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Ways of tax planning in India (F.Y 2017-18)

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Abstract
Tax Planning is an essential part of our financial planning. Efficient Tax Planning enables us to reduce our tax liability to minimum. This is done by legitimately taking advantage of tax exemptions, deductions, rebates and allowances while ensuring that your investments are in line with their long term goals. An ethical tax planning is an art or professional knowledge to reduce the tax within the parameters of law. If an individual has done proper financial and tax planning then deductions would be subtracted from gross total income and income tax would be levied on the balance income as per the income tax slabs. The purpose of study is to know about various tax saving instruments used to save tax and also to know the amount saved by using these instruments.

Keywords: tax, tax planning, tax saving instruments

Introduction

All arrangements by which tax is saved and which comply with the legal obligations and requirements would constitute tax planning. Tax planning should not be done with an intention to defraud the revenue. Tax planning is the analysis of one's financial situation from a tax efficiency point of view so as to plan one's finances in the most optimized manner. Tax Planning allows a taxpayer to make the best use of the various tax exemptions, deductions and benefits to minimize their tax liability over a financial year. There is a difference between deduction and rebate. Deductions reduce the taxable income while rebate reduce tax on income. Tax Planning is a legal way of reducing income tax liabilities; however caution has to be maintained to ensure that the taxpayer is not knowingly indulging in tax evasion or tax avoidance. The Income Tax Law itself provides for various methods for tax planning, generally it is provided deductions u/s 80C to 80U.

Tax planning in India

In India, there is a number of tax saving options for all taxpayers. These options allow for a wide range of exemptions and deductions that help in limiting the overall tax liability. The deductions are available from section 80C to 80U and can be claimed by eligible tax payers. These deductions are made against the quantum of tax liabilities. There are various other sections under The Income Tax Act, 1961 that can reduce tax liabilities such as exemptions and tax credits. When tax planning is done inside the frameworks defined by the respective authorities, it is fully legal and in fact a smart decision. However, using shady techniques to avoid tax payments is illegal and you may get into trouble for doing so. Tax saving practices includes tax avoidance, tax evasion and tax planning. Out of these, tax planning is the only legal manner of reducing tax liabilities. The government offers the different opportunities to save on taxes with the intention of reducing tax burden on a taxpayer through legal income tax planning methods.

Objectives of tax planning

Following are the objectives of Tax Planning:

- Reduction of tax liability
- Productive investment
- Healthy growth of economy
- Economic Stability

Essentials of tax planning

Following are the essentials for a successful tax planning:

- Up-to-date knowledge of Tax Laws
- Disclosure of all information and furnish it to Income Tax Department
- Planning should be within the framework of law
- Amendable as per future requirement

Methods of tax planning

Various methods of tax planning are below:

- **Short term tax planning:** Short range Tax Planning means the planning thought of and executed at the end of the income year to reduce taxable income in a legal way.
- **Long term tax planning:** Long range tax planning means a planning at the beginning or the income year to be followed around the year. This type of planning does not help immediately as in the case of short range planning but is likely to help in the long run.
- **Permissive tax planning:** Tax planning that is under the framework of law.
- **Purposive tax planning:** Tax planning that is done with a particular objective in mind.

Considerable points in 2017-18

In financial year 2017-18, some changes have made in the income tax rules. The government has already taken several steps to promote digital payments and several other schemes launched by the government have paved the way to save more money. Now it is you who have to make the best use the schemes by doing proper planning and managing your income and expenses during the year.

- **Digital savings will help to earn more interest**

The new initiative by the government to go for digital payments, in turn, will make you save more money digitally and earn good returns. Because the cash in hand never earns a return, but the cash at the bank does. Since you cannot keep more than Rs 2 lakh in cash, all your money will remain deposited in the bank only, because of which you will automatically earn higher returns quarterly, semi-annually or annually as per you bank's guidelines.

- **Proper tax planning will help to save more money**

The tax rate for employees who are earning a salary between in the range of Rs 2.5 lakh to Rs 5 lakh has been reduced to 5 percent from 10 percent earlier. Now, one is liable to pay only 5 percent tax on one's income in this category. Further, one can save up to Rs 12500 as per the amended tax rates proposed in the new finance bill this year. Moreover, employees earning up to Rs 3 lakh per annum need not have to pay any tax.

- **Make proper use of credit card**

Following the digital transactions route and going cashless through credit cards no doubt is one of the better options, but one should ideally use it under proper control. A credit card gives you credit limit which is approximately 2 to 3 times above your salary. Therefore, one should not get much excited about this because at the end you have to clear all dues by yourself and along with heavy monthly interest.

- **Do not file late ITR**

If you fail to file your ITR on time, you may lose money by paying penalty. You will be liable to pay a fee of Rs 5000 if the return is filed after the due date but on or before the 31st of December of the assessment year, while in any other case, a fee of Rs 10,000 will be payable. However, in a case where an individual's total income does not exceed Rs 5 lakh, the fee amount will not exceed Rs 1000.

- **Proper real estate planning can help you buy new home**

It is a time to build an asset for self. After the demonetization phase, the government has given much relief to homebuyers. Banks flooded with cash have reduced their home loan rates. Semi-annually MCLR rates went down to a much lower level. People interested in buying a new home should buy because they can claim tax deduction up to Rs 2 lakh on home loan interest under section 24 of the I-T Act. Similarly, the principle amount can be claimed under 80C deductions for up to Rs 1.5 lakh.

- **Make small investments towards retirement planning**

The mutual fund market is growing at a fast pace. It is the right time to invest for a longer term and built a huge corpus for retirement. Long term investments will help you multiply your money at a faster pace. Suppose, you are planning to retire from the working life after 25 years and have decided to save Rs 5000 per month from today till you attain your retirement age. Then after 25 years, you will be able to generate a corpus of approximately Rs 1.65 crore (assuming the rate of return at 15 percent). However, there are other investment avenues available in the market in which you can invest your money and earn good returns at the time of retirement.

- **Proper budget planning will help you save more money**

Unless you have planned your household budget properly, you may not be able to save money for any of your future financial goals. Be a smart saver before becoming a smart investor. Plan your daily expenses and calculate it monthly. This will help you in inculcating the savings habit within yourself. Also, you will be able to know exactly how much can you save per month after meeting all your expenses.

- **Schemes Provided by Government for Tax Planning**

The tax saving season is on. Both, salaried and non-salaried tax payers would be looking around and comparing a lot of tax savers. While choosing the right tax saver among several other factors such as safety, liquidity and returns, make sure you understand how the returns would be taxed. If the income earned is taxable, the scope to make money over the long term gets constrained as taxes will eat into the returns that you can earn.

- **Best ways to save tax under section 80C**
- **ELSS Funds**

Returns 13.62 per cent (past 3 years)

Equities had a terrific 2017, and the rally has continued into the New Year. The average ELSS fund rose 36 per cent during 2017, and even the long-term performance is fairly decent. Investors have seen their wealth double in a little over four years. What's more, the returns are tax free because long-term capital gains from equity funds are exempt from tax.

- **Public provident fund**

Returns 7.6 per cent (For January-March 2018)

Small savings rates have progressively come down in the past two years, mirroring the decline in bond yields. The PPF rate was cut recently by 20 basis points and could fall further in the coming months. Despite the rate cut, advisers say the PPF remains a good bet because the interest is tax free. The tax-free status of the PPF gives it a distinct advantage over fixed deposits. The interest from fixed deposits is fully taxable. The PPF also scores high on safety, flexibility and ease of investment.

- **Senior citizens saving scheme**

Returns 8.3 per cent (For January-March 2018)

Small savings rates were cut, but the Senior Citizens' Savings Scheme was spared. At 8.3 per cent, this is the best option for retirees looking for regular income in their golden years. The highest rate offered to senior citizens by banks is 7.7 per cent. The tenure of the scheme is 5 years, which is extendable by another 3. But there is Rs.15 lakh overall investment limit, and it is open only to those above 60.

- **Sukanya Samriddhi Yojana**

Returns 8.1 per cent (For January-March 2018)

For taxpayers with a daughter below 10 years, the Sukanya Samriddhi Yojana is a good way to save tax. Although the interest rate has been reduced to 8.1 per cent, it is still higher than what the PPF offers. Like the PPF, the interest is tax free and there is an annual cap of Rs.1.5 lakh on the investment. Accounts can be opened in any post office or designated banks. A parent can open accounts for up to two daughters, but the combined limit is Rs.1.5 lakh in a year.

- **National pension scheme**

Returns 9.5 per cent (Past three years)

The NPS can help save tax under three different sections. Firstly, contributions of up to Rs.1.5 lakh can be claimed as a deduction under the overall Sec 80C. Secondly, there is an additional deduction of up to Rs.50,000 under Sec 80CCD(1b). Thirdly, if the employer puts up to 10 per cent of the basic salary of the individual in the NPS, that amount will not be taxable, deduction of this amount allowed in Section 80CCD (2).

The trinity of tax benefits has attracted a lot of investors to the pension scheme. But many are still put off by the fact that it is not completely tax free. Only 40 per cent of the corpus is tax free on maturity.

- **ULIPs**

Returns 9.9-11.9 per cent (Past 5 years)

Despite attempts by distributors and insurance companies, the perception about Ulips has not changed much. Investors still consider them very costly and financial advisers hold them in contempt. But new Ulips launched by insurance companies are low on costs, which translates into better returns.

- **NSCs**

Returns 7.6 per cent (For January-March 2018)

The interest rate of the NSCs has been reduced to 7.6 per cent, but are still more than what bank fixed deposits offer. The NSCs also have a sovereign backing. NSCs fell out of favor when bank rates were higher at 9-9.5 per cent, but now they have fallen to 6.5-7 per cent. This makes the NSCs more attractive than bank deposits. The interest earned on the NSC is also eligible for deduction under section 80C in the following years.

- **Bank FDs**

Returns 7-7.7 per cent

Their interest rates have fallen significantly and the income is fully taxable. Yet taxes saving bank fixed deposits are a good choice for taxpayers who are now running around to beat the deadline. Their tax planning can be done in a matter of minutes. Use the Net banking facility to open a tax-saving fixed deposit and show the proof of investment to your company. Sure, the post-tax returns will be barely 5.5 per cent. But at least you won't end up buying a low-yield insurance policy or pension plan.

- **Insurance**

Returns 4.5-5 per cent

It's no surprise that insurance policies are at down place. Life insurance is the bulwark of a financial plan because it safeguards all the goals of the individual even after they pass. But this purpose is best served by a pure protection term insurance plan rather than a costly traditional policy that yields barely 4-5 per cent returns. Buyers are attracted by the maturity sum.

- **Section 80C/80CCC/80CCD**

These 3 are the most popular sections for tax saving and have lot of options to save tax. The maximum exemption combining all the above sections is Rs 1.5 lakhs. 80CCC deals with the pension products while 80CCD includes Central Government Employee Pension Scheme.

You can choose from the following for tax saving investments:

- Employee/ Voluntary Provident Fund (EPF/VPF)
- PPF (Public Provident fund)
- Sukanya Samriddhi Account
- National Saving Certificate (NSC)
- Senior Citizen’s Saving Scheme (SCSS)
- 5 years Tax Saving Fixed Deposit in banks/post offices
- Life Insurance Premium
- Pension Plans from Life Insurance or Mutual Funds
- NPS
- Equity Linked Saving Scheme (ELSS – popularly known as Tax Saving Mutual Funds)
- Central Government Employee Pension Scheme
- Principal Payment on Home Loan
- Stamp Duty and registration of the House
- Tuition Fee for 2 children

- **Payment of interest on education loan (Section 80E)**

The entire interest paid (without any upper limit) on education loan in a financial year is eligible for deduction u/s 80E. However there is no deduction on principal paid for the Education Loan. The loan should be for education of self, spouse or children only and should be taken for pursuing full time courses only. The loan has to be taken necessarily from approved charitable trust or a financial institution only. The deduction is applicable for the year you start paying your interest and seven more years immediately after the initial year. So in all you can claim education loan deduction for maximum eight years.

- **Payment of interest on home loan (Section 24/80EE)**

The interest paid up to Rs 2 lakhs on home loan for self-occupied or rented home is exempted u/s 24. Earlier there was no limit on interest deduction on rented property. Budget 2017 has changed this and now the tax exemption limit for interest paid on home loan is Rs 2 lakhs, irrespective of it being self-occupied or rented. However for rented homes any loss in excess of Rs 2 lakhs can be carried forward for up to 7 years. Budget 2016 had provided additional exemption up to Rs 50,000 for payment of home loan interest for first time home buyers. To avail this benefit the value of home should not exceed Rs 50 lakhs and loan should not be more than Rs 35 lakhs.

- **Medical insurance for self and parents (Section 80D)**

Premium paid for Mediclaim/ Health Insurance for Self, Spouse, Children and Parents qualify for deduction u/s 80D. You can claim maximum deduction of Rs 25,000 in case you are below 60 years of age and Rs 30,000 above 60 years of age. An additional deduction of Rs 25,000 can be claimed for buying health insurance for your parents (Rs 30,000 in case of either parents being senior citizens). This deduction can be claimed irrespective of parents being dependent on you or not. However this benefit is not available for buying health insurance for in-laws. HUFs can also claim this deduction for premium paid for insuring the health of any member of the HUF.

- **Rehabilitation of handicapped dependent relative (Section 80DD)**

This deduction is available to a resident individual or a HUF and is available on:

- Expenditure incurred on medical treatment, (including nursing), training and rehabilitation of handicapped dependent relative
- Payment or deposit to specified scheme for maintenance of dependent handicapped relative.

Where disability is 40% or more but less than 80% – fixed deduction of Rs 75,000. Where there is severe disability (disability is 80% or more) – fixed deduction of Rs 1, 25,000. A certificate of disability is required from prescribed medical authority.

- **Medical expenditure on self or dependent relative (Section 80DDB)**

A deduction Rs. 40,000/- or the amount actually paid, whichever is less is available for expenditure actually incurred by resident taxpayer on himself or dependent relative for medical treatment of specified disease or ailment. In case of senior citizen the deduction can be claimed up to Rs 60,000 or amount actually paid, whichever is less. For very senior citizens Rs 80,000 is the maximum deduction that can be claimed.

- **Donations towards social causes (Section 80G)**

The various donations specified in Sec. 80G are eligible for deduction up to either 100% or 50% with or without restriction as provided in Sec. 80G. 80G deduction not applicable in case donation is done in form of cash for amount over Rs 10,000.

From Financial Year 2017-18 onwards – Any donations made in cash exceeding Rs 2000 will not be allowed as deduction. The donations above Rs 2000 should be made in any mode other than cash to qualify as deduction u/s 80G.

Donations with 100% deduction without any qualifying limit

- National Defence Fund set up by the Central Government
- Prime Minister's National Relief Fund
- National Foundation for Communal Harmony
- An approved university/educational institution of National eminence
- Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district
- Fund set up by a State Government for the medical relief to the poor
- National Illness Assistance Fund
- National Blood Transfusion Council or to any State Blood Transfusion Council
- National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
- National Sports Fund
- National Cultural Fund
- Fund for Technology Development and Application
- National Children's Fund
- Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund with respect to any State or Union Territory
- The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund, Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
- The Maharashtra Chief Minister's Relief Fund during October 1, 1993 and October 6,1993
- Chief Minister's Earthquake Relief Fund, Maharashtra
- Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat
- Any trust, institution or fund to which Section 80G(5C) applies for providing relief to the victims of earthquake in Gujarat (contribution made during January 26, 2001 and September 30, 2001) or
- Prime Minister's Armenia Earthquake Relief Fund
- Africa (Public Contributions — India) Fund
- Swachh Bharat Kosh (applicable from financial year 2014-15)
- Clean Ganga Fund (applicable from financial year 2014-15)
- National Fund for Control of Drug Abuse (applicable from financial year 2015-16)

Donations with 50% deduction without any qualifying limit.

- Jawaharlal Nehru Memorial Fund
- Prime Minister's Drought Relief Fund
- Indira Gandhi Memorial Trust
- The Rajiv Gandhi Foundation

Donations to the following are eligible for 100% deduction subject to 10% of adjusted gross total income

- Government or any approved local authority, institution or association to be utilised for the purpose of promoting family planning
- Donation by a Company to the Indian Olympic Association or to any other notified association or institution established in India for the development of infrastructure for sports and games in India or the sponsorship of sports and games in India.

Donations to the following are eligible for 50% deduction subject to 10% of adjusted gross total income

- Any other fund or any institution which satisfies conditions mentioned in Section 80G(5)
- Government or any local authority to be utilized for any

charitable purpose other than the purpose of promoting family planning
- Any authority constituted in India for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or both
- Any corporation referred in Section 10(26BB) for promoting interest of minority community
- For repairs or renovation of any notified temple, mosque, gurudwara, church or other place.

- **Contributions given by companies to political parties (Section 80GGB)**

Deduction is allowed to an Indian company for amount contributed by it to any political party or an electoral trust. Deduction is allowed for contribution done by any way other than cash.

Political party means any political party registered under section 29A of the Representation of the People Act.

- **Contributions given by any person to political parties (Section 80GGC)**

Deduction under this section is allowed to a taxpayer except a company, local authority and an artificial juridical person wholly or partly funded by the government, for any amount contributed to any political party or an electoral trust. Deduction is allowed for contribution done by any way other than cash.

- **House rent paid where HRA is not received (Section 80GG)**
    - This deduction is available for rent paid when HRA is not received. The taxpayer, spouse or minor child should not own residential accommodation at the place of employment.
    - The taxpayer should not have self-occupied residential property in any other place.
    - The taxpayer must be living on rent and paying rent.

Deduction available is the minimum of:
1. Rent paid minus 10% of total income
2. Rs 5000/- per month
3. 25% of total income

- **Interest on savings bank account (Section 80TTA)**

A deduction of maximum Rs 10,000 can be claimed against interest income from a savings bank account. Interest from savings bank account should be first included in other income and deduction can be claimed of the total interest earned or Rs 10,000, whichever is less. This deduction is allowed to an individual or an HUF. And it can be claimed for interest on deposits in savings account with a bank, co-operative society, or post office. Section 80TTA deduction is not available on interest income from fixed deposits, recurring deposits, or interest income from corporate bonds.

- **Person suffering from Physical Disability (Section 80U)**

Deduction allowed of Rs. 75,000 to a resident individual who suffers from a physical disability (including blindness or mental retardation). In case of severe disability, deduction of Rs. 1,25,000 can be claimed. Certificate should be obtained from a Govt. Doctor. This is a fixed deduction and not based on bills or expenses.

- **Rebate under section 87A**

Tax rebate of Rs 2,500 for individuals with income of up to Rs 3.5 Lakh has been proposed in Budget 2017-18. Only Individual Assesses earning net income up to Rs 3.5 lakhs are eligible to enjoy tax rebate.

Conclusion
We have seen that there are various deductions available under Income Tax Act, 1961. These should not exceed the GTI and for claiming each a set of conditions need to be fulfilled. Waiting till the end to do your tax planning exercise, is not going to help you in a big way. It would just lead to “tax saving” and not “tax planning”. Tax planning involves an intelligent application of the various provisions of the Direct Tax Laws to practical situations in such a manner as to reduce the tax impact on the assesses to the minimum. While one take help of tax consultant at the time of filing return, self study approach on various tax planning exercise is necessary so that one should know about well versed of schemes. Just as sound tax economic planning is indispensable for a welfare state, a sound tax planning is equally indispensable for the welfare of the citizen.

Tax evasion and corruption are widely prevailing in the Indian tax system, which are the biggest blocks in the way of proper implementation of law. Thus, there is a need to tackle tax evasion and corruption for improving tax compliance.

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