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Income Tax Planning: A Study of Tax Saving Instruments

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Abstract : Tax planning is an essential part of our financial planning. Efficient tax planning enables us to reduce our tax liability to the minimum. This is done by legitimately taking advantage of all tax exemptions, deductions rebates and allowances while ensuring that your investments are in line with their long-term goals. The purpose of the study is to find out the most suitable and popular tax saving instrument used to save tax and also to examine the amount saved by using that instrument. Over all findings reveals that the most adopted tax saving instrument is Life Insurance policy, which got the first rank in this study and the second most adopted tax saving instrument is Provident FunTax planning is an essential part of our financial planning. Efficient tax planning enables us to reduce our tax liability to the minimum. This is done by legitimately taking advantage of all tax exemptions, deductions rebates and allowances while ensuring that your investments are
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Keywords : Tax, Tax saving Instruments, Tax Planning, Tax Management, Tax Evasion and Tax Avoidance

INTRODUCTION : In other words all arrangements by which the tax is saved by ways and means, which comply with the legal obligation and requirements and are not colourable devices or tactics to meet the letters of law but not the sprite behind these, would constitute tax planning. Tax planning should not be done with an intent to defraud the revenue, All transactions entered into by an assessed could be legally correct, yet on the whole these transactions may be devised to defraud the revenue. All such devices where status is followed in strict words but actually spirit behind the statute is marred would be termed as colourable devices and they do not form part of the tax planning. All transactions in respects of tax planning must be in according with the true spirit of statute and should be correct in form and substance. The form and substance of a transaction is real test of any tax-planning device. The form of transaction, as it appears superficially and the real intention behind such transaction may remain concealed. Substance of a transaction refers to lifting the veil of legal documents and ascertaining the intention of parties behind the transaction. It does not amount to evasion of tax. It is an act of prudence and farsightedness on the part of the taxpayer who is entitle to reduce the burden of his tax liability to the maximum possible extent under the existing law. Tax planning ensures not only accruals of tax benefit within the four corners of law, but it also ensures that the tax obligations are properly discharged to avoid penal provision.

Tax Evasion And Tax Avoidance Tax Evasion:
It refers to a situation where a person try to reduce his tax liability by deliberately suppressing the income or by inflating the expenditure showing the income lower than the actual income and resorting to various types of deliberate manipulations. An assessed guilty of tax evasion is punishable under the relevant law. Tax evasion may involve stating an untrue statement knowingly, submitting misleading documents, suppression of facts, not maintaining proper accounts of income earned (if required under the law) omission of material facts in assessments. An assessed, who dishonestly claims the benefit under the statute by making false statements, would be guilty of tax evasion.

Tax avoidance: The line of demarcation between tax planning and tax avoidance is very thin and blurred. There could be element of mollified motive involved in the tax avoidance also. Any planning which, through done strictly according to legal requirements defeats the basic intention of the legislature behind the statute could be termed as instance of tax avoidance. It is usually done by adjusting the affair in such a manner the there is no infringement of taxation laws and b taking full advantage of the loopholes there in so as to attract the least incidence of tax.

Tax Planning Excludes

- Tax Planning is not tax evasion. It involves sensible planning of your income sources and investments. It is not tax evasion, which is illegal under Indian laws.
- Tax Planning is not just putting your money blindly into any 80C investments.
- Tax Planning is not difficult. Tax Planning is easy. It can be practiced by everyone and with a very little time commitment as long as one is organized with their finance

Types of Tax Planning
The tax planning exercise ranges from devising a model for specific transaction as well as for systematic corporate planning. These are;
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Short and long range tax planning:
Short range planning refers to year-to-year planning to achieve some specific or limited objective. By investing in such a way, he is not making permanent commitment but is substantially saving in the tax
Long range planning on the other hand involves entering in to activates, which may not pay off immediately, For example, when an assessee transfers his equity shares to his minor son he knows that the income from the shares will be clubbed with his own income, but clubbing would also cease after minor attains majority
Permissive tax planning: Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.
Purposive Tax planning: Purposive tax planning is based on the measures, which circumvent the law. The permissive tax planning has the express sanction of the statute while the purposive tax planning does not carry such sanctions, For example, under section 60 to 65 of the income tax.1961 the income of the other persons is clubbed in the income of the assessee.
Tax management

Tax management is an internal part of the tax planning.. Tax management plays a vital role in calming allowance, deductions and tax exemptions by complying with the required conditions. For example, Where an assessed follows mercantile system of accounting, the claim of expenses should be made, subject to the provisions of section 43B, on accrual bases, if the assessed fails to make such a claim, such expenses can not be deducted in subsequent years. Similarly, the specified deductions under section 80IA, section 80JJA, etc., cannot be allowed by the assessing officer smout. Tax management also protects an assessed against penalty and prosecution by discharging tax obligations in time. Thus, the study of tax planning is incomplete without tax management. Tax planning without the study of tax management is like knowing the medicine with out knowing how to administer it

THE POPULAR INVESTMENT OPTIONS

- PPF (with post offices/banks), statutory provident fund (deducted and paid by the employees). Life insurance premium (with the LIC or other private insurers).
- Unit-linked insurance (UTI & mutual funds).
- Equity-linked saving schemes.
- National Saving Certificates.
- Infrastructure bonds.
- Home loans

TAX SAVING INSTRUMENTS

Deduction under section 80C is allowed only to individual or HUF, up to a maximum limit of 1,00,000 Rs. and the deduction is allowed only when the amount has actually been paid by the assesseee. Following amount paid or deposited are allowed as deduction u/s 80C:

- Contribution / subscription to PPF, NSC, NSS, ULIP, ELSS
- Fixed Deposit with any schedule bank for at least 5 years

Equity Linked Saving Schemes

ELSS is an instrument sold by mutual funds for the specific purpose of enabling taxpayers to save their taxes. The proceeds from ELSS are mostly invested in the stock market so that the investors get the benefit of appreciation in stock prices, thereby making the stock market work for investors. The tax deduction for ELSS is available under section 80C of the Income Tax Act 1961a

Life and Medical Insurance Plans

Life Insurance Policies have long been the most popular tax saving instruments among taxpayers. Insurance policies offer twin advantage for tax deductions on premium paid and insurance cover for the insurer and his family in the event of a financially debilitating event such as accident, death, etc. The premium paid on life insurance policies qualify for tax deductions under section 80C, subject to a maximum of Rs.1 lakh per annum. Most companies offering Life Insurance also offer medical insurance policies as well as pension plans which offer tax deduction under section 80D

Deduction is allowed to an individual/HUF for payment towards Medical Insurance Premium or to any Life and Medical Insurance Plans Life Insurance Policies have long been the most popular tax saving instruments among taxpayers. Insurance policies offer twin advantage for tax deductions on premium paid and insurance cover for the insurer and his family in the event of a financially debilitating event such as accident, death, etc. The premium paid on life insurance policies qualify for tax deductions under section 80C, subject to a maximum of Rs.1 lakh per annum. Most companies offering Life Insurance also offer medical insurance policies as well as pension plans which offer tax deduction under section 80D. Deduction is allowed to an individual/HUF for payment towards Medical Insurance Premium or to any

- contribution made to the central Government health Scheme by any mode other than cash.
- Maximum 15,000 (For insurance of individual, spouse, dependent children) or 20,000 in case of senior citizen, and
- Maximum 15,000 (For insurance of parents) or 20,000 if parents are senior citizen.

Housing Loan

Repayment of principal amount of loan taken for purchase/construction of residential house property from central/state Government, Bank, LIC, National

Housing Bank or from employer (where employer is statutory corporation, public company, university, college, or local authority or co-operative society) under section 80C.

Public Provident Fund: The contributions made to the Employees provident fund (EPF) and Public Provident Fund (PPF) are also eligible for tax deductions under section 80C.While the contribution paid to EPF and PPF by the employees are subject to the overall ceiling of Rs.1 Lakh under section 80C.

National Savings Certificate: It can be bought at any post offices in the country. While there is no upper limit for investment, the tax deduction on NSC is available subject to overall limit of Rs.1 lakh under section 80C.

Term Deposits and Bonds: Many of the commercial banks have fixed deposit schemes, which qualify for tax deductions. These deposits have a lock-in-period of five years. Investments in these deposits are subject to the overall ceiling limit of Rs.1 lakh per annum under section 80C. There are other specified expenses such as registration charges and stamp duty paid on house property, Under other sections, expenses like conveyance allowance; food coupons etc. also qualify for deductions. There are also special deductions/concessions for senior and disabled tax payers.

Conclusion

Tax planning is the exercise carried out by a taxpayer to meet his legal obligations in proper and systematic manner by availing all permissible benefits under tax laws including benefit of various notifications. Planning does not mean reduction in tax liability always but is done with the intention to avoid litigations and penalties. Planning various statutory returns on time, compliance of provisions of law and avoiding penalties, interest and unwarranted litigations is an efficient tax management. Tax management may not result in reducing tax liability but it certainly helps in saving penalties and interest and thus can be treated as a part of tax planning. Tax planning is incomplete without tax management.

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