

# Effective Planning on Income Tax, Finance AND Succession

# Income Tax



# Maintenance of proper books of accounts

## IMPORTANCE

- ✓ Compliance of Provisions of Section 44AA read with Rule 6F of Income Tax Act.
- ✓ What do I actually earn?
- ✓ What do I actually spend?
- ✓ How do I limit my expenses?
- ✓ How do I increase my income?
- ✓ Show financial capacity.

# Presumptive taxation U/s. 44AD

Income for business turnover / receipts	Rs. 2 Cr.	8% 6% (Payment received by bank / digital transaction)
Professional Receipts U/s. 44ADA	Rs. 50 Lakh	50%

✓ No audit required even when turnover exceeds Rs. 1 Cr. if U/s 44AD adopted.

## Important

In case of a firm, 8% (or 6%) to be maintained after deduction of Interest & Remuneration to partners.

# Allowable deductions for doctors

Section 37 : Expenditure wholly and exclusively for the purpose of profession.

- ✓ Seminar Fees and its Travelling Expenses.
- ✓ Restaurant Bills for treating colleagues & prospective customers.
- ✓ Club Fees.
- ✓ Medical Assistance Fees (For references !).
- ✓ Salary to spouse.

# 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.

# 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.



# 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.



# Payment in Cash

- ✓ U/s 40 A(3) any expenses in cash above Rs. 20,000/= (From 01-04-2017 Rs. 10,000/=) shall not be allowable.
- ✓ Cash payment of Capital Expenses above Rs. 10,000/= shall not be considered as a part of actual cost of asset U/s 43(1). (From 01 – 04 – 2017)

# Payment in Cash

- ✓ Payments for purchase of any immovable property cannot be made by cash in excess of Rs. 20,000/=. (Sec. 269T). Provision for 100% Penalty.
- ✓ U/s 269SS & 269T, loan of Rs. 20,000/= and above can be received or repaid only by A/c Payee cheque or ECS.

Accounts having a balance of Rs. 20,000/= or more, no cash receipt / payment allowed.

## Insertion of new section 269ST. Mode of undertaking transactions – From AY 2017 – 18.

- ✓ 269ST. No person shall receive an amount of two lakh rupees or more—
- in aggregate from a person in a day; or
  - in respect of a single transaction; or
  - in respect of transactions relating to one event or occasion from a person, otherwise than by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account:

Penalty U/s 271 DA equivalent to amount received.

# Tax planning related to Gifts

✓ Gifts to the extent of Rs. 50,000/= is exempted.

Gifts from relatives without any upper limit is exempted.

Relative means :

- In case of an individual
  - (A) Spouse of the individual.
  - (B) Brother or Sister of the individual.
  - (C) Brother or Sister of the spouse of the individual.
  - (D) Brother or Sister of either of the parents of the individual.
  - (E) Any lineal ascendant or descendant of the individual.
  - (F) Any lineal ascendant or descendant of the spouse of an individual.
  - (G) Spouse of the person referred to in items (B) to (F).
- In case of a Hindu Undivided Family, any member thereof

# Tax planning related to Gifts

- ✓ Provision of Section 68 needs to be kept in mind. Identity, Genuinity, Credit worthiness needs to be proved.
- ✓ Some interesting instances of Tax Planning.

# Compliance of certain transaction

Transaction Type	TCS	PAN	E – Reporting
Sale of any goods / service by cash above Rs. 2 Lakh, per transaction during the year.	Yes  1%  (Double rate OR 5% whichever is higher, if PAN not quoted)	Yes	Yes  If seller U/s 44AB
Sale / Purchase of any goods / services by any mode other than cash above Rs. 2 Lac, per transaction.	Yes,  1% in case of sale of motor car exceeding Rs. 10 Lakh	Yes	----

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# Are we operating with a right business format?

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



# Ideal tax planning for a family

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

# 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.

# Scrutiny Proceedings by Income Tax

Why is a case selected for scrutiny

- ✓ Computer Aided Scrutiny Selection (CASS) form Data furnished in your return of Income.
- ✓ Annual Information Return (AIR) verification.  
For instance : Cash Deposit in Savings / Current Account etc. etc.
- ✓ Search & Survey cases.

# Finance



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The background of the slide features a faded, high-angle photograph of several coins, likely Indian Rupees, scattered on a surface that appears to be a ledger or a piece of paper with faint grid lines. The coins are in various orientations, some showing the obverse and others the reverse. The overall color scheme is warm, with a yellow-to-orange gradient.

# **Save Regularly**

# **Invest Regularly**

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# 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.

# 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

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## Factors to be considered in taking investment decision on asset allocation

- ✓ No asset class is good or bad.
- ✓ What is important is, does it suit me ?
- ✓ Consult a Financial Advisor not an investment or insurance agent but having knowledge of Debt, Equity, Real Estate, Taxation and Financial Laws.

# OUR BELIEF : Real Estate gives the best returns

Particular (Amt in Rs.)	Purchase Value (Amt in Rs.)	Sale value (% p.a.)	Returns	Tax	Sale Value Minus Tax	Post Tax (% p.a.)
Sensex	30 Lakhs	Rs. 27 Cr	16.13%	NIL	27 Cr.	16.13%
Flat	30 Lakhs	Rs. 21 Cr	15.20%	4 Cr.	17 Cr.	14.42%
Gold 17 K.g.	30 Lakhs (@ Rs. 1,800)	Rs. 5 Crore (@ Rs. 29,450)	9.76%	50 Lakhs	4.5 Cr.	9.32%

**Purchase : 1983 – 84**

**Sale : 2015 – 16**

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# **OUR BELIEF : Fixed Deposits are the best**

**Sleep peacefully – Relax – No tensions**

## **What is the real rate of return?**

**Rate of Return – Rate of Inflation = Real Return**

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# FD & Bonds with high rates of interest

- ✓ Pure Finance companies.
- ✓ Finance company backed with an diversified group.

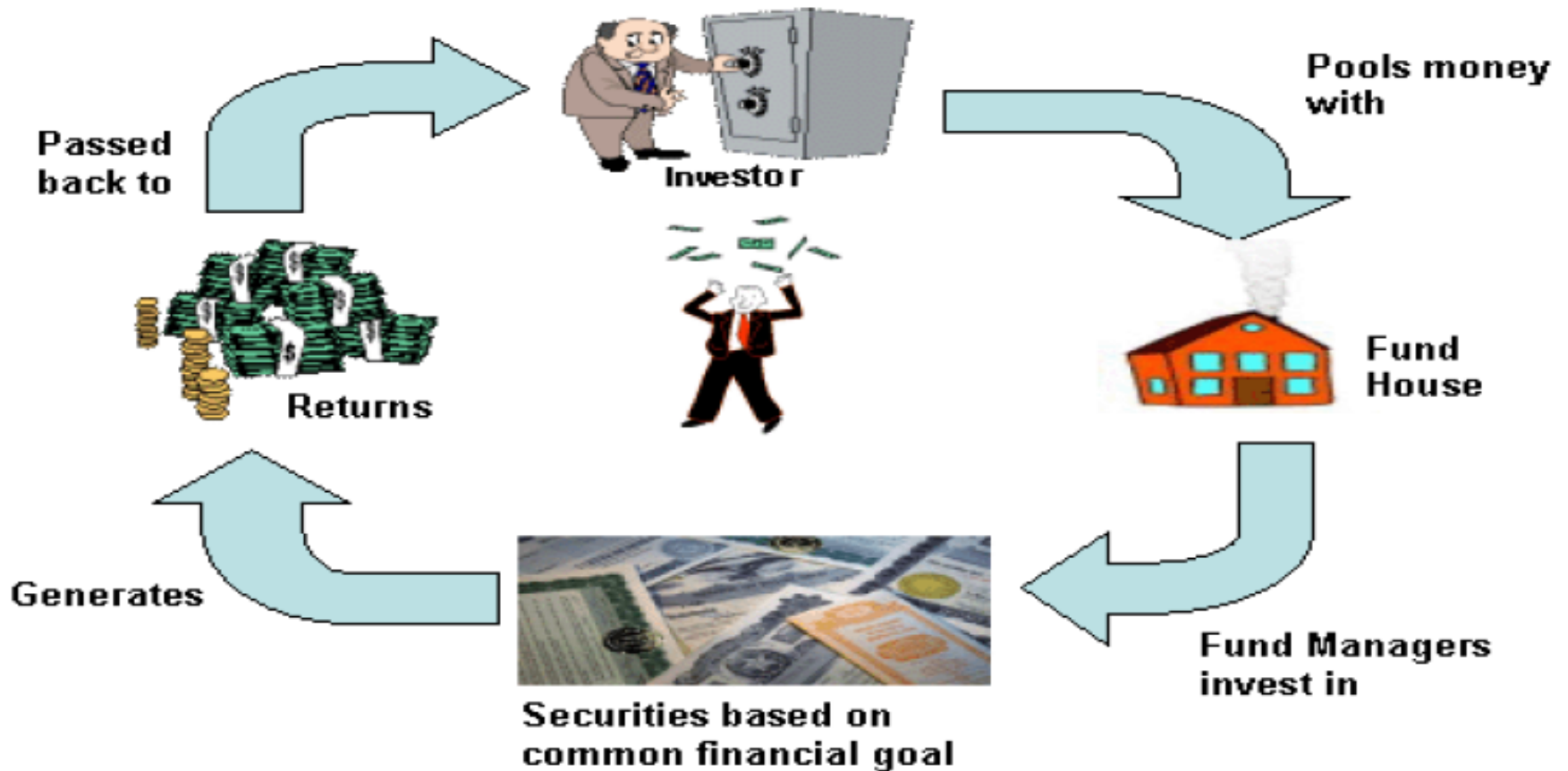


## Tax Free Bonds

An attractive option for highest tax bracket investors.

# Mutual Fund – A Vehicle for Investment in Debt, Equity

## How does it operate?



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# Advantages of Mutual Funds

1. Professional Management
2. Diversification
3. Convenient Administration
4. Return potential
5. Low cost
6. Liquidity
7. **Transparency**
8. Flexibility
9. Choice of schemes
10. **Well regulated**
11. **Tax benefits**



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# Mutual Funds outperforms the BSE Sensex

Indices	24/02/2015	02/03/2017	Difference in %
Sensex - High	29130.67	29145.62	0.05
Sensex - Closing	29004.66	28839.79	0.57
Mutual Fund Scheme			
Large Cap			
Name of the scheme	NAV (Rs.)	NAV (Rs.)	Difference in %
SBI Bluechip Fund	28.2810	32.2261	12.24
Birla Sun Life Top 100 Fund	43.8840	49.3415	11.06
Franklin India Bluechip Fund	356.0313	399.4454	10.87
Mutual Fund Scheme			
Multi / Flexi Cap			
Name of the scheme	NAV (Rs.)	NAV (Rs.)	Difference in %
Birla Sun Life Adv. Fund	293.4100	355.3500	17.43%
DSP BlackRock Opp. Fund	146.9180	183.2000	19.80%
Franklin India Prima Plus	678.3395	849.8039	20.18%

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Sensex - High	29130.67	29145.62	0.05
Sensex - Closing	29004.66	28839.79	0.57
Mutual Fund Scheme			
Mid Cap			
Name of the scheme	NAV (Rs.)	NAV (Rs.)	Difference in %
L & T India Value Fund	23.7910	30.9380	23.10
DSP BR Small & Midcap Fund	35.9190	46.5120	22.77
Mutual Fund Scheme			
Small Cap			
Name of the scheme	NAV (Rs.)	NAV (Rs.)	Difference in %
L & T Emerging Business Fund	14.2990	19.8830	28.08
Birla SL Small & Midcap Fund	23.9431	32.1201	25.46

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# Investment in Mutual Funds through SIP

## SIP – Systematic Investment Planning

...it is a method of investing a fixed sum, at a regular interval, in a mutual fund.

It is very similar to monthly saving schemes like a recurring monthly deposit / post office deposit

## Advantages of Systematic Investment Planning

- Encourages Regular Investments (just like recurring deposit schemes)
- A Convenient way to invest regularly
  - Lower initial investment without cutting into regular expense
- Long term perspective
- **Rupee Cost Averaging Benefit** to counter volatility - it brings down the average cost of your Investments
- No timing the market!!!
- Meet investment objective with investment needs



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# Power of Compounding

**Year of Investment**

**Rate of Return**

Savings Per Month	Total Amount Saved	For Years	Value of Investment			
			8%	12%	15%	20%
Rs. 10,000	Rs. 6,00,000	5	7,39,675	8,24,864	8,96,817	10,34,554
Rs. 10,000	Rs. 12,00,000	10	18,41,698	23,23,391	27,86,573	38,23,735
Rs. 10,000	Rs. 24,00,000	20	59,29,769	99,91,479	1,51,59,550	3,16,16,708
Rs. 10,000	Rs. 36,00,000	30	1,50,04,175	3,52,99,138	7,00,98,206	23,36,31,069

**Power of compounding is the 8<sup>th</sup> Wonder of the World - Albert Einstein**

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# Life Insurance

Traditional Plans



Term Plans

(older versions which were expensive)



Term Plans

(newer versions which are cost efficient)

# Returns of PPF Vs. ELSS

Year	Total Investment	PPF Interest Rate	Value in PPF	Depreciation of Rupee by Inflation ( WPI )	Sensex Value Level	Value if Invested in Sensex	ICICI Pru Long Term Equity Plan NAV	Value in ICICI Long Term Equity Plan
03 April 2000	70000	12.00%	70,000	70,000	5,053	70,000	18.62	70,000
02 April 2001	140000	11.00%	148,400	143,448	3,566	119,405	10.10	107,970
01 April 2002	210000	9.50%	234,724	220,520	3,500	187,192	13.06	209,613
01 April 2003	280000	9.00%	327,023	298,413	3,081	234,771	11.49	254,414
01 April 2004	350000	8.00%	426,455	379,370	5,741	507,458	27.01	668,061
01 April 2005	420000	8.00%	530,571	462,806	6,605	653,848	48.68	1,274,044
03 April 2006	490000	8.00%	643,017	553,292	11,564	1,214,782	90.70	2,443,784
02 April 2007	560000	8.00%	764,458	657,407	12,455	1,378,378	80.34	2,234,648
01 April 2008	630000	8.00%	895,615	764,393	15,627	1,799,326	92.28	2,636,758
01 April 2009	700000	8.00%	1,037,264	900,063	9,902	1,210,164	57.72	1,719,260
01 April 2010	770000	8.00%	1,190,245	1,082,571	17,693	2,232,290	128.04	3,883,825
01 April 2011	840000	8.00%	1,355,465	1,265,243	19,420	2,520,284	141.23	4,353,916
02 April 2012	910000	8.60%	1,533,902	1,443,232	17,478	2,338,229	136.32	4,272,548
01 April 2013	980000	8.80%	1,735,818	1,660,604	18,865	2,593,729	146.24	4,653,461
01 April 2014	1050000	8.80%	2,036,970	1,950,925	22,446	3,156,117	187.21	6,027,156
01 April 2015	1120000	8.80%	2,450,947	2,269,522	28,260	4,043,640	273.57	8,877,484
Value as on 31st March 16	1120000	8.80%	2,450,947	2,269,522	25,342	3,626,074	255.32	8,285,262

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# Tax planning & Investments

- |                  |    |  |
|------------------|----|--|
| ✓ Fixed Deposit. | Vs | Debt Based Mutual Fund.                |
| ✓ Gold bars      | Vs | Gold Deposit with monitisation scheme. |
| ✓ Equity Shares  | Vs | Equity Based Mutual Fund               |
| ✓ Land           | Vs | Let out property                       |

# Tax planning & Investments

- |  |    |   |
|--|----|---|
| ✓ Urban Land   | Vs | Agricultural Land                         |
| ✓ Investments<br>U/s- 80C<br>PPF, 5 Years FD,<br>Life Insurance<br>Premium | Vs | Equity Linked<br>Savings Scheme<br>(ELSS) |
| ✓ Traditional<br>Life Insurance  | Vs | Life Insurance<br>Term Plan               |
| ✓ Profit on Capital Asset – Investment Option                              |    |   |

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# Succession



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# Law of succession for Hindus

## Possibility – I

### A Hindu dies without executing a WILL

- ✓ Hindu Male : Class I heirs  
Mother, Widow, Daughters, Sons, Heirs of the deceased son / daughter. (father not included).
- ✓ Hindu Female : Class I heirs  
Sons, daughters, Children of predeceased son/daughter and the husband. (Father, mother, Father-in-law, Mother-in-law not included).
- ✓ What happens in case of :
  - Immovable Assets
  - Assets in which nominees provided
  - Movable Assets
  - HUF Property

# Law of succession for Hindus

## Possibility – II

### A Hindu dies after executing a WILL

- ✓ His / Her WILL expressed in the WILL shall be the basis for the distribution of the assets.
- ✓ What happens in case of :
  - Immovable Assets      • Assets in which nominees provided
  - Movable Assets        • 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.

# Message in these lines

छोड़ो कल की बातें  
कल की बात पुरानी...  
नए दौर में लिखेंगे  
मिलकर नयी कहानी...  
हम हिंदुस्तानी...



# Thank you...

# Questions ?



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