

## Annexure 1

### Summary of income tax benefits to savings and financial instruments provided till FY 2001-02

**Table A.1 : Tax Benefits for financial instrument under various sections of the Income Tax Act 1961.**

		Exemption of Income - Interest and dividend		Exemption from capital gains tax		Tax Rebate*
		Total exemption \$\$ (u/s 10)	Partial Exemption up to a limit @@ (u/s 80L)	Short-term	Long-term # (u/s 54EA, 54 and 54EC) 88	Section 88
1.	Bank Deposits	NA	Rs.9,000	NA	NA	NA
2.	Mutual Funds	\$\$	NA	NA	NA	@
3.	LIC Policies	\$\$	NA	NA	NA	NA
4.	Financial Institution Bonds	NA	NA	NA	#	\$
5.	Shares	\$\$	NA	NA	NA	\$
6.	Debentures of Companies	NA	NA	NA	NA	\$
7.	Small Savings					
a)	Post Office Deposits	NA	Rs.9,000	NA	NA	NA
b)	Certificates VIII Issue ##	NA	Rs.9,000	NA	NA	NA
c)	Approved Provident Funds Including P.P.F.	\$\$	NA	NA	NA	NA
d)	National Savings Scheme, 1992	NA	Rs.9,000	NA	NA	NA
8.	Company deposits	NA	NA	NA	NA	NA
	NBFCs	NA	NA	NA	NA	NA
	NBNFCs	NA	NA	NA	NA	NA

**Source:** Advisory Group on Tax Policy and Tax Administration for the Tenth Plan.

#### Notes to legends:

NA Exemptions and tax rebates not available.

# Income from long-term capital asset (if held for more than 12 months) is taxed at a flat rate 20 per cent after indexation (10 per cent without indexation). Exemption from long-term capital gains were available under section 54EA and 54EB where the investor was willing to block the funds generated from sale of long-term assets in specified securities. However, exemptions under Section 54EA and 54EB were withdrawn in the Union Budget 2000-2001 and a new Section 54EC was introduced, whereby tax exemption on long-term capital gains is now available only if the gain are invested in specified long-term assets, i.e., bonds issued by the NABARD or the NHA I that are redeemable after three years.

## Available only for National Savings Certificate (NSCs). No tax rebate is available on Indira Vikas Patra and Kisan Vikas Patra. In respect of NSG VIII issue, though the investor gets a rebate on the original investment as well as subsequent interest earned u/s 88 of I.T. Act, the interest income received every year is not exempt under Section 80L of the I.T. Act and is taxable under the head "Income from other sources".

@ Any unit linked insurance plan of UTI and LIC Mutual Fund and contribution to equity linked saving scheme of any mutual fund are provided tax exemption on capital income under Section 80-L subject to maximum of Rs.10,000/-.

@@ Though partial tax exemption up-to Rs.9,000/- is available individually with respect to item 1, 7(a), 7(b) and 7(d) an investor cannot claim an exemption of more than Rs.9,000/- on an aggregate even if he invested in more than one of these instruments.

\$ Equity shares, debentures of a public company engaged in infrastructure (including power sector) only and bonds of FIs if proceeds thereof are intended to be deployed for infrastructure projects only).

\$\$ Maturity proceeds including income by way of interest in approved provident funds including P.P.F. and bonus in case of insurance policies are exempt from tax as capitalised income under section 10 of I.T. Act, 1961. Dividend income from shares of companies and units of mutual funds are also exempt u/s 10 of

the Income-tax Act.

- \* Tax rebate is available under Section 88 of the Income-tax Act, 1961. The maximum amount of rebate available is Rs.12,000/- (i.e. 20 per cent of Rs.60,000/-). By investing in shares or debentures of infrastructure sector, a higher qualifying amount of Rs.80,000 and a tax rebate of Rs.16,000/- (i.e. 20 per cent of Rs.80,000/-) can be claimed. By investing only in shares/debentures of an infrastructure company and bonds of FIs if proceeds thereof are intended to be deployed for infrastructure projects, maximum rebate of Rs.16,000/- (i.e. 20 per cent of Rs.80,000/-) may be claimed.

**Table A.2: Details of Interest rate and tax incentive structures related to small savings instruments**

SCHEME	INTEREST RATES, PERIODICITY ETC.	TAX INCENTIVES										
1. Post Office Savings Account	3.5 per cent per annum on individual/joint and group accounts.	Interest is exempt from income tax u/s 10.										
2. 5-Year Post Office Recurring Deposit Account	Compounded quarterly. Rs.10 recurring account fetches Rs.758.5 on maturity.	Interest earned is deductible under Section 80L.										
3. Post Office Time Deposit Account	Interest payable annually but compounded quarterly.  <table border="1" data-bbox="506 565 798 683"> <thead> <tr> <th>PERIOD</th> <th>RATES</th> </tr> </thead> <tbody> <tr> <td>1-Year</td> <td>7.5%</td> </tr> <tr> <td>2-Year</td> <td>8.0%</td> </tr> <tr> <td>3-Year</td> <td>9.0%</td> </tr> <tr> <td>5-Year</td> <td>9.0%</td> </tr> </tbody> </table>	PERIOD	RATES	1-Year	7.5%	2-Year	8.0%	3-Year	9.0%	5-Year	9.0%	Interest deductible under Section 80L. Deposits are exempt from Wealth Tax.
PERIOD	RATES											
1-Year	7.5%											
2-Year	8.0%											
3-Year	9.0%											
5-Year	9.0%											
4. Post Office Monthly Scheme	9.5 per cent per annum payable monthly. In addition, 10 per cent bonus payable on maturity.	Interest and Bonus deductible under Section 80L.										
5. 6-Year National Savings Certificate (VIII Issue)	Compounded half yearly. Amount inclusive of interest payable at maturity on a certificate of Rs.100 denomination is Rs.174.52.	Deposit qualify for tax rebate under Section 88 of I.T. Act. The interest accruing annually but deemed to be reinvested will also qualify for tax rebate under section 88 of I.T. Act. Such interest will be entitled to deduction under Section 80L of the Income Tax Act.										
6. 4-Year National Savings Scheme Account 1992	9.0 per cent payable annually.	The amount deposited in a year qualifies for tax rebate under Section 88 of I.T. Act. The interest is deductible under Section 80L of I.T. Act.										
7. 15-Year Public Provident Fund Account	9.5 per cent per annum, compounded yearly	Deposits qualify for Income Tax rebate under Section 88 of I.T. Act. Deposits completely exempt from Wealth Tax. Interest credited to the fund is totally exempt from income tax.										
8. 6-Year Kisan Vikas Patra	Money doubles in 7 yRs.3 months, implying interest rate of 10.03 per cent per annum.	Amount of interest accrued every year can be shown for Income Tax purposes. No tax deduction at source.										
9. Deposit Scheme For Retiring Govt. Employees 1989 (3-Year)	8.5 per cent per annum payable half yearly on 30 <sup>th</sup> June and 31 <sup>st</sup> December.	Interest earned is fully exempt from income tax under Section 10(15) of I.T. Act.										
10. Deposit Scheme For Retiring Employees Of Public Sector Companies 1991(3-Year)	8.5 per cent per annum payable half yearly on 30 <sup>th</sup> June and 31 <sup>st</sup> December.	Interest earned is fully exempt from income tax under Section 10(15) of I.T. Act.										

**Source:** Expert Committee to Review the System of Administered Interest Rates and Other Related Issues.

## Annexure 2

**Table A.3: Total effective returns adjusted for all tax concessions**

Tax Brackets	Excess Return Arising u/s 10/80L			Excess Return Arising u/s 88			Total Tax Benefit Adjusted Effective Return to Investor			Cost to Issuer of Taxable Bonds to Accommodate Total Effective Return		
	10%	20%	30%	10%	20%	30%	10%	20%	30%	10%	20%	30%
<b>NSC VIII</b>												
Sep, 1993	1.18	2.37	3.55	6.55	6.55	6.55	18.38	18.38	18.38	18.84	19.36	19.97
Jan, 2000	1.13	2.26	3.39	6.43	6.43	6.43	17.73	17.73	17.73	18.17	18.66	19.24
Mar, 2001	0.97	3.39	2.92	6.06	6.06	6.06	15.78	15.78	15.78	16.16	16.59	17.09
<b>PPF</b>												
Sep, 1993	1.18	2.37	3.55	2.48	2.48	2.48	14.74	14.74	14.74	13.45	14.64	15.82
Jan, 2000	1.08	2.17	3.25	2.49	2.49	2.49	13.78	13.78	13.78	12.38	13.46	14.55
Mar, 2001	0.94	1.87	2.80	2.51	2.51	2.51	16.89	16.89	16.89	10.77	11.71	12.64
<b>PPF with All Permissible Withdrawals</b>												
Sep, 1993	2.17	4.24	6.22	6.45	6.45	6.45	19.02	19.02	19.02	21.80	24.88	28.35
Jan, 2000	2.16	4.22	6.22	6.49	6.49	6.49	18.16	18.16	18.16	20.90	23.93	27.32
Mar, 2001	2.15	4.21		6.54	6.54		16.89	16.89	16.89	19.57	22.51	25.78

**Source:** Annexure 1, Report of Expert Committee to Review the System of Administered Interest Rates and Other Related Issues, 2001.