

TAX MANAGEMENT
and
INVESTMENT PLANNING
For
SALARIED EMPLOYEES

VISHWA RANJAN GUPTA.

INTRODUCTION

- **The law of income tax is contained in income tax Act-1961.**
- **Applicable to all assessee whether individual, firm, HUF, Company, Co-operative society, etc.**
- **Salaried Employees come under the category of individual.**
- **Public Sector employees pay the maximum tax.**
- **Tax Management includes tax planning but does not include tax avoidance and tax evasion.**

TAX MANAGEMENT

- **Tax Management implies the use of legitimate tax shelters: deductions, exemptions and allowances to reduce tax liability.**
- **Noteworthy in the above stated definition is the key word “ legitimate”.**
- **It also includes Filing of tax return timely and properly.**
- **Every taxpayer can, with some thought, care and study, legitimately reduce his tax burden.**

Basic Concepts of Income-tax

- **Income of Previous year is chargeable to tax in the immediately following assessment year.**
- **There are 5 main heads of Income:**
 - Salary**
 - House Property**
 - Profits/Gains of Business/Profession**
 - Capital Gains**
 - Other Sources**

Income From Salaries

- **Taxable either on due or on receipt basis.**
- **Basic Pay, DA, Bonus, are fully taxable.**
- **HRA, Transport Allowance, Children education allowance are partly taxable.**
- **Perquisites are the benefits in cash or in kind attached to an office or position in addition to salary or wages . It includes rent-free or concessional rate accommodation, motor car, gas, electricity, water, etc.**

Computation of Income From Salaries

- **Salary means Basic Pay+D.A., Bonus, Incentives, etc.**
- **Add Taxable Allowances**
- **Add Taxable Perquisites**
- **Sum of above will be called 'Income from Salary'**

SALARY

- Basic Pay**
- Personal/Stagnation Pay**
- Non Practicing Allowance**
- Dearness Allowance**
- Production Incentive/Reward**
- Hindi Increment**
- Ex-gratia**
- Leave Encashment**

Allowances

- House Rent Allowance**
- Children Education Allowance**
- Uniform Allowance**
- Transport Allowance**

PERQUISITES

- Rent Free/Concessional Accommodation**
- Provision of Car/LTE**
- Entertainment-Bill Submission**
- Telephone Bills-Reimbursement**
- Free Educational Facilities/Tuition Fee**
- LTC/LLTC**
- Concessional Loans**
- Lunch/refreshment**
- Medical Reimbursement**
- Furnishing Facility**
- Group Super Annuation Scheme**
- Gift in kind**

Income From Salaries-Allowances

House Rent Allowance:

- **If employee lives in his own house or does not pay any rent, no exemption.**
- **Least of the following:**
 - **50% of salary if house is situated in Delhi, Mumbai, Kolkatta or Chinai and 40% in any other case.**
 - **Actual house rent allowance.**
 - **Excess of rent paid over 10 % of salary.**

Salary means Basic Pay + D.A.

Income From Salaries-Allowances

CHILDREN EDUCATION ALLOWANCE

- Rs. 100/Child/month, Max. 2 Children.
- Rs. 300/Child/Month, Max. 2 Children for Hostel Exp.

TRANSPORT ALLOWANCE

- Rs. 800/month to meet the expenditure to commute between the place of residence and place of duty.

UNIFORM ALLOWANCE

- To meet the expenditure on purchase or maintenance. Exempt to the extent utilized for the specified purpose.

NON TAXABLE PERQUISITES

- **Refreshment during working hours in office premises/Canteen coupons.**
- **Free meals provided or paid through non transferable voucher up to Rs. 50/meal, during business hours.**
- **Gift in kind up to Rs. 5000.**
- **Conveyance facility to office and residence.**
- **Computer/Lap top given to employees.**
- **Use of health club/sports facilities maintained by the company.**
- **Entertainment Reimbursement - Vouchers**
- **Premium on group accident insurance.**
- **Premium of Group Medicaim**

NON TAXABLE PERQUISITES

- **Free education facility to children up to Rs. 1000/Child/Month-Institute owned by Employer.**
- **Free telephones including mobile phone.**
- **Goods manufactured by employer and sold at concessional rate.**
- **LTC: Only 2 journeys in a block of 4 years. Only 2 children borne after 1.10.1998.**

MEDICAL FACILITIES

- **Provided in Hospital maintained by employer.**
- **Hospitalization of approved hospitals.**
- **OPD up to Rs. 15,000/-.**

Taxable Perquisites

Rent Free or Concessional Accommodation

- **For Govt. employees only licence fee.**
- **15%(>25 lakh population) ,10%(>10 lakh population) or 7.5% of salary -Rent paid. Salary means, Basic+D.A., Bonus+ Incentives+All monetary benefits and taxable allowances.**

Interest Free or concessional Loan

- **Up to Rs. 20,000, fully exempt.**
- **The rate notified by SBI at the beginning of the year minus the rate of interest charged.**

Taxable Perquisites

Movable Asset

- **10% of the value of the asset or actual rent paid by the employer. Furnishing facility falls under this head.**

Movable Asset Sale

(Actual Cost minus Depreciation –actual realization)-is a taxable perquisite.

- **Computers and Electronic Items-50% reducing balance method.**
- **Motor Car-20% reducing balance method**
- **Other Assets-10% of cost.**

Retirement Benefits

Leave Encashment

- **Govt. employees-10 months salary fully exempt.**
- **Others- 10 months salary or Rs. 3,00,000- whichever is lower. Limit fixed in April 1998.**
- **Half Pay Leave Encashment-Fully taxable.**

Gratuity (Sept. 1997)

- **Govt. employee/Gratuity Act- Rs. 10,00,000.**

Voluntary Retirement

- **Exempt up to Rs. 5,00,000. Limit fixed long back.**

TAX PLANNING –SALARY INCOME

- **Provision of tax free perquisites and allowances instead of taxable perquisites and allowances.**
- **Fill the format and select tax free allowances/perquisites**
- **Obtain medi-claim policy for Rupees 5 lakh even if premium is to be paid by the employee.**
- **Pre-paid vouchers for food as meal allowance and gift voucher-Rs. 15600+Rs. 5000**
- **Contribute towards Pension Fund and don't commute.**
- **Accumulate leave Rs. 3 lakh encashment.**

Income From House Property

- **If an employee is the owner of a house property (consisting of any building or land appurtenant thereto) is taxed on the income received from such house property.**
- **If a person transfers house property otherwise than for adequate consideration to his or her spouse or to his minor child is treated as deemed owner of the house property.**
- **First gross annual value is to be determined, which is highest of the actual rent, expected rent or municipal valuation.**

Income From House Property-Computation

- **First determine Gross Annual Value.**
- **Deduct municipal taxes paid. This will be NAV.**
- **From Net Annual Value -Deduction u/s 24- i.e. 30% for repairs and interest on capital borrowed is allowed.**
- **Pre construction interest is allowed in 5 equal installments.**
- **This is Taxable Income from House Property.**

Income From House Property

- **For Self Occupied Properties (SOP), Interest (pre-construction & current) is deductible subject to max. of Rs. 150000/-**
- **For SOP, Interest on borrowings for reconst/improvements is allowed –Max. Rs. 30,000.**
- **In case of let out properties, actual interest is allowed. Negative income from house property can be used to reduce taxable income from any other source including income from salary.**
- **Where the person has occupied more than one house for his own residence, only one house (according to his own choice) is treated as SOP. Other houses are deemed to be let out.**

TAX PLANNING

- **Construct the house with borrowed capital only.**
- **Loan can be taken from spouse/relative. Pay reasonable rate of interest.**
- **In any case don't build the house by permanent withdrawal from PF.**
- **Reimbursement of municipal taxes on actual payment basis and are allowed if paid by the owner. Tenant should not pay the municipal taxes.**
- **Pre construction interest to be claimed in the year the possession of house is taken. Pre construction starts from the date of borrowing and ends on March 31 immediately prior to the date of construction.**
- **Loans for renewal/ construction and interest thereon is allowed.**

TAX PLANNING

- **Co-ownership of property U/s 26 of the Income Tax is allowed only when the shares of co-owners are definite and ascertainable and this should be done before the construction of the property or even purchase of plot.**
- **If pocket permits go for bigger house.**
- **Loans from financial institutions may include insurance premium also.**
- **Financial Institutions are also providing the facility where a separate bank account, along with normal home loan account is given. This can be your salary account. Your outstanding loan amount gets reduced to the extent of balance in your bank account on a daily basis.**
- **Preference for Loans from Public Sector Banks/LIC.**

Income From Capital Gain

- **Any profit or gain arising from the sale or transfer of a capital asset is chargeable to tax under this head**
- **It is deemed to be income of the previous year in which the transfer of the capital asset takes place.**
- **Capital asset includes property of any kind, whether movable or immovable, tangible or intangible except personal effects and agricultural land.**
- **Jewellery is treated as capital asset even though it is meant for personal use of the assessee.**

Income From Capital Gain

- **Capital assets are divided in to two types- Short-term & Long-term .**
- **Short term capital asset means a capital asset held by an assessee for not more than 36 months.**
- **However, in case of shares, debentures, Govt. Securities listed in Recognized stock exchange and units of UTI and Mutual Fund this period shall be 12 months.**

Capital Gain-Computation

- **From the sales consideration we deduct the following to calculate capital gain:**
 - Expenditure incurred wholly and exclusively in connection with such transfer
 - Cost of acquisition
 - Cost of improvement
- **In case of Long-term capital asset, Cost of acquisition and improvement has to be indexed to incorporate the impact of inflation.**

INFLATION INDEX

1981-82	100
1982-83	109
1991-92	199
2001-02	426
2003-04	463
2008-09	582
2009-10	632
2010-11	711
2011-12	785

Contd.

- **If assessee receives the capital asset under a gift or will, or by succession, inheritance or devolution or on partition of HUF etc., the cost of the previous owner is deemed to be the cost of acquisition.**
- **If the capital asset is acquired before 1-4-81, the assessee may take at his option, either the actual cost or the fair market value of the asset as on 1-4-81 as cost of acquisition.**

Deductions

- **Certain deduction U/S 54, 54B, 54EC and 54F are available from the long-term Capital gains calculated as above.**
- **Long term capital gain on sale of property used for residence. New residential house acquired within a period of one year before or 2 years after or constructed within 3 years from the date of transfer. New asset should not be sold within 3 years of acquisition or construction. Amount equal to capital gain or more to be deposited in ‘Capital gains accounts scheme 1988’ of a Public Sector Bank before the due date of the filing of Income Tax return. U/S 54**

Deductions

- **54 B, Short/long term capital gain on transfer of agricultural land and within 2 years agricultural land is purchased.**
- **Any long term capital gain is exempt from tax if within 6 months of transfer, investment (equal to capital gain) is made in minimum 3 years eligible bonds/debentures issued by National Highway Authority or Rural Electrification Corporation-54 EC**
- **Any long term capital gain other than residential house is exempt if full consideration is invested (one year before or 2 years after or constructed within 3 years from the date of transfer) in house property-54 F**

Deductions

- **Tax on long term capital gains is applicable @ 20% with indexation or can be paid @ 10% without indexation benefit.**
- **Capital gain on transfer of equity shares and being chargeable to securities transaction tax:**
 - **exempt from tax in case of long term capital gain;**
 - **subject to 15% of tax in case of short term capital gain.**

TAX PLANNING-CAPITAL GAINS

- **Long term capital gain-lower tax rate & benefit of indexation. Plan transfer of capital assets after 36 months and Securities after 12 months.**
- **Each asset is a separate asset for indexation benefit. For certain assets, in stead of going for indexation benefit, paying tax at 20% may be beneficial**
- **Your De-mat account has been linked with PAN. Though, long term capital gain is exempt from tax, but in your tax return, the details of long term capital gain must be provided.**

TAX PLANNING-CAPITAL GAINS

- **Adopt actual cost or 1.4.81 market price, whichever is beneficial. The valuation may be done by the approved valuer.**
- **In case of gifted asset, the period for which the asset was held by the previous owner is to be added back.**
- **Any long term capital gain is exempt from tax if within 6 months of transfer, investment (equal to capital gain) is made in minimum 3 years eligible bonds/debentures issued by NHA or REC (54 EC). Don't wait for purchase or construction of house.**

Income From Other Sources

- **Last and residual head of charge of income.**
- **A source of income which does not fall under any one of the other heads of income, brought to charge under this head of income.**
- **All sort of interest incomes, ground rent, dividend income, income from subletting, winning from lottery, etc. are included under this head.**

TAX MANAGEMENT-OTHER SOURCES

- **Interest on Fixed Deposits and NSC is taxable. Interest accrued every year is to be taken as income other wise in the maturity year full interest amount will be taxable.**
- **Dividend income should be declared though it is tax free.**

Clubbing of income

- **In some cases, assessee may be taxed in respect of incomes which legally belong to some other person:**
 - Transfer of income without transfer of assets**
 - Revocable transfer of assets**
 - Income from assets transferred to spouse/son's wife**
 - Income of Minor Child**

Set off of losses

- **House property loss can be set off against any other head of income in the same year. Can be c/f to next 8 yrs. and set off from the income under same head.**
- **Long term capital loss can be set off against long term capital gains only. Can be carried forward to next 8 assessment years and set off against the income from long term capital gains only.**
- **Short term capital loss can be set off against any (Short term or long term) capital gain in the same year. Can be c/f to next 8 years and set off against income under both short or long term capital gains.**

Clubbing of Income -Tax Planning

- **No gift tax is payable on gift from relative (father, mother, brother, sister, brother or sister in-law, mama, mami, uncle and aunty)**
- **Gift from friend above Rs. 50,000 is taxable. But given on marriage, child birth is tax free to any extent.**
- **If you already have a house then gift of cash to wife and purchase of house for residence with that money. Charge reasonable interest.**

Clubbing of Income -Tax Planning

- **Create income for your spouse.** Married lady's income must be from her own separate and independent source:
 - a) **Income from asset created out of gift from a relative other than spouse, father-in-law or mother-in-law;**
 - b) **Gift at the time of marriage;**
 - c) **Give loan to wife to purchase a house or for investment in shares and charge reasonable interest.**
 - d) **Money given to wife for household expenses, wife saves something and invest, income not to be clubbed**
- **Income from the Accretion to the assets not to be clubbed.**

Clubbing of Income -Tax Planning

● Creation of HUF:

- a) The status of HUF is enjoyed by every Hindu married individual. However, to claim that a particular income belongs to HUF, its source may be ancestral, assets gifted by relatives/friends or received by the HUF through a will.**
- b) If you give your personal asset to HUF, income will be clubbed with your income. Gifts above Rs. 50,000/ would be taxable as HUF income. Best way is to receive assets as part of a will.**
- c) Prepare a separate deed on stamp paper giving details viz. name of Karta, co-parceners and source of funds and then Karta should apply for PAN.**
- d) A separate bank account should be maintained in the name of HUF and income should be deposited in that account.**

Clubbing of Income-Tax Planning

- **Cash gift to wife and investment in PPF. Limit of Rs. 1,00,000 can be avoided.**
- **If asset transferred to child above 18 years, income is taxable in child's hand. Gift to Major child.**
- **Income of child will be clubbed in the hands of that parent whose total income is greater. Once clubbed, it will continue to be so unless assessing officer approves the change. However, an exemption of Rs. 1500 will be granted. If child attains majority or income earned through his /her talent or suffers from major disability viz. blindness, mental retardation, clubbing provision is not applicable.**
- **File the tax return to take the benefit of C/F of long term and short term capital losses.**

Deductions

- **Deductions U/s 80C to 80U are allowed from GTI.**
- **Deduction U/s 80 C is allowed upto Rs. 1 lakh paid or deposited in the following specified schemes:**
 - **Life Insurance Premium-Self, Spouse, Children**
 - **CPF/VPF/PPF/ Postal Life Insurance**
 - **NSC including interest accrued thereon**
 - **ULIP of UTI/LIC (Dhanraksha)**
 - **Notified units of Mutual Funds.**
 - **Installment towards cost of purchase or repayment of housing loan taken from Bank/ Financial Institutions.**
 - **Bonds of notified infrastructure company**

Deductions

U/s 80 C

- **Tuition Fees for any 2 children (excluding payment for any development fees or donation) paid to school, college, university situated within India for full time course.**
- **Investment in fixed deposits (not less than 5 years) in scheduled banks/Post Office.**

U/s 80 D

- **Deduction in respect of Medical insurance on the health of taxpayer, spouse, dependant parents/ children - Rs. 15,000/annum. Senior citizen-Rs. 20,000/-**

Deductions

- **Deduction in respect of expenditure incurred for medical treatment (incl. nursing), training and rehabilitation of handicapped dependent or any premium or amt. Paid to LIC,UTI or any other insurer for maintenance of handicapped dependent. Deduction Rs. 50,000 & Severe Disability 1,00,000 (80 DD)**
- **Repayment of interest (without limit) on loan for self, spouse or child from approved financial institution or bank for higher education is allowed for 8 years from the repayment of loan. Any graduate, post graduate full time course is included. Expenses connected with education, purchase of computer, travelling etc are covered (80E) Interest to be paid by the person who has taken the loan.**

Deductions

- **A deduction of Rs. 10,000 of interest earned on savings account of a bank, co-operative society or post office(80TTA)**
- **Deduction to handicapped individual.
Deduction Rs. 50,000 & 1,00,000 (80 U)**

How to Calculate Tax Liability

- **First Calculate taxable income under various heads of income**
- **Sum of above will give us Gross Total Income (GTI)**
- **From Gross total Income deduct various deductions u/s 80C to 80U**
- **It will give Total Taxable Income**
- **Tax will be calculated on the total taxable income**

Tax Rates

Income up to Rs. 200,000	Nil
Above Rs. 200,000 to Rs. 500,000	10%
Above Rs. 500,000 to Rs. 1,000,000	20%
Above Rs. 1,000,000	30%
Sr. Citizen	
Up to Rs. 250,000	Nil
Super Sr. Citizen	
Up to Rs. 500,000	Nil

Investment Schemes-Taxable

- **MIS Post Office: Interest 8.5% monthly payable (ER 8.8%). Period 6 years. Interest taxable. Maximum investment Rs. 4.5 lakh (single name account) and Rs. 9 lakh (Joint account). Investment not exempt U/S 80C. Contractual obligation on interest rates.**
- **5 year Recurring Deposit Post Office: Quarterly compounded interest 8.4% (ER 8.7%) payable on maturity. Interest taxable. Deduction U/S 80C not available. Most suitable with MIS.**
- **5 Year Senior Citizen Saving Scheme-Maximum limit Rs. 15,00,000. Interest 9.3% payable quarterly (ER 9.6%). Contractual obligation on interest rate. Interest taxable. Deduction U/s 80 C available. VR employees -55 years otherwise 60 years.**

Investment Schemes-Taxable

- **1,2,3 and 5 year Time Deposit: Interest @8.2%, 8.3%, 8.4% and 8.5% p.a. Quarterly compounded. No limit. Income taxable. 80C benefit for deposits above 5 years**
- **8% (Taxable) 6 Year Government Bonds: Interest compounded half yearly (ER 8.16%). No upper limit on investment. Contractual obligation on interest rate. No Tax benefit.**
- **Fixed Deposits of Banks: Up to 9.5%. Contractual obligation. Interest taxable. 80C benefit if FD for more than 5 years. 0.25-1% higher interest for senior citizen.**

Investment Schemes-Tax Free

- **PPF: Interest 8.8%, yearly compounding fully exempt. Minimum deposit Rs. 500 and maximum Rs. 1,00,000. First withdrawal from 7th financial year and subsequent every year. Period 15 years can be extended every time for 5 years. Deduction U/S 80C- Rs. 1 lakh. No contractual obligation on interest rates.**
- **NSC: Interest 8.9% compounded half yearly (ER 9.1%). Investment including interest allowed deduction U/S 80C. Period 6 years. Interest chargeable to tax. Contractual obligation on interest rates.**

Investment Schemes-Tax Free

- **LIC Jeevan Bharti: Scheme open for ladies only. Interest 5%+, tax free. 80C benefit available. One can opt for 15/20 years scheme. Covers six critical illness. On diagnosis of specified critical illness or birth of child with specified congenital disability one gets the insurance money (Max. Rs. 2 lakh).**
- **Komal Jeevan: Interest 7.5%+, tax free. 80C benefit available**
- **Postal Life Insurance-Interest 9%+insurance, Tax free. 80C benefit available.**
- **Systematic Investment Plan (SIP)**

Tax Planning-Deductions & Investments

- **Retired persons need not to pay tax up to Rs. 30,000/month. PPF interest is additional. If income is less, invest in high return taxable securities.**
- **Amongst tax free schemes, Postal Life Insurance and Public Provident Fund are very good schemes.**
- **Don't close PPF Account after retirement.**
- **Minimize your tax liability through PPF. Withdraw Rs. 1,00,000/- each year and deposit back to claim 80 C benefit.**

Tax Planning-Deductions & Investments

- **PPF Account matures after 15 years and it can be extended by 5 years but any number of times by filling form H within one year of maturity.**
- **Deposit in PPF before 5th of the month.**
- **Banks offer .25 to 1% higher interest to senior citizen (>60 year age). Benefit must be availed.**
- **To claim 80 D benefit, Mediclaim premium must be paid by cheque only.**
- **Investments to be made at the beginning of the year. Don't keep money in savings account.**
- **Higher age, oriental insurance in child's name.**
- **PF withdrawal possible 1 year before retirement.**

OTHER POINTS

- **Return must be filed on time. If filed late, revised return is not allowed.**
- **Refund can be claimed in the revised return even if it is not claimed in the original return.**
- **Keep watch on refund even if bank account details have been given.**
- **Keep details of major expenditure and its financing.**
- **Records must be kept for six years.**

WILL

- **It is the shortest known valid and honoured legal document for self acquired property. Giving property through WILL is known as bequeathing and such gift is called 'bequest' or a 'Legacy'.**
- **In absence of WILL/Joint holder/Nominee succession certificate from court will be needed which may take any time between 2-5 years along with other harassments.**

How to make WILL:

- **It does not require any stamp paper.**
- **It may be typed or hand written.**
- **It needs signature of two witnesses, preferably one doctor.**
- **Preferably registered.**
- **Keep it in safe custody.**
- **Do updating/revise if needed.**
- **Legal help not necessary for simple 'WILL'**

How to make WILL

- **Select executor/witnesses with care – younger than you.**
- **Any subsequent ‘WILL’ over rides previous ‘WILL’. Do updating if needed.**

Remember:

- **It is never too early “Making a WILL”**
- **“Do it NOW”**

WILL FORMAT

**I.....Son ofaged
.....years, residing at.....declare this
WILL made at my above residence in sound disposing
state of mind on thisday ofmonth in
the year.....as my WILL.**

**I hereby devise and bequeath all my properties both
movable & immovable including money in bank and
other places, debts and money due to me, shares &
securities, ornaments and all other forms of assets
which may become entitled to in future and remain
undisposed at the time of my death in favour of my wife
Mrs..... agedyears residing at
.....with absolute ownership and full power of
disposal.**

WILL FORMAT

In witness whereof I have signed this WILL in the presence of the undersigned persons who have attested this WILL, as witness thereof in my presence.

Place.....

Date

Witnesses:

1) Signature.....

Name.....

Address.....

Signature of Testator

(Name of Testator)

2) Signature.....

Name

Address

An advice for Senior Citizens

- **Always keep Medical Data Card in your wallet. It is useful when you are in emergency room and unable to answer medical information.**

Medical Data Card

- **Name & Address with Phone No -----**
- **Medical Information:**
 - Significant Disease -----**
 - Medicine being taken -----**
 - Allergic from -----**
 - Blood Group -----**
 - Doctor's Name & Contact no. -----**

An advice for Senior Citizens

- **Keep few tablets of Sorbitrate in wallet.**
- **In case of pain in chest etc. & sweating lie down where you are.**
- **Keep Sorbitrate under your tongue.**

Further Humble Advice

- **Position not the same as before retirement. Accept the change.**
- **There is generation gap. Don't interfere.**
- **Keep yourself busy and fit. Reduce your expectations.**
- **Investments 150 to 180 times of your average monthly expenditure.**
- **Keep house and investments in your own name. How so ever good your children may be. Make a will.**