Tax Planning Strategies for India's Financial Year 2017-18

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Abstract

Our financial planning is not complete without including tax planning. We can minimise our tax liability with effective tax planning. This is accomplished by lawfully using tax exemptions, deductions, refunds, and allowances while making sure that your assets are in line with their long-term objectives. An art or professional expertise to lower the tax while staying within the bounds of the law is ethical tax planning. If a person has made sound financial and tax planning, deductions will be removed from gross income and income tax will be applied to the remaining income in accordance with the applicable income tax slabs. The goal of the study is to become familiar with the numerous tax-saving tools available and to determine how much money may be saved by utilising them.

Keywords: financial planning, tax planning, tax liability, ethical tax planning, tax-saving tools

Introduction

Tax planning includes any arrangements that reduce taxes while also adhering to all rules and regulations. Planning your taxes shouldn't be done with the purpose to steal money from the government. Tax planning is the review of one's financial condition from the perspective of tax efficiency in order to optimise how one plans their finances. Tax planning enables a taxpayer to take full use of all available tax exemptions, deductions, and perks in order to reduce their overall tax burden for the fiscal year. Deduction and refund are two distinct concepts. While rebates lower income tax, deductions lower taxable income. Tax planning is a legitimate method of lowering income tax obligations, but care must be taken to avoid tax evasion or avoidance on the part of the taxpayer. The Income Tax Law itself offers a number of strategies for tax planning, typically in the form of deductions under Sections 80C through 80U.

Indian tax planning

All taxpayers in India have access to a variety of tax-saving choices. Wide-ranging exclusions and deductions are possible with these alternatives, which helps keep the overall tax burden under control. Taxpayers who qualify may claim the deductions under sections 80C through 80U. These deductions are made from the total amount of tax obligations. Other provisions of The Income Tax Act of 1961, such as tax exemptions and credits, can lower tax obligations. Tax planning is entirely legal and, in fact, a wise choice when done within the boundaries established by the relevant authorities. However, employing shady strategies to evade tax obligations is against the law, and you risk legal repercussions. Tax avoidance, tax evasion, and tax planning are all examples of tax-saving strategies. Out of them, tax planning is the sole option that is legitimate for lowering tax obligations. The government provides a variety of tax-saving alternatives with the goal of lowering tax burdens on taxpayers through ethical income tax planning strategies.

Aim of tax planning –

The following are tax planning's goals:

- Tax liability reduction
- Productive investment
- Wholesome economic expansion
- Economic stability

Necessities for tax planning

The elements listed below are crucial for effective tax planning:

- Current familiarity with tax laws
- Making all information public and providing it to the Income Tax Department
- Planning must adhere to the rules of the law.
- Modifiable to meet changing needs

Strategies for tax planning

The following are several tax preparation strategies:

- Tax planning for the near future: Tax planning refers to the strategy developed and put into action at the conclusion of the fiscal year to legally reduce taxable income.
- Long-range tax planning: This refers to making decisions at the start of the fiscal year that will be carried out throughout the year. While this kind of preparation does not provide instant assistance like short-term planning does, it is likely to be beneficial in the long run.
- Tax planning that is permitted by the law is referred to as permissive tax planning.
- Planning taxes with a specific goal in mind is known as "purposeful taxation."

Significant improvements in 2017–18

The income tax regulations underwent some revisions in the 2017–18 fiscal year. The government has already taken a number of actions to encourage digital payments, and further government-launched programmes have prepared the path for more financial savings. Now it's up to you to maximise the benefits of the plans by conducting careful planning and keeping track of your earnings and expenses throughout the year.

Digital savings will increase interest earnings.

Your ability to save more money online and get strong returns will increase as a result of the government's recent decision to adopt digital payments. because money in the bank earns a return while money in the hand does not. Since you are not permitted to hold more than Rs 2 lakh in cash, all of your funds must be put in a bank. As a result, you will automatically earn larger returns on your investments every quarter, every six months, or every year, depending on your bank's policies.

Effective tax preparation will increase financial savings.

Employees who receive salaries between Rs 2.5 lakh and Rs 5 lakh will now pay 5 percent tax instead of the previous 10 percent. Now, the tax rate on income falling into this category is only 5%. Additionally, a person can save up to Rs. 12500 thanks to the modified tax rates suggested in this year's new finance bill. Additionally, employees making up to Rs 3 lakh annually are exempt from paying taxes.

Handle your credit card responsibly.

Going cashless with credit cards and using digital transactions is undoubtedly one of the better solutions, but it should preferably be used responsibly. You can get a credit limit on a credit card that is around two to three times higher than your income. Therefore, one should not be very thrilled about this since you will ultimately be responsible for paying off all debts on your own and with high monthly interest.

Don't submit ITRs late.

You could lose money by paying a penalty if you don't submit your ITR on time. If the return is submitted after the deadline but on or before December 31 of the assessment year, you will be required to pay a fee of Rs 5000; in all other circumstances, a fee of Rs 10,000 will be needed. The cost would not exceed Rs 1000 in cases when a person's total income is less than Rs 5 lakh, though.

Careful planning can assist you in purchasing a new residence.

The moment has come to develop oneself as an asset. Homebuyers have received a lot of relief from the government since the demonetization period. Cash-strapped banks have lowered the interest rates on house loans. The semi-annual MCLR rates decreased to a significantly lower level. People who are interested in purchasing a new home should do so because section 24 of the I-T Act allows for a tax deduction on home loan interest of up to Rs 2 lakh. The principal amount can also be deducted up to Rs 1.5 lakh under 80C deductions.

Put a little money aside for retirement planning.

The mutual fund industry is expanding quickly. The time is ripe to invest for a longer period of time and accumulate a sizable retirement fund. Your money will grow more quickly if you make long-term investments. Assume you have decided to save Rs. 5000 per month starting today till you reach your retirement age and that you intend to leave the workforce after 25 years. If the rate of return is assumed to be 15%, you can expect to produce a corpus of about Rs 1.65 crore after 25 years. There are other investing options on the market, too, where you may put your money to work and profit when you retire.

Effective budgeting will increase your ability to save money.

It's possible that you won't be able save cash for most of your future financial goals if your home budget hasn't been properly prepared. Prior to becoming a knowledgeable investor, learn to save wisely. Plan out your daily spending and monthly totals. You will be able to develop the habit of saving thanks to this. Additionally, you will be able to calculate how much money you can save each month after paying all of your bills.

Government-sponsored programmes for tax planning

The time to cut your taxes is now. Both salaried and non-salaried tax payers would be researching and evaluating numerous tax-saving options. Among a number of other considerations, like safety, liquidity, and returns, be essential to understand how the returns will be taxed when selecting the best tax saver. The potential to produce money over the long term is limited if the income earned is taxable since taxes reduce the returns that you may generate.

The best methods for section 80C tax savings

- **ELSS Funds**

Returns 13.62 percent over the last three years Equities enjoyed a fantastic year in 2017, and the uptrend has carried over into the new year. In 2017, the average ELSS fund increased by 36%, which means that its long-term return is respectable. In a little more than four years, investors have experienced their wealth quadruple. Additionally, because long-term capital gains from equity funds are tax-free, the returns are also tax-free.

- **Public Provident Fund**

7.6% returns (for the period of January to March 2018) Over the past two years, small savings rates have gradually decreased, matching the reduction in bond yields. The PPF rate recently had a 20 basis point reduction, and in the upcoming months, it may decrease much further. Advisors claim that despite the rate reduction, the PPF is still a wise investment because the interest is tax-free. The PPF has a clear advantage over fixed deposits because of its tax-free status. Fixed deposit interest is entirely taxed. The PPF also receives great marks for security, adaptability, and investment simplicity.

- **Seniors' Savings Saving Scheme**

Returns 8.3% (For the period of January to March 2018) The Senior Citizens' Savings Scheme was exempt from the reduction in small savings rates. The greatest option for pensioners seeking a steady income during their golden years is this one, at 8.3%. Banks provide older folks the maximum rate possible at 7.7% percent. The scheme's initial 5-year term may be extended for an additional 3 years. However, there is a total investment cap of Rs. 15 lakhs, and people over 60 cannot invest above that amount.

- **Sukanya Samriddhi Yojana**

Returns 8.1% (For January-March 2018) The Sukanya Samriddhi Yojana is a fantastic option for taxpayers with a daughter under 10 years old to save money on taxes. Even though it has been lowered to 8.1%, the interest rate is still more than what the PPF offers. Similar to PPF, the interest is tax-free, and the investment is limited to Rs. 1.5 lakh each year. Any post office or designated bank can open an account. Up to two daughters may have accounts opened by a parent, but the total annual cap is Rs. 1.5 lakh.

- **National pension scheme**

brings in 9.5 percent three years ago Under three different parts, the NPS can assist in tax reduction. First off, contributions up to Rs. 1.5 lakh are eligible for a deduction under Sec. 80C as a whole. Second, Section 80CCD(1b) allows for an extra deduction of up to Rs. 50,000. Thirdly, under Section 80CCD (2), if the employer contributes up to 10% of the employee's base salary to the NPS, that amount is not subject to taxation.

Many investors have become interested in the pension plan because of the three tax benefits. The fact that it is not entirely tax free, however, continues to turn off many people. Only 40% of the corpus will be tax-free when it matures.

- **ULIP**

Returns 9.9–11.9% for the previous five years. Distributors and insurance firms have made some steps, but the impression of Ulips has not significantly improved. Investors still view them as being excessively expensive, and financial advisors despise them. However, the new Ulips that insurance firms have introduced have lower costs, which means better profits.

- **NSCs**

(For January–March 2018) NSCs Returns 7.6%. Even though the interest rate on NSCs has decreased to 7.6%, it is still higher than the rate on fixed deposits from banks. Additionally, a sovereign backs the NSCs. NSCs lost popularity when bank rates were higher at 9–9.5%; however, they are now at 6.5-7%. Because of this, NSCs are more desirable than bank deposits. In the next years, the interest received on the NSC is likewise deductable under section 80C.

- **Bank FDs**

Bank FDs return between 7% and 7.7%. They now have substantially lower interest rates, and the income is completely taxable. However, for taxpayers who are currently rushing to meet the deadline, bank fixed deposits that save taxes are a viable option. It takes only a few minutes to plan their taxes. Open a fixed deposit that will save you money on taxes using the Net banking option, then provide your employer with proof of investment. The post-tax returns will be a meager 5.5 percent, for sure. But at least you won't wind up investing in a pension or low-yield insurance plan.

- **Insurance**

Refunds 4.5% to 5% It's not surprising that the market for insurance coverage is struggling. The cornerstone of a financial strategy is life insurance because it protects all of the person's objectives even after their passing. But a pure protection term insurance plan works better for this goal than an expensive typical policy that only generates returns of 4% to 5%. The maturity amount is what draws in buyers.

Sections 80C, 80CCC, and 80CCD

These three are the most often used tax-saving areas and offer several tax-saving possibilities. The total exemption for the aforementioned sections is Rs 1.5 lakhs. While 80CCD includes the Central Government Employee Pension Scheme, 80CCC deals with pension goods. The following are options for tax-saving investments:

- Employee/Voluntary Provident Fund (EPF/VPF)
- Public Provident Fund (PPF)
- Sukanya Samriddhi Account
- National Savings Certificate (NSC)
- Senior Citizen's Saving Scheme (SCSS)
- Bank/Post Office 5 Year Tax Saving Fixed Deposit
- NPS
- Equity Linked Saving Scheme (ELSS) - often referred to as Tax Saving Mutual Funds
- Life Insurance Premium
- Pension Plans from Life Insurance or Mutual Funds o NPS
- Principal Payment on Home Loans
- Central Government Employee Pension Scheme
- Stamp Duty and home registration
- Two children's tuition

Interest on student loan repayment (Section 80E)

Under Section 80E, one may deduct all of the interest paid (up to an upper maximum) on educational loans within a given fiscal year. However, there is no deduction for the Education Loan principle that has been paid. The loan should only be used for full-time study by the borrower, their spouse, or their children. The loan must be obtained exclusively from a financial institution or an authorised charity trust. The deduction is valid for the first year you begin making interest payments as well as the following seven years. Overall, you have a maximum of eight years to claim the student debt deduction.

Interest payments on mortgage loans (Section 24/80EE)

According to Section 24, the interest paid on a house loan for a self-occupied or rented home is exempt from up to Rs 2 lakhs. Prior to this time, there was no cap on the interest deduction for rental property. This has changed as of Budget 2017, and regardless of whether the residence is used for personal use or is rented out, the tax exemption ceiling for interest paid on home loans is now Rs. 2 lakhs. Any loss in excess of Rs 2 lakhs, however, can be carried forward for up to 7 years for rental properties. For first-time home buyers, the Budget 2016 added an additional exemption for the payment of home loan interest of up to Rs 50,000. The valuation of the residence must not exceed Rs. 50 lakhs in order to qualify, and the loan amount cannot exceed Rs. 35 lakhs.

Health coverage for oneself and one's parents (Section 80D)

The premium for Mediclaim/Health Insurance for oneself, one's spouse, one's children, and one's parents is deductible under Section 80D. If you are under 60 years old, you may deduct up to Rs 25,000, and if you are above 60, you may deduct up to Rs 30,000. When purchasing health insurance for your parents, an additional deduction of Rs 25,000 (or Rs 30,000 if both of your parents are senior citizens) may be made. Whether or not your parents are reliant on you has no bearing on whether you can claim this deduction. However, purchasing health insurance for in-laws is not eligible for this advantage. HUFs may also deduct the cost of premiums for health insurance for any of their members.

Rehabilitation of a dependent person with a disability (Section 80DD)

- This deduction is accessible to residents as well as HUFs, and it can be used for: Expenses related to the care, training, and rehabilitation of a disabled dependant relative, including nursing costs
- Making a donation or payment to a designated programme for a dependent, handicapped relative's maintenance.

Where disability is at least 40% but not more than 80%, a fixed deduction of Rs. 75,000 will be made. There is a set deduction of Rs. 1, 25,000 in cases of severe disability (disability of 80% or more). It is necessary to have a disability certificate from the designated medical authority.

Expenses for one's own or dependent relatives' medical care (Section 80DDB)

For expenses actually incurred by a resident taxpayer on himself or a dependent relative for medical treatment of a specified disease or ailment, a deduction of Rs. 40,000 or the amount actually paid, whichever is smaller, is available. The deduction for older citizens is limited to Rs 60,000 or the amount actually paid, whichever is less. The maximum deduction available to extremely senior citizens is Rs 80,000.

Contributions to charitable organisations (Section 80G)

The numerous donations listed in Section 80G may be deducted up to 100% or 50%, with or without limitations, as stated in Section 80G. If you make a monetary donation of more than Rs 10,000, the 80G deduction is not applicable.

Any cash donations made after the financial year 2017–18 that exceed Rs 2000 will not be deducted. To be eligible for a deduction under section 80G, donations over Rs 2000 must be made in a method other than cash.

100% tax-deductible donations with no upper limit

- National Defence Fund set up by the Central Government
- Prime Minister’s National Relief Fund
- National Foundation for Communal Harmony
- An approved university/educational institution of National eminence
- Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district
- Fund set up by a State Government for the medical relief to the poor
- National Illness Assistance Fund
- National Blood Transfusion Council or any State Blood Transfusion Council
- National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation, and Multiple Disabilities
- National Sports Fund
- National Cultural Fund
- Fund for Technology Development and Application
- National Children’s Fund
- Chief Minister’s Relief Fund or Lieutenant Governor’s Relief Fund with respect to any State or Union Territory
- The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund, Andhra Pradesh Chief Minister’s Cyclone Relief Fund, 1996
- The Chief Minister of Maharashtra's Relief Fund between October 1, 1993, and October 6, 1993
- Maharashtra's Chief Minister's Earthquake Relief Fund

- Any trust, institution, or fund to which Section 80G(5C) applies for providing relief to the victims of the Gujarat earthquake (contribution made between January 26, 2001 and September 30, 2001) or
- Prime Minister's Armenia Earthquake Relief Fund;
- Africa (Public Contributions — India) Fund;
- Swachh Bharat Kosh (effective beginning with the 2014–15 fiscal year)
- Clean Ganga Fund (applicable beginning with the 2014–15 fiscal year)
- National Fund for Control of Drug Abuse (effective beginning with the 2015–16 fiscal year)

Donations that qualify for a 50% deduction without any upper limit.

- Prime Minister's Drought Relief Fund and the Jawaharlal Nehru Memorial Fund
- The Rajiv Gandhi Foundation and the Indira Gandhi Memorial Trust

Giving to the following is tax deductible at 100% up to 10% of adjusted gross total income.

1. Any other fund or organisation that meets the requirements outlined in Section 80G(5)

2. The use of government funds or those of any local authorities for charitable endeavours other than those that advance family planning

3. Any organisation created in India with the intent to address and address the need for housing accommodations or to plan, develop, or build cities, towns, villages, or both

4. Any corporation mentioned in Section 10(26BB) to advance the interests of the minority community

5. For any notified temple, mosque, gurudwara, church, or other location that needs repairs or renovations.

Corporate political party contributions (Section 80GGB)

An Indian firm may deduct the amount it gave to a political party or electoral trust. For contributions made in any manner other than cash, deductions are permitted.

Political party is any political party that has registered with the Representation of the People Act in accordance with section 29A.

Any individual's contributions to political parties (Section 80GGC)

A taxpayer may deduct whatever money they have given to a political party or an electoral trust under this provision, with the exception of businesses, local governments, and artificial juridical entities sponsored entirely or in part by the government. For contributions made in any manner other than cash, deductions are permitted.

Household expenses not reimbursed by HRA (Section 80GG)

- When HRA is not received, this deduction is still available for rent payments. Residential property shall not be owned by the taxpayer, spouse, or minor child in the location of employment.
- The taxpayer should not own any other properties for self-occupation.
- Rent must be paid and the taxpayer must be renting.

The minimum allowable deduction is:

1. Rent paid less ten percent of gross income

2. Monthly income of Rs 5000

3. 25% of gross revenue

Savings account interest (Section 80TTA)

The maximum deduction allowed for interest from a savings bank account is Rs 10,000. Savings account interest must first be added to other income before a deduction of the total interest earned or Rs 10,000, whichever is smaller, may be made. An person or HUF may deduct this amount. Additionally, it can be used to offset the interest paid on savings deposits made to banks, co-ops, and post offices. Fixed deposit, recurring deposit, and corporate bond interest income are not eligible for the section 80TTA deduction.

Physically Disabled Individual (Section 80U)

A resident who has a physical impairment (including blindness or mental retardation) is entitled to a deduction of Rs. 75,000. If you have a serious disability, you can get a discount of Rs. 125,000. You should get a certificate from a government doctor. This is a set deduction that is not determined by bills or other expenses.

Refund pursuant to Section 87A

Budget 2017–18 proposes a tax credit of Rs 2,500 for people with incomes up to Rs 3.5 lakh. To qualify for a tax rebate, an individual Assesses must have a net income of up to Rs 3.5 lakh.

Conclusion

As we've seen, the Income Tax Act of 1961 allows for a number of deductions. These should not go above the GTI, and a number of requirements must be met in order to claim each one. You won't benefit significantly from delaying your tax preparation exercise until the end. Instead of "tax planning," it would only result in "tax saving." Tax planning entails the judicious application of the various Direct Tax Laws provisions to real-world circumstances in order to minimise the tax burden on the assesses. Self-study on various tax planning exercises is required in addition to using a tax adviser when filing returns so that one is aware of sophisticated techniques. The welfare of the citizen is equally dependent on smart tax planning as it is on sound tax economic planning for a welfare state.

The two largest obstacles to the correct application of the law in the Indian tax system are widespread tax evasion and corruption. Therefore, in order to improve tax compliance, it is necessary to combat tax evasion and corruption.

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