

Tax Planning for Salaried Employees - Understanding Deductions

Here's a look at deductions that a salaried employee can avail.



A Investments - Section 80C, 80CCC, 80CCD of Income tax Act, 1961 ("the Act")

What is allowed?

Some of the items allowed under these sections are:

- I. The principal amount paid towards the housing loan; borrowed for the purpose of purchase or construction of a residential house property.
- II. The tuition fee of children to any university, college, school or other educational institution situated within India.
- III. Contribution towards employee provident fund.
- IV. Other investment-related: Insurance premium, ELSS (equity-linked savings scheme), premium towards pension plans, National Pension Scheme, Fixed deposits (lock-in min. 5 years), NSC (National Savings Certificate), Post office tax-saving term deposits and PPF, EPF etc.



How much is allowed?

Maximum of ₹1.5 Lakh per year can be claimed as Income Tax Deductions under all sub-sections of 80C of the Act.

Section 80 CCD

Section 80CCD of the Income Tax Act, 1961 - focuses on income tax deductions that individual income tax assesses are eligible to avail on contributions made towards the New Pension Scheme (NPS).

Section	Description	Maximum Deduction
80CCD (2)	Employer contribution to NPS	10% of Basic Salary + Dearness Allowances
80CCD (1B)	Self-contributions to NPS	upto ₹50,000

Who is eligible?

Individuals and HUF (Hindu Undivided Family) are allowed to claim deduction under this section.

B Medical expenses - Section 80D:



What is allowed?

Premiums paid towards health insurance plans are allowed as an Income Tax Deduction under this section.

How much is allowed?

- I. The limit for Section 80D is:
Up to ₹25,000 for premiums paid for oneself, spouse and dependent children.
- II. An additional amount of ₹25,000 for premiums paid for dependent parents (it is ₹50,000 if any one of them are a senior citizen).
- III. Medical health check-ups to the extent of ₹5,000 are also allowed and covered within the overall limit.

Who is eligible?

Individuals and HUF are allowed to claim deduction under this section. Relevant bills and premium payment receipts are required as proof.

C Interest on a home loan - Section 24 (b):



What is allowed?

Interest paid on home loans is allowed as an Income Tax Deduction under this section. The principal amount is claimed under section 80C. Home loans availed on both self-occupied house property and let out the house property are allowed for deduction under section 24 (b) of the Act.

How much is allowed?

- I. Up to ₹2 lakh is allowed as a deduction for interest on home loans for self-occupied house property.
- II. For let out house property, the entire interest pertaining to such a home loan after adjusting for the rental income can be claimed as a tax deduction.

Who is eligible?

It is allowed for individuals who have availed of a home loan and have been repaying the same to the bank. Relevant interest certificate as proof of interest repayment should be documented as proof.

D Education loan - Section 80E



What is allowed?

Interest on Education loans is allowed as an Income Tax Deduction under this section. The loan should have been taken from a bank or a financial institution for pursuing higher studies (in India or abroad) by the individual himself, his spouse or children.

How much is allowed?

The interest on the education loan availed by taxpayer is allowed under this section. You can begin claiming this deduction beginning from the year in which you have started repaying the loan (maximum of 8 years allowed).

Who is eligible?

Any Indian citizen who has availed an education loan for self, spouse or children can claim. Even the legal guardian is allowed to claim this deduction. One needs to obtain a certificate from the bank wherein the principal and interest amounts of the education loan paid during the financial year should be mentioned separately. It is because no deduction is allowed on the principal repayment amount.

E Donations - Section 80G:



What is allowed?

Donations towards specified relief funds and charitable institutions. are allowed as Income Tax Deductions under this section.

How much is allowed?

Either 50% or 100% of the donation is allowed as a deduction under this section. The type of charity determines the extent of deduction. Donations to causes such as PM relief fund, National defence fund, National cultural fund etc; all set up by Central Government etc qualifies for 100% deduction.

However, any sums paid by the taxpayer as donations for the renovation or repair of any such temple, mosque, gurdwara, church or other place as is notified by the Central Government qualifies for 50% deduction.

Who is eligible?

Individuals, HUFs, companies, firms, etc. qualify for this deduction. The receipt mentioning the amount, organisation, registration details and 50% or 100% qualification is required as proof.

F Additional interest on a home loan - Section 80EE:



What is allowed?

Tax benefits under Section 80EE can only be claimed by first-time home buyers. This allows for additional interest on home loans to the extent of ₹50,000 to be claimed as Income Tax Deductions under section 80EE of the Act.

How much is allowed?

Additional deduction of ₹50,000 (in addition to section 24) is allowed.

Who is eligible?

Allowed for individuals only. Eligibility is subject to the following conditions:

- I. The loan must not be for more than ₹35,00,000.
- II. The value of the property must not be more than ₹50,00,000.
- III. The individual must not have any other property registered under his name at the time the loan is sanctioned.
- IV. For claiming deductions under this section, the loan should have been sanctioned between 01.04.16 to 31.03.17

Please consult a tax advisor/consultant to better understand income tax rules, applicable basis individual circumstances.

Sources: 1. <https://www.financialexpress.com/money/income-tax/top-10-list-of-income-tax-deductions-for-ay-2021-22-for-salaried-employees-tax-benefits-on-payments-investments-and-incomes/2291512/>
2. <https://www.incometax.gov.in/iec/foportal/help/individual/return-applicable-1>