Align tax-saving investments with long-term financial goals

Avoid products that combine low returns with inadequate insurance

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With about four months left in the financial year, it's time for investors in the old tax regime to prioritise tax-saving investments. A survey done in July by Finnovate, a financial fitness platform, found that 27 per cent of respondents had not done any tax planning. Delaying tax planning until the last moment can result in rushed decisions and missed opportunities.

TAX-SAVING INSTRUMENTS TO CONSIDER

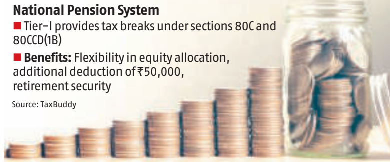
Public Provident Fund
- Long-term investment with a 15-year tenure
- **Benefits:** Tax-free interest (7.1%), 80C benefit

Equity Linked Savings Scheme
- Market-linked instrument with 3-year lock-in
- **Benefits:** 80C deduction, potential for high returns

Voluntary Provident Fund
- Extension of EPF with high interest (8.25%)
- **Benefits:** Risk-free, tax-free interest, ideal for salaried individuals

National Pension System
- Tier-I provides tax breaks under sections 80C and 80CCD(1B)
- **Benefits:** Flexibility in equity allocation, additional deduction of ₹50,000, retirement security

Source: TaxBuddy



Start early

Starting early ensures a smoother and more strategic approach. "If you have not begun tax-saving investments, you are already late. But it is still better to act now rather than delay it further," says Arvind Rao, founder, Arvind Rao & Associates.

Having time allows taxpayers to take a considered decision regarding which tax regime to follow—new or old. "Only in the old tax regime do you get tax deductions on investments," says Sujit Bangar, founder, TaxBuddy.

The new regime is likely to be beneficial for most people with an annual income below ₹10 lakh. "Only if you expect total deductions to exceed ₹3.5 lakh does it make sense to stick to the old regime," says Rao.

Early planning allows for thorough evaluation of tax-saving instruments. "Taxpayers can utilise the full range of deductions under sections 80C and 80D," says Mohit Gang, co-founder and chief executive officer, Moneyfront. They can also avail of deductions under Section 80E on education loans.

Gang notes that the current market correction offers an opportunity to average out investments in equity-linked savings schemes (ELSS) over the next four months, instead of making lump sum contributions in February or March. Early tax planning also ensures taxpayers don't face a cash crunch in the final quarter of the financial year.

Leaving tax-saving investments for the last moment, on the other hand, can result in poor-quality decisions. "If you invest in a rush at the last moment, you could compromise on selecting the best tax-saving options," says Renu Maheshwari, Sebi-registered investment adviser, Finscholarz. Taxpayers also risk falling prey to mis-selling.

Investments tend to be ad hoc, and not strategic, in nature. "The pressure to meet deadlines can make you take decisions without adequately evaluating how your tax-saving investments align with your long-term financial goals," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Employers compute tax deducted at source (TDS) based on declared investments. "If investments are delayed, TDS may increase, reducing take-home salary," says Suresh Surana, a Mumbai-based chartered accountant.

How much needs to be invested?

Evaluate the total amount that needs to be invested, review existing contributions, and then arrive at the additional amount you need to invest this year. "Your investments must align with your asset allocation," says Maheshwari.

Focus on long-term goals

Tax-saving investments should support long-term financial objectives. "Define objectives such as retirement, children's education, or wealth creation, and map investments accordingly," says Surana. He recommends Public Provident Fund (PPF) and National Pension System (NPS) for retirement, Sukanya Samriddhi Yojana (SSY) for children's education and marriage, ELSS for higher returns, and life insurance for risk protection.

PPF is ideal for fixed-income allocation in long-term portfolios. "PPF offers triple tax benefits—exempt at investment, earning, and withdrawal phases," says Maheshwari.

NPS allows equity exposure (up to 75 per cent) that matches the investor's risk appetite. "It is ideal for retirement planning and offers an additional ₹50,000 tax deduction under Section 80CCD(1B)," says Maheshwari.

ELSS suits those with a long horizon and moderate-to-high risk appetite. "It is excellent for wealth creation," says Dhawan. Opt for a systematic investment plan (SIP) or systematic transfer plan (STP) when investing in these funds.

What to avoid?

Avoid low-return instruments like traditional insurance plans unless they meet specific needs. "Returns rarely exceed 5–6 per cent," says Rao.

Moneyback policies often lack adequate insurance coverage. "These policies may not provide sufficient protection," says Surana.

Evaluate costs before buying. "A high-cost Ulip can result in suboptimal gains," says Bangar. Ulips involve a five-year lock-in. "Even if your insurance needs change, you can't do anything about it due to the lock-in," says Dhawan.

Tax-saving FDs come with a five-year lock-in and fully taxable interest. "Effective returns are low compared to inflation, and liquidity is restricted," says Surana.

Tax-saving options for retirees

Retirees should align tax-saving strategies with their life stage. Maheshwari advises investing up to ₹1.5 lakh under Section 80C if a senior citizen is in the higher tax brackets but warns against using the retirement corpus to save tax.

Gang suggests ELSS, tax-free bonds, and Senior Citizens Savings Scheme (SCSS) for seniors. ELSS offers higher returns with a three-year lock-in. Bangar warns retirees to avoid this high-risk equity option unless they have the necessary risk tolerance and financial stability. SCSS, a government-backed scheme, provides regular income. "Though not tax-exempt, SCSS remains one of the best schemes for seniors due to its interest rate (8.2 per cent) and safety," says Gang.

The writer is a Mumbai-based independent financial journalist