Annex 7: Tax Benefits on Financial Instruments under Various Sections of the Income Tax Act

Instrument	Exemption of Income - Interest and dividend		Exemption from capital gains tax		Tax Rebate*
	Total exemption $$ (u/s 10)	Partial Exemption upto a limit @@ (u/s 80L)	Short-term	Long-term # (u/s 54EA, 54EB and 54EC)	Section 88
1. Bank Deposits	-	Rs.12,000	-	-	-
2. Mutual Funds	$$	-	-	#	@
3. LIC Policies	$$	-	-	-	$
4. Bonds by Fis	-	Rs.12,000	-	#	$
5. Shares	$$	-	-	#	$
6. Debentures of Companies	-	Rs.12,000	-	#	$
7. Small Savings	-	-	-	-	-
(a) Post Office Deposits	-	Rs.12,000	-	-	-
(b) Certificates ##	-	Rs.12,000	-	-	
(c) Approved Provident Funds including P.P.F. ##	$$	-	-	-	
8. Company deposits	-	-	-	-	-
NBFCs	-	-	-	-	-
NBNFCs	-	-	-	-	-

- Exemptions and tax rebate 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 was 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 However, exemptions under Section 54EA and 54EB was withdrawn in the Union Budget 2000-01 and a new Section 54EC was introduced, whereby tax exemption on long-term capital gains is now available only if the gain are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 NHAI that are redeemable after three years. As of now, listed shares acquired after March 01, 2003 are not subject to long-term capital gains tax.

Among small saving schemes, benefit under sec 88 is available only for National Savings Certificate (NSCs) in case of certificates as also on PPF. No tax rebate is available on Indira Vikas Patra and Kisan Vikas Patra. In respect of NSC 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 specified Mutual Fund and contribution to equity linked saving scheme of any mutual fund is eligible subject to the specified deduction limits

@@ Though partial tax exemption upto Rs.12,000/- is available individually with respect to item 1, 7(a) and 7(b), an investor cannot claim an exemption of more than Rs.12,000/- on an aggregate even if he invested in more than one of these instruments. However, the limit goes up up to Rs. 15,000/- in case of Relief / Savings Bond as it is treated as G-sec.

$ Eligible if invested in equity shares, debentures of a public company specifically engaged in certain infrastructure sectors (including power sector). Further, bonds of FIs are also eligible if proceeds thereof, are intended to be deployed for infrastructure projects only. Rebate is accruable at the rate of 20% in general, on the premium paid on LIC policies subject to a limit of Rs.60, 000.

$$ 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 for Income Bracket Rs. 1,50,000-4,50,000 is Rs.10,500/- (i.e. 15 per cent of Rs.70,000/-). By investing in shares or debentures of infrastructure sector, a higher qualifying amount of Rs.1,00,000 and a tax rebate of Rs.15,000/- (i.e. 15 per cent of Rs.1,00,000/-) 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.15,000/- (i.e. 15 per cent of Rs.1,00,000/-) may be claimed.