

# Effective Planning on Income Tax, Investment & 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.

# 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. 10,000/= shall not be allowed as a deduction.
- ✓ 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).



# 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.

# Real Estate & Cash Economy

- ✓ Restriction on cash transactions.
- ✓ Shifting of base year from 1981 to 2001 for computation of Capital Gain.
- ✓ Gain on immovable property held for 24 months shall qualify for long term capital gain.

# 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.

# Are we operating with a right business format?

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

# 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.



# Ideal tax planning for a family

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

# Investment



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Investment & Succession**



The background of the slide features a close-up, slightly blurred image of several gold coins resting on a surface that appears to be a ledger or a document with printed text and lines. The lighting is soft, highlighting the texture of the coins and the paper.

# **Save Regularly**

# **Invest Regularly**

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# 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.

# 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.

# **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**

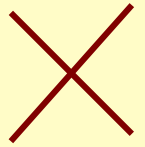
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# FD & Bonds with high rates of interest

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

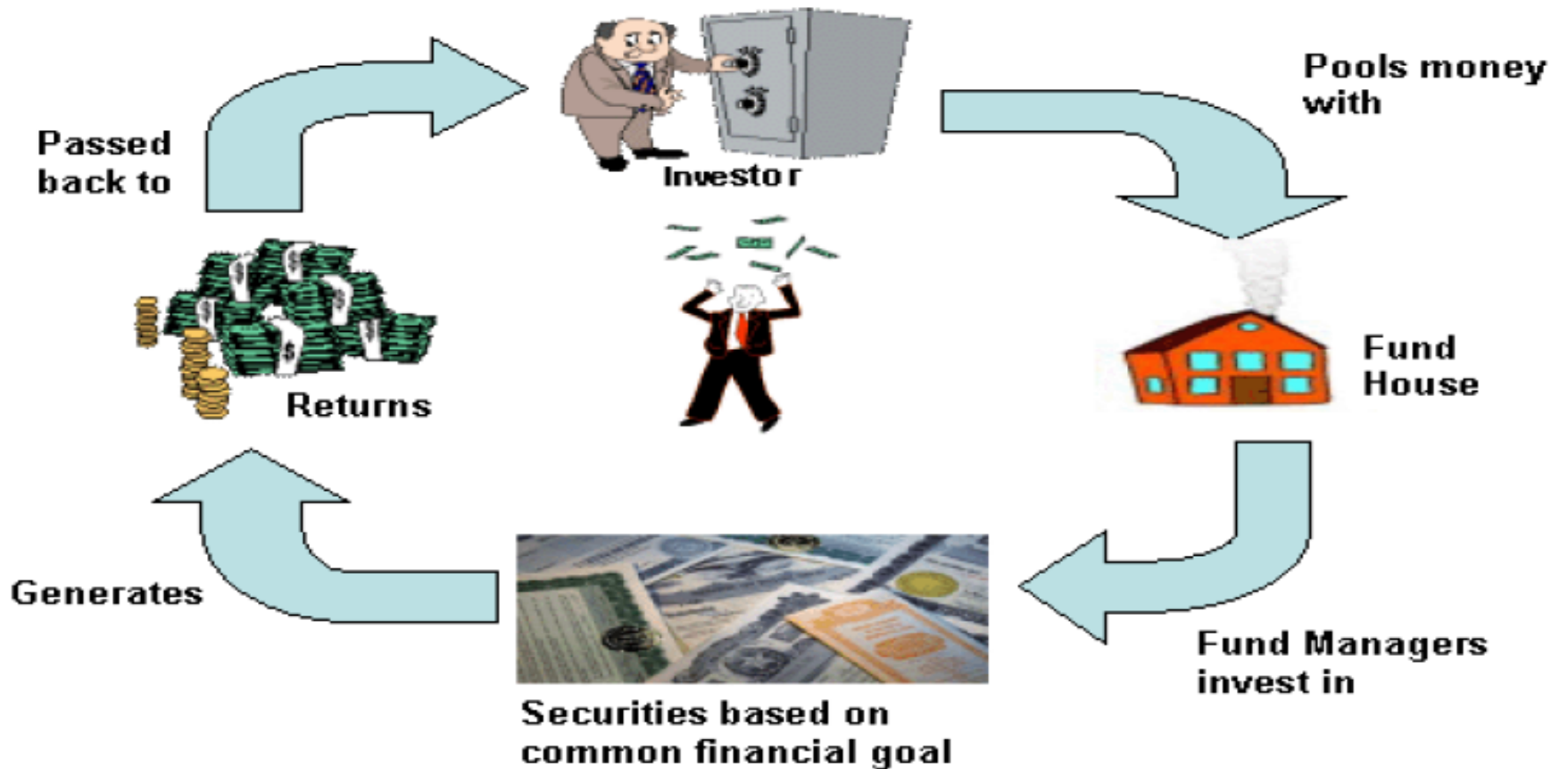


## Tax Free Bonds

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	29130.67	29145.62	0.05
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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# Mutual Funds outperforms the BSE Sensex

Indices	24/02/2015	02/03/2017	Difference in %
Sensex	29130.67	29145.62	0.05
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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# Advantages of Mutual Funds

## Tax Benefits

- ✓ Long term capital gain (holding period 12 months) & Dividends from **Equity Oriented** Mutual Funds is totally tax free.
- ✓ Long term capital gain (holding period 36 months) from **Debt Oriented** Mutual Funds is liable to indexation & thereafter taxed at the rate of 20%.

# Advantages of Mutual Funds

## HOW OVER DRAFT AGAINST DEBT MUTUAL FUND IS BETTER THAN OVER DRAFT AGAINST FIXED DEPOSIT ?

Head	Rate		FD		Debt	
LTCG-Debt	20.6%		Gross Return	8.75%	Gross Return	8.50%
Income Tax	30.9%		Deduction in Yield	2.70%	Deduction in Yield	0.60%
Lending rate	10.0%		Post Tax Yield	6.05%	Post Tax Yield	7.90%
Rate of Inflation p.a	5.6%					

Particular	FD Tenure in Days	Years	Quarter	Rate Of Return FD	Amount Invested	Interest Received	Particular	Tenure Days	Years	Rate Of Return OD	Amount Invested	Interest Paid	Net Intrest
Fixed Deposit	1095	3	12	6.05%	65,00,000	12,82,148	OD	150	0.41	9.75%	65,00,000	2,60,445	10,21,703
Particular	Tenure Days	Years		Rate Of Return	Amount Invested	Interest Received	Particular	Tenure Days	Years	Rate Of Return LAS	Amount Invested	Interest Paid	Net Intrest
Any Good Debt Product	1095	3		7.90%	65,00,000	16,65,995	OD	150	0.41	10.00%	65,00,000	2,67,123	13,98,871
Processing Fee													9,750
Difference - Absolute													3,67,418
Difference - Per Year													1,22,473

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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



**Insignificant amounts would not help.**

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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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# Returns of PPF Vs. ELSS

Amount invested Every Year

100000

Period	Amount Deposited Every Year	Total Investments	PPF Invesments		HDFC Tax Saver Fund		Sensex
			Rate of Interest	Valuation in PPF	NAV	Valuation	
29-Mar-1996	1,00,000.00	1,00,000.00		1,00,000.00	10.00	1,00,000.00	3,367
31-Mar-1997	1,00,000.00	2,00,000.00	12.00%	2,12,000.00	9.04	1,90,400.00	3,361
31-Mar-1998	1,00,000.00	3,00,000.00	12.00%	3,37,440.00	12.40	3,61,168.14	3,893
31-Mar-1999	1,00,000.00	4,00,000.00	12.00%	4,77,932.80	19.84	7,74,260.86	3,740
31-Mar-2000	1,00,000.00	5,00,000.00	11.00%	6,30,505.41	41.56	22,95,333.78	5,001
30-Mar-2001	1,00,000.00	6,00,000.00	9.50%	7,90,403.42	15.72	18,54,130.77	3,604
28-Mar-2002	1,00,000.00	7,00,000.00	9.00%	9,61,539.73	19.86	24,42,432.38	3,469
31-Mar-2003	1,00,000.00	8,00,000.00	8.00%	11,38,462.91	18.64	23,92,393.74	3,049
31-Mar-2004	1,00,000.00	9,00,000.00	8.00%	13,29,539.94	40.12	52,49,678.86	5,591
31-Mar-2005	1,00,000.00	10,00,000.00	8.00%	15,35,903.14	67.56	89,39,002.69	6,493
31-Mar-2006	1,00,000.00	11,00,000.00	8.00%	17,58,775.39	131.22	174,63,413.32	11,280
30-Mar-2007	1,00,000.00	12,00,000.00	8.00%	19,99,477.42	133.88	179,17,278.23	13,072
31-Mar-2008	1,00,000.00	13,00,000.00	8.00%	22,59,435.61	152.02	204,44,666.48	15,644
31-Mar-2009	1,00,000.00	14,00,000.00	8.00%	25,40,190.46	97.06	131,53,681.50	9,901
31-Mar-2010	1,00,000.00	15,00,000.00	8.00%	28,43,405.70	205.68	279,72,990.30	17,692
31-Mar-2011	1,00,000.00	16,00,000.00	8.00%	31,70,878.15	232.90	317,75,131.84	19,445
30-Mar-2012	1,00,000.00	17,00,000.00	8.60%	35,43,573.67	223.70	306,19,952.74	17,478
28-Mar-2013	1,00,000.00	18,00,000.00	8.80%	39,55,408.16	225.33	309,43,066.39	18,865
31-Mar-2014	1,00,000.00	19,00,000.00	8.70%	43,99,528.67	276.79	381,10,274.34	22,386
31-Mar-2015	1,00,000.00	20,00,000.00	8.70%	48,82,287.66	404.76	558,29,774.07	28,504
31-Mar-2016	1,00,000.00	21,00,000.00	8.70%	54,07,046.69	354.03	489,31,259.11	25,270
31-Mar-2017	1,00,000.00	22,00,000.00	8.10%	59,45,017.47	472.69	654,31,748.36	29,910
Valuation as 31/03/2017		22,00,000.00	8.10%	59,45,017.47	472.69	654,31,748.36	29,910.22

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# 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.



# 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 Vs Equity Linked Savings Scheme (ELSS).
  - U/s- 80C
  - PPF, 5 Years FD,
  - Life Insurance Premium.
- ✓ Traditional Vs Life Insurance Term Plan.
  - Life Insurance.
- ✓ 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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