TAX GUIDE

2014-15

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Why Do You Need Tax Planning ?

Tax planning is imperative because it helps you to smartly minimise the amount of income tax payable and hence have more savings. These savings can be invested further for future financial security. When each financial year comes to a close, there is a rush to find ways to minimise tax incidence for the year through approved investment options. And as action is being taken at the last minute, you might miss out on some opportunities and end up paying a higher tax than you should.

Various options for tax planning in India

Tax planning can be done by simply investing a portion of your total investment portfolio in some securities for which the government has provided tax benefits. Here is a list of available tax saving options according to the various sections of the income tax act and when should investors consider them:

Section 80C

1. Life Insurance:

One of the most preferred avenues for investment, life insurance has long been considered as a tax saving tool. Life insurance is the most cost effective tool when you have to provide a financial protection to your family in case of eventualities. What amount of life insurance one should have depends on many factors such as income, expenses, liabilities, goals etc.

Life insurance provides several other benefits such as life cover, wealth maximisation opportunities, child's future planning, retirement planning etc.

2. Public Provident Fund (PPF):

Public Provident Benefit is a highly beneficial small savings scheme available to investors. Here, not only the investor can enjoy deduction on the amount invested in this scheme but the interest received on maturity is also exempt from tax. Investment can start from Rs.500. The flexibility in contributions as per ones requirement makes it an ideal choice for long-term investments and availing tax benefit year on year.

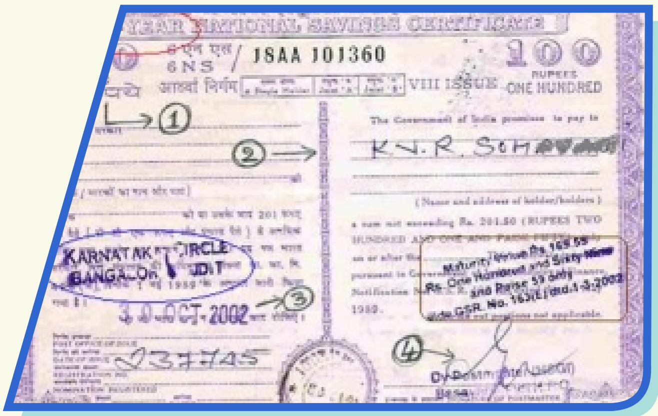
3. Equity Linked Savings Schemes (ELSS):

The proposed new Direct Tax Code has not been in favour of the instrument. But for investors with high-risk appetite and a slightly longer horizon, ELSS is still a considerable choice. Do a good research before finalising your scheme.

4. Fixed Deposit:

Bank Fixed deposit for five years falls under Sec 80C tax benefit. Although it is the most viable option for investors when last minute decisions have to be taken, the taxability of interest lowers the net yield. Still, it is a good option in current scenario especially for individuals in lower tax bracket.

5. NSC:



The National Savings Scheme has been revived and there is a new 10-year scheme. However, interest received on NSC, is taxable in the hands of the investor. With taxability of interest and rate market linked, it does not appeal to many investors now when compared to other avenues under section 80C.

Section 80D

Under this section, one can avail up to Rs.15000 for self and family while additional Rs.15000 is available for parents. In addition to this, further deduction of Rs.5000/- is available in case the policy is taken on life of a senior citizen in each category as mentioned above. However, it should not be considered only for tax benefit, as the purpose of health insurance is to provide you benefits in case of emergencies. To buy the right scheme that matches your requirement, a detailed analysis should be done on benefits and exclusions.

Section 80CCD

The New Pension Scheme gives tax benefit under this section to individuals if they contribute 10% of their gross income (if in business) or 10% of the basic salary (if employed) in this scheme. However, the maximum limit clubbed with 80CCE is capped at Rs.1 lakh. Being a low cost product it is one of the good avenues for retirement planning, especially in absence of pension plans.

Section 80CCD (2)

Not many employers offer it and neither employees are aware of this additional tax benefit. Under this section, if an employer contributes 10% of an employee's basic salary to New Pension Scheme, the amount is an additional deduction which employee can claim from his income. This provision was made in this year budget and it reduces tax liability by a good amount.

So if someone is drawing a basic monthly salary of Rs.50,000 he can avail additional deduction of Rs. 60,000 annually. For an individual in highest tax bracket i.e. 30% this will result in additional tax saving of Rs. 18,000. But the decision of this provision rests with the employer and one has to negotiate to include it in the salary structure, if not there.

You can choose any or a combination for the above options according to your investment preferences for effective tax planning. Selection of right tax saving instruments is essential for reaping the desired benefits. Last minute rush can lead to mistakes and strain your finances. Take a wiser approach and distribute your investments by planning it early.

Section 80 CCG

The Rajiv Gandhi Equity Savings Scheme (RGESS) is a new tax benefit scheme introduced for equity investment in select stocks, mutual funds and ETFs. Under this scheme, a first time investor with a gross annual income less than Rs.10 lakhs, can claim up to Rs.50, 000 of investments in specified securities for tax deduction under section 80-CCG.

Time to plan your Income and Taxes for 2014-15

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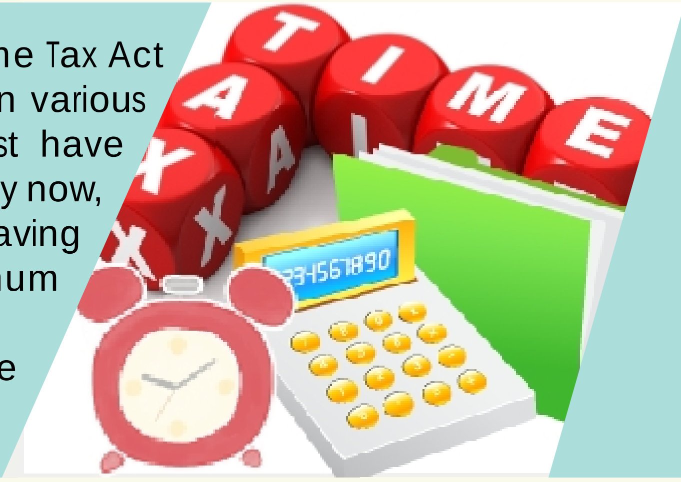
There are many sections defined under the Income Tax Act that enable individuals to save tax by investing in various qualified instruments. Since your employer must have asked you to submit your investment declaration by now, It’s best time to plan your investments in tax-saving instruments and look at possibilities to save maximum possible tax in the current financial year.

These are some of the major sections that enable you to reduce your income tax liability:



Section 80C

Section 80C of the Income Tax Act allows income tax exemptions to individuals on investments in certain instruments. The maximum limit to claim deduction under this Section is Rs 1 lakh. You can invest Rs 1 lakh in one or more of these instruments to avail tax rebate under Section 80C.

1. Employee Provident Fund & Public Provident Fund
2. Life insurance (term insurance as well as endowment plans)
3. Pension Plan
4. Equity-linked savings schemes (ELSS) of mutual fund
5. Specified government infrastructure bonds
6. Principal repayment of housing loans
7. National Savings Certificates (NSC) and interest accruals on previous years SCs can also be added to the Section 80C limit

Home Loan Benefits

Housing loans provide tax relief. The principal repayment of a housing loan attracts rebate under Section 80C up to Rs 1 lakh and the interest payment attracts a rebate of Rs 1.5 lakhs.

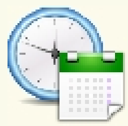
Medical Insurance

In addition to Section 80C, there is Section 80D that enables an individual to claim rebate on mediclaim policies. Payment of premium for medical insurance (mediclaim) is eligible for tax exemption up to Rs 15,000. You can avail this deduction on medical insurance premium paid for yourself, spouse, parents and children.

Other deductions for salaried taxpayers

If your employer provides medical allowance, you can available an income tax deduction of up to Rs 15,000 per year by offering proof of the relevant expenses.
If the employer gives leave travel allowance as a part of your salary, you can avail income tax deduction on travel expenses (family travel expenses can also be covered if family travels along with the taxpayer). Leave travel allowance can only be availed on the expenses incurred on domestic travel. However, the travel mode can be anything (taxi, bus, train or air).

Time to review saving



As we mentioned earlier, it is the best time to plan for your investments to submit investment declaration to your employer, these are some factors you should keep in mind while taking decisions on saving tax:

First of all, try to exhaust the quota for Section 80C. You can look at various options to invest and save tax under Section 80C. Salaried people can also look at saving tax by planning the expenditures under medical allowance, child education allowance and conveyance allowance.
Investing in a medical insurance policy is another option to save tax, if your Section 80C limit is already exhausted. However, it is not advisable to take another medical policy just for the sake of saving tax, if you already have one.

Tax & investment tips for financial year 2014-15

By Subhash Lakhotia, Tax and Investment Consultant,
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Let us welcome the new financial year 2014-15. Let us also hope that the new financial year would bring new flavor of tax and investment planning ideas in the lives of tax payers. Let us go through time tested tax and investment strategies for FY 2014-15 to achieve our desired results.

1. Income-tax file for one and all

In whose name to make the investment – this should be the first point in the back of your mind before planning investment strategies this year. It is time now for every tax payer in the country to make a resolution to have a separate independent Income-tax file for every member in the family. The objective of this is to achieve tax planning and cut down on your income-tax payments. First, think of your wife. If she does not have a separate independent Income-tax file, start with one.

The concept of gift and loans in the name of your wife will help you to achieve this. However, do remember that your wife can receive gift from any relative other than her husband, father in law and her mother in law. However, the wife is free to take loan with reasonable interest from anyone including the husband. Similarly, adopt the concept of gifting your major children and start having separate independent Income-tax file for your major children.

2. Investments for Hindu Undivided Family tax file in your kitty

Investments made by your Hindu Undivided Family (HUF) can bring rich dividends for you in 2014-15. If you are a Hindu, then it is time now to find out whether you have a separate independent Income-tax file of your Hindu Undivided Family. If still now you have not been instrumental in opening a separate Income-tax file for your Hindu Undivided Family, this is the time when you should start this in your family so that it helps you in the process of tax planning.

The HUF file apart from enjoying the basic income-tax exemption of Rs. 2,00,000 will also continue to enjoy tax deduction in terms of section 80C as well as deduction on interest on housing loans. Also do remember that your HUF file can come into existence whether you have a son or just a daughter and even if you do not have any children, still your HUF file can come into existence right now.

3. Deposits in savings bank account

In F.Y. 2014-2015 also consider keeping money in the Savings Bank Account specially because the interest rates in the Savings Bank Account have gone up. Further, the biggest advantage is that the interest income from deposits in Savings Bank Account in Banks, Co-operative Society and a Post Office will be exempted up to Rs. 10,000 as per section 80 TTA of the Income –tax Act, 1961. This benefit is available to Individuals and Hindu Undivided Families. The "Time Deposits" interest income would however, not enjoy the deduction, though.

4. Plan for investments for your minor children

If you have a minor child or a grandchild, chalk out different strategies for the financial security of the child. If you want to have good income and wealth in the name of the minor child and do not like clubbing of the income of the minor child, think of creating a separate independent 100 per cent "Specific Beneficiary Trust" in the name of the minor child based on the principles enunciated by the various courts, including the Supreme Court of India so that the income of the minor child with special terms and conditions mentioned in the Trust Deed is not clubbed with the income of the parents. It is also possible for you to think of starting a PPF account in the name of the minor child for his or her safety and also do not forget to take out Life Insurance Policies specially in the name of your minor child which will help the process of investment strategy in the years to come for the safety, security of your children.

5. Zero coupon bonds

Think of investing in Zero Coupon Bonds in F.Y. 2014-2015. It should be taken as a preferred tool of instrument of investment especially by persons not interested in regular income. Generally the maturity time of Zero Coupon Bond is ten years. Also look into the tax planning aspect at the time of maturity. Because of the benefit of Cost Inflation Index, tax will be virtually nil on your income from Zero Coupon Bonds at the time of maturity. It is also good to gift Zero Coupon Bonds to your minor children aged eight years and above.

6. Tax free bonds

If you come in the highest income bracket – that is, if you have an income exceeding Rs. 10 lakhs a year - surely it is worthwhile for you to make your investment in tax free bonds, especially if you calculate the impact of income-tax savings on the same. The investment in F.Y. 2014-15 in tax free bonds would be better than Bank Fixed Deposits. Grab fast the Tax Free Bonds, before they vanish.

7. Postal instruments

Do invest in Post Office Instruments like the National Savings Certificate VIII issue, the National Savings Certificates IX issue, Post Office Time Deposit.

Receipts and Senior Citizen Savings Scheme keeping in view the aspects connected with tax deduction under section 80C and also the rise in the interest rates. The above items from Post Office will be eligible for 80C deduction. There has also been some increase recently in the interest of these investments which would be effective from the F.Y. 2014-15.

8. Continue investment in Public Provident Fund

Continue to keep your investment in the Public Provident Fund Account because the interest income from Public Provident Fund will now be 8.7 per cent. Moreover, such income will continue to be exempted from income-tax. Also do open Public Provident Fund Account for your minor children and spouse. However, the total investment in Public Provident Fund for you and your minor children taken together in a financial year should not exceed Rs.1 lakh. Better invest in PPF Account as soon as possible during the financial year.

9. Real estate investments for the family

In case you do not yet own a residential house property, it is time now to start investing in it. The investment in residential property would also bring home for you a special tax deduction under section 24 for the interest payment on loan for the residential property. The maximum deduction would be Rs.1,50,000 for the interest payment. Besides, the repayment housing loan also would enjoy tax deduction under section 80C. It would be better to buy a house in the name of two or more family members so that each one can enjoy tax deduction. From the taxation angle it would not be worth just to buy a piece of land because no tax benefit is available only on land purchase.

10. Time to think on investments in NPS

Please focus your investment strategy for F.Y. 2014-2015 on the investment vistas related to the New Pension Scheme. The New Pension Scheme into operation for the last couple of years, but it has not become very popular. It is time to go for the NPS. Study the provisions in detail and try to open separate NPS account for different members in your family. For those tax payers who have high income and considerable wealth, it is recommended that the Tier II account in NPS should also be obtained. If you are completing 60 this year, you should be more careful to immediately open the NPS account in your name. This is mainly because once you have completed 60, you cannot open a new NPS Account. But if you have already have one you can continue contributing to it.

11. New life insurance policies

Are you adequately insured? Let this question be asked by every adult income-tax payer. I would like every tax payer to take care of securing his family during the year against any unpleasant eventuality. One of the best ways to protect the family is to adequately insure all family members. It is time for you to sit down and ponder over whether all family members are adequately insured. In most cases, the answer would be a 'no.' Hence, during F.Y. 2014-2015 ensure that you are properly insured. Do not forget to take an insurance policy for your daughter too. For all those engaged in business it is time now to think of Married Women Property Act Policy with tons of benefits in years to come.

12. Rajiv Gandhi Equity Savings Scheme

For all those tax payers who have never had any exposure in the stock market even till now for them it is good idea to think of this investment during F.Y. 2014-15 so that tax incentive is being made available in the income tax law under Section 80CCG whereby first time investors in the stock market can go in for making investment up to Rs. 50,000 and enjoy a tax deduction equal to 50 per cent of such investment.

13. Investment in gold & silver

Purely from investment angle, it makes no sense to invest in gold jewellery for use at a future point of time. Generally, it is seen that people buy jewellery specially during the festive season when there are no making charges. The jewellery is purchased for, say, the marriage of your daughter. But it may take place a decade later. Hence, it is recommended that in F.Y. 2014-2015, you buy jewellery when the purpose is your own use but abstain from investing in jewellry for future use;. It would become outdated by that time. It will, however, be good to buy gold coins and investments through Gold ETF.