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New Scheme Aimed At Boosting Savings, Step Up Investment
The government on Tuesday relaunched Kisan Vikas Patras (KVPs) and offered to double your investment in 100 months as it looked to boost savings in the economy and step up investment.

The revamped scheme offers an annualized return of 8.7%, but requires you to pay tax on the interest that accrues on your investment. As a result, some experts believe that the real rate of return may be negative during periods when the rate of inflation is high.

In contrast, public provident fund (PPF) offers a similar interest rate but has a 15year term. But, given that it is a completely tax-free product, the actual returns are much higher, especially for those in the 30% bracket. On the flip side, PPF investment is capped at Rs 1.5 lakh annually , while there is no such cap on KVPs, which come in denomi nations of Rs 1,000, Rs 5,000, Rs 10,000 and Rs 50,000. While the interest rate is fixed, PPF also comes with the risk of interest rate changing during the 15year term. Even bank fixed deposits (tax-free for more than five-year maturity) offer rates that are similar to PPF.

For instance, SBI offers 8.5% on deposits with 5-10 year maturity (8.75% for senior citizens). “It depends on what your needs are. To me, a bigger risk is holding it (KVP certificate) physically,“ said personal finance expert Gaurav Mashruwala.

For the government, however, KVP could prove to be a money spinner and, in the process, boost savings in the economy . Between 1998 and November 2011, KVP generated up to 29% of the gross collections. Finance minister Arun Jaitley said KVP will be a good investment option, especially for the poor and help keep them away from ponzi schemes.

“In the last two to three years, savings rate in the country has declined from a record high of 36.8% to below 30% due to slowdown in the economy . It is, therefore, necessary to encourage people to save more,“ Jaitley said, while launching the revamped product.

KVP would serve two purposes, he said. One, it would help poor, gullible investors to channelize their savings towards a trusted government scheme instead of some ponzi schemes, where hard-earned savings disappear. “Secondly , there is an urgent need to raise savings in the country ...these savings are then used for nation-building. Such a saving instrument not only earns interest but helps in development of the country ,“ he said.

HOW THEY STACK UP

- While revamped **Kisan Vikas Patras** (KVPs) offer an annualized return of 8.7%, but interest accrued is taxable, which may lead to negative returns in scenarios when inflation is high
- PPF offers a similar interest rate and has a 15-year term. But it is completely tax-free product
- Even bank FDs (tax-free for more than 5-year maturity) give returns that are similar to PPF. For instance, SBI offers 8.5% on deposits with 5-10 year maturity (8.75% for senior citizens)