Tax Planning: All You Need to Know About Saving Income Tax

Do you feel that you are paying too much tax? Have you ever thought of how to save tax from your taxable income?

Whether you are a veteran taxpayer or a first timer, if you haven't been planning your taxes properly, you have likely been paying more tax than you should.

At the end of every financial year, many tax payers frantically make investments to minimize taxes, without adequate knowledge of the various available options. The Income Tax Act offers many more incentives and allowances, apart from the popular 80C, which could reduce tax liability substantially for the salaried individuals.

The Indian Income Tax Act allows for certain deductions which can be claimed to save tax at the time of filing of Income Tax Return by all classes of taxpayers (i.e. salaried individuals, professionals, businessman etc.). These deductions which help in saving tax are only available if the taxpayer has done proper tax planning during the year.

If an individual has done proper tax planning to save tax, such deductions (subject to a maximum of Rs. 1,50,000 under Section 80C) would be subtracted from the gross total income and income tax would be levied on the balance income as per the income tax slabs in force.

In order to know that how much you can actually save on taxes it is important to understand the slabs. Based on the annual income of an individual, the tax payers are categorized into the following income tax slabs:

Age Band	Income Tax Slab	Tax Liability
Below 60 Years	Up to Rs. 2,50,000	Nil
	Rs. 2,50,001 to Rs. 5,00,000	5% of total income exceeding Rs. 2,50,000
	Rs. 5,00,001 to Rs.10,00,000	Rs. 12,500 + 20% of total income exceeding Rs. 5,00,000
	Above Rs.10,00,000	Rs. 1,12,500 + 30% of total income exceeding Rs. 10,00,000
Senior Citizens (60-80 Years)	Up to Rs. 2,50,000	Nil
	Rs. 2,50,001 to Rs. 3,00,000	Nil
	Rs. 3,00,001 to Rs. 5,00,000	5% of total income exceeding Rs. 3,00,000
	Rs. 5,00,001 to Rs.10,00,000	Rs. 15,000 + 20% of total income exceeding Rs. 5,00,000
	Above Rs.10,00,000	Rs. 1,15,000 + 30% of total income exceeding Rs. 10,00,000
Very Senior Citizens (Above 80 Years)	Up to Rs. 2,50,000	Nil
	Rs. 2,50,001 to Rs. 3,00,000	Nil
	Rs. 3,00,001 to Rs. 5,00,000	Nil
	Rs. 5,00,001 to Rs.10,00,000	20% of total income exceeding Rs. 5,00,000
	Above Rs.10,00,000	Rs. 1,00,000 + 30% of total income exceeding Rs. 10,00,000


Section 80C
Investments


Section 80CCC
Insurance Premium


Section 80CCD
Pension Contribution


Section 80TTA
Interest on SB A/c


Section 80GG
House Rent Paid


Section 80E
Interest on Education Loan


Section 80EE
Interest on Home Loan


Section 80D
Medical Insurance


Section 80DD
Disabled Dependent


Section 80DDB
Medical Expenditure


Section 80U
Physical Disability


Section 80G
Donations


Section 80GGB
Company Contribution


Section 80TTB
Interest Income

Tax Saving Expenses

Let's talk about tax saving expenses first. We incur several regular expenses which make us eligible for tax benefits but we fail to utilise them due to our ignorance. Here are some common expenses which can save a lot of taxes for you.

- **Tuition Fees:**
  IT laws provide the opportunity to compensate the expenses you incur on your children's tuition fees by reducing your taxes, up to a maximum of 2 children. You can claim this deduction under section 80C of IT Act.
- **Repayment of Home Loan:**
  The burden of your home loan EMIs can reduce the burden of taxes. You can get the benefit on both principal & interest component of your instalments. The principal amount re-paid in the current financial year is included under section 80C, offering a deduction up to Rs. 1,50,000. The interest portion offers a deduction up to Rs. 2,00,000 separately under section 24. Benefit on interest on home loan for first time buyers is up to Rs. 50,000 under section 80EE. If you are living in the home on which you took first home loan, you can get another loan for the second house. There is no limit on income tax deduction on the interest payment of second home loan.
- **Repayment of Education Loan:**
  If a taxpayer has taken an education loan for the higher education of himself or spouse or children or the student of whom he is the legal guardian, he can claim deduction under Section 80E and save taxes. This deduction is only allowed for the repayment of interest and not for the repayment of principal amount of education loan. There is no maximum limit for claiming deduction under section for the repayment of interest on education loan. Deduction under Section 80E is only available for Individual taxpayers and not to HUF.
- **Pension Funds:**
  You can reduce your taxes when you contribute to certain pension funds. Provisions regarding tax benefits in this case are covered under section 80C / 80CCC / 80CCD(1) / 80CCD(1B) / 80CCD(2).
- **Medical Insurance & Health Check-Up:**
  If you pay premiums for your health insurance, then you can claim a deduction up to Rs. 25,000 for medical insurance of self, spouse and dependent children and additional deduction of Rs. 25,000 for medical insurance of parents less than 60 years of age or Rs. 50,000 if they are more than 60 years old under Section 80D of the IT Act. Just make sure not to pay your premiums in cash.

Other than these common expenses, there are some uncommon and less known expenses which can help you further reduce your tax liability.

- **Medical Expenses Of Disabled Dependent:**
  If you have a dependent person in your family who is suffering from a disability, then you can avail tax benefit under section 80DD. It can help you save up to Rs 1,25,000 from your taxable income.
- **Medical Expenses Of Disabled Individual:**
  Similar to deduction under section 80DD, an individual suffering from disability himself gets tax benefit under section 80U. The maximum deduction limit under this section is Rs 1,25,000.
- **Treatment Of Specified Diseases:**
  For certain specific diseases like cancer and AIDS, IT Department offers tax benefits to the individual under section 80DDB on the basis of expenses incurred by him for his treatment or for his family members suffering from such ailments.

There are several types of donations which are exempt under Income Tax Act.

- **Charitable Donations:**
  If a taxpayer makes a donation for charity, social or philanthropic purpose or makes a contribution towards National Relief Fund, then this donation can be claimed as a deduction under section 80G of

the IT Act. The Finance Ministry has pre-specified the organisations to which the taxpayer can make the donations and deduction allowed depends on the purpose for which the donation has been made.
In some cases, 100% of the donation made is allowed to be claimed as a deduction whereas in certain cases only 50% of the donation made is allowed to be claimed as a deduction for the purpose of saving taxes. Donations made in kind are not allowed to be deducted. For deductions made through cash, only Rs. 10,000 would be allowed to be claimed as a deduction. For claiming deductions above Rs. 10,000, the taxpayer would have to make the donation through cheque.

- **Donations For Scientific Research Or Rural Development:**
  Any donation made for scientific research or rural development is eligible for deduction under section 80GGA of the Income Tax Act.

Tax Saving Investments

There are several avenues which can help you save taxes voluntarily. If you have surplus money which you want to invest, then why not invest in options which can fetch you dual benefits, i.e. lucrative return as well as tax exemption.

- **Employees' Provident Fund:**
  If your employer has opened an EPF account for you, then you are already investing in a very lucrative investment option. The contribution that you make to your EPF or PF account can be claimed as deduction under section 80C. The interest income & maturity amount that you get as a result is also exempt from tax if you have completed 5 years of service.
- **Voluntary Provident Fund:**
  12% of your basic salary goes as a mandatory investment in your EPF. However, you can choose to invest more (up to 100%) of your basic salary + DA through voluntary contributions. In case you choose to invest more, your EPF becomes your VPF. VPF earns you tax-free interest of 8.4%. Therefore, you can increase your contributions in VPF to get the most out of your deductions under section 80C.
- **Public Provident Fund:**
  Other than PF, you can also invest in PPF. Just like PF, you can get tax deduction on your contributions while resulting interest income & maturity amount stays exempt from tax.
- **Sukanya Samriddhi Scheme:**
  This is arguably one of the best tax saving investment options available today covered under section 80C. It offers higher rate of return on investment when compared to PF & PPF. However, this scheme is only available to parents or guardians of a girl child.
- **National Pension Scheme:**
  It is a saving scheme offered by postal department eligible for section 80C deduction. It is considered

a highly secure option having almost zero risk. Though interest earned is taxable, it also qualifies for deduction under section 80C.

- **5 Years Bank & Post Office Time Deposit Account (National Savings Certificate):**
  Five years fixed deposits can be opened with any branch of Indian Post Office or banks offering tax saving fixed deposits. Post office time deposit is same as fixed deposit provided that the person has no limits on how much amount he/she can put in it. The minimum amount that is required to put in post office time deposit is Rs200 and has a compelling interest rate as 8.5% per annum and also offers tax deduction.
- **Life Insurance:**
  The premium paid for life insurance policies are liable of tax deduction under section 80C of Income Tax Act. As per amendments introduced in the Finance Act, 2003, any proceeds received on account of maturity/surrender of an insurance policy were exempt from tax only if the premium paid did not exceed 20% of the sum assured. As an example, if the annual premium is Rs. 10,000, to qualify for the exemption, the minimum sum assured under the policy must be Rs. 50,000.
- **Unit Linked Insurance Plan:**
  This investment product not only provides life insurance but also channels your savings into market-linked assets. The asset allocation varies between debt and equity offering around 5-9 fund options. On exiting the policy (allowed only after a minimum of 5 years) or at maturity, the amount given is tax free. This is a long-term investment (of 15-20 years) and an investor should remember that the longer the investment, higher the returns.
- **Equity Linked Saving Schemes:**
  The Equity-Linked Saving Schemes (ELSS) are diversified mutual funds with 65% fund allocation in equities and can be used to gain tax benefit of up to Rs 1.5 lakh per year. ELSS comes with a lock-in period of 3 years. You can get your returns in two ways: either in dividends (if one is looking for regular income), or growth option (if one wants a long-term savings scheme). Dividends in this schemes are not taxed. This makes it tax-free for both, the dividends-pay-out investors and the long-term investors. However, it is advised to diversify your investments across several ELSS so as to mitigate your risks because their returns are based on market performance.

Tax Saving Tips For Salaried Individuals

- **HRA Deduction For Rent Paid:**

If you do not receive any HRA from your company, the least of the following could be claimed under Section 80GG:

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

This deduction will however not be allowed, if you, your spouse or minor child owns a residential accommodation in the location where you reside or perform office duties.
If HRA forms part of your salary, then the minimum of the following three is available as exemption:

- The actual HRA received from your employer
- The actual rent paid by you for the house, minus 10 per cent of your salary (including your allowances)
- 50 per cent of your basic salary (for a metro) or 40 per cent of your basic salary (for non-metro).

- **LTA Deduction For Travel Expenses:**
  LTA is another component of your salary which can fetch you tax benefits. LTA concession can be claimed for two journeys in a block of 4 years. Expenses incurred by you & your family on travel for which your employer gives LTA can be claimed as deduction.

- **Donations To Political Parties:**
  Any donation made to political parties is exempt from tax if it satisfies certain conditions under section 80GGC.
- **Tax Benefit On Gratuity:**
  Gratuity received on retirement or on becoming incapacitated or on termination or any gratuity received by the widow of the deceased employee, children or dependents is exempt up to Rs 10,00,000 (proposed to be enhanced to Rs 20,00,000) subject to certain conditions.
- **Meal Coupons:**
  Some employers provide meal coupons like Sodexo to their employees. These aren't taxable up to Rs 2,600 per month.
- **Medical Bills:**
  It is beneficial to keep the receipts of medical expenses safely to save tax. You can gain tax benefit of up to Rs 15,000 on medical expenses for yourself and your dependents. This exemption is proposed to be replaced with the standard deduction from FY 2018-19.
- **Daily Travel Allowance:**
  Employees can also get tax benefits on conveyance up to Rs 1,600 per month from their employer. One can save as much as Rs 19,200 per annum on tax through conveyance allowance. Moreover, to claim this benefit one does not need to submit any bills or proofs. Some companies have the policy of daily travel allowance if an employee is commuting by car or bike. Employees can claim the benefit by submitting original fuel bills. The limit of tax benefit depends upon the type and capacity of vehicle.
- **Car Leased By Employer:**
  If someone is making use of car lease policy offered by his employer, he can drive a car leased by his employer and therefore save tax on car EMI since he may not require buying a car. In this case, he cannot take the benefit of Daily Travel Allowance.
- **Expenses Related To Internet Or Phone:**
  Employees often get mobile phones and internet devices from their employer to do their jobs effectively. Expenses incurred in using these devices are either pre-paid by the employers or can be reimbursed by the employees. Tax benefits can be claimed on these expenses.
- **Money Under VRS:**
  Public sector employees working under the Central government or State government can get this additional tax benefit. When such employees take voluntary retirement, the money they receive as a result of VRS is non-taxable up to Rs 5 lakh.

Tax Saving Tips For Businessmen

- **Distributed Profit To Partners In Partnership Firms:**
  There is no tax in the hand on partners if their partnership firm is making profits and partners decide to distribute profits among themselves. Partners get tax benefit because their partnership firm has already paid taxes on the profits.
- **Travel Or Hotel Expenses:**
  Business owners have to often travel a lot to run and grow their business. They never pay for such expenses from compensation they draw for themselves. If they pay for such expenses from their own pocket, they can show them as business expenses and claim tax deduction.
- **Food Expenses In Business:**
  Business owners often meet a number of persons on a daily basis for the purpose of their business like vendors, customers, clients etc. During such meetings, often money is spent on food or snacks. Such expenses can be shown as business expenses to claim tax deduction.

- **Amount Received As Gift On Marriage:**
  You can receive gifts from your relatives, friends and family on the occasion of your marriage and you don’t have to pay any taxes.
- **HUF Receipts:**
  Hindu Undivided Family status is given to the Hindu, Sikh and Jain families. According to the Income-tax department, HUF is a separate tax entity, with a different PAN and bank account that is exempted from tax. This is as per Section 10(2) that clearly states that any amount received from these families’ income or family estate is exempted from tax obligations. A person is allowed to pay tax from their salary under their name and deposit their secondary income in a HUF account that is not liable to tax.
- **Agricultural Income:**
  Any income generated from agricultural activities is exempted from tax under the Indian Income Tax Act. This is done to boost the agricultural sector. Any rent from agricultural land, income from products or from farm buildings is not taxed.
- **Inherited Amount Through Will:**
  There is no inheritance tax in India. So anything you get from your parents or uncles through WILL is not taxable in your hands. It becomes your non-taxable income.
- **Interest Income On Saving Account:**
  Under Section 80TTA, interests earned under saving accounts up to a maximum of Rs 10,000 can be claimed as a deduction. On your ITR, it is marked as income from other sources and is later on deducted as per Section 80TTA. In addition, someone with NRE account doesn’t have to pay tax on interest income on saving or fixed deposits.

Other Tax Saving Tips

- **Setting Off Capital Gain:**
  When you make capital gains on your investments, you attract taxes. However, if you make a loss then Income Tax Department allows you to carry forward your capital loss up to 8 years. Note that you can set off capital losses only against capital gains and not against any other income. Also, long-term capital losses can be set off only against long-term capital gains (any asset is considered as a long-term capital asset if that asset was held by the taxpayer for more than 2 years and he can claim exemption from paying such capital gain tax if he invests the amount of gain from sale of such assets in specified instruments).
- **Educational Scholarships:**
  As per the Income Tax Act Section 10(16), scholarships or awards granted to students by government or private trust are to be exempted from tax. No ceiling is placed on the amount and the total sum is received for the scholarship purpose.
- **Salary Restructuring:**
  When switching jobs we only focus on higher CTC. However, a higher remuneration will also result in higher taxes. Therefore, it is equally important to ask your prospective employer to structure your salary in such a way that your take-home pay is maximised & tax outgo is minimised by incorporating meal coupons, travel, house rent and medical allowances etc.

Summary

As a final word, use the following pointers to plan your tax-saving for the year:

- Check the tax-saving expenses that you're already making that you can claim. This includes expenses like insurance premium, children's tuition fees, EPF contribution, home loan repayment etc.
- Deduct this amount from ₹1.5 lakh to figure out how much to invest. The entire amount doesn't need to be invested if expenses are covering it.
- Choose tax-saving investments on the basis of your goals and profile. ELSS funds, PPF, NPS and fixed deposits are some of the popular options.

In this way you can figure out how much you need to invest to save taxes. It is best to begin investing in the first quarter of the financial year so that you can spread the investments over the year. Doing this won't burden you at the end of the year and will also allow you to make informed investment decisions.

Section	Deduction on	Allowed Limit (maximum) FY 18-19
80C	Investment in PPF – Employee's share of PF contribution – NSCs – Life Insurance Premium payment – Children's Tuition Fee – Principal Repayment of home loan – Investment in Sukanya Samridhi Account – ULIPS – ELSS – Sum paid to purchase deferred annuity – Five year deposit scheme – Senior Citizens savings scheme – Subscription to notified securities/notified deposits scheme – Contribution to notified Pension Fund set up by Mutual Fund or UTI. – Subscription to Home Loan Account scheme of the National Housing Bank – Subscription to deposit scheme of a public sector or company engaged in providing housing finance – Contribution to notified annuity Plan of LIC – Subscription to equity shares/ debentures of an approved eligible issue – Subscription to notified bonds of NABARD	Rs. 1,50,000

80CCC	For amount deposited in annuity plan of LIC or any other insurer for a pension from a fund referred to in Section 10(23AAB)	-
80CCD(1)	Employee's contribution to NPS account (maximum up to Rs 1,50,000)	-
80CCD(2)	Employer's contribution to NPS account	Maximum up to 10% of salary
80CCD(1B)	Additional contribution to NPS	Rs. 50,000
80TTA(1)	Interest Income from Savings account	Maximum up to 10,000
80TTB	Exemption of interest from banks, post office, etc. Applicable only to senior citizens	Maximum up to 50,000
80GG	For rent paid when HRA is not received from employer	Least of : – Rent paid minus 10% of total income – Rs. 5000/- per month – 25% of total income
80E	Interest on education loan	Interest paid for a period of 8 years
80EE	Interest on home loan for first time home owners	Rs 50,000
80CCG	Rajiv Gandhi Equity Scheme for investments in Equities	Lower of – 50% of amount invested in equity shares; or – Rs 25,000
80D	Medical Insurance – Self, spouse, children Medical Insurance – Parents more than 60 years old or (from FY 2015-16) uninsured parents more than 80 years old	– Rs. 25,000 – Rs. 50,000
80DD	Medical treatment for handicapped dependent or payment to specified scheme for maintenance of handicapped dependent – Disability is 40% or more but less than 80% – Disability is 80% or more	– Rs. 75,000 – Rs. 1,25,000
80DDB	Medical Expenditure on Self or Dependent Relative for diseases specified in Rule 11DD – For less than 60 years old – For more than 60 years old	– Lower of Rs 40,000 or the amount actually paid – Lower of Rs 1,00,000 or the amount actually paid
80U	Self-suffering from disability : – An individual suffering from a physical disability (including blindness) or mental retardation. – An individual suffering from severe disability	– Rs. 75,000 – Rs. 1,25,000
80GGB	Contribution by companies to political parties	Amount contributed (not allowed if paid in cash)
80GGC	Contribution by individuals to political parties	Amount contributed (not allowed if paid in cash)
80RRB	Deductions on Income by way of Royalty of a Patent	Lower of Rs 3,00,000 or income received