TAX PLANNING

💼 TAX

📈 A tax is a **mandatory fee or financial charge** levied by any government on an individual or an organization **to collect revenue** for public works, providing essential facilities and infrastructure.|

🌎 TAXATION

- It is a system of levying and collecting taxes from individuals, businesses, and other entities by a government authority.
- In India, both **state** and **central governments** have a role in setting and levying taxes.

💸 TAX STRUCTURE IN INDIA

Type of Tax 🔎	**Definition** 📄	**Example** 📅
Direct Tax 💵	Imposed directly on a taxpayer and required to be paid to the government.	Income Tax, Property Tax, Capital Gains Tax.

Indirect Tax 💳	Imposed indirectly on individuals or entities and can be transferred or shifted to others.	GST (Goods and Services Tax), Customs Duty, Excise Duty.

🌟 INCOME TAX

- 📝 **Definition**: A tax imposed on **individuals or businesses** based on their income or profits.
- 🏆 **Key Features**:
    - Income tax is a **central subject** according to the **Constitution of India**.
    - **Levied only by the central government**.
    - **Governing Law**: Income-tax Act, 1961.

IMPORTANT TERMS IN INCOME TAX

💰 HEADS OF INCOME [Sec. 14]

INCOME FROM SALARY (sec 15)

- **Income earned through employment contracts** is subject to taxation under the category of "Income from Salaries."
- This encompasses any **financial compensation received** for the services rendered in the **capacity of an employee**.
- It includes **salary, advances, benefits, bonuses**, commissions, pensions, and other forms of remuneration.

INCOME FROM HOUSE PROPERTY (sec 18)

- It refers to the **rental income earned by an individual** from a property they own or have a legal interest in.
- The primary component of **income from house property is the rental income received** by the property owner from tenants who occupy the property.

INCOME FROM PROFITS AND GAINS FROM BUSINESS OR PROFESSION (sec 28)

- The profits that you earn from any kind of **business or profession are taxable under this head.**
- You can **subtract your expenses** from the total income in order to determine the amount on which tax is chargeable.

Business Income
This includes profits and gains **derived from operating a business**. Income from **sales, fees, commissions**, and other business-related transactions fall under this category.

Professional Income
This involves income earned by professionals who provide **specialized services in fields** such as **law, medicine, accounting etc. Professional** income is typically derived from fees charged for services rendered.

INCOME FROM CAPITAL GAINS (sec 45)

- It refers to the profit earned **from the sale or transfer of capital assets.**
- Capital assets include various types of investments, such as **stocks, bonds, real estate, precious metals**, artwork.

Short-Term Capital Gains
These are gains from the **sale of capital assets held for one year or less** and Tax rate is high on **short term capital gain**.
Long-term Capital Gains
These are gains from the sale of capital assets held for more than one-year Long-term capital gains are often **taxed at lower rates compared to short-term gains.**

INCOME FROM OTHER SOURCES (sec 56)
It refers to any **earnings that do not fall under the specific categories** of income, such as salary, business profits, capital gains, or house property.

PREVIOUS YEAR
It means the fi**nancial year immediately preceding the assessment year**. In other words, the year in which income is earned is known as previous year.

ASSESSMENT YEAR
- It means the period of **twelve months commencing on the first day of April** every year and ending on 31st March of the next year.
- A year in which an assessee is **liable to pay tax on the income of the previous year**.

🏦 TAX DEDUCTED AT SOURCE (TDS)

📌 It is a **mechanism used by the government to collect income tax** in advance where tax is **deducted at the source of income**.

Payment Type 💰	TDS Deducted 📑	Example 🌟
Salary 🧑‍💼	Employer deducts tax before paying salary	₹50,000 salary, ₹5,000 TDS deducted
Rent 🏠	10% deducted if rent exceeds ₹50,000/month	₹60,000 rent → ₹6,000 TDS
Interest from FD 🏦	10% TDS deducted if interest exceeds ₹40,000/year	₹45,000 FD interest → ₹4,500 TDS
Contract Payments 🔧	1% - 2% TDS on contractor payments	₹2 lakh paid to a contractor → ₹2,000 TDS deducted

🌍 RESIDENTIAL STATUS FOR INCOME TAX

🏡 Why is Residential Status Important?

The **residential status** of an assessee determines **how their income is taxed**.

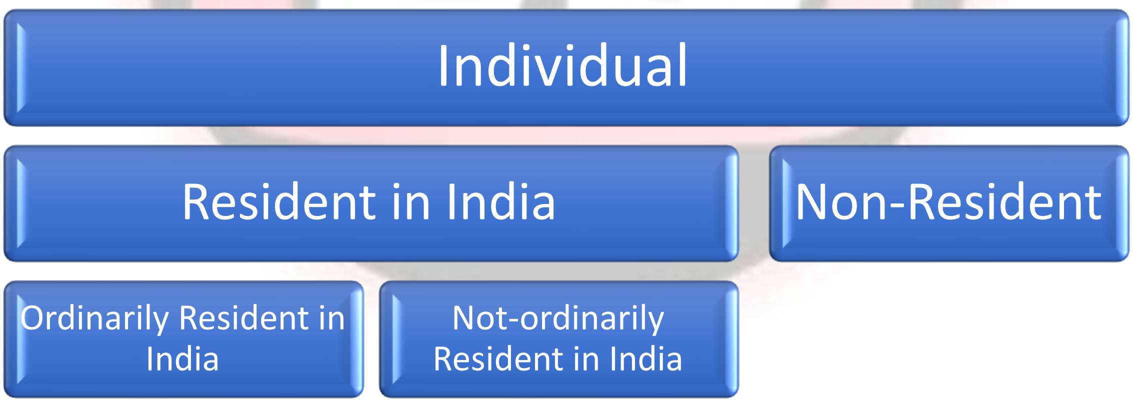
📌 It helps decide **whether income earned abroad is taxable in India** or not.

RESIDENTIAL STATUS FOR INCOME TAX

Residential status of an **assessee determines the scope of chargeability of his income**. Whether a person will be charged to a particular income or not, depends on his residential status.

Important points to be kept in mind regarding the residential status of a person.

- Residential status is determined in **respect of each previous year**. In other words, residential status of a person **may vary from one previous year to another previous year.**
- **Citizenship and residential status** are **two different concepts**. A citizen of India may not be a resident in India for the purpose of income-tax.
- A person can have **same residential status in more than one country.**



RESIDENT

For qualifying as a resident of India as per Income Tax guidelines, the individual has **to satisfy any of the following two conditions.**

- Stay in India for a **year of 182 days or more**

- He/she must be in India for a period of **60 days or more during the previous year** and for **365 or more days during 4 previous years** immediately preceding the relevant previous year.

NOTE

New amendment from FY 2020-21 states that a **citizen of India who isn't liable to pay tax in any other country is a resident in India**, but only if their total income (excluding foreign sources) **exceeds ₹15 Lakh** and they have no tax liability in other countries due to domicile or residence.

Ordinarily Resident In India

If a resident individual satisfies the following **two additional conditions**, he will be treated as ordinarily resident in India.

- He has been resident in India in **at least 2 out of 10 previous years immediately** preceding the relevant previous year.
- He has resided in India for a period of **730 days or more during 7 previous years immediately** preceding the relevant previous year.

Resident But Not Ordinarily Resident

If a resident individual **does not satisfy both additional conditions** as given u/s 6(6), he is “Resident but not ordinarily resident in India.

NON-RESIDENT (NR)

An individual **not satisfying the eligibility of a Resident would be considered** as Non Resident (NR) for the year as per extant Income Tax Laws.

💰 TAXABILITY BASED ON RESIDENTIAL STATUS

Income Type 💰	Resident (ROR) 🏡	RNOR 🤔	Non-Resident (NR) 🌍
Income earned in India	✅ Taxable	✅ Taxable	✅ Taxable
Income earned outside India 🌍	✅ Taxable	❌ Not Taxable	❌ Not Taxable

🌍 DOUBLE TAXATION AVOIDANCE AGREEMENT (DTAA)

💡 **What is DTAA?**

📌 A treaty between **two or more countries** to **avoid double taxation** on the same income.

📌 Helps NRIs **avoid paying tax twice** – once in India and once abroad.

📌 **Example 6 (DTAA Benefit for NRI in USA):**

- 🔹 Ramesh is an **NRI in the US** and earns ₹20 lakh in the US.
- 🔹 He also earns **₹5 lakh interest from Indian FDs**.

- Under **India-USA DTAA**, he **only pays tax in one country** for his FD interest.

SECTION 80C-DEDUCTIONS ON INVESTMENTS

Section 80C offers potential tax savings options of **up to Rs.1.5 lakhs** yearly.

Major income tax saving instruments include:

Public Provident Fund: Also called PPF, you can make a maximum contribution of Rs. 1.5 lakhs per year in this tax saving scheme. PPF cannot be **withdrawn before 15 years**.

Unit Linked Insurance Plans: Also called ULIPs, these tax saving schemes allow for a maximum exemption of **Rs.1 lakh per year** w/s 80C. Apart from investment exemption, the **maturity earnings** are also **tax exempt.**

Tax Saving Fixed Deposit: Tax saving fixed deposits are available for a **fixed tenure of 5 years** and a **maximum of Rs. 1.50 lakh** can be invested to avail tax benefits per year us 80C.

Employee Provident Fund: Also called EPF, this is another investment scheme that offers tax benefits u/s 80C up to **Rs.1 lakh per year.**

National Saving Certificate: Also called NSC, this instrument can be used to earn tax saving interest up to **Rs.1 lakh per year** us 80C.

Tax Saving Mutual Funds: These funds allow for exemptions up to **Rs.1 lakh per annum** w/s 80C.

Post Office Tax Saving Schemes: You can claim up to **Rs.1 lakh in tax benefits** every year through the various post office investment options.

Life Insurance Premium: Amount paid by a taxpayer towards life insurance premium for **spouse, children, and self** is allowed as deduction.

Sukanya Samriddhi Yojana (SSY)

- The Sukanya Samriddhi Yojana is a government saving scheme to benefit **a girl child who is ten years or less**.

- The **principal amount qualifies for a deduction**, and the **interest is tax-free.**
- The account matures **after 21 years of investment or at the event of the marriage of a girl child.**

Pradhan Mantri Vaya Vandhana Yojana (PMVVY):

- PMVVY is a **pension scheme** for **senior citizens aged 60 years or more** with an **assured interest of 8.3% per annum**.
- The **locking period is ten years.**
- The **principal amount qualifies for a deduction**, and the interest is tax-free.

Senior Citizen Saving Scheme (SCSS)

- Senior Citizen Saving Scheme (SCSS) aims at providing a **regular income for senior citizens** aged **above 60 years** available at a certified bank and all the post offices across India.
- The **lock-in period is five years.**
- Section 80C income tax deductions cover the **principal amount, and the interest is tax-free.**

Equity Linked Savings Scheme (ELSS): Investments in the specific schemes of ELSS allow deduction upto a maximum **limit of Rs. 1.50** Lakhs with a **lock in period of 3 years**.

OTHER TAX SAVINGS OPTION BEYOND SEC 80C

Medical insurance premium can be claimed **at ₹50,000.**

- ₹25000/- for **self and dependent family** comprising spouse and children and additionally also claim **₹25000/- for dependent parents below 60 years.**
- One can also claim medical insurance premium paid up to a **maximum of ₹1,00,000/- per annum if availed for senior citizens**.

Under section 24, interest paid on a home loan can be claimed as a deduction **up to 2 Lakhs.**

Section 80EE allows you to claim a deduction of **up to 50,000** on home loan interest which is **over and above the limit of section 24**.

Interest paid of Education Loan is allowed as deduction under Sec **80E.**