

# **Effective Planning on Income Tax, Finance, & Succession AND Practical Analysis of Income Disclosure Scheme – 2016**

# Income Tax



# New Provision of Sec. 44 AD of the Income Tax Act

	A/c Year	A/c Year	Presumptive Rates of Income
	2015 – 16	2016 – 17	
For Businessmen Turnover / Receipts Sec. 44 AD	Rs. 1 Cr.	Rs. 2 Cr.	8%

For Professionals Receipts Sec. 44 ADA	----	Rs. 50 Lakh	50%
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## Important

Partnership Firms will not be allowed deduction for Interest & Remunerations paid for calculating presumptive tax.

# Compliance of certain transactions

## For bullion & jewellery

Transaction Type	TCS	PAN	E – Reporting
Sale of bullion or jewellery, in cash, above Rs. 2 Lakh in aggregate to one party.	Yes  1%  (Limit raised to Rs. 5 Lakhs).	Yes	Yes  wef  01/01/'16  If seller is U/s 44AB
Sale / Purchase of bullion, jewellery by any mode, including cash, above Rs. 2 Lakhs per transaction.	----	Yes  wef  01/01/'16	----

# Compliance of certain transactions

## Other than bullion & jewellery

Transaction Type	TCS	PAN	E – Reporting
Sale of any goods / service by cash above Rs. 2 Lakhs, in aggregate during the year to one party.	Yes 1% wef 01/06/'16	Yes wef 01/01/'16	Yes wef 01/01/'16 If seller is U/s 44AB
Sale / Purchase of any goods / services by any mode including cash above Rs. 2 Lakhs, per transaction.	----	Yes wef 01/01/'16	----

# Taxation of Dividends U/s. 115 BBDA

- ✓ Only if dividend exceeds Rs. 10 Lakh in a year, then on amount of dividend exceeding Rs. 10 Lakh @10%.
- ✓ Mutual Funds Dividends are not covered in the above.



# Scope of AIR (Annual Information Return)

- ✓ Cash Deposits aggregating to ten Lakh rupees or more in a financial year, in one or more accounts (other than a current account) of a person and;  
Cash Deposits aggregating to fifty Lakh rupees or more in a financial year, in one or more current accounts.
- ✓ Payments made by any person of an amount aggregating to :
  - (i) one Lakh rupees or more in cash; or
  - (ii) ten Lakh rupees or more by any other mode against bill raised in respect of one or more credit cards issued to that person in a financial year.
- ✓ Receipt from any person for sale of foreign currency including currency through a debit or credit card aggregating to ten lakh rupees or more during a financial year.
- ✓ Purchase or sale by any person of immovable property for an amount of thirty lakh rupees.

# Payments to relatives (claimed as an expense)

- ✓ Salary.
- ✓ Commission.
- ✓ Interest.
- ✓ Purchase of goods.
- ✓ Payment of fees.
  
- At fair market value.
- For needs of the business.
- Benefit has been derived.



# Are we operating with a right business format?

- ✓ Proprietorship.
- ✓ Partnership.
- ✓ LLP.
- ✓ Pvt. Ltd.

# Concept of block of depreciable assets

## Sec. 32 of the Income Tax Act

### 15% Block (Motor Car)

Op. Balance	3,76,000/-
Less : Car Sold	5,00,000/-
Add : Car Purchased	12,00,000/-
	-----
	10,76,000/-

### 10% Block (Building)

Op. Balance	22,00,000/-
Less : Building Sold	1,36,00,000/-
Add : New Building Constructed	3,00,00,000/-
	-----
	1,86,00,000/-

### 10% Block (Building)

Op. Balance	22,00,000/-
Less : Building Sold	1,36,00,000/-
	-----

Capital Gain U/s. 50    1,14,00,000/-

Can be invested in Capital gain bonds  
U/s. 54EC. - Limit 50 Lakh.

# Deduction of interest paid

Interest bearing funds should not be used to give interest free loan / deposit

- ✓ Borrowed funds having nexus with interest free loans.
- ✓ No specific nexus between borrowed funds & interest free loans.

# Ideal tax planning for a family

All the assesses of the family should be taxed in the same rate.

# Finance

A faint, light-colored background image showing several coins and a ledger with columns of numbers, suggesting a financial or accounting theme.

# Principles for availing loans and getting attractive interest rates

- ✓ What is the purpose of your (loan) borrowings?
- ✓ How will you repay your (loan) borrowing?
- ✓ What is the security offered against the loan sought?



# Why do you need professional advice while availing a loan?

- ✓ They can get you the best deal – interest terms.
- ✓ They plan in a futuristic way.
- ✓ They can be your true advisors if you are on a wrong track.
- ✓ They can take overall view rather than a account centric view.

# Plan Investment in Income Tax friendly manner

I have fixed deposit in bank  
&

I have borrowings / loans from the bank

We are facilitating the bank to earn



# Am I financially stressed ?

If yes, it needs to be treated...

- ✓ I am unable to meet my financial obligations in a regular way.
- ✓ What is the reason for financial stress?
- ✓ How can I solve my financial stress in the long term?
- ✓ How can I solve my financial stress in the short run?

# Life Insurance

Traditional Plans



Term Plans

(older versions which were expensive)



Term Plans

(newer versions which are cost efficient)

# There are only 4 avenues of investment in the world

## Equity

- ✓ Direct Equity
- ✓ Equity Mutual Funds
- ✓ Foreign Equity
- ✓ PMS
- ✓ ULIP / Pension

## Debt – Fixed Income Investments

- ✓ Bank FD
- ✓ Pvt. Company FD
- ✓ Debt based Mutual Funds
- ✓ Tax Free Bonds
- ✓ ULIP / Pension

## Real Estate

- ✓ Plot or Land
- ✓ Commercial Property
- ✓ Residential Property
- ✓ Rented Property
- ✓ Agricultural Land

## Precious Metals

- ✓ Gold
- ✓ Silver
- ✓ Gold ETF

# We invest only in our business...

- ✓ Do you put all eggs in one basket?
- ✓ Build a corpus (treasury) beyond the business.
- ✓ Insignificant investments will not help.



# FD & Bonds with high rates of interest

✓ Pure Finance companies.



✓ Finance company backed with an diversified group.



# Gold Monetization Scheme

- ✓ Deposit gold 30 gram and more.
- ✓ Earn interest between @ 2.25 % to 2.50% (both SBI) in the form of gold paid in rupees.
- ✓ Return of deposit in gold form.
- ✓ Interest & Capital gain on transfer of scheme certificates tax free.

# Sovereign Gold Bond Scheme

- ✓ Deposit amount equivalent to 2 grams to 500 grams per person amount of gold.
- ✓ Earn interest 2.75% on the bonds in rupees.
- ✓ On maturity amount equivalent to the value of gold on maturity.
- ✓ Interest tax free & capital gains taxed after indexation on transfer of scheme certificate.

# Plan Investment in Income Tax Friendly manner

In Equities : - ✓ Equity based mutual funds with dividend option.

In Debt  
(Fixed Income Securities) : - ✓ Debt based mutual funds with growth option.  
✓ Tax Free Bonds.

In Real Estate : - ✓ Let out property.  
✓ Agricultural land.

# Direction of Global Economy

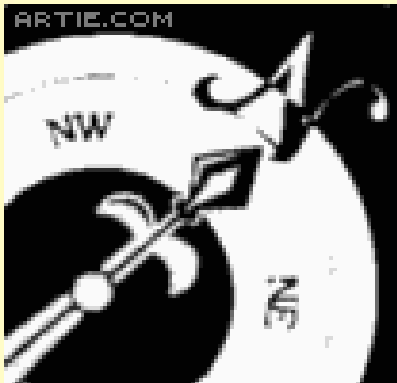
## Brexit & India

### Don't Worry

- ✓ Only Indian companies catering to EU & operating from UK impacted.

### Cause of worry

- ✓ Disintegration of EU.
- ✓ Global business arrangements distributed.
- ✓ Effect of global market on India.



**Effective Planning on Income Tax,  
Finance & Succession**



# Direction of Global Economy

Sr. No.	Major Economies by GDP(US\$ Trillion)	Interest(%)	Inflation (%)	GDP Growth (% , as of March 16)
1	USA (18.56)	0.5	1	2.1
2	China (11.38)	4.35	1.9	6.7
3	Japan (4.41)	-0.1	-0.4	0.1
4	Germany (3.47)	0	0.3	1.3
5	UK (2.76)	0.5	0.3	2
6	France (2.46)	0	0.2	1.3
<b>7</b>	<b>India (2.28)</b>	<b>6.5</b>	<b>5.76</b>	<b>7.9</b>
8	Italy (1.85)	0	-0.4	1
9	Brazil (1.53)	14.25	8.84	-5.4
10	Canada (1.46)	0.5	1.5	1.1

India is an island of hope for the world.

Effective Planning on Income Tax,  
Finance & Succession





# Succession

# Law of succession for Hindus

In case a Hindu dies  
without making a WILL

Vs.

In case a Hindu dies  
after executing a WILL

What happens in case of :

- ✓ Immovable Assets.
- ✓ Movable Assets.
- ✓ Assets in which nominees provided.
- ✓ HUF Property.

# Law of succession for Hindus

## Procedure on death (immovable assets)

In case a Hindu dies intestate  
(without executing a Will)

Heirship Certificate.



Property bequeathed to all or any  
of the legal heirs.

In case a Hindu dies after  
executing a Will

Letter of Administration with Will  
(Probate).



Property bequeathed to the  
beneficiaries of the Will.

# Law of succession for Hindus

Points which we should not miss at the time of drafting of a Will

- ✓ Does the Will take care of all possible eventualities?
- ✓ Does the Will leave any room for conflict?
  - Will should be explicit about making certain provisions. ▪ Property bequeathed jointly.
  - Loose ends in distributions of assets.

# Concept of Family Office

It is difficult for families & business groups to co-ordinate their financial affairs for Taxation + Investments + Accounts & Audit + Succession Planning etc.

Under the **concept of Family Office** there is one entity which takes care of all the financial affairs & does optimal co-ordination.

# Income Declaration Scheme - 2016





# History of Amnesty Scheme

<b>AMNESTY SINCE 1947</b>			
<b>Year</b>	<b>No. of Cases</b>	<b>Income Declared (In ₹ Cr)</b>	<b>Tax Collected (In ₹ Cr)</b>
1946-47	–	48	30
1951	20,912	70	11
1965	2001	52	31
1966	1,14,226	145	19
1965-68	–	22	–
1975	2,58,992	1,588	257
1980	–	400	160
1985-86	1,53,990	2,940	388
1991	–	–	984
1997	4,70,000	33,000	10,100
2015	<b>638</b>	<b>4,147</b>	<b>2,500</b>

\*Tax collected by the Indian govt under various amnesty schemes since independence

Source: Black Money in India

**Income Declaration Scheme - 2016**

# Salient Features

- ✓ Declare undisclosed income under the scheme, pay tax @ 45% (which includes all levies like surcharge, interest, penalty etc.).
- ✓ Undisclosed income in the form of assets to be taxed at fair market rate as on 1<sup>st</sup> June 2016.
- ✓ Scheme period 01-06-2016 to 30-09-2016.

# Salient Features

- ✓ Payment of taxes to be made by :
  - 25% by 30-11-2016
  - 25% by 31-03-2017
  - 50% by 30-09-2017
- ✓ No indexation allowed on assets declared for prior years. STCG & LTCG calculation to start from the year of declaration.
- ✓ Assets to be valued by approved valuer. Jantri value not mandatory.

# Salient Features

- ✓ Immunity under Benami Transaction (Prohibition) Act.
- ✓ Notices issued under any provision of the Income Tax act till 31-05-2016 not covered under IDS – 2016.
- ✓ Assets & Transactions which can be tracked by the Income Tax Department, a major attraction under IDS.

# Thank you... Questions ?



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## **ASHUTOSH FINANCIAL SERVICES PVT. LTD.**

A COMPLETE FINANCIAL SOLUTIONS ENTERPRISE

Corporate Office & Correspondence : Sterling Apts., Near Jubilee Baug Chowk, Jawahar Road,  
RAJKOT-360 001. GUJARAT, INDIA.

Phone: +91-281-222 4499, 223 6969. Email: info@ashutoshfinserv.com

Ahmedabad Office : 903-B, Synergy Tower, Coporate Road, Behind YMCA Club, Prahladnagar,  
AHMEDABAD-380 015. GUJARAT, INDIA.

Phone: +91-79-4005 6279. Email: info.abad@ashutoshfinserv.com



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# Section 44 ADA

**44ADA.(1)** Notwithstanding anything contained in sections 28 to 43C, in the case of an assessee, being a resident in India, who is engaged in a profession referred to in sub-section

- (1)** of section 44AA and whose total gross receipts do not exceed fifty lakh rupees in a previous year, a sum equal to fifty per cent. of the total gross receipts of the assessee in the previous year on account of such profession or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by the assessee, shall be deemed to be the profits and gains of such profession chargeable to tax under the head “Profits and gains of business or profession”.
- (2)** Any deduction allowable under the provisions of sections 30 to 38 shall, for the purposes of sub-section (1), be deemed to have been already given full effect to and no further deduction under those sections shall be allowed.

# Section 44 ADA

- (3) The written down value of any asset used for the purposes of profession shall be deemed to have been calculated as if the assessee had claimed and had been actually allowed the deduction in respect of the depreciation for each of the relevant assessment years.
- (4) Notwithstanding anything contained in the foregoing provisions of this section, an assessee who claims that his profits and gains from the profession are lower than the profits and gains specified in sub-section (1) and whose total income exceeds the maximum amount which is not chargeable to income-tax, shall be required to keep and maintain such books of account and other documents as required under sub-section (1) of section 44AA and get them audited and furnish a report of such audit as required under section 44AB.’