Tax Planning
for salaried employees

WHY NOT TO BUY
A SECOND HOUSE 🏡

INTEREST ON HIGHER
EDUCATION LOAN ₹
IS FULLY DEDUCTIBLE – NO LIMIT

MAKE YOUR
SALARY PACKAGE
TAX - EFFICIENT

DON’T PAY MORE IN ORDER TO SAVE YOUR TAXES.

Expert view for tax saving
In India, most salaried people want to increase their personal savings and yearn to achieve financial freedom. But do they REALLY want to save money or are they too busy? Most people are not motivated enough to learn how they can maximize their savings by efficient budgeting of their personal finances. They are unaware of ways to save tax through tax-efficient investment options available in the market. Often, people do not make timely investments and end up paying huge amount of taxes at the end of the year. To make matters worse, lack of updated and timely information makes tax filing a dreaded chore.

Salaried people often falsely believe that they do not need any financial planning as their income and expenses are regular. They presume that their savings automatically accumulate in the bank and do not require any intervention to maximize financial gains. But we believe that with some serious effort and knowledge, salaried people can save huge amounts of money and increase their annual income by investing their hard-earned money in tax-efficient schemes.

Does tax planning make you nervous? Tax planning is an integral part of personal financial planning. The amount of scattered and incomprehensible information available in the market prevents people from becoming aware of the options available to maximize their income through tax savings. They are overwhelmed by the hard-to-understand information and simply shy away from learning about available options. They do not make simple efforts to understand and take control of their personal finances including income tax issues.

In today’s competitive market, several firms are trying to sell financial products to people. Everyday people are confronted with agents selling home loans and tax saving products. These agents try to play around with numbers like EMI, interest rates, and annual gains, which people are unable to comprehend and verify.

Imagine having the financial freedom to have better control of your life. The very objective of writing this book is to empower the salaried people by raising their awareness and making them more informed so that they can control their money, rather than money controlling them. The book provides tips and facts in a simple-to-understand language specially targeted towards salaried individuals.

Our first online offering for ITR preparation and filing, TaxSpanner, provides salaried employees an easy-to-use interface for preparing personal income tax returns. Hundreds of thousands of salaried employees, who have used TaxSpanner, have provided us with unique insights into the problems faced by employees in managing their investments and their income tax. We have written this book to address all those income tax and investment related queries in a simple and crisp language. This book has evolved over a period of time to include the feedback from salaried employees.

A qualified Chartered Accountant, Sudhir Kaushik is a practicing tax consultant for the last 17 yrs. He conducts seminars in large companies to help salaried employees with income tax and investment queries. Sudhir is co-founder & CFO of TaxSpanner.com and can be reached at sudhir.kaushik@taxspanner.com

Ankur Sharma is an MBA (Finance) and is an evangelist of personal finance literacy in India. He worked in the corporate finance field at Intel Corporation for several years. Ankur is co-founder & CEO of TaxSpanner.com and can be reached at ankur.sharma@taxspanner.com
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain Form 16 early for faster refund</td>
<td>2</td>
</tr>
<tr>
<td>Direct tax code</td>
<td>3</td>
</tr>
<tr>
<td>Not filed last year tax return</td>
<td>5</td>
</tr>
<tr>
<td>About tax planning</td>
<td>7</td>
</tr>
<tr>
<td>Tax tips for online startups</td>
<td>8</td>
</tr>
<tr>
<td>How to avoid refund delays</td>
<td>9</td>
</tr>
<tr>
<td>Claim deduction even if missed in Form 16</td>
<td>10</td>
</tr>
<tr>
<td>Ideal home loan</td>
<td>11</td>
</tr>
<tr>
<td>Only one house can be claimed as self occupied</td>
<td>12</td>
</tr>
<tr>
<td>Ownership and possession must to claim deduction</td>
<td>13</td>
</tr>
<tr>
<td>Medical insurance premium for family is deductible</td>
<td>14</td>
</tr>
<tr>
<td>Trap of assured returns from real estate</td>
<td>15</td>
</tr>
<tr>
<td>Safeguards from clubbing of minor income</td>
<td>16</td>
</tr>
<tr>
<td>How mom dad can cut tax</td>
<td>17</td>
</tr>
<tr>
<td>Receiving money would attract tax</td>
<td>19</td>
</tr>
<tr>
<td>Tax-free gifts from relatives</td>
<td>20</td>
</tr>
<tr>
<td>Real estate is the best investment</td>
<td>21</td>
</tr>
<tr>
<td>Higher education interest fully deductible</td>
<td>22</td>
</tr>
<tr>
<td>Interest is fully taxable</td>
<td>23</td>
</tr>
<tr>
<td>Must report high value transaction in AIR</td>
<td>24</td>
</tr>
<tr>
<td>Tax-free retirement through house</td>
<td>25</td>
</tr>
<tr>
<td>Tax-free retirement through gold</td>
<td>26</td>
</tr>
<tr>
<td>Tax-free retirement through dividend</td>
<td>27</td>
</tr>
<tr>
<td>Invest Long Term Capital Gain in house property</td>
<td>28</td>
</tr>
<tr>
<td>Be a wise saver, borrower, investor</td>
<td>29</td>
</tr>
<tr>
<td>Tax-free retirement through SWP</td>
<td>30</td>
</tr>
<tr>
<td>Tax-free retirement through PF</td>
<td>31</td>
</tr>
<tr>
<td>ULIP</td>
<td>32</td>
</tr>
<tr>
<td>Donation to reduce tax liability</td>
<td>33</td>
</tr>
<tr>
<td>Buy in haste, repent later</td>
<td>34</td>
</tr>
<tr>
<td>Dont buy insurance</td>
<td>36</td>
</tr>
<tr>
<td>Tax-free retirement through reverse mortgage</td>
<td>38</td>
</tr>
<tr>
<td>What all can be claimed under deductions</td>
<td>39</td>
</tr>
<tr>
<td>Make your salary package tax efficient</td>
<td>40</td>
</tr>
<tr>
<td>Who should file return</td>
<td>41</td>
</tr>
<tr>
<td>Estate planning and inheritance</td>
<td>42</td>
</tr>
<tr>
<td>File early to avoid last day rush</td>
<td>44</td>
</tr>
<tr>
<td>Small to Medium Business: How to save tax</td>
<td>45</td>
</tr>
<tr>
<td>PAN must to efile return</td>
<td>46</td>
</tr>
<tr>
<td>Common tax filing mistakes</td>
<td>47</td>
</tr>
<tr>
<td>Mistake: Non reporting of income</td>
<td>48</td>
</tr>
<tr>
<td>Mistake: Compromising data confidentiality</td>
<td>49</td>
</tr>
<tr>
<td>Claim deduction even if missed in Form 16</td>
<td>50</td>
</tr>
<tr>
<td>How to avoid refund delays</td>
<td>51</td>
</tr>
<tr>
<td>Tax tips for online startups</td>
<td>52</td>
</tr>
<tr>
<td>About tax planning</td>
<td>53</td>
</tr>
<tr>
<td>Not filed last year tax return</td>
<td>54</td>
</tr>
<tr>
<td>Direct tax code</td>
<td>56</td>
</tr>
<tr>
<td>Obtain Form 16 early for faster refund</td>
<td>57</td>
</tr>
</tbody>
</table>
TaxSpanner is India’s largest and most trusted portal that offers online preparation and filing of Income Tax Returns (ITR). Established in 2007, TaxSpanner is based out of New Delhi and Bangalore. Since then, it has grown to build the largest customer base in this market segment.

TaxSpanner has been authorized by the Income Tax department of the Government of India as an e-return intermediary. SSL encryption is used to ensure that your information is highly secure. Consistently ranked as the best online tax preparer (by Money Today in 2009 and by Mint in 2010), it is recommended by top employers to their employees for compliance, confidentiality and ease-of-use.

Why TaxSpanner

TaxSpanner’s products speak for themselves. While many tax sites get slow and make e-filing cumbersome, TaxSpanner makes it quick and easy for you by asking you to just email your Form 16 and taking you home from there. Its interface is user-friendly and prevents any clutter on the screen. Also, it is the only private website that facilitates e-filing of ITR-4, meant for taxpayers with income from business or profession.

It provides an option of getting a professional to review your Income Tax Returns. There are tutorials to handhold you through the e-filing process. Both these features have been rated as excellent by leading business publications.

TaxSpanner does not sell other financial products in the guise of filing tax returns. It does not share the data of its customers with any third party. By following this rule, the company values its users and rescues them from the trouble of receiving unwanted calls.

TaxSpanner has the right mix of expertise in Finance and Information Technology, enabling it to deliver cutting-edge and innovative enhancements in its solutions. The organization was founded by Ankur Sharma, Manoj Yadav, Sudhir Kaushik and Sumit Grover. In 2010, the Indian Angel Network invested in TaxSpanner, with key investors joining the Board as mentors.
There weren’t any wads of cash stuffed under her bed. No gold biscuits stacked neatly in a vault. Yet, when tax officials raided the house of a prominent Bollywood actor recently, they felt there was enough reason to slap a tax notice against her. Apparently, the house she was living in was not a single unit but five flats broken down and turned into one. She also had five more residential properties in her name. What’s wrong with that, you may ask. After all, this is a free country, where every citizen has the right to buy property.

Sure, but one is also required to pay tax on the income from property. If you own more than one house, you have to pay tax on the rent earned from the house you are not occupying. Even if the house is lying vacant, you have to pay tax on the deemed rental income from that property based on the prevailing rate in that area. Only one of the properties will be allowed to be treated as self occupied and the others will earn a notional income, which will be taxed at the normal rates after 30% standard deduction. So, if you have a second flat lying vacant in an area, where the monthly rental is ₹ 20,000, it will push up your taxable income by ₹ 1.68 lakh (₹ 20,000 x 12 = ₹ 2.4 lakh, less 30% = ₹ 1.68 lakh).
This tax has been a major disincentive for buying a second house as an investment. However, the Direct Taxes Code proposes to change the rule regarding notional income. If the proposal is passed by the Parliament, a house owner won’t have to pay tax on the deemed rent received from a house that is vacant from 1 April 2012.

There are, however, other taxation issues to contend with. Owners of vacant residential properties also have to pay wealth tax if their combined wealth exceeds ₹ 30 lakh. The assets considered while assessing an individual’s wealth include gold, vacant residential property, luxury watches, cars, yachts, helicopters, pieces of art and artefacts, and hard cash. Wealth tax is 1% of the amount by which the combined value of these assets exceeds the ₹ 30 lakh limit. So, if you have a vacant flat worth ₹ 80 lakh, you may not have to pay tax on the deemed rent from next year onwards, but you will have to pay wealth tax of ₹ 50,000 (1% of ₹ 50 lakh). If you have other assets, such as jewellery, luxury car and artefacts, the liability rises further.

Wealth tax is a recurrent tax. It is payable on the same assets year after year, even though these assets have not created any value for the owner during the year. Worse, there is no escaping it. The only way to avoid this levy is to opt for assets that are not under its ambit. Commercial property, for instance, is a more tax efficient investment than a second house. It is not only exempt from wealth tax but the returns are also higher than those from residential property. Such a property is also eligible for deduction of interest paid on a loan as well as the 30% standard deduction from rental income. So, even as it enjoys all the benefits and even offers a better cash flow, commercial property will not push up your tax liability if you are unable to find a suitable tenant.
Financial planners contend that couples should ideally combine their finances. The meshing together of the investments of the husband and wife not only strengthens the household’s financial fiber but gives them a comprehensive view of the real situation. However, the tax man has set limits to this joining of the finances of the two spouses.

He has no problems if one spouse gives money to the other. After all, it’s their money and spouses are in the list of specified relatives whom you can gift any sum without attracting a gift tax. But if that money is invested and earns an income, the clubbing provisions of the Income Tax Act come into play. Section 64 of the Income tax Act says that income derived from money gifted to a spouse will be treated as the income of the giver. It will be clubbed with his (or her) income for the year and taxed accordingly. For instance, if you buy a house in your wife’s name but she has not monetarily contributed in the purchase, then the rental income from that house would be treated as your income and taxed at the applicable rate. Similarly, if you give money to your wife as a gift and she puts it in a fixed deposit, the interest would be taxed as your income.
Don’t think you can get away by clever ploys involving other relatives. For instance, one may think of gifting money to his mother in law, a transaction that has no gift tax implications. Then a few days later, the lady gifts the money to her daughter, which again does not have any tax implications. The money can then be invested without attracting clubbing provisions, right? Wrong. Given that most big ticket transactions are now reported to the tax department by third parties (banks, brokerages, mutual funds, insurance companies), it may not be difficult to put two and two together. If the tax man discovers this circuitous transaction, you may be hauled up for tax evasion.

Are there ways to avoid the clubbing provisions without crossing the line between tax avoidance and tax evasion? Yes. If you want to buy a house in your wife’s name but don’t want the rent to be taxed as your income, you can loan her the money. In exchange, she can give you her jewellery. For example, if you transfer a house worth `10 lakh to your wife and she transfers her jewellery for the same amount in your favour, then the rental income from that house would not be taxable to you.

One can also avoid clubbing of income by opting for tax exempt investments. There is no tax on income from the Public Provident Fund (although the 8% interest rate offered and the 15 year lock in does not compare with fixed deposits). There is also no tax on gains from shares and equity mutual funds if held for more than a year. So, if one invests in these options in the name of the spouse, there is no additional tax liability.

For the same reason, it’s better to gift gold jewellery instead of cash to your wife because gold does not generate any income. Besides, in the past few years the appreciation on gold has been higher than the returns offered by fixed deposits.

The clubbing rule also applies in case of investments made in the name of minor children (below 18 years). The income earned from such investments is clubbed with that of the parent who earns more. Earlier, you could avoid this tax by investing in a long term deposit which would mature when your child turned 18. But this rule changed a few years ago. Now, the interest earned on fixed deposits and bonds is taxed every year even though the investor gets it on maturity. So, opening fixed deposits in the name of minors makes little sense any more. Instead, open a PPF account in the name of the child because, as mentioned earlier, PPF income is not taxable at any stage. The contribution to your own PPF account and that of the child cannot exceed the overall limit of `70, 000 a year.

However, the tax man does allow a few concessions to couples. If a wife saves a little out of the money given to her for household expenses, that money is treated as her own. If it is invested, the income will be treated as her income and not clubbed with that of the husband. But this clause is subject to a reasonable limit.

Incidentally, a wife can help her husband save tax even before they get married. If a couple is engaged, and the girl does not have any taxable income or pays tax at a lower rate, her fiancé can transfer money to her. The income from those assets won’t be included in his income because the transaction took place before they got married. One can give up to `1.9 lakh (the tax exempt limit for women) without putting any tax liability on the girl.

If you buy property in your wife’s name but she has not contributed any money for the purchase, then the rental income from that property would be treated as your income and taxed accordingly.
An interesting tax saver can be your home loan! Interest on home loan is deductible from your salary, provided you have possession of the house.

If your house is under construction, then interest will be accumulated till you get possession. Thereafter, deduction will be allowed in five equal instalments for next five years, along with the interest of that financial year.

The total interest deductible is limited to ₹ 1.5 lakh for self occupied house.

The interest rate of home loan has been on the rise. However, even today the effective interest rates are attractive i.e. home loan interest at 10% effectively gets reduced to 7% assuming you are in 30% tax bracket.

Therefore, you should take a home loan if you have the opportunity and the risk capacity to invest in equities and mutual fund. The average return of equities is higher than 7-8% effective interest rate on home loan.

You can prepay home loan if the interest being charged is @12% or more, instead of keeping your money in fixed deposits, bonds etc. (@9%).

Another way of saving money is to take home loan with overdraft facility so that you can save interest by depositing additional funds in the home loan account. Banks like SBI, HDFC, and HSBC offer these loans as home saver, smart home etc.

You can claim full interest as deduction in the case of let out property, even if it exceeds ₹ 1.5 lakh.

You can take loan from your friends and relatives and claim interest deduction, however the principal payment will not be eligible for deduction under section 80C.

The Direct Tax Code is expected from 1st April 2012 and the deduction for principal payment of home loan may be withdrawn. However the interest deduction may remain as before.

Home loan interest is deductible on an accrual basis, hence even if the interest has not been paid to your relative/friend but accrued, then too the deduction is allowed.
The cost of selling a house is high. If you sell a property before three years, sale will attract short term capital gains tax chargeable at the rate of 30%.

In addition, you will have to pay stamp duty (6-8%), and brokerage (1-2%) on purchase of a new house. Therefore, a house should be purchased and held on to for at least 3-5 years.

Liquidity is another factor to consider before you decide to change your house. It can take time to sell a house at your desired price.

Even if you want to change your house, wait for at least three years so that your profit becomes long-term capital gain. Because, if the gain is long-term capital gain, you can save tax by investing it in another house. Short term capital gain must be avoided on house property.

If you have transferred/sold any land/building for an amount lesser than the value adopted by state government stamp valuation authority, then the value adopted by the authority will be considered as the sale value for the purpose of computing income tax.

Selling your house even before 5 years is not tax efficient! If you sell the house property before 5 years, then the deduction claimed under section 80 C for principal repayment in earlier years will be withdrawn. This amount will be added to your income and taxed as per your income tax slabs.
Buying a house is one of the most important decisions of your lifetime. If you have available down payment (typically 15% of house value), then you can borrow balance 85% against the house you intend to buy.

The benefits of home loan interest deduction and repayment of principal will be more than the house rent allowance deduction. Most important benefit in buying a house is the hidden appreciation of the value of property. If you delay the decision to buy a house, the value may so appreciate that you may not be able to afford it.

Buying a house using home loan is also an investment for retirement. It is like a disciplined saving for your safe retirement. You can reverse mortgage the house after attaining 60 years of age. Your monthly expenses could be met by the tax-free amount you will receive from reverse mortgage.

However, the cash outflow is high in case you buy a house. For example, if you buy a house worth Rs. 50 lakh, then you will need Rs. 7.5 lakh for down payment and approx. Rs. 47,000/- EMI (@10.5%, 15 yr loan). So, outflow in the first year is Rs. 13 lakh. Whereas, you can rent a similar property for approx. Rs. 2 lakh (including 4 months security).

Buying a house is a long term decision as the cost of transfer/sale is very high. It includes stamp duty, brokerage etc. Moreover capital gain tax liability will also arise at the time of sale.

Though a rented house is easy on cash outflow, a home lease is typically given for only 11 months, which makes renting a house a short term plan. Your home could be the asset you give your children as a secure gift for generations.

Buy a house if you are eligible through home loan.
We have tried to enlist some guidelines that you need to consider while borrowing for a house. Generally, you should not borrow above 50% of your take home salary. The other monthly payments such as insurance premium must be deducted while calculating repayment capacity. You also need to consider the tax benefits of home loan and the rate of interest on home loan while deciding how much to borrow.

IDEAL HOME LOAN – What is an ideal home loan? A Home loan of ₹16 lakhs @10% for 15 years is an ideal position to optimize on tax benefits. EMI comes to ₹17,194 × 12 = ₹2,06,328. Out of this, interest payable during the financial year is ₹1,57,817 and principal repayment is ₹48,511.

In case of joint home loan, the limit of 16 lakhs will be doubled. Interest deduction is allowed to each co-owner to the extent of his/her share.

The loan amount also depends on the value of the house you are buying as the banks typically allow only up to 85% of the total cost.

You need to remember to take term insurance to cover home loan. One should take life insurance plan to ensure repayment of home loan in the event of untimely death. Generally, banks include insurance premium in your EMI, which makes it convenient to pay. So even if you are not around to pay off the instalments, your family will never have to be without a home.

Term plan is mostly cheaper and advisable than mortgage insurance. Term Plan continues even if you pre-pay the home loan whereas mortgage insurance reduces the risk cover every year.
How much should I borrow for a house? This is a question many have asked us.

Generally, you should not borrow above 50% of your take home salary. The other monthly payments such as insurance premium must be deducted while calculating repayment capacity. You also need to consider the tax benefits of home loan and the rate of interest on home loan while deciding on how much to borrow.

IDEAL HOME LOAN - Home loan of ₹ 16 lakh @10% for 15 years is an ideal position to optimize on tax benefits per person. EMI comes to ₹ 17,194 X 12 = ₹ 2,06,328. Out of this, interest payable during the financial year is ₹ 1,57,817 and principal repayment is ₹ 48,511. You can use the home loan EMI chart for calculating the right plan for yourself.

In case of joint home loan, the limit of 16 lakh will be doubled accordingly.

The loan amount also depends on the value of the house you are buying as the banks typically allow only up to 85% of the total cost.

The interest on home loan is deductible from your salary income, provided that you have obtained possession of the house.

If the house is under construction, then interest will be accumulated till you get possession. Thereafter, deduction will be allowed in five equal installments for next five years, along with interest of that financial year. The total interest deductible is limited to ₹ 1.5 lakh for self occupied house.

The interest rate of home loan has been on the rise. However, even today the effective interest rates are attractive i.e., home loan interest at 10% effectively gets reduced to 7% assuming you are in 30% tax bracket.

Therefore, you should take home loan if you have the opportunity and risk capacity to invest in equities and mutual fund, as the average return of equities is higher than 7-8% effective interest rate on home loan.

You can prepay home loan if the interest is being charged @12% or more, instead of keeping money in fixed deposits, bonds etc. (@9%).

Another way of saving money is to take home loan with overdraft facility so that you can save interest by depositing additional funds in the home loan account. Banks like SBI, HDFC, and HSBC offer these loans as home saver, smart home etc.

You can claim full interest in case of let out property, even if it exceeds Rs. 1.5 lakh.
What if you own the property, but not the land: To be considered an owner, you need not own the land on which the property is built. For example, you can be the owner of a shop in the mall, but may not own the actual land on which the shop is built.

Power of Attorney: If you are entitled to exercise all rights in relation to the property, such as selling and letting out of the property, then you are the owner of the property. Even if you have just the power of attorney and not the sales deed, but do have complete rights in the property, you are considered the owner of the property.

If you build house / a floor on an existing house owned by someone else (say your father), then you cannot claim deduction.

A property is self occupied if you live in it, even if for part of a year.

For the purpose of filing income-tax returns, you can claim only one property as self occupied.

All other properties are considered to be "let out" as per income tax guidelines.
Ownership and possession is a must to claim deduction on home loan interest: You have to report income/loss from property ONLY if you are the owner of that property.

An owner is a person who owns the legal title of the property and has the right to receive income from it.

Solely Owned Property: If you are the sole owner of a property, then you should report the entire income/loss from the property in your income-tax return.

Jointly Owned Property: A property which has more than one owner is a jointly owned property. The owners are called co-owners and their share in the property is generally documented in the registry. Depending on the share, co-owners should report the income from house property separately in their returns. Suppose you own 30% of a property, then you should report 30% of the income in your return. In case of jointly-owned self-occupied property, both you and the other owner can separately claim home loan interest deduction up to ₹ 1.5 lakh in your respective income-tax returns.
When you pay an Insurance premium of up to ₹ 40,000 (must be paid by cheque) during a financial year for the health of self, spouse, dependant parents or children, it is allowed as a deduction from income. Hence taxable salary reduces up to maximum of ₹ 15,000 (up to ₹ 20,000 for senior citizen). Therefore, you get “health bhi aur wealth bhi”.

Even if your parents are not dependant, you can pay for medical insurance and claim deduction.

You must compare premium from different insurance companies, medical conditions and treatments covered and list of hospitals on the panel of the insurance company. We’d recommend that you go for cashless medical insurance. In cashless insurance, all hospital bills will be paid by the insurance company.

If you incur hospital expenses on your own and your claim is later reimbursed by the insurance company, then that reimbursement is not taxable. There is zero maturity value of a medical insurance policy - just like car insurance. It only helps to mitigate the medical expenses in case of a sudden health problem.

The premium paid by an employer for employee’s accidental cover is not taxable to the employee or the employer.
FAMILY & HOUSE

WATCH BEFORE YOU GO FOR ASSURED RETURNS!

Why risk your money when you can get 12% assured returns? This is being claimed by cash crunched developers for attracting money to complete their construction projects. They are finding it difficult to get loan from financial institution as the liquidity is low or cost of fund is higher. Given below are some of the post tax returns and safety offered by other investments.

Rentals from ready property are taxed at lower rate and returns are only 2% lower: The assured return offered by developers is taxed as interest income under the head “income from other sources” without any deduction. Whereas, the income tax laws allow 30% deduction from rental income hence even if you are in 30% tax slab the effective tax rate will be 21%. This makes the ready property with 8% rental more attractive and safe. It also gives you an option of lease rent finance for emergency needs. The interest paid is fully deductible from the rental income.

Post tax returns and safety are lower than PPF: The PPF investment cannot be taken by court even if you get insolvent. Now compare the security with assured return properties where you don’t get possession and choice of selecting the tenant, on whose behalf the assured rentals are guaranteed. Yes, the returns after including the appreciation in property will be higher but the safety of capital is not guaranteed.

Mutual funds offer tax free return, liquidity and safety: If you enquire you will definitely find companies who delivered more than 12% tax free returns over a decade. There is a regulator who is controlling the affairs of these listed companies. Even if the returns from equities are as low as 9% tax free, they will be better than 12% taxable assured return. In case of mutual funds investment you get return from the date of investment. Whereas the assured returns have a clause of not giving any return till 100% money is received.

Gold offers safety, liquidity and assured returns: Gold has appreciated more than 12% in the past 6 years and there is no tax because there is no income until you sell. In case of emergency you can pledge or sell a part of it. You can be the proud owner of the gold jewellery.
The income of child should be added to the income of the parent with higher income till the child is minor, i.e., below 18 yrs. You can claim up to ₹ 1,500 deduction from minor child’s income.

If you have a recurring/fixed deposit with bank or post office in your child’s name, then the interest on that deposit will be added to your, i.e. the parent’s, income.

You have to declare and pay tax on your child’s income within your income tax return. In case your minor child is earning from his/her own capacity, then the minor child can file his/her own return and there will not be any clubbing of income.

To avoid clubbing of your child’s income, you may invest in tax free instruments such as PPF, MF or ULIP.

Plot and Gold are other assets where money can be invested in as there is no tax on holding gold. Gold can also be used as a security to raise funds for emergency family needs. To buy a house, you can mortgage gold and take a loan. Interest paid on this loan can be claimed as deduction from your house property income. This is specifically useful for house which is not easy to mortgage.

Therefore we recommend you reduce your tax liability by purchasing gold as compared to NSC/FD in your child’s name. Private trust can also be created to save tax.

Gold can also be used as a security to raise funds for emergency family needs.
Invest in their name if they are in a lower tax bracket: Every adult enjoys a basic tax exemption limit. For senior citizens (above 65 years), the basic exemption limit is ₹2.4 lakh a year. If any or both of your parents do not have a high income but you have an investible surplus, you can avoid tax by transferring money to them which can then be invested in their name.

There is no tax on such gifts and the income from the investments will be treated as theirs.

There are plenty of options. The Senior Citizens Savings Scheme offers an attractive 9% return per annum. But the income is taxable and the investor must be over 55 years. The Public Provident Fund offers tax-free income but there is a limit of ₹70,000 a year. Invest in your parents’ names if your own limit is exhausted. Or open a demat account in their name and dabble in stocks. Short term capital gains will not attract 15% tax if the basic exemption limit has not been crossed.

This strategy won’t work in the case of your spouse or minor children. Any amount given to a spouse is tax free but if it’s invested, the income is treated as that of the giver. Similarly, income from investments in a minor child’s name is added to the income of the parent who earns more and is taxed accordingly.

No such clubbing provisions come into play when money is transferred to a parent.

There is also no limit on the amount you can give to your parents.
Pay them rent if you live in their house: Do you live in your parents’ house? You can pay them rent to claim House Rent Allowance exemption. This is possible only if the property is registered in the name of your parent. The owner will be taxed for the rental income after a 30% deduction. So, if you pay your father a rent of `3 lakh a year (₹25,000 a month), he will be taxed for only ₹2.1 lakh. It gets better if the property is jointly owned by both parents. Then you can divide the rent two ways so that the tax liability gets split between the two parents. If their income exceeds the basic exemption limit, you can help them save tax by investing in their name under Section 80 C options such as the Senior Citizens Saving Scheme, five year bank fixed deposits or tax saving equity mutual funds.

However, this tax free window will become smaller next year after the proposed Direct Taxes Code (DTC) comes into effect from April 2012. The DTC has proposed to bring down the 30% standard deduction on rental income to 20%. This would push up the tax liability of the senior citizens who receive rent from property. Also, many of the existing tax saving options will no longer be available under the DTC regime.

Sell them shares and offset losses: Tax laws allow you to adjust short term losses from stocks against certain gains. But what if you have been holding junk stocks in your portfolio for more than a year? If you ask your broker to sell them, you won’t be able to adjust the long term capital losses against any gain. However, if you sell them through an off market transaction where no securities transaction tax is paid, you are not only allowed to adjust the loss against a gain, but also carry forward the unadjusted loss for up to eight financial years. That’s easier said than done. It’s already tough finding buyers for junk stocks on the exchanges. Finding one for a private deal is infinitely more difficult. It’s here that your parents can help you. Sell the junk stocks to them in an off market transaction. An off market transaction is a private deal between the buyer and seller without the exchange as an intermediary.

The losses you book can then be adjusted against capital gains from other assets such as property, gold, debt funds, etc. It can also be carried forward for up to eight financial years. Keep a few things in mind while you go about this. The sale should be at the market price of the shares and the buyer should pay the sum by cheque. Otherwise, the tax man might treat the transfer as a gift.

Buy them a health insurance policy: This is the simplest and most commonly used strategy to save tax through your parents. Buy a health insurance policy for them and get deduction for the premium paid under Section 80 D. Up to `15,000 a year is deductible from your taxable income if you buy a health insurance policy for your parents. If the parents are senior citizens, the deduction is even higher at `20,000.

This deduction is over and above the `15,000 that one can claim as deduction for the health insurance premium paid for himself and his family (spouse and children). Also, this deduction is available irrespective of whether the parents are financially dependent on the tax payer or not.

The tax saving potential of this option too will shrink after the DTC comes into effect in April 2012. It has proposed to reduce the deduction for health insurance, life insurance and tuition fees for children to a combined limit of `50,000. That would be a setback for those looking for tax savings from health and life insurance. However, it should not keep you from buying a health insurance cover for your parents. After all, they looked after your needs when you were a child. Now it is time you repay that debt.
Any gift received from or given to non-relatives above ₹ 50,000 is taxable. If you receive more than ₹ 50,000 during a financial year without any consideration, then, the entire sum is taxable. Below mentioned points are some exceptions to the case:

• On the occasion of marriage
• Under a will or by way of inheritance
• Gift from a relative
• In contemplation of death

The limit of ₹ 50,000 is for the entire financial year (Apr 1, 2010 to Mar 31, 2011), irrespective of the number of people from whom you have received the money. For example if you received Rs. 10,000 from six persons, you will have to pay tax on the entire sum of ₹ 60,000.

Also a gift received in kind, such as property, paintings, bonds, debentures and jewellery without consideration is also taxable. If you are gifted a painting worth ₹ 2 lakh, it will be included in your income and taxed as per your slabs.

However if a property is received on consideration which is less than stamp duty value, then it will not be included in your income.
FAMILY & HOUSE

A lineal descendant is a person who is in direct line to an ancestor: child, grandchild, great-grandchild and so on. Similarly, a lineal ascendant could be parent, grandparent, great-grandparent and so on. Hence gift from father, mother, brother, sister, father in law, mother in law, brother in law, sister in law, etc. will not attract any income tax.

Similarly grand parents can give tax free gifts. Avoid gifts from mother’s father/mother (Nana/Nani) as these are not tax free. There are debates on treating them as lineal descendent.

If you gift money or an asset to your daughter-in-law, then the income from that money or asset will be clubbed in your income.

You can receive any amount or property from your relatives without paying income tax as presently, there is no gift-tax. The term “relative” includes:
- Spouse
- Brother or sister
- Brother or sister of the spouse
- Brother or sister of either of the parents of the individual
- Any lineal ascendant or descendent
- Any lineal ascendant or descendent of the spouse
- Spouse of the person referred to in (2) to (6)
Real estate is best of all investments for all investors, at any age. Read on to see why:

- Home is a basic need further sweetened by tax benefits and lower rate of interest.
- Do not be influenced by any preconceived notions and be a proud owner as soon as possible.
- Buy it with loan, its financial prudence. You don’t need to either put all your money in a less liquid asset, nor do you need to wait for funds to accumulate.
- Your house can be your tangible love for further generations. Plus, you can get reverse mortgage against your self-occupied house and plan your retirement with it - one of the best things that has happened for senior citizens.
- When you buy a house, buy it for medium to long term only, because changing a house is costlier in terms of stamp duty, brokerage, tax liability before 3 years, advertisement for buyer, etc.
- The allocation in real estate investment depends on your risk profile, liquidity, taxable income, and the time horizon for investment. As a rule of thumb, invest up to 20% of your portfolio in real estate besides your house.
As the Government, under section 80E, has said that you can claim deduction if you have paid interest, out of your income chargeable to tax, on the loan taken for your higher education or your relative’s (spouse or children) higher education. Now the legal guardian is also allowed to claim deduction.

Higher education involves full-time studies for a graduate or post-graduate course in engineering, medicine, management; or for post-graduate course in applied sciences, or pure sciences, including mathematics and statistics. The vocational studies pursued after passing senior secondary is also included.

Which loans qualify for deduction? The loan should be taken for higher studies from any financial institution or approved charitable institution. Personal loans from individuals, relatives and friends, are not eligible for this deduction, as is the case with home loan.

You can claim deduction for interest for up to eight years from the start of the assessment year when you begin repaying your education loan.

There is no limit on the amount of interest on which deduction is allowed for education loan.

Payment should be made from taxable income only.

Start paying interest right from the first year to maximise income tax benefits. Banks charge lower rates of interest too from those paying interest during the study period.

Parents should encourage children to take education loan and save their funds for retirement. This helps children save money compulsorily, when they have a job but no family. Otherwise, they might spend all their income in the initial years and you will become dependent on them during retirement years.

You can always support your children as a surety for the higher education loans need but funds should be borrowed keeping in view the rate of interest, repayment tenure, surplus income of new joiners and no limit tax benefit.

Taking a car loan will not help a salaried person save tax. However if you have taken education loan, you can keep your tax liability low and your parents’ heads high.

As a parent, a better gift to your child is to fund his/her higher education, instead of a car!
INVESTMENT

WHAT ARE TAXABLE INCOMES

All income needs to be reported, whether exempt from income tax or not. Interest earned on bank accounts (savings and FD) are generally not reported due to misconception. Interest income, including accrued interest on NSC is taxable.

Money received due to compulsory acquisition of land is also taxable. Even the rent received from cell phone tower on roof of your house is taxable!

Long term Capital gain on stocks and mutual funds is not taxable, but still needs to be reported under exempt income in ITR2 form.

TDS is deducted on your estimated income at rates specified by the Income Tax Department. However, your actual income may be higher or lower. Therefore, you have to compute your tax liability at the end of the financial year. Depending on your income and TDS deducted, you may have to pay more taxes or you may be eligible for refund.

In case you have refund due from income tax, do not forget to mention bank details in your Income Tax Return.

Returns after taxes are not good to beat the inflation, hence there is a negative growth in your money. For example the actual/average inflation rate is 10% and FD interest after tax is 6% than your money has negative growth of 4%.

Direct tax code has excluded these tax saving investments. Now, superannuation funds, provident funds and pension funds are allowed for deduction.
YOU MUST REPORT HIGH VALUE FINANCIAL TRANSACTIONS IN YOUR AIR RETURN

You must report high value financial transactions in the AIR (Annual Information Return) section of your income tax return.

If you make some high value transactions, such as investment in property and mutual funds, then these transactions are automatically reported to the income tax department by banks and other authorities through Annual Information Return (AIR).

The income tax department keeps track of your AIR transactions through your permanent account number (PAN).

Similarly, large expenses must also be reported in your Income Tax Return form. You should disclose all information relating to your income/expense because the income tax department is already aware of all such transactions which are being reported through AIR by financial institutions, banks, mutual funds, etc.

The following AIR transactions must be reported in your Income Tax Return:

- Cash deposits (₹ 10 lakh and above)
- Credit card bills (₹ 2 lakh and above)
- Mutual Fund purchase (₹ 2 lakh and above)
- Purchase of bonds/debentures (₹ 5 lakh and above)
- Purchase of shares of a company (₹ 1 lakh and above)
- Purchase of immovable property (₹ 30 lakh and above)
- Sale of immovable property (₹ 30 lakh and above)
- Purchase of RBI bonds (₹ 5 lakh and above)

Be prepared for scrutiny and keep all bank statements and sale/purchase records. The chances of scrutiny may increase if AIR transactions appear on your income tax return form.

Source of income may need to be shown clearly to income tax authorities. So, keep your cash flow chart (inflow/outflow) ready.
**INVESTMENT**

**OPTIONS FOR A SAFE, STEADY AND TAX FREE RETIREMENT**

The main worry after retirement is regular returns on your investments and health coverage in case of emergencies. An average Indian saves more than 25% of his/her income. But most of them invest in low return assets with deposits @3.5% to 8% only. This is not enough to cover the loss of value due to inflation over the years. There are various options available depending upon the risk profile and required fund flow of individual. The factors which generally impact the retirement corpus are - years to retirement, risk profile, inflation and tax liability on income earned as well as withdrawals. You can have complete tax free retirement life if planned with low risk.

Buying a house through home loan for 15/20 years is one such option. You will be paying regular EMI which acts as disciplined investment. The appreciation in the property value works to mitigate the inflation effect. Within few years the EMI and the rental income becomes equal. In other words, the EMIs are paid partly through rental in the initial years and later 100% of EMI is paid from rental income. The cost of home loan after taking the income tax benefit on interest and principal is very attractive i.e. 6%. Children education can also be planned through education loan against the mortgage of house. You get deduction for interest on education loan during high income years of around 50 years of age. Give your child best education without compromising your retirement corpus. Let them pay for EMI once they start earning because there is no liability in the initial years and they need to learn disciple saving. In case of short term requirement like for example child marriage one can go for top up loans or loan against property. Rental income from property for monthly expenses after retirement is a more secured and conventional method of retirement planning. It offers high security of your investment than in equity oriented funds but the returns are low i.e. approx 2-4% in residential property and 6 to 8% in commercial property. Rental income up to ₹ 90,000/- p. m for a couple is tax free if you take the benefit of deductions.
Invest in gold as it has edge over equities: Investment in gold works both in hedge market fluctuation and inflation. Gold prices are less volatile than equities and gold gives a good return even in falling markets. Gold can be bought in physical form or in the form of ETFs (Exchange Traded Funds). It is easier to buy, hold and sell gold in ETF form. In case you don’t have a demat account, then gold funds are also available like other mutual fund units through SIP. Investment in gold is tax efficient too. As there is no income during the holding period, the tax liability is nil. You can also take a loan against gold as security for temporary needs at a reasonable rate of interest within minutes. If you need to sell, then the long term capital gain tax rates are also lower than normal rates. Moreover the cost of purchase gets increased by inflation index. Thus zero tax liability in holding while your money is appreciating more than the rate of interest or inflation in general and lower tax liability in case of sale also – that’s the advantage of buying Gold.

Buy gold for long term needs, happiness and security. Buying gold coins from banks or MMTC at a premium from market price does not help. You may not be able to sell it at a premium too - your sale might be below the market price. Hence buying in ETF form is best or buy jewellery, to make your loved ones happy.
Dividend is tax free in individual’s hands but it is not regular. If you have surplus funds, you should invest them in growth mutual funds and get tax-free income from dividends. For emergency funds requirement you can sell a part of your portfolio, money gets credited in your account within 2 days. The risk of investment in equity versus keeping in fixed deposit can be minimised by regular investments for long term only. In the long term, equity has given the best return among all the assets including real estate. In 2008, the recession that started from America was a result of default in home mortgage and prices of houses came down very sharply. Hence, keeping all your money in real estate is also risky. Diversify into other assets like equities and mutual funds.

How to build it: You should start a Systematic Investment Plan or SIP in equities if know the markets and have appetite for higher risk otherwise mutual fund is the best option. Mutual funds reduce the risk by investing in number of companies, sector and asset class like bonds etc. Moreover, mutual funds have the professional expertise for investing in equities and offer a lot of flexibility to customise as per your required funds flow and risk profile.
If you are "purchasing" a new house from the capital gains, to save tax, either you can purchase the new house within one year of selling the old house or you can purchase the new house within two years after you have sold the old house.

If you are "constructing" a new house from the capital gains, then to save tax you can construct it within three years of selling the old house.

You should not sell your new house within a period of three years from the date of purchase or construction.

If you sell any asset including equity and invest the full proceeds of sale in purchasing/constructing a house, then income tax on capital gains can be saved. You must hold the new house for at least 3 years.

You can claim deduction of interest paid during this pre-construction period. The interest for all the years during the pre-construction period is to be aggregated and claimed as deduction in five equal instalments during five successive financial years starting with the year in which the construction/acquisition is completed.

The direct tax code has proposed to treat all assets as long term if held for more than a year from the end of the financial year in which it was purchased. Hence holding for 3 years will not be required after DTC implementation.
To be a wise saver, borrower and investor, always try and save 25%-30% of your income except if you are a retired senior citizen. Try and build your assets first (house), and then indulge in expenses such as car. You should always borrow within your limits, this will keep your financial cost low (personal loans/credit cards are high cost funds - best used only in emergencies) and will help you save money for future needs.

Earn more to save more; because cutting expenses is difficult. These are your productive years, so leave the comfort zone and work hard to save for rainy/retirement days. KAL KARE SO AAJ KAR.

Financial independence could be a point to consider - all major members of family, wherever possible, should earn/work. Do not wait for the best opportunity; rather do your best now in whatever you do. And try not to stay idle.

Do not finance your major child without any limits; let him/her learn to be self-sufficient as early as possible. Let them borrow and pay for their education/car/home loan and you save for your future years. This is more tax efficient, gives financial discipline and independence to all.

Also, the golden rule of investment - Invest for long term to save on transfer costs i.e. brokerage, stamp duty, taxes etc. Follow these guidelines to become a wise saver, borrower and investor!
**Mutual fund’s Systematic Withdrawal Plan (SWP)** offers great value in terms of tax free monthly expenses after retirement. Systematic withdrawal plan is the opposite of system investment plan (SIP). You can receive commuted pension at retirement and put the money in SWP. It is convenient to manage SWP through ATMs/internet as compared to NSC or post office deposits. A fixed amount will be withdrawn every month from your SWP and deposited to your account.

The balance amount remains invested in Mutual fund. You can customise the cash flow as per your needs.

**How to build it:** If you are young, start SIP in diversified equity fund and start building your retirement corpus. This category has given the best return over the long term among all investments. Last ten years average of top ten diversified funds is between 20% to 25% p.a. In case you want to take low risk, opt for balance funds. At the age of 25 years, if you start investing ₹ 5000/- p m in a fund that grows as low as 12% a year, even then your corpus at 60 will be ₹ 2,75,00,000/-. Start early and select the top performing mutual funds instead of new fancy names. The mutual fund management expenses are regulated by SEBI and maximum limits are already there i.e. 2.25%. These expenses are already deducted from the NAV, and are hence very transparent. The next decade is projected for India’s best growth and wealth will be created. Don’t miss it. All this is 100% tax free!!

**YOU CAN CUSTOMISE THE CASH FLOW AS PER YOUR NEEDS**
Regular income and a health cover are of priority while you plan retirement. Indians are known for saving more than 25% of their incomes but they invest in low return assets (deposits @ 3.5% to 8%). Post tax, the yield is not enough to cover the loss of value due to inflation over the years. There are various options available depending upon the risk profile and required fund flow of individual. The factors which generally impact the retirement corpus are - years to retirement, risk profile, inflation and tax liability on income earned as well as withdrawals. You can have complete tax free retirement life if planned with low risk. There might be investment where funds are coming at their own pace instead of the needs and you are paying tax thereon.

Employee provident fund (EPF): The employee share gets deducted from the salary and equivalent amount is added by the employer. The amount is generally 12% of the basic salary plus DA. The returns are 8.5% p.a. Fixed, safe and its 100% tax free. The best part of EPF is that it gets invested before the salary reaches you. Hence, no more action is required, and thus there are no delays. It starts from the very beginning of your career and your employers are getting it doubled, without rating your performance. The returns are guaranteed by Govt. of India. Post tax returns are better than fixed deposits @ 12% in terms of safety too. The banks are offering up to 10% however corporate deposits can get 12%

Public Provident Fund: You can deposit from ₹ 500 to ₹ 70000/- during the financial year. The returns are 100% safe and tax free. PPF account can be opened in your spouse’s or child’s name also. The account is opened for a term of 15 years and it can be further extended for 5 years. This is the best investment for investors looking safe and steady returns. The investment of ₹ 70000/- p.a. for 15 years will help you to create a corpus of ₹ 20 lakh for your retirement.

Voluntary retirement or termination money is exempt up to ₹ 5 lakh. Money received up to ₹ 5 lakh at voluntary retirement or termination is exempt. You can take voluntary retirement benefit from multiple employers, but the tax-free amount is limited to ₹ 5 lakh. For claiming exemption employee must have completed 10 years of service or 40 years of age. Tax-free amount paid at voluntary retirement is limited to minimum of
1) 3 months of salary x number of completed year of service, or
2) Balance months left before retirement age x monthly emoluments at the time of retirement. Vacancy caused by voluntary retirement should not be filled up by replacement. It should be a reduction in workforce.
The financial goals of an individual can be achieved through ULIP (Unit-linked Insurance Plan). However, high cost, complexity in policy and low transparency makes it a difficult choice for the common man. Some of the key points about ULIP are:

- Investment in ULIP saves tax u/s 80 C up to ₹1,00,000. This limit will be reduced to ₹50,000 after the implementation of the Direct Tax Code (DTC). The minimum sum assured has been increased from 5 times of annual premium to 20 times to be eligible for deduction in proposed DTC.

- ULIP gives insurance cover along with investment in equities. If you need a high value insurance cover, term insurance is better as its cost has come down in the past. Also, buying it online makes it cheaper.

- Daily NAV is declared as per IRDA rules and your investment is controlled by experienced professionals.

- ULIP makes you invest regularly and for long term, just like SIP in mutual funds. Thus, the chance of loss due to market fluctuations is reduced. The minimum lock-in period has been raised from 3 years to 5 years. Premature withdrawals will become taxable after the DTC implementation.

- There are a number of ULIP plans with multiple features offered by insurance companies. The best ULIPs are those which give fund value plus risk cover in case of death.

- AVOID ULIP: If you do not want insurance cover or are already sufficiently insured, ELSS is a good option.

- If you do not want to take high risk of share market and are happy with return around 8%, PPF scores over it. ULIPs are more beneficial if invested for long term, at least for 10 years. There is no limit for minimum or maximum investment like PPF limit of ₹70,000
Reduce tax liability by making donations under section 80G! Under this section you can claim deduction if you have made a donation to an approved fund or a charitable institution, such as, Prime Minister’s Relief Fund, National Children’s Fund, or CRY. This deduction is over and above other deductions such as 80C.

Some donations, like those to Prime Minister’s Relief Fund, Approved University or educational institution, earthquake relief funds, national illness assistance fund, national sports fund, etc, qualify for 100% deduction from income.

Donations to CRY and Red Cross are not specifically mentioned in the Income Tax Act, but generally donations to these organizations are deductible up to 50% under section 80G.

Before making a donation, remember to check with the organization about donation’s eligibility of deduction under section 80G.

Generally you should donate only up to 10% of your gross total income. Give generously to your favourite institution next time!
A salaried person gets a fair idea about his total income at the beginning of the financial year. That’s the best time to start planning your tax-saving investments. Unfortunately, people tend to procrastinate these crucial financial decisions till it is very late. In the process, they sacrifice returns or safety, or both, when they buy in a rush. Worse, they end up buying costly financial products which don’t serve any practical purpose in their financial plan. The common mistakes that taxpayers make in this tax-saving rush are as follows:

**Investing without a goal:** Suppose you need to travel from Delhi to Mumbai. You will fix the date of journey and then choose an appropriate mode of transport, based on the time it will take and the price you are willing to pay. A tax-saving investment is no different. Just as you choose the best mode of transport to reach your destination, you need to assess the investment option that can help you achieve your financial goals. This is why you need to match your choices with your financial goals.
Not considering available options: Taxpayers often overlook the choices before them. ELSS funds are a good way to save tax for someone who has a high risk appetite. However, if the taxpayer has woken up late and there is not enough time, he may put his money in a low-yielding and tax-inefficient NSC or a bank fixed deposit. Senior citizens may be lured to invest in other options even though the Senior Citizen’s Savings Scheme also gives them tax benefits under Section 80C.

Falling for the insurance lure: The tax-planning season is the busiest time of the year for the insurance industry. As panic sets in, insurance agents know they can make a killing. In their hurry to exhaust their Section 80C limit, taxpayers don’t even look at the basic features of an insurance plan, leave alone its fine print. A taxpayer may be sweet-talked into buying a Ulip or an insurance policy even though he doesn’t need one.

Not knowing tax rules: Even if you miss the deadline set by your employer and tax gets deducted, all is not lost. You can invest the balance over the next month (31 March is the last date) in any option that suits you and claim a refund from the Income Tax Department. All you will lose is two months’ liquidity. If you file your tax online and provide your bank details, the excess tax deducted will be refunded to you within 1-2 months of filing your tax return. This is better than rushing into an investment option that will prove

Not taking tax changes into account: Income tax laws are amended regularly, with every budget adding or withdrawing some benefits. The taxpayers who concentrate their investment planning into 2-3 weeks of the year often miss these changes and blindly follow the previous year’s investment pattern. For instance, the Direct Tax Code proposes that insurance policies with a risk cover of less than 20 times the annual premium will not be eligible for tax deduction but people continue to buy endowment plans and Ulips. They might be forced to continue without tax benefits once the DTC comes into effect in 2012.
Almost 70% of all insurance policies are bought in the last three months of a financial year. This indicates that many of these plans have been bought with the sole purpose of saving tax. The majority of buyers don’t care what they are buying as long as it helps them save tax. If you are such an investor, be careful when you buy an insurance policy. Your investment will give you tax breaks this year but may not be eligible for any deduction in the coming years. The proposed Direct Taxes Code (DTC), which comes into effect from 1 April 2012, has laid down very stiff conditions for the deduction of the premium from the taxable income and the exemption for income from insurance policies.

One of the key insurance-related provisions of the DTC is that a policy will not be eligible for tax deduction if it offers a life cover of less than 20 times the annual premium. This means if the premium of an endowment insurance policy or a Ulip is ₹ 20,000, it should offer a life cover of at least ₹ 4 lakh to be eligible for tax deduction in the coming years. If this condition is not met, not only will the premium lose tax benefits but even the income accruing from the policy will be taxable.

It has been often said that life insurance should be used as a wealth protector, not a wealth creator. One should have a cover big enough to settle all outstanding loans as well as create a corpus of 8-10 times the annual income. If a person’s gross annual income is ₹ 6 lakh, he should have a cover of at least ₹ 48-60 lakh. However, the average insurance cover per policy in India is less than ₹ 1 lakh.

But instead of term insurance plans that provide a large cover at low cost, Ulips and endowment plans are more popular with investors. The bigger loss is that the risk cover these policies offer is so low compared to what an individual needs that it is almost meaningless. What’s more? Since the premium of traditional insurance plans is very high, a policyholder is not in a position to buy more life cover for himself. A term plan for a risk cover of ₹ 50 lakh would cost a 25-year-old man less than ₹ 6,000 a year. A similar cover from a Ulip or an endowment plan would come for at least ₹ 2-3 lakh.

"If the premium of an endowment insurance policy or a Ulip is ₹ 20,000, it should offer a life cover of at least ₹ 4 lakh to be eligible for tax deduction in the coming years."
Reverse mortgage your home for next 15 years after retirement and get tax free monthly cash flow from banks/Housing Finance Companies to cover regular expenses. This is the opposite of taking a home loan at the time of purchase or construction of home. You can live in the house for life. You need not repay the loan amount the legal heir may get the house back after paying the outstanding loan amount. **How to build it:** To start with, buy home through home loan for 15/20 years during your service and start disciplined retirement planning. Start with a small house, say ₹ 10 lakhs, instead of waiting. You can buy a bigger house after 5 years for self use, in case the corpus needs to be increased and the standard of living is improved. There is no income tax liability as there are no rentals. Rather, you save tax on interest paid amount. The capital gains on sale of house are not taxable if invested in another house purchase. Over time, real estate has given inflation adjusted returns. Hence, it makes sense to buy a house taking a loan instead of adding in fixed deposit for buying a house later.
This may have to change after the DTC kicks in. A major game changer for life insurance is that the tax deduction limit will get reduced from the present ₹1 lakh a year to only ₹50,000 a year under the DTC. That’s not all. This ₹50,000 limit would also include the amount paid for tuition fees of children as well as medical insurance. Hence, there won’t be too much head room left for a big premium paid on an insurance policy.

There are other things to keep in mind too. Insurance agents like to lure buyers by saying they can withdraw from their Ulips after a few years. This lock-in period used to be three years but the Insurance Regulatory and Development Authority has extended it to five years. Nonetheless, it is a widely used ploy to sell Ulips because partial withdrawals are tax-free. Right now, any income from insurance is tax-free except the premature surrender of a pension plan or a Ulip before five years. But under the DTC, withdrawals from Ulips will attract capital gains tax on the basis of the holding tenure. If you still want to buy an insurance policy to save tax, make sure that the life cover it offers is big enough. This would be possible if you take long-term plans (at least 20 years). Your agent might try to dissuade you from opting for a higher risk cover in your Ulip. He would point out that a higher deduction for mortality charges would reduce the funds available for investment. Don’t let that make you opt for a plan that might lose all tax benefits two years from now. For investors who are comfortable taking risks, equity-linked saving schemes are a better way to save tax.

These funds have given high returns in recent years and have a lock-in of only three years, which is the shortest for any Section 80C option. But being equity-oriented funds, they are subject to market risks and one should enter only if he can stomach the ups and downs. For those with a lower risk appetite, the New Pension Scheme (NPS) is a great way to save tax. NPS investors have the choice of investing in funds managed by six mutual fund houses. The NPS allows up to 50% equity exposure and the charges are negligible compared to the terribly high costs of investing in a Ulip or a unit-linked pension plan from an insurance company. But NPS is not as liquid as ELSS funds and investments that get tax deduction cannot be withdrawn before retirement.

**5 REASONS WHY INSURANCE WON’T SAVE TAX**

**No deduction:** Under DTC, an insurance policy that offers a cover of less than 20 times the annual premium won’t be eligible for tax deduction.

**Tax on maturity:** If the 20 times life cover condition is not met, even the income accruing from the policy will be taxable.

**Lower limit:** The tax deduction limit for life insurance will be reduced from the present ₹1 lakh to ₹50,000 a year.

**Tax on withdrawals:** Partial withdrawals from an insurance plan before maturity will be taxable under DTC.

**Tax on surrendering:** The surrender value of a plan will also be taxable.
As a taxpayer, you are entitled to reduce your tax liability by making certain investments during the year. Section 80C is specifically meant for claiming deductions in respect of payments/investments such as contribution to Provident Fund, ULIP, ELSS, life insurance premium, and investments in NSC. The complete list of deductions is given below:

- Contribution to provident fund
- Life insurance premium for self, spouse or child
- ULIP of UTI
- ULIP of LIC Mutual Fund
- ELSS of MF/UTI
- Annuity Plan of LIC
- Notified Pension Fund
- 10/15 yr CTD account at Post Office
- Deposit Scheme of PSUs Engaged in housing finance
- Deferred annuity
- Approved superannuation fund
- National Savings Certificate (NSC)
- Instalment for purchase/construction of new residential property
- Tuition fee of children
- Investment in public company engaged in infrastructure
- Fixed deposit in bank for tenure of 5 or more years
- Bonds issued by NABARD
Make your salary package tax-efficient by planning your income tax well.

For income tax planning, you can structure your pay package so that it includes various tax-free payments rather than getting it all as basic salary. Some of the common payments are:
- House rent allowance (HRA)
- Transport allowance
- Reimbursement of medical expense, hotel bills, foreign travel of spouse, and books
- Car provided by company
- Food coupons
- Leave travel concession (LTC)

Your EPF (employee provident fund) contribution is at your discretion; you may adjust it depending on your other investment needs. It is a good idea to raise your employer’s contribution up to 12% of your salary, as it is exempt from tax.

Though you get tax benefit on certain allowances mentioned above, all perquisites are taxable as normal salary. Some common perquisites which are taxable as normal salary are:
- Loan at an interest rate lower than SBI PLR
- Rent-free accommodation
Over the years, the Finance Ministry has introduced several measures to make taxpayers’ life easy. The 2011 budget was another step in this direction. The finance minister announced that if tax is deducted at source (TDS) for a salaried individual, he will no longer have to file tax returns. This welcome move will spare about 25 lakh individuals from the hassle of filing returns. The amendment will help do away with the duplication of information filed with the Income Tax Department. The income details, along with the TDS statements, of the salaried taxpayers are submitted by their employers. When the tax payers file their returns, they effectively give the same information all over again. The government has said that their petition can be avoided if the taxpayers declare their income from other sources to their employers. This other income needs to be mentioned in the Form 16 along with your salary income, TDS details and the tax payable on it. This tax should have been deducted.
As the new rule will come into effect from June 1 this year, it will apply to the returns for the current financial year also.

The income tax return of an individual is a declaration of his income. While lenders see it before they extend a loan to an individual, many embassies assess the financial position of a visa applicant before allowing him to travel to their country. If the taxpayers don’t file their returns, Form 16 issued by the employer can be used as a proxy for the same.

However, details of the new rule are not known yet. Some media reports have quoted senior Central Board of Direct Taxes (CBDT) officials as saying that the new rule is only applicable to salaried individuals with an annual income of up to ₹ 5 lakh. The CBDT will issue a notification soon.

It is best to wait for clarity. For instance, it is not known whether the tax payers who have a rental income and capital gains will also be exempt from filing returns. It is also unclear whether the ₹ 5 lakh limit is before or after deductions, such as house rent allowance, home loan interest and investments under Section 80 C and Section 80 CCF of the Income Tax Act.

Besides, the Form 16 only mentions income and deductions. There is no provision for the declarations under the annual information return (AIR). If investments and expenses of a tax payer exceed a certain threshold, he has to mention these in the AIR schedule. For instance, if your credit card bills exceed ₹ 2 lakh in a year, you need to mention it in the tax return.

Investments of over ₹ 2 lakh in mutual funds and ₹ 1 lakh in shares of a company also need to be mentioned. The Form 16 will need to be modified to include these details. More importantly, employers may not be willing to bear the additional responsibility.

The budget has also introduced the Sugam tax return form to simplify the tax filing process for small retailers and contractors, whose annual receipts don’t exceed ₹ 60 lakh. Presently, they file returns using the lengthy ITR4. Most of them shell out ₹ 3,000 - 4,000 every year to hire a chartered accountant or a tax consultant to fill up the 22 page form. The move will help lakhs of small businessmen and traders.

However, life insurance agents, UTI agents, post office agents and notified mutual fund agents are not covered under the presumptive scheme. They need to prepare complete books of accounts if commission earned during the year is more than ₹ 60,000.

There are more goodies in store. A web based facility has been launched to track refunds and taxes. The finance minister has also promised an efficient tax administration through a robust IT infrastructure for enhanced services. All this should combine to give people a handle on their taxes.
"Will" is the final document for legal beneficiaries. It means if some one dies without drafting his/her Will, his/her assets including insurance claims will be divided equally to all legal beneficiaries.

It is beneficial to transfer your property through Will and to create a trust through the provisions of Will.

In such cases, the trust is treated as a separate entity for income tax (such as HUF) and all the benefits of basic exemption and deductions are allowed.

It is advisable to clearly indicate which property should be inherited by which heir so that there is no legal complication later. Nomination facility in bank FDs etc. is merely for collection of proceeds and does not entitle the nominee to inherit the proceeds. Will is the legal document which decides the distribution of assets.

Trust being a separate entity, wealth tax exemption is also available.

Drafting of Will should be done with due diligence and taking care of the things like witness.

A Will can be changed any number of times during your lifetime.

There is no tax payable on assets inherited by the legal beneficiaries. But the income on those assets will be considered taxable.
Did you know that e-filing saved 10 crore sheets of paper in 2010? On an average, an individual tax return prepared on paper requires around 20 sheets of paper for photocopies and printouts. E-filing brings a refreshing savings of lakhs of rims of papers. Moreover, e-filing process does not require any physical helpdesk, hence completely eliminating physical queues, which tend to consume most productive hours.

Do You Still Stand in Line to Submit Your Income Tax Return? Not Anymore! Whether it is the queue at your office to meet the tax agent or the queue at the income tax office to deposit your tax return, you do not need to stand in line if you are e-filing your return. An individual typically spends 10-20 productive hours to get his/her tax return filed. E-filing process saved tens of thousands of productive man hours at companies to whom e-filing facility was extended.

Now you can file your returns online in just a few minutes. Either log on to any e-filing portal of an authorized e-return intermediary (such as www.taxspanner.com) or simply email your Form 16. All electronically filed returns are processed on priority basis at the I-T Department’s Centralized Processing Centre at Bangalore so that refunds can be issued faster.

Make sure that you file your return through an authorized e-return intermediary, which is registered with the Income Tax Department. When you provide your personal income tax information to unauthorized agents, your confidential data may be disclosed to agents or companies who may mis-sell financial or other products (such as insurance, mutual funds, ULIPs, etc.) to you. Unsolicited sales calls and spam emails are generally a result of compromising the confidentiality of your data. Availability of your income data gives these companies an opportunity to manipulate the sales process and to convince you to buy products which may not suit your actual financial needs.

So, why wait for July 31? File your tax returns online in just a few minutes and enjoy your weekends!
Entrepreneurs in India work hard to establish small business with limited resources, but planning is not their forte. It has been observed that even a good business fails at time due to cash crunch. We cannot eliminate taxes. However, they can be minimised with prudent planning.

If the expected annual turnover during the financial year 2010-11 onwards is below ₹ 60 lakhs, the presumptive taxation will be applicable. Under this scheme maintenance of books of accounts is not mandatory. The profit is computed @ 8% of turnover on presumptive basis which helps in reducing the cost of maintenance of books and audit by CA.

In case you have sales above the presumptive taxation limits i.e. ₹ 60 lakhs, you must get the books of account audited before September 30 and submit the audit report with income tax return.

Tax Planning needs the proper recording of all the expenses incurred for running the business. One should record even the expenses incurred before the start of business. For example, expenses like, mobile phone, petrol, advertisement for property, and brokerage when the shop/office is being searched for, will be deductible from profit. Generally, people don’t start keeping record of expenses till they start sales or even later. One more expense can be claimed i.e. interest on loan taken from friends/relatives for running the day to day working of the business. If you have taken money from a family member and s/he does not have the taxable income, paying interest to them will help you to minimise tax on business profit. Ideally interest @ 12% should be paid to keep the income tax officer satisfied.
Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued in the form of a laminated card, by the Income Tax department. Key points to remember about PAN are:

• You must have a PAN to file your income tax return.
• You don’t need to necessarily file a return just because you have a PAN. You need to file return only if your gross total income is above the exemption limit.

You need to quote the PAN when you make transactions like:

• Sale/purchase of immovable property valued at ₹ 5 lakh or above
• Sale/purchase of car for any amount
• Time deposit exceeding ₹ 50,000
• Sale/purchase of security (such as shares, mutual funds) exceeding ₹ 1 lakh
• Application for phone connection
• Payment in cash for bank draft or pay order exceeding ₹ 50,000 in a day

Incorrectly quoting a PAN will make you liable for penalty of ₹ 10,000.

PAN is your personal identity. Don’t disclose it unless required. Keep a laminated photocopy of PAN card for use & keep the original PAN card at a secure place.
The most common mistakes made by individuals while filing taxes are:

Not Filing the Tax Return: Every individual has to file income tax return if his/her total income, before allowing any deductions, exceeds the exemption limit. For example, a non-senior male having annual income above ₹ 1.8 lakhs should file return, even if he can claim the entire ₹ 1.8 lakhs in deductions such as life insurance premium, PPF investment, education loan interest, fixed deposits, home loan principal etc. So, even if your income is below the exemption limit, which is common during the beginning of your career, we’d recommend you to file tax return as this will help you in activities like loan processing and visa application.

To reduce the compliance burden, a class of persons may be exempt from filing returns.

Tax Liability for Selling a House within 5 Years of Possession: Any installment or part payment of amount due under self-financing schemes is allowed as deduction under section 80C. But, if you sell this house within 5 years of getting possession, then all the deductions claimed on this house would be deemed to be income in this year and you need to pay income tax on it. So, avoid selling your house before completing at least 5 years of possession.

Tax Impact of the Timing of Capital Gain/Loss: Long term capital loss from sale of listed securities can neither be set off against any other income, nor can it be carried forward. This is because long term capital gains income is exempt from income tax. You can sell the listed equity shares within one year and realize the short-term capital loss. So, utilize the short-term capital loss to either offset other short-term gains such as sale of house property or shares, or carry the loss forward to future years.

Avail the tax benefit of education loans rather than using up your savings to fund higher education.
Non reporting of any kind of income is quite a common tax filing mistake. Here are the most commonly not reported types of income:

**Not Reporting Exempt Income:** Several incomes, such as dividends and long-term capital gains on listed securities, are exempt from tax. Even though you do not need to pay any tax on these incomes, you must report these in your tax return. Since these incomes are reported to income tax department by companies and brokerage firms, you must also make sure to provide these details in your tax return. Otherwise, data reconciliation by income tax department may lead to notice.

**Tax and Penalty for Not Reporting Income from Previous Employer:** Every employer deducts tax on the basis of annual salary of the employee. While computing the amount of tax to be deducted (TDS), employers provide the benefit of basic exemption and deductions to the employee. If one has changed jobs during the year, both the employers will give the tax benefit of basic exemption and deductions to the employee and hence less TDS would be deducted from salary. This leads to additional tax liability at the time of filing return.

In case you do not report previous employer income in your tax return, you will get income tax notice when the TDS data is reconciled with your return data.

**Income Tax Notice for Not Reporting Bank Interest Income:** It is a common misconception that either the interest income from savings or fixed deposit accounts is not taxable, or that tax has already been deducted on interest income by bank. In fact, banks only deduct 10% TDS on interest income, whereas you may be in the 30% tax slab. Income Tax department has recently started reconciliation of TDS data received from banks and the interest income reported by individuals in their returns. Non-reporting of interest income in the income tax return is a sure shot reason to receive a notice from income tax department.

 Alfways report your interest income in your tax return.
Beware of some of the commonly made mistakes while filing income tax returns. Here are some points that you must consider before filing your returns:

Compromising the Confidentiality of Tax Data: While you should always seek financial advice from unbiased and reliable sources, some companies offer income tax filing services simply to obtain the financial data from customers. Beware! These service providers may later use this data for marketing purposes and you may end up receiving lots of unwanted calls from agents selling various insurance and investment products. So, always understand the privacy policy of your tax return filing service provider and avoid getting your tax data used against your wish.

Signing Blank ITR Forms: To file tax returns, many people hand over the photocopy (or original) of their documents to an agent and sign on the blank ITR form. The agent then fills up the data in the signed form and files the return. This is not only dangerous from data confidentiality perspective, but is also often prone to errors in your tax return. Poor handwriting and manual computations can lead to defective return. So, never sign blank return forms and always keep the copy of your filed return.

Missing the Benefits of E-filing: Many are unaware of the benefits of e-filing tax returns, such as faster refund processing and lesser chances of scrutiny. Millions of individuals are e-filing their returns in India and getting benefit of the convenience and accuracy of e-filing. Even if you file your return physically, it is first entered in electronic format before processing and hence there is always a scope of data entry error in your return. So, select a good e-filing service provider and file your tax returns from your PC.

Providing Incorrect Email-id: Since all the communication by the income tax department is now done via email, one should make sure that a valid and functional email id is provided in the tax return you file. Many individuals make a mistake of providing email ids which are either not in use or get discontinued due to inactivity or change of jobs. So, remember to provide an email id which you regularly access.
WHEN CAN YOU CLAIM DEDUCTION?

Form 16 is a certificate issued by the employer to the employee at the end of the year. This certificate provides details of the salary income of the employee and the TDS deducted from the employee’s income.

Your employer has the responsibility to issue Form 16 within 30 days from the close of financial year.

TDS deduction is your employer’s responsibility. You need not worry whether less or more tax is being deducted from your income.

Ensure that you report your investments and keep original receipts so that extra TDS is not deducted from your income.

If you missed claiming any deduction from your salary, or your employer did not allow any deduction in your Form 16, do not worry. You can claim deductions while filing your income tax return. It will be refunded to you by the IT department.

Declare other incomes to your employer so that the employer can deduct TDS on other incomes as well.

YOU CAN CLAIM DEDUCTION EVEN IF IT HAS BEEN MISSED IN YOUR FORM 16.
One of the most painful aspects of tax planning is waiting for a tax refund. Taxpayers sometimes have to wait for years before they get their money back. In some cases, taxpayers have to pay out-of-pocket expenses (up to 10% of the refund amount) to get it moving.

The simplest way to avoid these delays is to ensure that you do not pay more tax than is due in a year. For salaried people, this is possible if they submit proof of their investments to their employer well in time. Otherwise, the employer will have no choice but to deduct additional tax.

Sometimes, the proof of investment submitted is inadequate or needs more details. For instance, the employee will submit house rent receipts without the landlord’s PAN details or a receipt of a mutual fund without the time stamp on it. Therefore, submit the proof of investments well in time to avoid any last-minute glitches. Another reason for excess tax deduction could be that the employee has not given his PAN number to the company.

You must also check if your employer has correctly noted the details and is depositing the tax with your PAN number. This is important because in case of a mismatch due to a clerical error, you might find that your tax has been credited to some other PAN number. If there is a mistake, ask the employer to file “correction statement” to rectify it.

Even if you submit all the proofs of investment in time, some excess tax might still get deducted. This can be the TDS on interest from bank fixed deposits and bonds. In some cases, even though you are not in the income tax net or have already factored that income in your tax payments, TDS will be deducted.

You have a better chance of getting this excess payment refunded to you if you file your return online. Ever since the income tax department started processing returns electronically, the time taken for issuing refund cheque has reduced dramatically. If you have given correct bank details (account number, bank name, branch code and address), you can get the money in your account within days of the assessment of your return.
India is a country of entrepreneurs, who believe in working hard even in difficult business environment. There are a lot of young IT graduates who come up with new ideas for providing online solutions to fragmented products or services. Taxspanner recommends that they keep the following points in mind for minimising their income tax liability:

**Don’t make Payments outside India without TDS:** If you make payments as salary, interest, royalty or any technical fees which is payable outside India, then the company is obliged to deduct TDS on all. The company must deduct the tax at source before making payment.

**Cash payments above ₹ 20,000 should be avoided:** In startup companies, generally the account and finance department is non-existent, hence the expenses are incurred in cash by the founders. Income tax laws don’t allow cash expenses incurred above ₹ 20000. Such a payment should be made by an account payee cheque or bank draft only.

**Take loans from friends instead of receiving money as a gift:** Receipts above ₹ 50,000 from non-relatives are taxable to you.

**Provide for Office rent payable to parents:** Most IT companies have started their businesses from home or garage owned by parents. In middle class families, senior citizen parents don’t have taxable income either. Therefore, it makes sense to at least provide for the rental of your parents’ property and pay when you have a comfortable cash flow. The rent is deductible from business income on accrual basis and it will be taxed to your parents on receipt basis.

**Depreciation on Computers etc.:** The capital expense incurred is also allowed as deductible expenses in terms of depreciation. Capital expense includes car, 2-wheeler, delivery vehicle, furniture and fixture, generator, computer, printer, air conditioner, business software etc., being used for running the business.

**Insurance for business or promoters:** Insurance premium paid for health of employees is allowed as business expense.

**Employer’s contribution to PF:** As an employer, you need to get registered for PF if the total number of employees including directors (in case of a company) is 20 or more. This works as a disciplined investment approach for the employees’ retirement planning.
Are you controlling your money or is money controlling you? If you want to control your money you will require good financial planning. Financial planning is nothing but controlling your finances. This is a smart way of letting your money grow and work for you rather than working your whole life for money. Make your cash flow “need based” and “tax efficient”. To make money out of money through financial planning, it is best to take professional advice. Do not be your own doctor. You may have a fair idea but financial planners have better idea. Otherwise, you will be saving hundreds and losing thousands.

Financial Planning Helps in Controlling and Improving Fund Flow: It helps in taking stock of assets/investments in hand i.e. Shares ₹ 2 lakhs, PPF ₹ 10 lakhs @8%, fixed deposit in bank ₹ 5 lakhs @ 8%, NSC ₹ 4 lakhs, house ₹ 50 lakhs, gold ₹ 1 lakh, and so on. Now compare the risk and return associated with these: how much you need and can afford, keeping in view your cash flows and future goals. As there is a continuous change in the circumstances of one’s life; like marriage, kids’ education, your retirement, disability, etc, your income also is affected with time. There are life events affecting your income and regular expenses and also affecting the very nature of expenses – such as, house EMI and foreign tour in young age; medical expenses and kids’ marriage at middle age, etc. For example, at the age of 21 years, with no dependents, risk capacity is more and expenses are less with respect to income. Hence, one can save more and take high risks for higher returns. Major part of savings should be invested in equity oriented mutual funds for superior returns. In different circumstances, at the age of 21 years, if you are having dependants, then term insurance is necessary and it is better to keep funds in PPF, NSC. Different circumstances need different cash flow; therefore, customization of your financials is required and that is called financial planning and management.
You can also file tax returns of two years ago (ie, for 2009-10). This will be treated as a belated return. If some taxes remain unpaid, you will have to pay them along with the penal interest (1% per month of delay). In addition to this, there is a possibility of a penalty of ₹ 5,000 for not filing the return by the due date.

There are several reasons for not having filed your tax return by the due date (31 July of each year). You were travelling. You couldn’t find the time from work. Maybe some documents were missing. Perhaps, you just forgot. Whatever be your reason, the tax department is willing to give you a second chance. If you have not filed your tax return for 2010-11, you can file it by 31 March 2012 without any penalty. If all your taxes are paid, there is no penalty for filing late. However, if there is some tax due, you have to pay an interest of 1% per month of delay on the amount payable. The interest meter starts ticking right after the end of the financial year. So, if you have to pay additional tax on income for the year ended 31 March 2011, better pay it right away. If the tax payable is ₹ 10,000, along with 11% interest (for 11 months after March 2011), the total payment works out to ₹ 11,100 plus a 3% education cess.
Some taxpayers might be tempted to brush the issue under the carpet and start with a clean slate this year. This can be a costly mistake because failure to pay tax by the due date is tantamount to tax evasion. The Income Tax Department picks up cases for scrutiny at random and if it is discovered that you have unpaid taxes, a penalty of up to 300% of the amount can be slapped on you. The minimum penalty is 100% of the outstanding tax.

If all taxes are paid and there is no penalty for late filing, why is there such a big rush to file tax returns by 31 July? This is because taxpayers who file belated returns forego some of their rights if they wake up late. For instance, you cannot carry forward losses for adjusting against future gains if you file late. This is especially useful if you have incurred short-term capital losses from investments in stocks. These can be carried forward and set off against short-term or long-term capital gains made in subsequent years. Under current laws, such losses can be carried forward for up to eight years. The Direct Taxes Code had originally proposed that losses be allowed to carry forward indefinitely. However, it has now reverted to the 8-year limit.

Besides, there is no room for rectifying mistakes. If you have made some calculation error while filling in the form or if some income or exemption escaped your mind at that time, you can file a revised return. You can revise your income tax return for up to two years after it has been filed. For instance, you can file a revised return for income earned during 2009-10 till 31 March 2012. The previous year’s return can be revised till 31 March 2013. What’s more, the return can be revised any number of times—there is no limit. You need to quote the acknowledgement number and date of filing of original return to file a revised one.

So, if you suddenly find that you have not included any income or didn’t avail of any tax benefit, file a revised return right away. However, you cannot file a revised return if your return has already been assessed. Also, as mentioned earlier, this window of opportunity is open only to taxpayers who have filed their return by the due date.

**BETTER LATE THAN NEVER**

- You can file returns up to one year after the end of a financial year without any penalty. For income of 2010-11, you can file till 31 March 2012.
- There is no penalty if all taxes are paid. However, if there is some unpaid tax, you have to pay a penalty of 1% of that amount per month.
- You can also file belated return of two years ago (for 2009-10). You will have to pay a penalty of 1% per month on unpaid tax. There could also be a ₹ 5,000 penalty for late filing.
- Don’t ignore this opportunity to file belated return. If the tax department finds out that some tax remains unpaid, there is a penalty of up to 300% of unpaid tax.
- Late filers cannot carry forward losses to subsequent years. They also cannot revise their returns once they have been filed.
- If you file tax returns by due date, you can revise them any number of times till two years after the end of the financial year. For instance, you can revise returns of income earned in 2009-10 till 31 March 2012.
- Returns cannot be modified if the assessment has already been completed.
Ministry of Finance rationalizes the strategy behind the New Direct Tax Code as:

“...Any complex tax legislation increases the cost of compliance as well as administration. Given that the cost of compliance is essentially regressive in nature, this undermines the equity of the tax system. Similarly, high cost of administration is wasteful....”

“....Any further rationalization of the tax rates may not be feasible without corresponding increase in the tax base. Broadening of the base is important to enhance revenue productivity of the tax system and to improve its horizontal equity.....”

The ministry’s strategy is three-fold:

• To minimize exemptions,
• To eliminate ambiguity in the law which facilitates tax avoidance, and, lastly
• To check erosion of the tax base happening through tax evasion.

With the above rationale and strategy, the new tax code is quite up to the task. The average annual tax outgo for a taxpaying unit will not be impacted significantly, but for an individual, the tax impact could be significant, depending on the proposed changes in new tax code. The various factors which can change the tax outgo of an individual are:

• If the individual is a salaried employee, who is taking benefit of various allowances such as HRA, LTA, etc, his/her tax outgo would be marginally impacted.

• The individuals who have purchased self-occupied house property in recent years will stand to lose due to disallowance of deduction of home loan interest.

• The individuals who invest in capital assets may see a change in their tax outgo due to change in the concept of long-term and short-term capital gains

• The self-employed individuals will stand to gain significantly due to lowering of tax rate.

• Indefinite carry forward of losses will benefit everyone.
Form 16 is a certificate issued by the employer at the end of the year and provided to the employee. This certificate provides the details of your salary income and the TDS deducted from your income. Form 16 is all you need to file ITR, if you have reported all your income to the employer.

It is your right to obtain Form 16 from the employer within one month since the end of the financial year.

Obtain your Form 16 early, so that you can file your income tax return early. The earlier you file, the faster you will get refund.

Ensure that you have Form 16s from all the employers that you have worked for during the year.

Like Form 16, take your other TDS and income certificates (from banks, etc.) as early as possible so that you can report your income correctly.

When you obtain your Form 16 early, you stand a lesser chance of scrutiny notice. If you file on the last date, the chances increase.

Interest on refund amount is reduced if you file after the due date (31st of July) and the rate of interest is also too low. If you file early, you can get complete interest and faster refund.
This magazine is a complimentary in-house production for private circulation to TaxSpanner customers. Opinions expressed herein are not necessarily those of Span Across IT Solutions Pvt. Ltd. The contents of this magazine may not be transmitted, copied, or distributed, whether in the form appearing herein or in any altered or modified form, whether in whole or in part, to any person(s) or reproduced in any mode, manner or form, without the prior written consent of Span Across and the relevant owner of any vested intellectual property rights thereto. Nothing contained in this magazine shall constitute or be deemed to constitute advice or recommendation or offer to sell/purchase or an invitation or solicitation to sell/purchase any products or services of any entity by Span Across / its / affiliates / agents / service providers and/or their respective officers, employees, personnel, and/or directors. Span Across / its subsidiaries / affiliates / agents / service providers and/or their respective officers, employees, personnel, and/or directors shall not be liable for any loss, damage, costs, charges or any liability whatsoever, whether direct or indirect, arising from the use or access of any of the contents of this magazine. Recipients of the information contained herein should exercise due care and caution (including, if necessary, obtaining independent advice on matters pertaining to taxation, law, accounting and any other matters) prior to acting or omitting to act, on the basis of information contained herein.

Span Across IT Solutions Private Limited,
1110, Indra Prakash Building, 21, Barakhamba Road,
Connaught Place, New Delhi 110 001 India
www.taxspanner.com