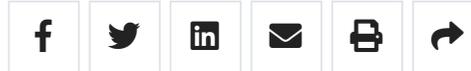
- [Best Investment Plan for Senior Citizens](#)
- [The Biggest and the Best investment on oneself in the New year](#)



7 Likes 6591 Views 34 Shares

Category [Career](#)

Other Articles by - [CA HANSINI Y. BUCH](#)



[Report Abuse](#)

SANKAR NATH K

[2 months ago](#)

Nice info..tq so much member

Reply Like

SANKAR NATH K

[2 months ago](#)

Nice info..tq so much member

Reply Like

MURALI

[2 months ago](#)

Wow superb .. actually am not interested in going for practice.. but now am excited to get through and make people wisely plan and take good financial decisions.. am doing can final now.. fighting with 2nd group

Reply Like

CA HANSINI Y. BUCH

[2 months ago](#)

Thanks and good luck for future. Please share this article in your circle. Please also read my article related to ca exam preparation, the link is given at the end of this article.

Reply Like

LALIT CHAUDHARY

[2 months ago](#)

Very useful but I don't understand some points about mutual fund and ELSS if anyone have

have some more knowledge share plz

[↩ Reply](#) [👍 Like](#)



CA HANSINI Y. BUCH

[2 months ago](#)

Which points?

[↩ Reply](#) [👍 Like](#)



CA HANSINI Y. BUCH

[2 months ago](#)

You please share your doubts. I will try to write about that.

[↩ Reply](#) [👍 Like](#)



CA. ASHUTOSH NAGAR

[2 months ago](#)

Good article.

[↩ Reply](#) [👍 Like](#)



CA HANSINI Y. BUCH

[2 months ago](#)

Thank you

[↩ Reply](#) [👍 Like](#)



ALI AHMED KHAN

[2 months ago](#)

Nice & beneficial article.....

[↩ Reply](#) [👍 Like](#)

[Show All \(15\) →](#)

You are not logged in . Please login to post comments.

[Click here to Login / Register](#)

Related Articles

- ▶ Tax Planning through a will
- ▶ 4 reasons: Why financial planning NOT only for rich people
- ▶ Income tax planning for a land developer
- ▶ How to use HRA for tax planning this year?
- ▶ Financial planning tips for child's future
- ▶ Investment Planning After Retirement
- ▶ Reporting of Foreign Direct Investment in India
- ▶ A brief insight of Foreign Investment in India and a guide to Start Ups in cross border fund raising

[More »](#)

Other Latest Articles

- ▶ COVID-19: Relaxation of SAST regulations by SEBI
- ▶ Details of relatives in whose name benami property can be held
- ▶ Impact of GST on advances/security deposits
- ▶ Compliances to be done by the Companies as per the SEBI Regulations, 2015
- ▶ COVID-19: The legal perspective for companies
- ▶ Analysis of RBIs regulatory packages for COVID-19
- ▶ Promoters still in doubt how to file settlement proposal during Liquidation Process
- ▶ An overview of e-invoicing

[More »](#)

[Articles](#)

[News](#)

[GST](#)

[Trainee Corner](#)

Member Strength 30,82,322 and growing..

[Forum](#)

[Experts](#)

[Scorecard](#)

[Notification](#)

Get latest updates

[Career](#)

[Budget](#)

[CCI Online Learning](#)

[Featured](#)

Jobs
Video
Income Tax

Feed
Top Members
Rewards

Share Files
Bookmarks
Events

Poll
Coaching Institutes
CA Online Classes

Download CCI APP



Our Network Sites



[About](#) [We are Hiring](#) [Media Coverage](#) [Advertise](#) [Terms of Service](#) [Disclaimer](#) [Privacy Policy](#) [Contact Us](#)



© 2020 CAclubindia.com. India's largest network for Finance Professionals.