How to Save Tax

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An employee has generally the following sources of income :-

1. Income from salary
2. Income from property
3. Income from interest

In order to plan our deductions and to know the exemption for the purpose of avoiding the payment of tax it is necessary for an employee to know his obligations as well as knowledge in respect of income which is exempt from tax as well as what are the deductions allowable to him for the purposes of determining his total income which is subject to Income-tax.

It is widely known that the rates of taxation as well as exemption limit to the extent of which tax is not paid is provided annually in the Finance Act which is placed before the Parliament on last day of February each year. For the current year the exemption limit is Rs. 15,000/-. It means an individual whose net taxable income is determined at Rs. 15,000/-, then he has not to pay any tax. This net income is to be determined after excluding from his gross total income the items which are exempt from tax and the items on which deductions are provided. The following are the items of income which are totally exempt from tax :—

1. Agricultural Income :-

This is only taken for rate purposes and if the other income is less than Rs. 15,000/- then no tax has to be paid on agricultural income even if it amounts to Rs, 1,00,000/- or above.

2. Income received as a member of the Hindu Undivided Family

To explain the Hindu Undivided Family it is stated that if any individual has any source of income from the funds provided to him from his ancestors then that income belongs to a firm called 'Hindu Undivided Family', which is separately assessed and is not to be included in the hands of (other income of) the individual[1]. For example if an individual inherits ancestral immovable property from which he is getting rent of Rs. 12,000/- per annum, the said income will not be taxed in his hands as the individual income.

3. Any causal income excluding winning from lotteries is exempt from tax to the extent of Rs 1,000/-. It is called casual income and as such it is exempt from tax to this extent.

4. Any allowance or perquisites received as such outside India from Indian Govt. by a citizen of India for rendering services outside India is wholly exempt.

5. Any death-cum-retirement gratuity received by an employee is exempt from tax if he is a Central Govt. or State Govt. employee and in the case of a private employee the gratuity is exempt with certain limitations as provided in the Income-tax Act and any case the maximum limit of such gratuity is Rs. 30,000/- or 20 months salary, whichever is less.

6. Any payment in commutation of pension is exempt from tax.

7. Any payment a received by an employee of Centeral Govt. or State Govt. as cash equivalent to leave salary in respect of the period of Earned Leave at his credit at the time of retirement is exempt. As regards such payment received by an employee, other than employee of Central Govt. or State Govt. is also exempt if it does not exceed six months and its limit is also prescribed at six months salary or Rs. 30,000/-, whichever is less, provided that where any such payments are received by an employee from more than one employer in the same year, the aggregate amount exempt from tax shall not exceed Rs. 30,000/-.

8. Any compensation received by a workman under the Industrial Disputes Act, 1947 is exempt from tax, subject to limitation that it should not exceed Rs. 20,000/-.

9. Any payment from a Govt. Fund to which the Provident Fund Act, 1925 applies is exempt from tax.

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1. This deduction is available if the assessee is a resident of India and not a citizen of India.

10. Similarly any payment from Approved Super Annuation Fund received on the death of the beneficiary is exempt.

11. Interest received on deposits in the Savings Bank Account with the Post Office is exempt.

12. Interest received on Capital Investment Bond shall also be exempt.

13. Any payment made in pursuance of awards for literary, manuscrpit or artistic work or for proficieney in sports and games instituted by Central Govt. or State Govt. is exempt, provided such institution is approved.

14. Any award received from the Central Govt. is exempt.

The above are some of the important exemptions from taxation point of view. Apart from that there are certain payments made by an employee or an individual for which he is entitled to get deductions from his total income. For example.

(1) Contribution to Life Insurance Premia or Recognised Provident Fund or to 10/15 Year Post Office Saving Bank Cumulative Time Deposit Scheme or Payment towards Public Provident Fund Scheme or payment towards Unit Linked Insurance Plan are deducted from our total income as under :-

100% of the first Rs. 6,000/-
50% of the next Rs 6,000/-
40% of the balance qualifying amount subject to the following conditons :-

that paymet to LIC should not exceed 10% of the sum assured and that payment to LIC should be on the policy of the self or wife or any children whether he is minor or major. Further total contribution should not exceed 30% of the total income or Rs. 40,000/- for the assessment year 1983-84. Prior to this it was Rs. 30,000/-. In the case of authors, play-writers, etc. this limit is 40% of the income or Rs. 60,000/-, whichever is less for the assessment year 1983-84 and prior to that it was Rs. 50,000/-. As regards contribution towards Recognised Provident Fund, it should not exceed 1/5th of salary or Rs. 10,000/-, whichever is less.

(2) Another deduction allowable to lhe individual or HUF is in respect of contribution to certain new shares as prescribed by the Govt, from time to time. The deduction in respect of investment in these shares is 50% of the cost of new shares subject to limitation of Rs. 10,000/-.

(3) Deduction in respect of expenditure incurred out of income chargeable to tax on account of medical treatment of handicapped dependent to the extent of Rs. 4,800/- if such handicapped dependent is admitted in hospital for a period of 182 days or more and Rs. 1200 if such handicapped dependent is not admitted in the hospital.

(4) Another deduction is in respect of educational expenses on the child who is admitted in any university, college, school situated outside India to the extent of Rs. 1,500/- per child but subject to a limitation of Rs. 3,000/- per annum.

(5) Another deduction is in respect of donations of the figure of Rs. 250/- or more given to any recognised institution and this deduction is limited to 50% of such donation.

(6) Another deduction is in respect of interest received from the bank to the extent of Rs. 4,000/- per annum for the assessment year 1983-84. But if the interest received from the nationalised banks for the deposits for more than one year, then deduction is Rs. 6,000/-. In addition to that there is a deduction of Rs. 3,000/- on account of U.T.I. Apart from that such deduction is allowable if an individual receives interest on securities or dividens, etc. It may be noted that if any interest is received from deposits from private parties, then no deductions are allowed.

(7) If the individual is totally blind or he is a physically handicapped person, then a sum of Rs. 10,000/- is deducted from the total income earned by such an individual.

(8) For the purposes of payment of Income-tax if a person borrows any money and for that purpose he has to pay interest, then such interest on the borrowed money will also be deducted from the gross total income.

Apart from that for the purposes of salarie employees the most important deduction which is to be made from the salary is called standard deduction. This standard deduction is allowable at the rate of 25% of salary subject to limitation of Rs. 5,000/- for the assessment year 1983-84. Such standard deduction was limited to Rs. 1,000/- in respect of the employees who used to get conveyance allowance from his employer upto the assessment year 1981-82. But from the assessment year 1982-83 and onwards employees who are in respect of conveyance allowance from their employer are also entiiled to standard deduction as on the same terms. Apart from that other deduction regarding House Rent Allowance are also allowed subject to certain conditions. Any House Rent Allowance received by an employee is subject to exemption (deduction) for which the limit has been provided as under :

i) Actual amount of such allowance received
ii) Rs. 400/- per month

iii) 1/5th of salary

iv) Amount of rent incurred by an employee in excess of 1/10th of the salary whichever is the least will be exempted.

In Delhi most of the people own their houses in which they are living themselves. It is not known to many persons that from the house which is wholly self occupied a tax is to be paid to the Government. This national income is determined as under :

The Annual Value is first to determined on the basis of annual value determined by the Corporation or the rent which the said property may fetch if it is given on rent. Then the House-tax paid is to be reduced from such annual value and the balance so arrived at will be reduced by 1,800/- or half of it, whichever is less, upto the assessment year 1982-83 and for the assessment year 1983-84 it is to be reduced by half of it or the other Rs. 3,600/-, whichever is less and the balance so arrived at will further be limited to 10% of total income of an individual and from the such net income a sum of 1/6th will be reduced for repair charges whether incurred or not and from that any other future liability on the house will be reduced and the balahce will be subject to tax.

In order not to pay tax on income from self occupied property specially where the individual's wife is a domestic one or she has below taxable limit, then it is advisable that husband should advance a loan to his wife and she should construct the house and then she will not have to pay any tax because the limitation of the income from Self Occupied Property to the extent of 10% of other income will determine the income nil. Apart from that she can also claim deduction for interest payable to her husband on the amount borrowed for the consstruction of the house. Hence it is suggested that as far as possible it should be managed that the house should stand in the name of the wife of the assessee.

There are majority of employees whose income is below taxable limit after deduction of Insurance Premia, U.T.I. and interest. If they have deposited money with private Companies, the Income Tax Act requires the Private Companies to deduct tax at source (if the figure of interest amounts to Rs. 1000/- and above). While the depositors are not required to pay any tax on the basis of their total income. In order to mitigate hardship to low paid investors the Government has recently made an amendment in the Rules and provided the forms 15—G, 15—H and 15—F. These forms are to be filled in by an individual and handed over to the person where his deposits are lying or where he has made an account of investment by way of purchasing shares, debentures or fixed deposits. By filling such forms his depositor will not deduct tax from the interest payable to such an individual.