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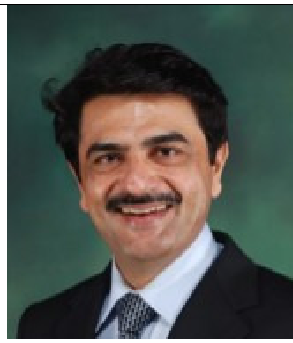

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FSIA Seminar cum Workshop Dt 20.3.2010

FSIA Conducted its Seminar cum full day workshop on the Financial Tips,
Tax Saving ideas for individuals,
Tax planning Tips for Businessmen.

It was attended by a large number of FSIA Member entrepreneurs, CFO's, Accounts Managers etc.

Some of the tips were as follows :

Part 1 : Tax Savings for Individuals

With the tax-planning season about to end, most individuals are rushing around to make investments to minimise their tax liability. It has been observed that individuals (often salaried ones) end up paying more taxes than they are obligated to.
While lack of sufficient time to conduct the tax-planning exercise is a reason, largely, this can be attributed to lack of awareness about different incentives, allowances and rebates under the Income Tax Act. Apart from the Section 80C deductions which are quite popular, there are various other sections which can help salaried individuals save taxes.
We believe there is a need for salaried individuals to devote adequate time and effort to the tax planning exercise and be aware of the various benefits that they can avail of. In this article, we present 5 tax-planning tips that can aid salaried individuals minimise their tax liability.

** The Part 2 and Part 3, shall be covered in future e-circulars

Future-ready

1. Utilise the entire Section 80C deduction

Under Section 80C, the maximum deduction available is Rs 100,000 pa. Ideally, salaried individuals whose gross total income is equal to or more than Rs 250,000 should utilise the entire Rs 100,000 limit.

Consider the case of an individual whose taxable income is Rs 600,000 and who only utilises half of the available Rs 100,000 limit. He would end up paying an additional tax of Rs 15,450 as opposed to an individual with the same taxable income, but has utilised the entire limit.

Also, at times, individuals make investments of over Rs 100,000 in Section 80C designated avenues, since they fail to understand that the benefits are capped. For example, despite making investments of Rs 70,000 in Public Provident Fund and Rs 40,000 in ELSS, the amount eligible is only Rs 100,000.

Following investments/contributions qualify for Section 80C deductions,

- Public Provident Fund
- National Saving Certificate
- Accrued interest on National Saving Certificate
- Life Insurance Premium
- Tuition fees paid for children's education (maximum 2 children)
- Principal component of home loan repayment
- Equity Linked Savings Schemes (ELSS)
- 5-Year fixed deposits with banks and Post Office

(The above list of investment/contributions is not exhaustive. For a complete list, please consult a tax-advisor)

2. Think beyond Section 80C

For salaried individuals whose gross total income exceeds Rs 250,000 pa, deductions under Section 80C may not be sufficient to reduce the overall tax liability. In such cases they can consider the following:

Home loan: Individuals intending to buy a house should consider opting for a home loan. Interest payments of upto Rs 150,000 pa are eligible for deduction under Section 24.

Medical insurance: An individual who pays medical insurance premium for self or spouse/dependent children is allowed a deduction of upto Rs 15,000 pa under section 80D. An additional deduction of up to Rs 15,000 pa is allowed for premium payment made for parents. In case the parents are senior citizens, then the maximum deduction allowed is Rs 20,000 per year.

Donations: Subject to the stated limits, donations to specified funds/institutions are eligible for tax benefits under Section 80G. Prefer the Government Charities, lime PM Relief Fund, duly registered Arya Samaj organisations, and those you can give you a valid 80 G deductions. Avoid

Education Loans: Salaried individuals who plan to pursue higher education should avail of an education loan as the entire interest is eligible for deduction under Section 80E. The loan can be for self, spouse or child from an approved charitable institution or a notified financial institution.

3. Restructure the salary

Restructuring the salary and including certain components can go a long way in reducing the tax liability. Unlike eligible investments which lead to an additional cash outflow, restructuring the salary is a more 'efficient' means of claiming tax benefits. The following can form a part of one's salary structure:

- Individuals living in a rented accommodation should have House Rent Allowance (HRA) as part of their salary. (Instead of Rent Free house perquisite)
- Transport allowance is exempt upto Rs 800 per month.
- Leave Travel Allowance (LTA) can be claimed twice in a block of four years for domestic travel.
- Medical expenses which are reimbursed by the employer are exempt up to Rs 15,000 per year. Please note, a monthly payout of 1250 pm is not allowed. This is against proper receipts and bills only.
- Food coupons like Sodexo etc are exempt from tax up to Rs 60,000 per year.

4. Claim tax benefits on house rent paid

Salaried individuals can claim rent paid by them for residential accommodation, if HRA doesn't form part of their salary. This deduction is available under Section 80GG and is least of the following:

- 25% of the total income or,
- Rs 2,000 per month or,
- Excess of rent paid over 10% of total income

Please note that the above deduction will be denied if the taxpayer or his spouse or minor child owns a residential accommodation in the location where the taxpayer resides or performs his office duties.

5. Opt for a joint home loan

As discussed earlier, the principal repayment on a home loan is eligible for a deduction of up to Rs 100,000 pa and the interest paid is eligible for a deduction of up to Rs 150,000 per year.

In cases where the home loan is for a substantial sum, it is not uncommon for the interest and principal repayment to exceed the stated limit. To ensure that the tax benefit is optimally utilised, an individual can consider opting for a joint loan with his spouse or parent or sibling.

This will ensure that both the co-owners can claim tax deductions in the proportion of their holding in the loan. The co-owner falling in the higher tax bracket should hold a higher proportion of home loan to ensure that the tax benefits are maximised.

Benefits of tax-planning

Income (Rs)	Tax Rate (%)	Maximum tax savings after 80C deductions (Rs)	Savings invested @ 8% pa for 20 years (Rs)	Savings invested @ 15% pa for 20 years (Rs)
Upto 150,000	Nil	-	-	-
150,001-300,000	10	10,300	48,008	168,575
300,001-500,000	20	20,600	96,016	337,151
500,001 and above	30	30,900	144,024	505,726

As can be seen in the table above, making use of the available tax deductions can go a long way in helping individuals accumulate wealth. Consider the case of an individual in the highest tax bracket with a gross total income of Rs 600,000.

If he chooses to ignore the tax sops available under Section 80C, his tax liability will amount to Rs 87,550. Conversely, if he chooses to makes eligible investments/contributions of Rs 100,000 under Section 80C, his tax liability will be Rs 56,650 i.e. a saving of Rs 30,900.

The amount saved in turn can be invested in various avenues like fixed deposits, mutual funds and equities, depending on his risk appetite.

Given that the tax-planning exercise can aid salaried individuals to both save on tax and accumulate wealth, they would do well to offer the exercise the importance that it deserves.

For queries, suggestions and feedback , you can e-mail us at :

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Notes & disclaimer

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