AN ANALYTICAL STUDY OF TAX PLANNING OF AN INDIVIDUAL TAXPAYER IN PUNE

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ABSTRACT
An effective tax strategy is vital for successful financial planning. Paying tax is always painful task for individual. Tax can be reduced either by evasion or avoidance or tax planning. Tax planning is important for every individual to reduce their tax liability and compliance with the income tax rules. Theindividual must know different provisions of tax planning available in the laws for enjoying the benefits of tax planning. Now a days an individual has become more aware about tax planning and with rise in income level. The income tax law provides various methods for tax planning. Tax planning is arrange financial affairs in such a manner that without breaking up any law individual can take full advantage of all exemptions, deductions, rebate and reliefs allowed by law so that tax liability will be reduced. Government provides deductions, reliefs or rebate for the benefits of economy and society. The primary objective of the present study is the analysis of awareness of tax planning measures and measures adopted by individuals.

KEY WORDS: Tax Planning, Financial Planning and Individual

Introduction

Salaried people always believe that they do not need any financial planning as their income and expenses are regular. They do not require any intervention to maximize financial gains and presume that their savings automatically accumulate in the bank. But actually fact is 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.

Tax planning helps savings by investment in specified tax savings schemes because tax planning is an integral part of personal financial planning. Tax planning involves planning in order to get all exemptions, deductions and rebates provided in act. The Income Tax law itself provides for various methods for tax planning. Generally it is provided under exemptions under section 10, Deductions under section 80C to 80U, Rebates, reliefs.

Objectives:

1) To comprehend the concept of Tax Planning and Investment.
2) To study various exemptions and deductions under Income Tax Act, 1961 with special reference to individual assesses.

Research Methodology

The present study is based on secondary data collected from the various sources such as Articles, Books, Journals, Magazines, Observations and Experiences. This study is restricted to individual assesses only.

Statement of Problem

Tax payers normally turn away of their tax liability only towards the end of financial year. This leaves them with little opinion to invest or save with the available income. Thorough and up-to-date knowledge of tax laws is necessary to avail the benefits provided under the provisions of the Act and thereby ensuring that the 'take home pay' is kept at the maximum possible monetary level. The real issue would ranging from awareness of taxation laws to complexities in the compliance formalities.

Tax Planning

Tax planning has wider philosophy and is closely associated with what the individual earns and his propensity to consume. Tax planning can be defined as "an arrangement of one's financial and economic affairs by taking complete legitimate benefit of all deductions, exemptions, allowances and rebates so that tax liability reduces to minimum."

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Investment

Investment is the deployment of savings with the intention of maintaining or increasing its value or earning an income. The first step to investment is savings. The savings in financial form include savings in currency, bank and non-bank deposits, LIC funds, provident funds, pension's fund, and claims on government, share and debentures, units of Unit Trust of India etc. The investment pattern and saving habits of employees sector is determined by their expectations from the various preferred avenues. Preference may vary due to various considerations that is safety, Liquidity and Marketability, returns, tax benefits, risk involved etc. Investment also depends upon the awareness about investment opportunities, level of knowledge and how these investment opportunities are evaluated and selected. The appropriate investment decisions requires a comprehensive understanding of various subjects like finance, tax, economics, accountancy, business laws etc.

Tax saving: Exemptions under Income Tax Act 1961

Section 10 lays down that some incomes are exempted from income tax means there is no income tax on these incomes. Some of these incomes are fully exempted from income tax and some are exempted to certain extent.

The following incomes are fully exempted from income tax without any upper limit.

- Interest on Public Provident Fund/General Provident Fund/Employee Provident Fund.
- Interest on Government OfIndia tax free bonds.
- Dividends on Shares and on Mutual Funds
- Interest on savings bank account in a post office.
- Long term capital gain on sale of shares and equity mutual funds if the security transaction tax is paid/ imposed on such transactions.
- Any capital receipt from life insurance policies that is sums received either on death of insured or on maturity of life insurance plans. However, in case of life insurance policies issued after March 31, 2012, exemption on maturity payment u/s 10(10D) is available only if the premium paid in any year does not exceed 10% of the sum assured.

Deduction under Income Tax Act

The income Tax Act, 1961 provides for deductions from income tax liability under specific conditions. These criterions are outlined in the various sections of the Income Tax Act, 1961 are described below:

- **Section 80C:** Under this section a deduction of Rs. 1,50,000/- can be claimed from total income. It is the most popular deduction because it encourages taxpayers to save a portion of their income. The following is a list of important ways in which a taxpayer can get benefit of section 80C of Indian Income Tax Act:

- **Provident Fund(PF):** Any contributions to Provident Fund, Voluntary provident Fund(VPF) or savings made in Public Provident Fund(PPF) are eligible for income tax deduction under section 80C of Indian Income Tax Act.
- **Life Insurance Premiums**: Any Life Insurance premiums (for one or more insurance policies) paid by the individual for himself/ herself, his/her spouse or children including married daughter and son having his own income are eligible under income tax deduction under section 80C of Indian Income Tax Act.
- **Equity Linked Saving Schemes (ELSS)**: Any investment made in certain Mutual Funds called equity linked saving schemes qualifies for section 80C deduction. All mutual fund investments are not eligible for this deduction.
- **Unit Linked Insurance Plan (ULIP)**: Investments made in certain ULIPs of Unit Trust of India and life insurance companies of India are eligible for 80C deduction.
- **Bank Fixed deposits or Term deposits of more than 5 years**: An amount invested in fixed deposits of a term at least for five years is eligible for income tax deduction under section 80C.
- **Principal part of EMI on Housing Loan**: if an individual is making EMI payments on a housing loan, the principal part of the EMI is eligible for income tax deduction under section 80C. The interest part is also eligible for tax deduction, but under section 24 and not section 80C.Iif one doesn't own a house but pays rent for it, deduction can be availed

under section 80GG of Indian Income Tax Act.

- **Tuition Fees**: Amount paid as tuition fee for the education of up to two children of an individual is eligible for deduction under section 80C.
- **Other 80C deduction:** Amount invested in National Saving Certificate (NSC), Accrued interest on NSC Infrastructure Bonds or Infra Bonds, amount paid as stamp duty and registration charges while buying a new home is eligible for income tax deduction under section 80C of Indian Income Tax Act.

- **Section 80 CCE**: Section 80CCE allows an individual to invest an additional Rs. 50,000 in NPS and have that amount deducted from his/her taxable income in addition to the Rs. 150,000. Deduction assesses gets from other tax saving instruments.
- **Section 80CCD**: Where the Central Government or any other employer makes any contribution to the account of employee to the pension scheme, the assesses shall also be allowed a deduction in the computation of his/her total income of the whole of the amount contributed by the Central Government or any other employer not exceeding 10% of his salary in the previous year.
- **Section 80D:**This is useful if the employer does not cover their employee's health or medical expenses. Deduction is available up to Rs. 25,000/- to a taxpayer for insurance of self, spouse and dependent children. If individual or spouse is more than 60 years old the deduction available is Rs. 30,000.
- **Section 80DD**: If an individual incurs medical expenditure for the dependents who are disabled. Exemption given for expenditure made for a disable dependent towards Medical Treatment/ Training/ Rehabilitation also include the LIC/Insurance Premium paid towards maintenance of such dependent. Maximum deduction allowed is Rs. 50,000/- in case of normal disability and Rs. 1 Lakh in case of severe disability.
- **Section 80DDB**: For individual assesses less than 65 years of age, a deduction limit ofRs. 40,000/- are applicable. For a senior citizen, the limit is Rs. 60,000/-
- **Section 80E**: Any amount of interest paid on educational loan taken for individual's higher education of higher education of individual's husband/ wife or children is deductible from individual's taxable income.
- **Section 80G**: Contribution to exempt charities 25/50/75/100% depending on the charity and as per approval. Donation made to funds like Prime Minister's Relief Fund, National Children Foundation, any University or educational institution of 'national eminence' etc. are deductible from individual's taxable income according to 80G of India Income Tax Act.
- **Section 80U**: It is deduction in the case of a person with disability. An individual who is suffering from a permanent disability or mental retardation then Rs. 75,000/- shall be allowed as a deduction. In case of severe disability the deduction is Rs. 1,25,000/-
- **Professional Tax**: Any Professional Tax deducted from an employee's salary can be reduced from the annual salary income to arrive at taxable salary.
- Section 24(1)(vi): Housing loan interest. Maximum Investment Limit is Rs. 2,00,000.

Findings and Suggestions

An individual can get tax benefits by availing various exemptions and claiming deduction under the act. Personal financial Planning is very important for tax planning and investment which helps to maintain regular cash flows. Individual can reduce current tax liabilities by scientific tax planning. By handing over property through 'Will' one can save taxes of legal heirs also.

Individual can regularly save for investment to save the tax. No need to keep excess money in bank saving account. PPF is best investment option for regular salaried employees. Real estate is good investment option if funds are available for a longer period. Tax planning should be done before the accrual of income and resorted at the source of income.

Conclusion

Individual has becomes aware about income tax procedures that facilitates to save tax at the same time it give future financial security and strength in terms of contingencies if any. The benefits arising from tax planning are substantial particularly in long run. Now an individual are more focused on financial matters and investments that minimize their tax burden, but most of them are partly aware about many deductions, rebate and reliefs. They insist on traditional measures which enable them to reduce their tax liability

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