GOVT. OF INDIA- RNI NO. UPBIL/2014/56766
UGC Approved Care Listed Journal

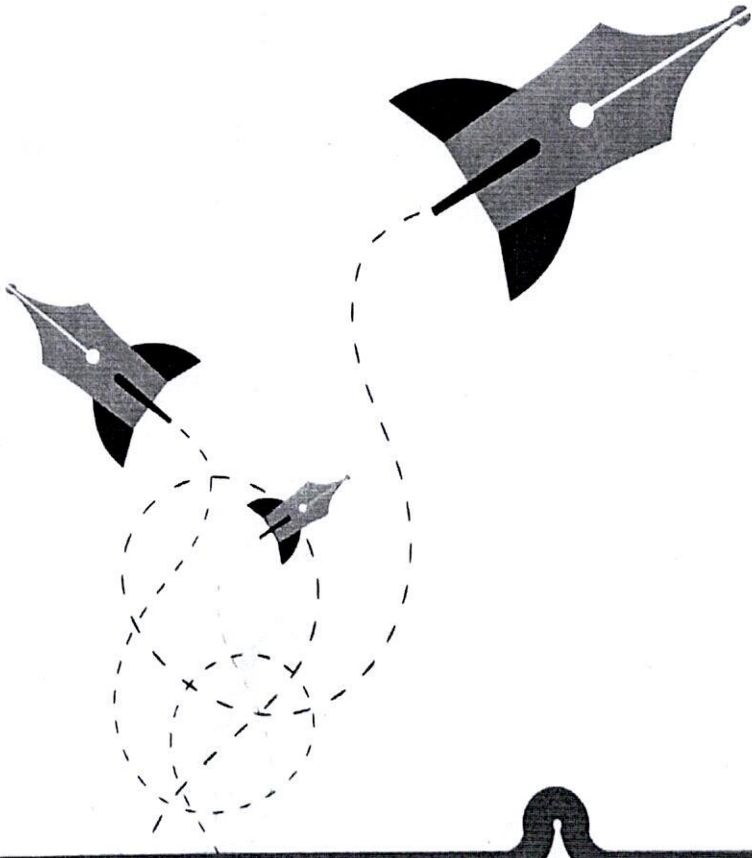
ISSN 2348-2397

SIS

Shodh Sarita

An International Multidisciplinary Quarterly
Bilingual Peer Reviewed Refereed Research Journal

• Vol. 8 • Issue 29 • January to March 2021



Editor in Chief
Dr. Vinay Kumar Sharma
D. Litt. - Gold Medalist

sancHar
Educational & Research Foundation

ISSN - 2348-2397
UGC CARE LISTED JOURNAL
Shodh Sarita
January-March, 2021
Vol. 8, Issue 29
Page Nos. 151-155
AN INTERNATIONAL BILINGUAL PEER REVIEWED REFEREED RESEARCH JOURNAL

A STUDY OF TAX SAVING INSTRUMENTS OF INDIVIDUAL TAX PAYERS

Dr. Sunita Kshatriya*
Dr. Rincey. B. Abraham**

ABSTRACT

Tax planning means the assessment of one's financial affairs without violating the legal provisions of an act. It reduces the burden of taxation of an assessed by taking the full advantage of exemptions, deductions, rebates and relief permitted under the act, so that the full burden of the taxation on assessed, as far as possible, is the least. This study aims to know the most suitable and popular tax saving instrument used to save tax and to know the amount saved by using that instruments Overall findings of the study reveals that 80C deduction is the most adopted tax saving instrument and 80EE is second most adopted tax saving instrument.

Keywords: Income Tax, Tax Planning, Tax Saving Instrument, Tax Avoidance and Tax Evasion.

INCOME TAX AND TAX PLANNING:

INTRODUCTION

A fee charged by government on a product, income or activity is called tax. There are two types of taxes; if tax is levied directly on the income or wealth of a person, such tax is called direct tax. E. g. : - Income tax. If tax is levied on the price of goods or services it called indirect tax. E.g GST, Excise duty. The government needs money to maintain law and order in the country, safeguard the security of the country from foreign powers and promote the welfare of the people. Since our government is wedded to the socialistic pattern of society it is the foremost bridge the gap between the rich and poor. All this required mobilization of funds from various sources. Income Tax being a direct tax, is an important tool to achieve balanced socio-economic growth by providing concessions and incentives in income tax for various development purposes.

INCOME TAX

Income tax is the most important direct tax. The levy of income tax in India is governed by the income tax act 1961 and the act came into force on 1st April 1962. Central Board of Direct Taxes is looked after the administration of direct taxes. Income tax is an annual tax on income. The income of previous year is taxable in the next following assessment year at the rate or rates applicable to that assessment year. The tax rate is fixed by the Annual Finance Act. Income tax is charged on the total income of every person. A person includes Individual, Hindu Undivided Family, Association of Person, Body of Individuals, Firm, Company and Every other person. The person by whom any tax or any other sum of money is payable under income tax act 1961 is called assesses.

INCOME TAX SLAB RATE FOR THE ASSESSMENT YEAR 2020-21

Individuals (Less Than 60 Years Old) Income Tax Slabs

Tax rate Income up to Rs. 2, 50, 000 nil

* Assistant Professor - St. Thomas College, Bhilai
** Assistant Professor - St. Thomas College, Bhilai

Income from 2, 50, 000- 5, 00, 000 5%

Income from 5, 00, 000- 10, 00, 000 20%

Income more than Rs. 10, 00, 000 30%

Individuals (60 years old or more but less than 80 years old)

Income Tax Slabs Tax Rate Income up to Rs. 3, 00, 000 nil

Income from 3, 00, 000- 5, 00, 000 5%

Income from 5, 00, 000- 10, 00, 000 20%

Income more than Rs. 10, 00, 000 30%

Very senior citizens (80 years old or more) Income Tax Slabs

Tax rate Income up to Rs. 5, 00, 000 nil

Income from 5, 00, 000- 10, 00, 000 20%

Income more than Rs. 10, 00, 000 30%

Surcharge: If total income is between Rs. 50 lakhs and Rs. 1 crore- 10% of income tax.

If total income exceeds Rs. 1 crore-15% of income tax

Education Cess: 4% on total of income tax and surcharge.

TAX PLANNING: Tax planning allows a tax payer to make the best use of the various tax exemptions, deductions and benefit to minimize their tax liability over a financial year. It is an important part of a financial plan. Tax planning ensures accruals of tax benefits within the four concerns of law and also ensures the tax obligations are properly discharged to avoid a penal provision. Tax planning is an activity undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. to reduce income.

TAX EVASION, TAX AVOIDANCE AND TAX MANAGEMENT:

TAX EVASION: Tax evasion is a deliberate attempt of a tax payer for reducing tax liability by misrepresentation of facts, falsification of accounts including downright fraud. In other words, when a person reduces his total income by making false claims or by with holding the information regarding his real income, so that his tax liability is reduced is a tax evasion. Tax evasion is not only immoral, anti-social and anti-national practices. Therefore, under the direct tax laws provisions have been made for the imposition of heavy penalty and the institution of prosecution against tax evaders.

TAX AVOIDANCE: It is a method of reducing tax incidence by availing certain loopholes in the law. Tax avoidance is an art of dodging tax without actually breaking the law. The Royal Commission on Taxation for Canada has explained the concept of 'avoidance of tax' as done by adjusting the affairs in such a manner that there is no infringement of taxation laws and taking full advantage of the loopholes there in to attract the least incidence of tax.

TAX MANAGEMENT: Tax planning is not possible without tax management. Tax management is an internal part of tax planning. It takes necessary precautions to comply with the legal formalities to avail the tax exemptions and deductions. Tax management also protects the assesses against penalty and prosecution by charging tax obligations in time.

OBJECTIVES OF THE STUDY:

- To find out the most suitable tax saving instrument used to save tax.
- To examine the amount saved by using tax saving instrument.

REVIEW OF LITERATURE:

Srivasta (2017) researched and found that there are variety of investment options available in the market but a best investment option can be something which is beneficial to the individual assesses from the point of view of tax saving and wealth creation in future.

Dev (2015) carried out a study to explore tax planning measures adopted by different salaried class are almost uniform. Gender and experience wise assessees have no significant relationship with the level of tax awareness.

Nirmala Dorasamy (2011), in her study propounded that personal income tax administration reforms as a mechanism to enable collection of revenue on the one hand and availability of more pool of fund for welfare of the public on the other. She also found the

...ive tax policy promotes the individual ...iance tax laws other ways they adopt ...ays to reduce their tax burden.

...a Sinha (2010) tries to evaluate the ... tax structure in India in comparison to ... the developed and developing countries ...ecce, South Korea, Japan, China, USA, ...ingapore and Malaysia. The study revealed ...xtent of government expenditure financed ...axes was comparatively law in India as ...ared to developed countries.

...ncia Gupta (2009) studied the major ...ges in the taxation of personal income in India ...e the tax reforms initiated in the liberalization ...e. It was revealed that tax reforms have a ...tic impact on the growth of personal ...ome tax. The study concluded that ...ction of tax rate and broadening of tax ...base are the important reforms undertaken for ...ming the tax structure and increasing its ...sponsiveness.

...EARCH METHODOLOGY:

The research design of the study is ...scriptive in nature. It throws light on ...ionship between assesses age group and ...ome level on tax saving amount. Research ...hodology is a way tosolve problem.

...A COLLECTION

Secondary data was collected from text ...ks, journals, on-line published articles and ...ws papers.

...N OVERVIEW OF TAX SAVING ...NSTRUMENTS:

Section 80C: The maximum tax ...eduction limit under Section 80C is Rs 1. 5 ...akh. The major investment avenues or expenses ...that can be claimed as tax deductions under ...ection 80C are as below:

- PPF - Public Provident Fund
- EPF - Employees' Provident Fund
- Five-year Post office or bank Tax saving Deposits
- NSC - National Savings Certificates
- ELSS Mutual Funds- Equity Linked Saving Schemes
- Kid's Tuition Fees
- Post office Senior Citizen Savings Scheme (SCSS)
- Principal repayment of Home Loan
- NPS - National Pension System
- Life Insurance Premium
- Sukanya Samriddhi Account Deposit Scheme

Section 80CCC: Under section 80CCC contribution to annuity plan of LIC or any other Life Insurance Company is considered for tax benefit of Rs 1. 5 Lakh for receiving pension from the fund.

Section 80CCD: Employee can contribute to Government notified Pension Schemes Eg: - National Pension Scheme. The contributions can be up to 10% of the salary (salaried individuals) and Rs 50, 000 additional tax benefit u/s 80CCD (1b) was proposed in Budget 2015. Individual other than the salaried class can contribute up to 20% of their gross income and can be deducted from the taxable income. As per the financial year 2020-21 the total deduction under section 80C, 80CCC and 80CCD together cannot exceed Rs. 1, 50, 000 and additional tax deduction of Rs 50, 000 u/s 80CCD. Section 80D: The maximum tax deduction limits for senior citizens under Section 80D for FY 2020-21 is Rs. 50, 000.

- Under Section 80D an individual can claim a deduction in respect of payments towards annual premium on health insurance policy, preventive health check-up or medical expenditure in respect of senior citizen (above 60 years of age).
- Very Senior Citizens (who are above 80 years of age), in case they don't have health insurance can claim a deduction of up to Rs 30, 000 incurred towards medical expenditure. An additional deduction can be claimed by Individuals who pay premiums for their dependent senior citizens parents can on health insurance premium (or) medical expenditure. Note: Preventive health checkup expenses to the extent of Rs 5, 000/- per family can be claimed as tax deductions. Section 80DD we can claim up to Rs 75, 000 for spending on medical treatments of your dependents (spouse, parents, kids or siblings) that have

40% disability. In case of severe disability tax deduction limit of up to Rs 1. 25 lakh can be availed of an individualto claim this deduction, submit Form no 10- IA Section 80DDB an individual (less than 60 years of age) can claim up to Rs 40, 000 for the treatment of specified critical ailments for him and on behalf ofhis dependent under this section. The tax deduction limit under this section has been revised to Rs. 1, 00, 000 for Senior Citizens and very Senior Citizens (above 80 years). Section 80E Loan taken for higher studies of assesses or his/her spouse or his/her children or for a student for whom assesses is a legal guardian, tax deduction can be claimed under Section 80E for interest of such Education Loan. There is no limit on the amount of interest claim as deduction under section 80E. The deduction is available for a maximum of 8 years or till the interest is paid, whichever is earlier under the section 80E.

Section 80EE Eligible home buyers can claim exemption of Rs. 50, 000/- for interest on home loan from assessment year beginning from 1st April 2017 and subsequent years. Section 80G Contributions made via cheque or draft or in cash to certain relief funds and charitable institutions can be claimed as a deduction. Contributions such as food, material, clothes, medicines etc do not qualify for deduction under this act the donations made to any Political party can be claimed under section 80GGC and in the FY 2020-21, the limit of deduction is reduced from current Rs 10, 000 to Rs 2, 000 under section 80G / 80GGC for donations made in cash only. Section 80GG Under this section total amount of tax deduction is Rs 60, 000 per annum. Section 80GG is applicable to an individual who do not own a residential house & do not receive HRA. The amount of tax deduction will be limited to the least amount of the following

- Excess of rent paid over 10 percent the adjusted total income.
- Rs 5, 000 per month; or
- 25 % of the total income.

Rebate under Section 87A for rebate total income has been increased from 3, 50, 000 to 5, 00, 000. The amount of rebate has been increased from 2, 500 to 12, 500 has been proposed in Budget 2019-20. Section 80 TTA & ... 80TTB The Interest income earned ... Deposits & Recurring Deposits (Banks ... office schemes) will be exempt up to R... (limit is up to Rs 10, 000), for senior citizens ... deduction can be claimed under new ... 80TTB, however, no deductions under ... 80TTA can be claimed if 80TTB tax benefit ... been claimed (the limit for FY 20-21 is Rs ... u/s 80TTA). Section 80TTA offers deduction ... interest on savings bank deposit up to Rs 10 ... Interest income from deposits held with company ... will not benefit this deduction ... will n get this benefit for interest income ... corporate fixed deposits us/ 80TTB.

Section 80U This is similar to Section 80DD. Tax deduction is allowed for the assessee who is physically and mentally challenged. Standard Deduction - Rs 40, 000 in-lieu ... Medical Allowance The medical allowance ... to Rs 15, 000 is exempted income from ... salary for FY 2020-21. To claim this deduction ... assesses need to submit medical bills to ... employer and get the allowance benefit. Under Section 10 of the Income Tax Act medical reimbursement allowance is exempted.

RESULTS AND DISCUSSIONS

According to their priority, the ... adopted tax saving instrument is deduction under 80C, which got the first rank in this study ... second most adopted tax saving instrument ... 80EE i. e., tax deduction for interest on home ... up to Rs. 50, 000. Third choice is deduction ... interest on education loan (80E). Contribution made to certain relief funds and charitable institutions (80G), deduction for medical insurance & health checkup (80D), deductions for disabled individuals (80U) got fourth, fifth and sixth ... respectively.

CONCLUSION

Any individuals who want to ... income tax and want to do tax planning ... savings, first calculate total income then ... the income tax by deduction and adjustment ... total income as per taxable structure. Tax planning is not just a strategy to reduce tax burden ... to save tax by encouraging investment ... Government Securities. Tax planning ...

the tax burden of an individual but also mental satisfaction to them. This study awareness about tax planning in the minds as well as the researcher. In the course present research, the Researches in the near an attempt to study, the tax planning of assesses in respect of tax on Fringe Bank Cash Transaction and Securities and the Opinion of the Tax Industrialists and Trade Unions in of Tax Planning Options offered for categories of assesses by the Government India

...FERENCE:

- Dr. H. C. Mehrotra and Dr. S. P. Goyal, Income Tax Law and Practice with Tax Planning Sahitya Bhawan Publications, Agra.
- Ankita Gupta (2009), "The Trends and Responsiveness of Personal Income Tax in India", IGIDR Proceedings/Project Reports Series PP-062-29.
- ➢ Peter M. Vasanthi & Kerr A Lan, "The influence of tax mix and tax policy on saving and capital formation in developing economies; A survey." Asia Pacific Development Journal, Vol. 8, Number 1. 2001.
- ➢ Dorasamy Nirmal (2011), "Personal income tax administration reform: Enhancing tax collection by South African revenue Service", African journal of business management Vol. 5 (9), 2011, pp: 3712-3722.
- ➢ Sinha, R. (2010). An International comparison of Tax Regimes. ➢ International journal of management and social science research (IJMSSR) volume 2, No. 5 May 2013.
- ➢ https://taxguru.in/income-tax/taxplanning-save-tax.html.

❑❑❑