

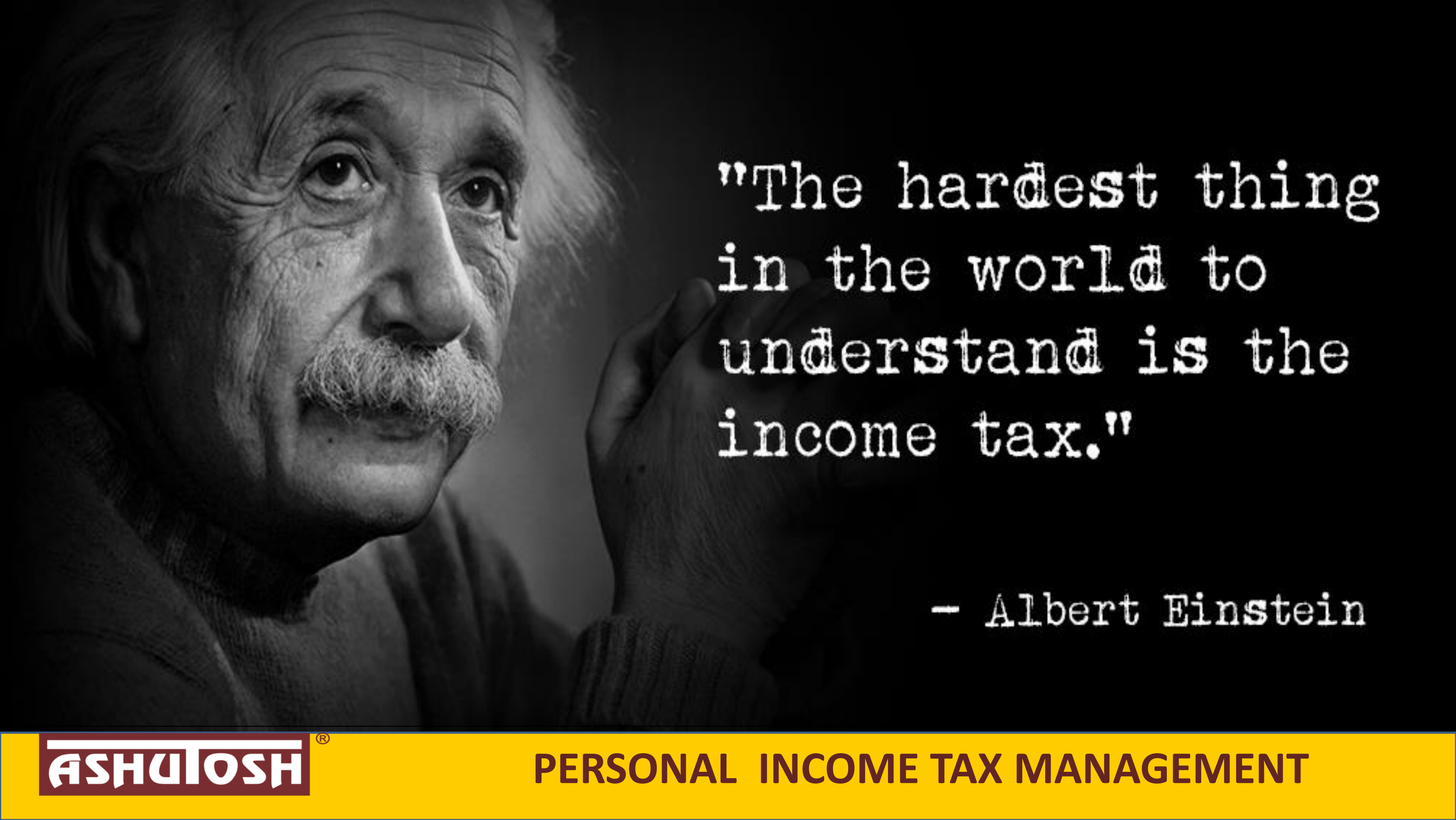
**PERSONAL  
INCOME TAX MANAGEMENT  
for  
Effective Personal Finance Management**



**INSTITUTE OF MANAGEMENT  
NIRMA UNIVERSITY**

***Provisions of Income Tax,  
every individual should know in this  
country***

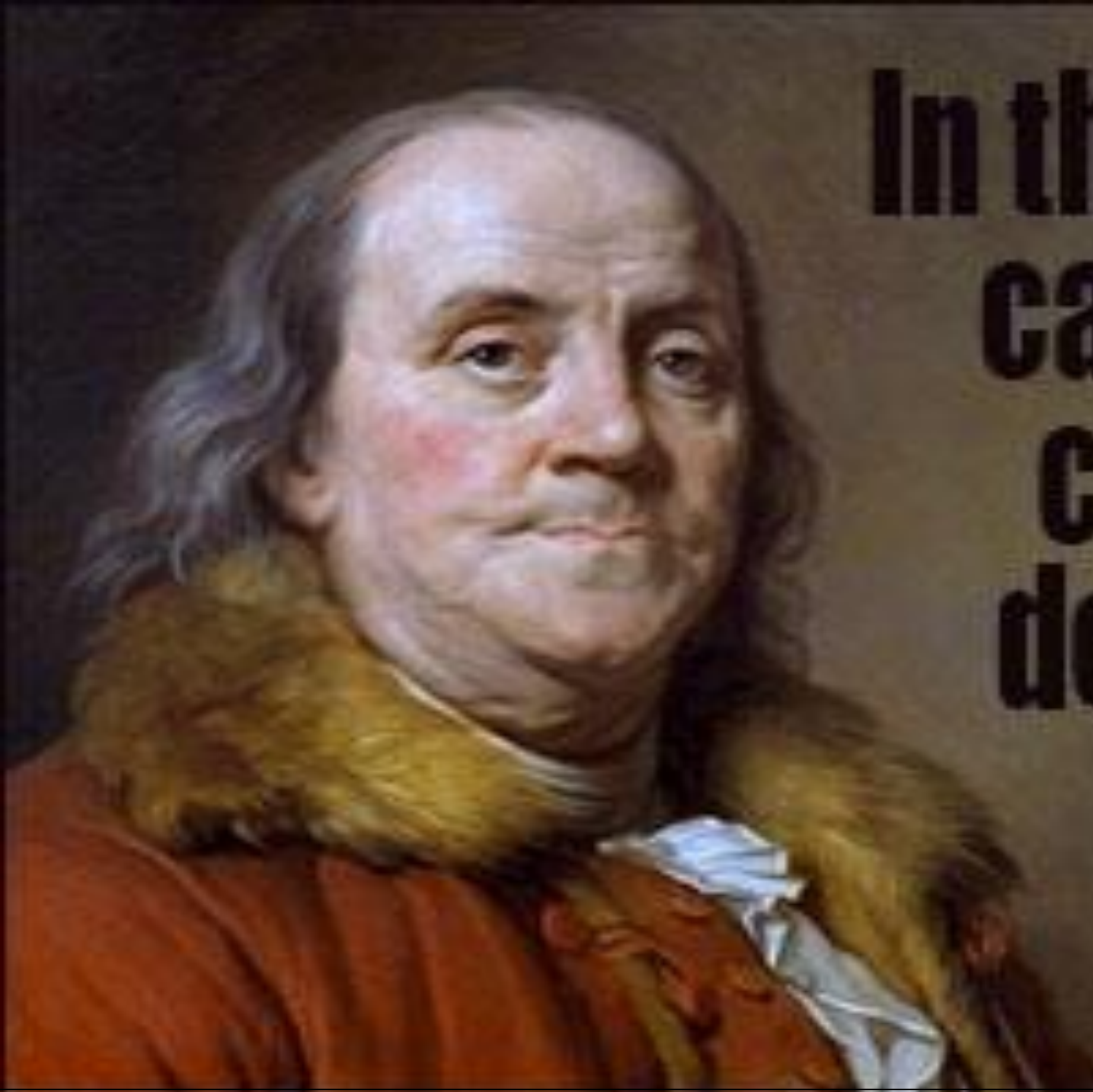


A black and white portrait of Albert Einstein, showing his face and hand raised in a gesture. The image is dark and moody, with Einstein's face being the primary light source.

"The hardest thing  
in the world to  
understand is the  
income tax."

— Albert Einstein





**In this world nothing  
can be said to be  
certain, except  
death and taxes.**

*-- Benjamin Franklin*



# Indian Tax to GDP Ratio



Budget 2018-19

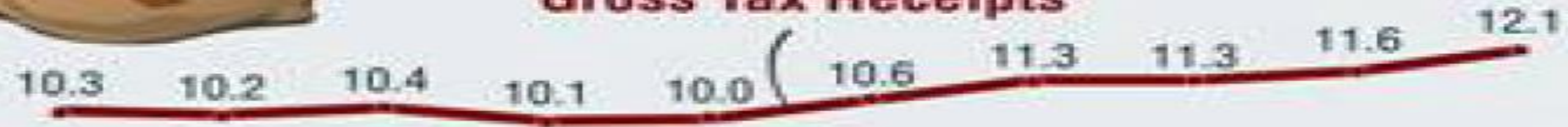


## Trend in Tax Receipts

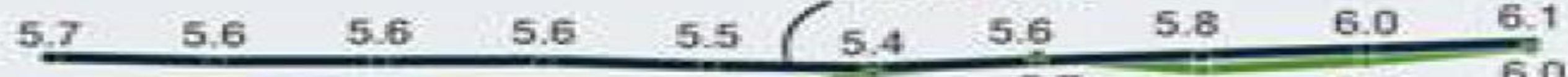
Percentage of GDP



### Gross Tax Receipts



### Direct Tax

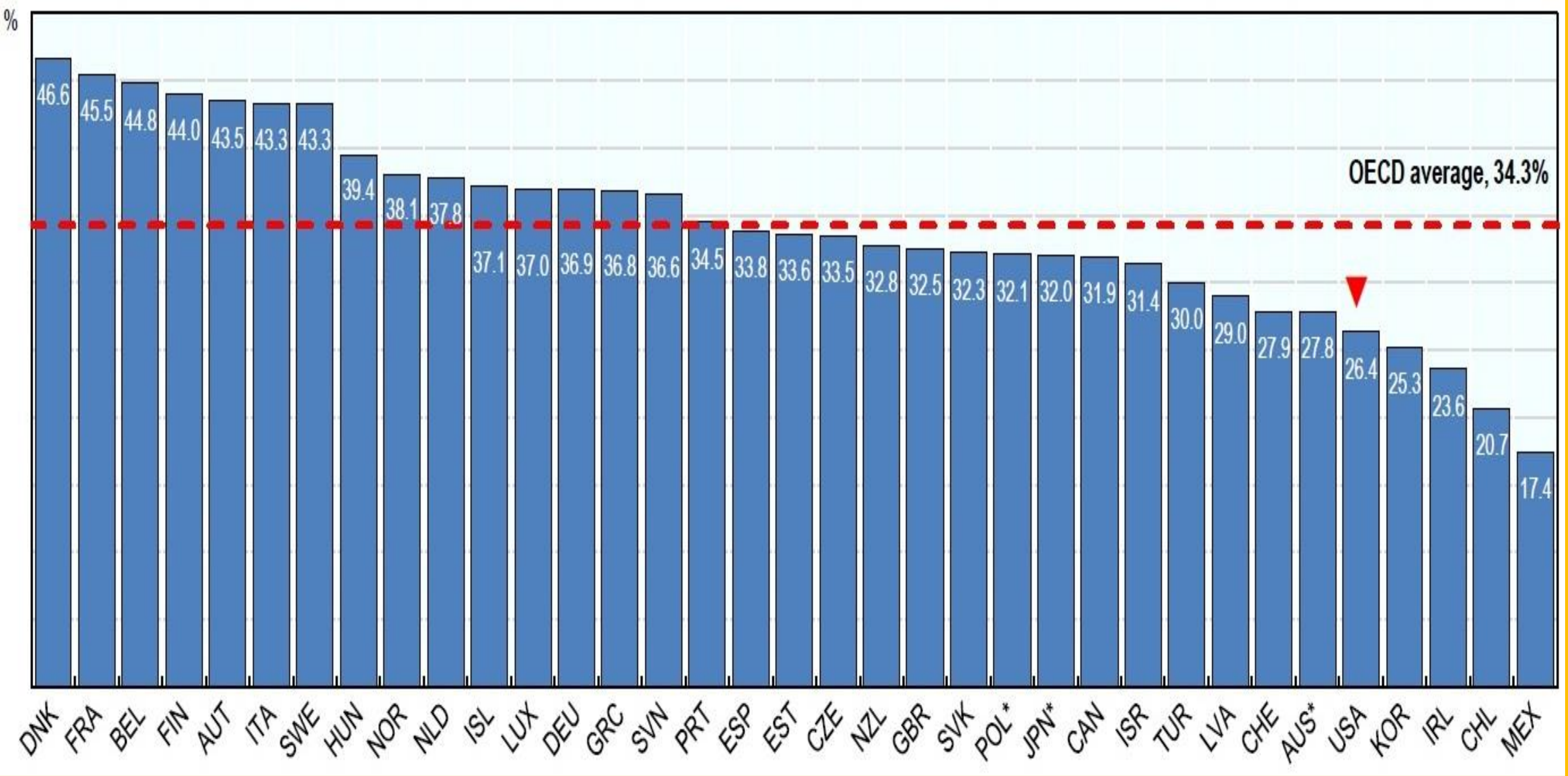


### Indirect Tax

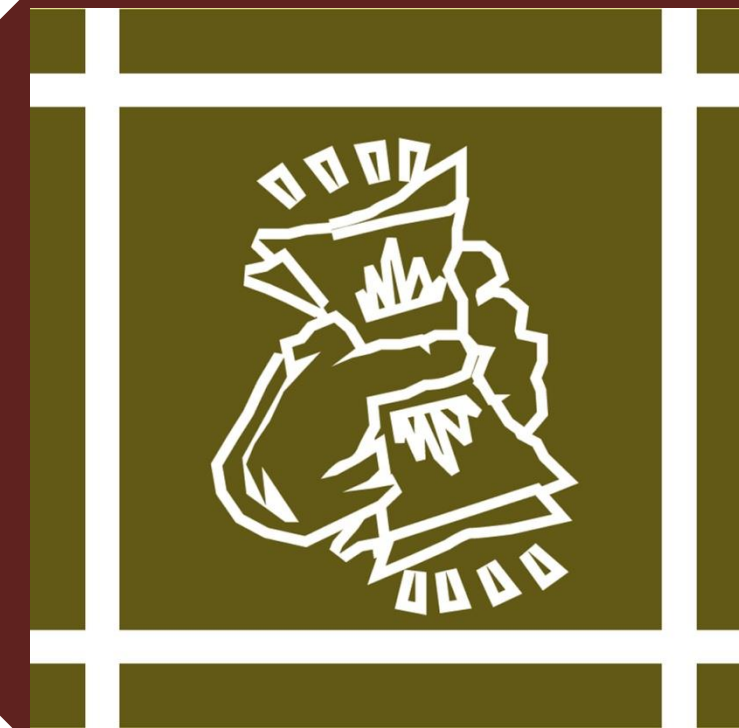


PIB/KBK

# Tax to GDP ratio compared



# History of Taxation in India





# History of Taxation in India



- ✓ In India, taxes were levied even in ancient times – refer to Manu Smriti & Arthashastra
- ✓ Why to Pay Tax ?
  - “It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold”.
  - Kalidas in Raghuvansh eulogizing KING DALIP.
- ✓ Income-tax Act, 1922
- ✓ Income-tax Act, 1961
- ✓ Income-tax Rules, 1962



# History of Taxation in India



- ✓ In the past we had very high tax rates.
- ✓ Now, the rates are quite moderate and comparable with several other countries.
- ✓ We also had very high wealth-tax rates, estate duty, gift tax. Now there is a sea-change.

# Tax Rates – comparison with other countries



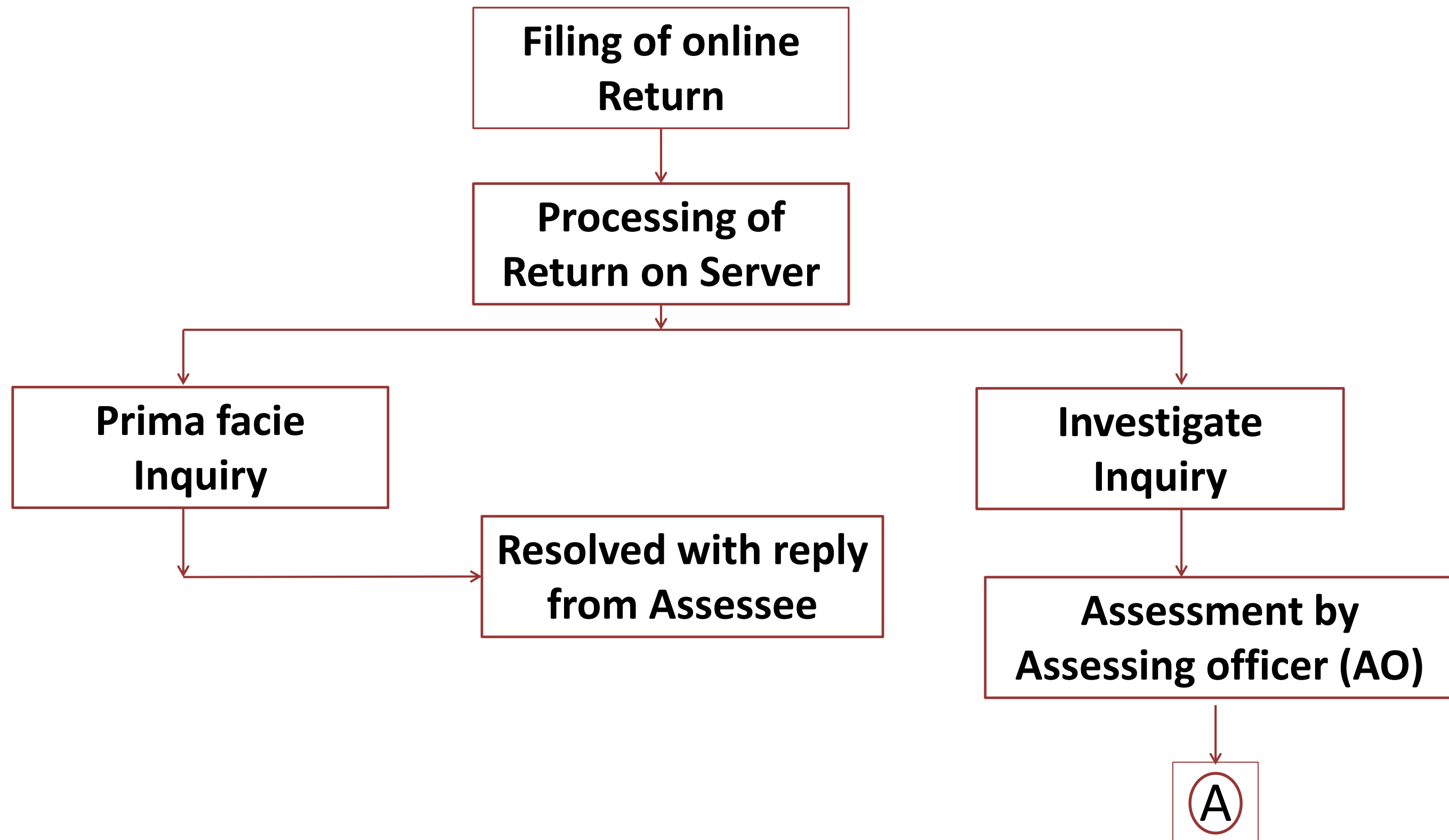
Countries	Tax Rates (%)
India	5 – 30
Brazil	7.5 - 27.5
China	3 – 45
Denmark	38 – 65
Japan	5–50
Netherland	5.85 – 52
Russia	13
UK	0 – 45
USA	0 – 39.6

How does the tax department operate?

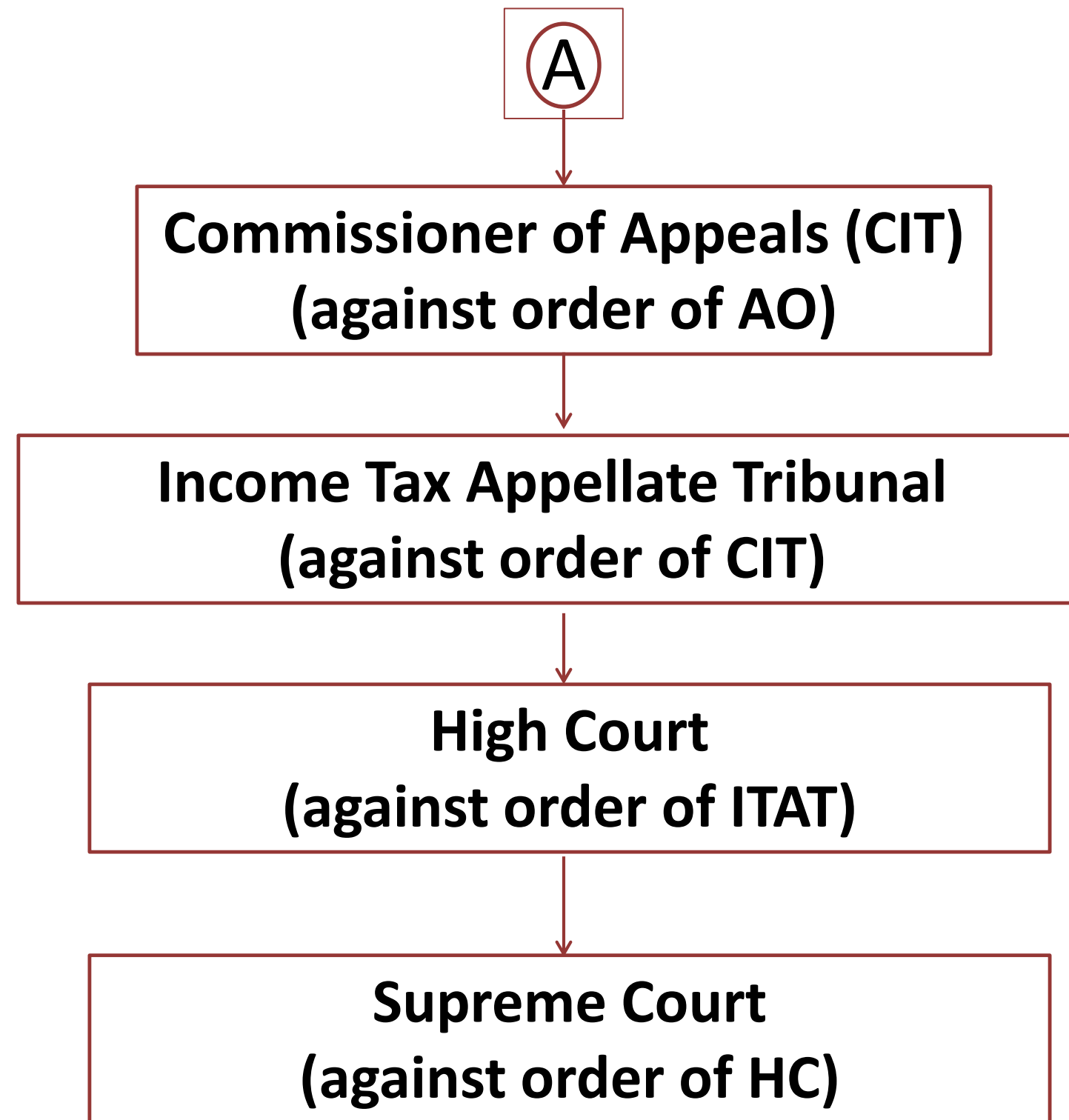




# How does the tax department operate?



# How does the tax department operate?



# Submissions in Income Tax Proceedings



- ✓ **Factual Submissions.**
- ✓ **Legal Submissions.**



# Basic principles of Income Tax



- ✓ What is income?
- ✓ Distinction between Taxable Income and Tax free Income.
- ✓ Heads of Income.
- ✓ Sources of Income.
- ✓ Gross Total Income.
- ✓ Deductions.
- ✓ Total Income.
- ✓ Tax on Total Income.

# Definition of Income



- ✓ **Income is defined to “include” several items.**
- ✓ **It is not an exhaustive definition.**
- ✓ **Any income which is not specifically exempt is taxable.**

# Examples of Exempt Income



- ✓ Agricultural income.
- ✓ Receipts by a member from a HUF.
- ✓ Gratuity received on retirement, termination or death.
- ✓ Commuted Pension.
- ✓ Exemption of amount received by way of encashment of unutilized earned leave on retirement.
- ✓ Dividend Income.
- ✓ Any allowance to the extent not taxable.
- ✓ Amount received from insurance policies on maturity of LIC policies (*subject to conditions prescribed*).
- ✓ Income from provident funds.



# Examples of Exempt Income



- ✓ **Voluntary Retirement Receipts (subject to conditions).**
- ✓ **Payments from Superannuation Fund.**
- ✓ **House Rent Allowance (subject to conditions).**
- ✓ **Educational Scholarships.**
- ✓ **Exemption in respect of clubbed income of minor.**

# Heads of Income



**Five main Heads of Income:**

- ✓ **Salaries.**
- ✓ **Income from House Property.**
- ✓ **Profits and Gains of Business or Profession.**
- ✓ **Capital Gains.**
- ✓ **Income from Other Sources.**

# Sources of Income



- ✓ Under each Head of Income, there could be multiple Sources of Income.
- ✓ For example, a person could be employed with more than one employer. In such a case, each employment is a different Source of Income under the Head of Salaries.

# Salaries (Basis of charge)



Income is taxable under head “Salaries”, only if there exists **Employer - Employee Relationship** between the payer and the payee. The following incomes shall be chargeable to income-tax under the head “Salaries”:-

- Salary Due
- Advance Salary [U/s .17(1)(v)]
- Arrears of Salary

**Note:**

- Salary is chargeable on due basis or receipt basis, whichever is earlier.
- Advance salary and Arrears of salary are chargeable to tax on receipt basis only.



# Income from house property



- ✓ Properties can be broadly classified into:
- Let out property.
  - Self occupied property.
  - Deemed to be let out.
  - The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner
  - Other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him

# Income from house property



- ✓ **Determination of Annual Value :**
- **Determination of Gross Annual Value (GAV)**
  - **GAV minus municipal tax paid by the owner during the previous year**
  - **Balance = Net Annual Value (NAV)**
  - **Reduce 30% of NAV as an ad-hoc Standard Deduction**
  - **Reduce Interest, if any, paid on a loan taken to buy/construct the property**

# Profit and Gains from Business & Profession



## ✓ Business :

“Business” simply means any economic activity carried on for earning profits. Sec. 2(3) has defined the term as “any trade, commerce, manufacturing activity or any adventure or concern in the nature of trade, commerce and manufacture”.

## ✓ Profession :

“Profession” may be defined as a vocation, or a job requiring some thought, skill and special knowledge like that of C.A., Lawyer, Doctor, Engineer, Architect etc. So profession refers to those activities where the livelihood is earned by the persons through their intellectual or manual skill.

# Capital Gains



- ✓ Capital Gain's tax liability arises only when the following conditions are satisfied:
- There should be a capital asset.
  - The capital asset is transferred by the assessee.
  - Such transfer takes place during the previous year.
  - Any profit or gains arises as a result of transfer.
  - Such profit or gains is not exempt from tax under section 54, 54B, 54D, 54EC, 54F, 54G, 54GA and 54GB.



# Income from other sources (Residuary head of Income)



- ✓ Income of every kind, which is not to be excluded from the total income and not chargeable to tax under any other head, shall be chargeable under the head “Income from Other Sources”.

List of items chargeable under this head:-

- Dividends from Co-op. Banks/Foreign companies.
- Winning from lotteries, crossword puzzles, races, gambling, betting of any form.
- Interest on securities.
- Income from plant, machinery or furniture on hire.

# Income from other sources (Residuary head of Income)





- ✓ **Income of every kind, which is not to be excluded from the total income and not chargeable to tax under any other head, shall be chargeable under the head “Income from Other Sources”.**
  - **Any sum received under a Keyman insurance policy.**
  - **Any gift exceeding Rs. 50,000 received from non relatives.**
  - **Interest on foreign government securities.**
  - **Agriculture income received outside India.**
  - **Director’s Sitting Fees.**

# Income Tax Rates



# Income Tax Rates for AY 2018-19



		Male	Tax Rates
	1.	Taxable Income up to ₹ 2,50,000	Nil
	2.	₹ 2,50,000 to ₹ 5,00,000	5%
	3.	₹ 5,00,000 to ₹ 10,00,000	20%
	4.	Above ₹ 10,00,000	30%
		Female	Tax Rates
	1.	Taxable Income up to ₹ 2,50,000	Nil
	2.	₹ 2,50,000 to ₹ 5,00,000	5%
	3.	₹ 5,00,000 to ₹ 10,00,000	20%
	4.	Above ₹ 10,00,000	30%

✓ Plus :  
Surcharge:

- 10% of the Income Tax if taxable income exceeds 50 lakh.
- 15% of the Income Tax if taxable income exceeds 1 crore.
- Education Cess: 3% of the total of Income Tax and Surcharge.

✓ Note:

- Relief under Section 87A is available to a resident individual if his total income does not exceed Rs 3,50,000/=. The relief available shall be 100% of income-tax or Rs. 2,500/= whichever is less.

# Income Tax Rates for AY 2018-19



		Senior Citizen	Tax Rates
	1.	Taxable Income up to ₹ 3,00,000	Nil
	2.	₹ 3,00,000 to ₹ 5,00,000	5%
	3.	₹ 5,00,000 to ₹ 10,00,000	20%
	4.	Above ₹ 10,00,000	30%

		Super Senior Citizen	Tax Rates
	1.	Taxable Income up to ₹ 5,00,000	Nil
	2.	₹ 5,00,000 to ₹ 10,00,000	20%
	3.	Above ₹ 10,00,000	30%

✓ Plus :  
Surcharge:

- 10% of the Income Tax if taxable income exceeds 50 lakh.
- 15% of the Income Tax if taxable income exceeds 1 crore.
- Education Cess: 3% of the total of Income Tax and Surcharge.

✓ Note:

- Relief under Section 87A is available to a resident individual if his total income does not exceed Rs 3,50,000/=. The relief available shall be 100% of income-tax or Rs. 2,500/= whichever is less.



# The Income Tax Return Forms



# The Income Tax Return Forms



## ✓ ITR 1 Form

- Your Income is from Salary or Pension.
- You have income from One House Property (excluding cases where loss is brought forward from previous years).
- In a case where the income of another person like spouse, minor child, etc. is to be clubbed with the income of the assessee, this Return Form can be used only if the income being clubbed falls into the above income categories.
- If your total income for the year is upto Rs. 50 lakhs.

# The Income Tax Return Forms



## ✓ ITR 1 Form

- Your Income is from Salary or Pension.
- You have income from One House Property (excluding cases where loss is brought forward from previous years).
- In a case where the income of another person like spouse, minor child, etc. is to be clubbed with the income of the assessee, this Return Form can be used only if the income being clubbed falls into the above income categories.
- If your total income for the year is upto Rs. 50 lakhs.

# The Income Tax Return Forms



## ✓ ITR 1 Form

**You cannot use this form in case:-**

- **Income from more than one house property.**
- **Income from winnings from lottery or income from Race horses.**
- **Income under the head “Capital Gains”.**
- **Agricultural income in excess of 5,000.**
- **Income from Business or Profession.**
- **Loss under the head ‘Income from other sources.**

# The Income Tax Return Forms



## ✓ ITR 2 Form

- Can be used by an individual or a Hindu Undivided Family (HUF).
- Income from Salary / Pension.
- Income from multiple House Property.
- Income from Capital Gains.
- Income from Other Sources (including winnings from lottery and income from race horses)
- Agricultural income of more than Rs 5,000.



# The Income Tax Return Forms



## ✓ ITR 2 Form

- You can't use this form in case :

**If your income for the year includes income from Business or Profession.**

- Note :

**In a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the taxpayer, this Return Form can be used if income to be clubbed falls in any of the above categories.**

# The Income Tax Return Forms



## ✓ ITR 3 Form

- This ITR3 can be used by individuals and HUFs.
- You can use this form if you have income from proprietary business, profession or having income as a partner in a Partnership firm.
- You can report the incomes like income from salary, multiple house properties, lottery winnings, capital gains, along with your business or professional income.
- Balance sheet is required to be submitted with this ITR.

# The Income Tax Return Forms



## ✓ ITR 4 Form

- It can be used by an individual/ HUF/ Partnership Firm.
- Business income where such income is computed in accordance with special provisions referred to in sections 44AD and 44AE of the Act for computation of business income( called as “Presumptive income”).
- Income from Profession where such income is computed in accordance with special provisions referred to in sections 44ADA (called as “Presumptive income”).
- Salary/ Pension.
- Income from One House Property (excluding cases where loss is brought forward from previous years).
- Income from Other Sources (excluding Winning from Lottery and Income from Race Horses).

# The Income Tax Return Forms



## ✓ ITR 5 Form

- Income of Partnership Firm.
- Balance sheet is required to be submitted with this ITR Form.

## ✓ ITR 6 Form

- Income of Companies.
- Balance sheet is required to be submitted with this ITR Form.

# The Income Tax Return Forms



## ✓ ITR 7 Form

- Return is required to be filed by
  - Charitable or religious purposes or in part only for such purposes.
  - Political party.
  - Scientific research association.
  - News agency.
  - Every university, college or other institution.



# Principles of Tax Deduction at Source (TDS) & Tax Collection at Source (TCS)



# TDS (Tax Deduction At Source)



## TDS Rate Chart for FY 2017-18

Section	Nature of Payment	Cut off (Rs)	Individual/ HUF (%)	Others (%)
192	Salaries	-	Avg Rates	NA
192A	Premature Withdrawal from EPF	50,000	10	
193	Interest on Securities	10,000	10	
194A	Interest – Bank / others	10,000/5,000	10	
194B	Winning From Lotteries	10,000	30	
194BB	Winning From Horse Races	10,000	30	
194C	Contractors- Single/ Yearly	30,000/1,00,000	1	2
	Transporters (44AE) Declaration with PAN	AS Above	-	-
194D	Insurance Commission	15,000	5	

# TDS (Tax Deduction At Source)



## TDS Rate Chart for FY 2017-18

Section	Nature of Payment	Cut off (Rs)	Individual/ HUF (%)	Others (%)
194DA	Life Insurance Policies	1.00.000	1	
194EE	NSS	2,500	10	
194G	Commission on lottery tickets	15,000	5	
194H	Commission or Brokerage	15,000	5	
194I	Rent – Plant/Machinery/Equipment	1,80,000	2	
	Rent - Land & Building F& F	1,80,000	10	
194IA	Immovable Property	50,00,000	1	
194J	Professional Fees	30,000	10	

# TCS (Tax Collection At Source)



## TCS Rate Chart for FY 2017-18

Section	Particulars of Payment	Rates
206C	Sale of Motor – Vehicle >Rs 10Lakhs	1%
206C	Sale of Scrap	1%

# Deductions under Chapter VIA





# Deductions Under Chapter VIA



## ✓ Details of Deductions U/s. 80C to 80U

Indian tax laws contain certain provisions, which are intended to act as an incentive for achieving certain desirable socio-economic objectives. These provisions are contained in Chapter VIA and are in the form of deductions (80C TO 80U) from the Gross Income. By reducing the chargeable income, these provisions reduce the tax liability, increase the post-tax income and thus induce the tax-payers to act in the desired manner. This unit is intended to give a broad idea of such deductions.



# Deductions Under Chapter VIA



## ✓ Why deductions are available ?

**TO ENCOURAGE SAVINGS**



**For socially desirable activities**



**For certain personal expenditure**



## ✓ Deductions to encourage savings.

The government wants to encourage the habit of people to save for the rainy day. To give impetus to savings these deductions are given on certain investments or certain expenditure made by the assessee. Deduction is allowed when the saving is invested but normally any withdrawal is treated as income in the year of withdrawal.



## Section 80C – Qualified Savings



# Deductions available U/s. 80C



- ✓ The following payments/investments qualify for deduction under this section. The total amount of investments made during the P.Y. under these below mentioned schemes is known as Gross Qualifying Amount ( GQA).
- Life Insurance premium paid on a policy taken on his own life, life of the spouse or any child (child may be dependent/ independent ). In the case of a Hindu undivided family, policy may be taken on the life of any member of the family. The premium paid should be maximum of 10% of sum assured.
  - Contribution towards statutory provident fund and recognized provident fund.
  - Contribution towards 15 year public provident fund (maximum of Rs 1,50,000).
  - Subscription to National Savings Certificates, VIII Issue .



# Deductions available U/s. 80C



- ✓ The following payments/investments qualify for deduction under this section. The total amount of investments made during the P.Y. under these below mentioned schemes is known as Gross Qualifying Amount ( GQA).
- Contribution for participating in the Unit-Linked Insurance Plan (ULIP) of any company.
  - Payment for notified annuity plan of LIC or any other insurer.
  - Subscription towards notified units of Mutual Fund (ELSS Scheme).
  - Contribution to notified pension fund set up by Mutual Fund or UTI.
  - Any sum paid (including accrued interest) as subscription to Home Loan Account Scheme of the National Housing Bank.

# Deductions available U/s. 80C



- Any sum paid as tuition fees to any university/college/educational institution in India for full time education.
- We add the amounts invested / spent in above mentioned schemes and this amount is known as Gross qualifying amount. The amount deductible is

Gross qualifying amount; OR Rs 1,50,000/= Whichever is less.

✓ Note :

- The maximum deduction under sections 80C, 80CCC and 80CCD is Rs. 1,50,000/=.





# Section 80CCC

## Payment in respect of Pension Funds



# Section 80CCC – Payment in respect of Pension Funds



- ✓ If the following conditions are fulfilled an assessee may claim deduction under this section :
  - The taxpayer is an individual .
  - During the previous year, he has paid/deposited a sum under an annuity plan of the Life Insurance Corporation of India or any other insurer for receiving pension.
  - If deduction has not been claimed under section 80C.
- ✓ Amount of Deduction :
  - If the aforesaid conditions are satisfied, then the amount deposited OR Rs. 1,50,000/= whichever is lower, is deductible.
- ✓ Tax treatment of pension received :
  - The pension amount received by the assessee or his nominee as pension will be taxable in the year of the receipt.
- ✓ Note : The aggregate deduction under sections 80C, 80CCC and 80CCD cannot exceed Rs.1,50,000/=.



# Section 80CCD

## Payment in respect of Pension Scheme



# Section 80CCD – Payment in respect of Pension Scheme



- ✓ Deduction in respect of contribution to pension scheme of Central Government (Sec. 80CCD).
- ✓ This section is for allowing deduction, if the following conditions are satisfied:
  - The taxpayer is an individual or he is employed by the Central Government on or after January 1, 2004 or employed by any other employer and has in the previous year paid or deposited any amount in his account under a pension scheme notified by the Central Government.

# Section 80CCD – Payment in respect of New Pension Scheme



✓ The amount deductible is :

- In case of an employee, 10% of salary of the employee
- In any other case, 20% of his gross total income

✓ Note :

- Salary means basic salary including dearness allowance if under the terms of employment.
- The aggregate amount of deduction under sections 80C, 80CC and 80CCD cannot exceed Rs. 1,50,000/-.
- Additional deduction U/s. 80CCD(1B) of Rs. 50,000/-.



# Section 80D

## Medical Insurance Premium (Mediclaim)





# Section 80D – Deduction in respect of Mediclaim



✓ If the following conditions are satisfied then an assessee may claim deduction under this section.

- The taxpayer is an individual or a Hindu undivided family .
- Insurance premium is paid by the taxpayer in accordance with the scheme framed in this behalf by the General Insurance Corporation of India and approved by the Central Government. The scheme is known as “mediclaim” insurance policy.( The amount deposited in a similar scheme of any other insurer who is approved by the Insurance Regulatory and Development Authority shall also be eligible for deduction.)
- The aforesaid premium is paid by cheque.
- Mediclaim policy is taken on the health of the taxpayer, on the health of spouse, dependent parents or dependent children of the taxpayer. In case of HUF on the health of any member of the family

# Section 80D – Deduction in respect of Mediclaim



## Health Policy

- ✓ Deduction is allowed as under.
  - Payment made for : Self / Spouse / Dependent Children  
Actual Amount paid OR Rs. 25,000/- which ever is less.
  - Payment made for Parents  
Actual Amount paid OR Rs. 25,000/- which ever is less.
  - Payment made for Senior and Very Senior Citizen Parents  
Actual Amount paid OR Rs. 30,000/- which ever is less.  
The amount is Rs 50,000/- from 01.04.2018.



# Section 80E

## Interest on Higher Education Loan



# Section 80E – Interest on Higher Education Loan



✓ **Deduction is available if :**

- **Assessee is an individual.**
- **He has taken a loan from any financial institution (bank) or an approved charitable institution.**
- **The loan is taken for the purpose of pursuing his higher education.**
- **During the previous year he has repaid some amount as interest on such loan.**
- **Such amount is paid out of his income chargeable to tax.**
- **Such deduction is also available to student's parents or their legal guardians.**

# Section 80E – Interest on Higher Education Loan



✓ The entire amount paid by way of interest on such :

- Period of Deduction :

Further, the deduction shall be allowed for the previous year in which the assessee starts repaying the loan or interest thereon and seven previous years immediately succeeding it or until the loan together with interest thereon is paid by the assessee in full, whichever is earlier.

**Note :**

Higher education means full-time studies for any graduate or post-graduate course in engineering, medicine, management or for post-graduate course in applied science or pure sciences including mathematics and statistics.



# Section 80GG

## Deduction for Rent Paid





# Section 80GG – Deduction for rent paid



- ✓ This deduction is allowed to an individual assessee in respect of rent paid by him for an accommodation used for his residential purposes provided the following conditions are fulfilled :
  - The assessee is either a self-employed person or such a salaried employee who is not in receipt of house-rent allowance from any source.
  - The actual rent paid by him is in excess of 10% of his total income.
  - The assessee files a declaration in Form No. 10BA regarding the payment of rent.

## Section 80GG – Deduction for rent paid



- ✓ This deduction is allowed to an individual assessee in respect of rent paid by him for an accommodation used for his residential purposes provided the following conditions are fulfilled :
  - He will not be entitled to any deduction u/s 80GG even if he does not own any residential accommodation at the place where he ordinarily resides, performs the duties of his office or employment or carries on his business or profession.

# Section 80GG – Deduction for rent paid



- ✓ The assessee, who fulfils the above mentioned conditions, is allowed a deduction equal to least of the following three:
  - excess of actual rent paid over 10% of adjusted gross total income:
  - 25% of his adjusted gross total income; and
  - Rs. 5,000 p.m or Rs. 60,000 per annum
- ✓ Adjusted Gross Total income( Adj.GTI) for this purpose means his gross total income minus long-term capital gain, short term capital gain taxable u/s 111A, and all deductions u/s 80CCC to 80U except any deduction under this section.



# Section 80G Donations



## Section 80G – Donations



### **Donations to certain funds, charitable institutions**

- ✓ Donations made to following are eligible for 100% deduction without any qualifying limit.
- Prime Minister's National Relief Fund.
  - National Defense Fund.
  - Prime Minister's Earthquake Relief Fund.
  - The National Foundation for Communal Harmony.
  - Approved university or educational institution of national eminence.
  - The Chief Minister's Earthquake Relief Fund, Maharashtra.

## Section 80G – Donations



### Donations to certain funds, charitable institutions

- ✓ Donations made to following are eligible for 100% deduction without any qualifying limit.
  - The National Blood Transfusion Council or a State Blood Transfusion Council.
  - The Army Central Welfare Fund or the Indian Naval Benevolent Fund or The Air Force Central Welfare Fund.



## Section 80G – Donations



### Donations to certain funds, charitable institutions

- ✓ Donations made to following are eligible for 50% deduction without any qualifying limit.
  - Jawaharlal Nehru Memorial Fund.
  - Prime Minister's Drought Relief Fund .
  - National Children's Fund.
  - Indira Gandhi Memorial Trust.
  - The Rajiv Gandhi Foundation.

## Section 80G – Donations



### Donations to other Funds or Institutions

- ✓ Deductions eligible for the donations made to other funds or institutions not included above will be as follows :
- 10% of Adjusted Gross Total Income  
or
  - 50% of Actual Amount of donation
- whichever is lower

# MODEL SALARY PACKAGE



## Model Salary Package of Rs 12,00,000/- for resident Individual for AY 2018-19

PARTICULARS			Exempted Amt (Rs)	Taxable Amt (Rs)
Basic Salary		(1,00,000 X 12)		12,00,000
House Rent Allowance [Least of :- a) Actual HRA Received or b) 40% of Salary (50%, if house situated in Mumbai, Calcutta, Delhi or Madras) or c) Rent paid minus 10% of salary * Salary= Basic + DA (if part of retirement benefit) + Turnover based Commission]	U/s. 10(13A)	(12,000 X 12)	60,000	84,000
Mobile Reimbursement (As per the expense bills submitted by employee)	U/s. 10(14)	(2,000 X12)	24,000	
Food Coupon (Per Day Rs. 50) Assuming 25 working days per month	U/s. 10(14)	(1,250 X12)	15,000	

# MODEL SALARY PACKAGE



**Model Salary Package of Rs 12,00,000/- for resident Individual for AY 2018-19**

PARTICULARS			Exempted Amt (Rs)	Taxable Amt (Rs)
Conveyance Allowance (As per the expense bills submitted by employee)	U/s. 10(14)	(5,000 X12)	60,000	
Uniform Allowance	U/s. 10(14)	Purchase (2,000 X12) Maintenance (500 X 12)	30,000	
Children Education Allowance (Per child Rs. 100 Maximum 2 child)	U/s. 10(14)	(200 X12)	2,400	
Gift Voucher	U/s. 10(14)		5,000	

# MODEL SALARY PACKAGE



## Model Salary Package of Rs 12,00,000/- for resident Individual for AY 2018-19

PARTICULARS			Exempted Amt (Rs)	Taxable Amt (Rs)
Academic Research & Professional Pursuit Allowance (As per the expense bills submitted by employee)	U/s. 10(14)	(10,000 X12)	1,20,000	
Total			3,60,000	9,24,000
Less : Professional Tax	U/s. 16(3)			2,400
Less: Housing Loan Interest	U/s. 24			2,00,000
Less: Deduction U/S 80C, 80CCC, 80CCD				1,50,000
Less: Deduction U/S 80CCD(1B)				50,000
Less: Deduction U/S 80D				25,000
Taxable Income				4,96,600
Net Tax (Income Tax Rate - 5.15%)				12,700

# Tax Planning & Tax Evasion





# Tax planning & Investments



✓ Fixed Deposit.	Vs	Debt Based Mutual Fund.
✓ Gold bars.	Vs	Gold Deposit with monetisation 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.

# Changes in Cash Payment



# Payment in Cash



- ✓ U/s 40A(3) any expenses in cash above 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).

# 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 Account Payee cheque or Draft or ECS.

# Insertion of new section 269ST. Mode of undertaking transactions – From A.Y. 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. 271DA equivalent to amount received.**





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

# Some other Noteworthy Provisions



# 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, Creditworthiness needs to be proved.**
- ✓ **Some interesting instances of Tax Planning.**

# Are we operating with a right business format?



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

# Scope of AIR (Annual Information Return)



## ✓ 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 above certain limits, etc.
- Search & Survey cases.





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

# Taxation of Long Term Capital Gains on Equity shares & Equity oriented Mutual Funds





## ✓ Present Taxation Scenario

- Investments held for a period of more than 12 months, are considered as Long Term Capital Gain (LTCG).
- The gains on such investments are exempted from any Income Tax U/s. 10(38).



- With effect from 1st April, 2018 this exemption U/s. 10(38) of completely exempting Long Term Capital Gain (LTCG) is being withdrawn.



- **Long Term Capital Gain up to Rs. 1,00,000/- will not be taxed. So any amount exceeding Rs. 1,00,000/- during the year will be liable for taxation.**
- **Such Gain will be liable for Income Tax @ 10%. Any dividends paid by Equity based Mutual Funds is also liable to Dividend Distribution Tax (DDT) @ 10%.**
- **No indexation benefit will be available for calculation of such Gain.**

## Taxation of Long Term Capital Gains on Equity shares & Equity oriented Mutual Funds



- Concessional rate of 10% is applicable only if STT is paid on sale & purchase of shares except for transactions notified by government. For Equity MF STT need to be paid on sale side.
- Cost of Acquisition for assets purchased before 1st Feb 2018 shall deemed to be

HIGHER OF
Actual Cost of Acquisition
AND
LOWER OF
Fair Market Value as on 31 <sup>st</sup> Jan 2018
&
Sale Consideration





- Fair Market Value to be calculated for shares as highest price quoted on stock exchange on 31st Jan 2018 and for MF unit NAV value of such scheme on 31st Jan 2018.
- Deductions under chapter VI-A such as 80C, 80D, 80G etc are not allowed on such Gain.



- **Rebate U/s 87A is not allowed on such Gain.**
- **If total Income, other than this Long Term Capital Gain, is below basic exemption limit then benefit of balance basic limit will be available.**



- Long Term Capital Gain is now taxable but impact will not be much for shares held as on today, due to cost of acquisition formula.
- Bonus shares now will have cost of 31/01/2018 valuation & shall not be taxable at full sale value.



- Any loss occurring on a transaction which is “tax free” cannot be setoff.

Now, gains on equity are taxable. Hence Long Term Capital Loss (brought for Rs. 300 and sold for Rs. 50 ) can be setoff U/s.74.

- Notional loss on account of deemed value (brought for Rs. 50, sold for Rs. 200 & value as on 31-01-2018 Rs. 300) of 31-01-2018 cannot be setoff as it is a calculation limited to Sec. 112A.

# Taxation of Long Term Capital Gains on Equity shares & Equity oriented Mutual Funds



Equity Share	Scenario - 1
Purchase Before 1 Year	100
Price on Jan 31, 2018	500
Price on sale	600
Presumed purchase price	500
Capital Gain	100
Cost of Acquisition for assets purchased before 1st Feb 2018 shall deemed to be	
HIGHER OF	
Actual cost of acquisition	100
AND	
LOWER OF	
Fair Market Value as on 31st Jan 2018	500
&	
Sale Consideration	600

# Taxation of Long Term Capital Gains on Equity shares & Equity oriented Mutual Funds



Equity Share	Scenario - 2
Purchase Before 1 Year	100
Price on Jan 31, 2018	120
Price on sale	110
Presumed purchase price	110
Capital Gain	0
Cost of Acquisition for assets purchased before 1st Feb 2018 shall deemed to be	
HIGHER OF	
Actual cost of acquisition	100
AND	
LOWER OF	
Fair Market Value as on 31st Jan 2018	120
&	
Sale Consideration	110



# Taxation of Long Term Capital Gains on Equity shares & Equity oriented Mutual Funds



Equity Share	Scenario - 3
Purchase Before 1 Year	100
Price on Jan 31, 2018	80
Price on sale	90
Presumed purchase price	100
Capital Gain	-10
Cost of Acquisition for assets purchased before 1st Feb 2018 shall deemed to be	
HIGHER OF	
Actual cost of acquisition	100
AND	
LOWER OF	
Fair Market Value as on 31st Jan 2018	80
&	
Sale Consideration	90

# Taxation of Long Term Capital Gains on Equity shares & Equity oriented Mutual Funds



Equity Share	Scenario - 4
Purchase Before 1 Year	100
Price on Jan 31, 2018	80
Price on sale	60
Presumed purchase price	100
Capital Gain	-40
Cost of Acquisition for assets purchased before 1st Feb 2018 shall deemed to be	
HIGHER OF	
Actual cost of acquisition	100
AND	
LOWER OF	
Fair Market Value as on 31st Jan 2018	80
&	
Sale Consideration	60



- “I propose to abolish tax on Long Term capital gains from securities transactions altogether. Instead, I propose to levy a small tax on transactions in securities on stock exchanges”.

**Budget 2004-2005. Speech of Mr. P. Chidambaram – Finance Minister**

**Then, why STT & LTCG both on Equity Shares ?**

- STT for earlier gain given tax free. LTCG for future gains  
**!!**



- ✓ **Very calibrated way of implementation.**
- ✓ **Net of tax return, is it comparable to other avenues of investment... Real Estate, Gold, Fixed Deposit are already taxable.**
- ✓ **Is it just and equitable way of taxation? Rs. 3,67,000 crores earned tax free.**
- ✓ **Gains on equity taxable in several countries.**



- ✓ **All investments in Equity & Debt based Mutual Funds should be in GROWTH OPTION henceforth.**
- ✓ **All who have enjoyed Tax Free Dividends in equity Mutual Funds should now change the strategy as such Dividends are taxable now.**
- ✓ **All who what regular incomes should opt for SWP (Systematic Withdrawal Plan).**

# Taxation of Long Term Capital Gain on Equity shares & Equity oriented Mutual Fund

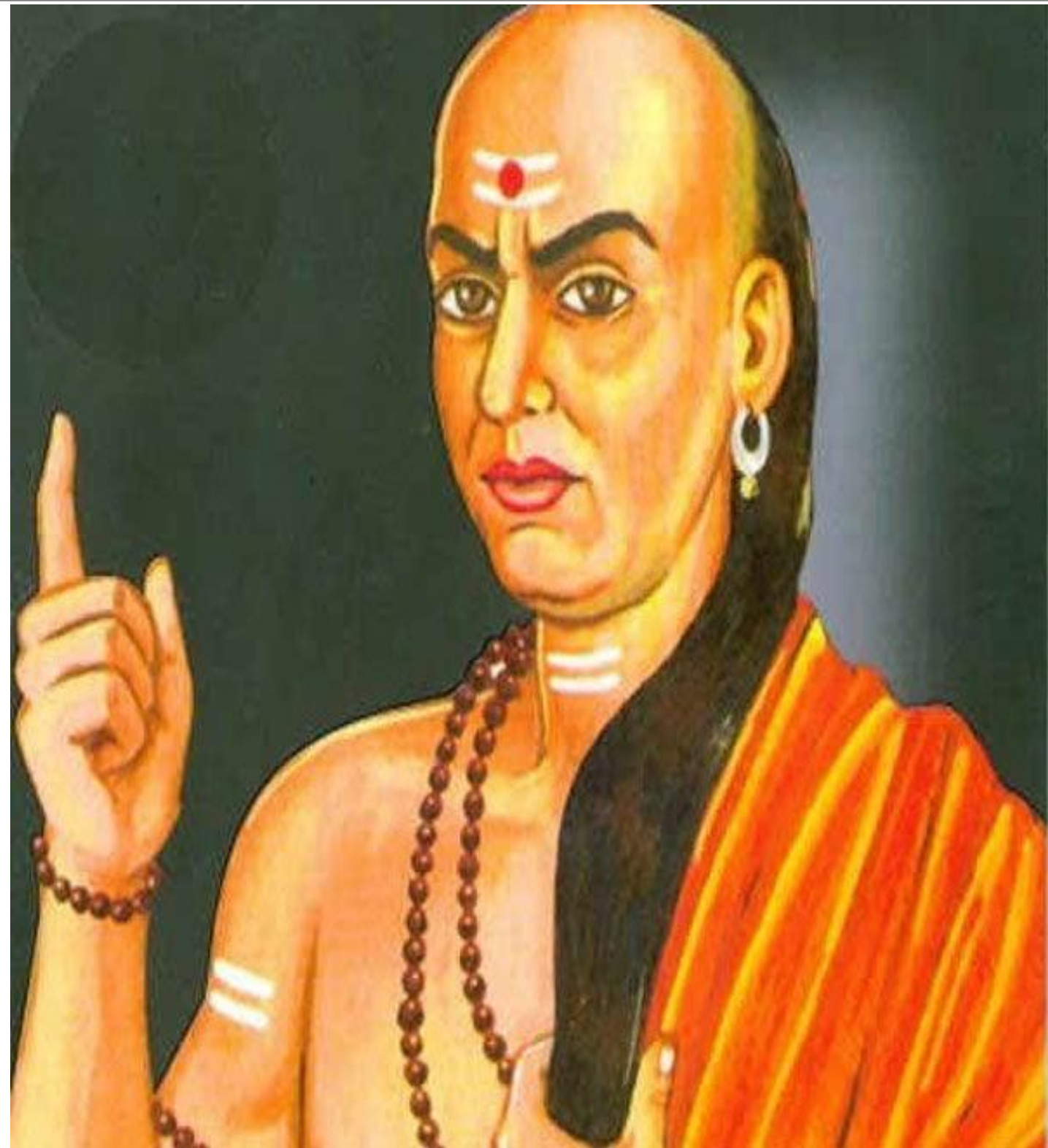
## Present taxation of other Investment Assets which has not been changed



Sr. No.	Type of Investment	LTCG holding Period	Taxation LTCG
1.	Unlisted Shares	24 Months	20% with indexation
2.	Unlisted Bonds / Debenture	36 Months	20% without indexation
3.	Listed Bonds / Debenture	12 Months	10% with indexation
4.	Debt oriented MF	36 Months	20% after indexation



*The Ruler should  
act like a bee  
which collects  
honey (Tax)  
without causing  
pain to the plant.*





# Disclaimer



**This Presentation aims to tell the General Views and Laws related to Personal Tax Management.**

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# Discussion...



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## PERSONAL INCOME TAX MANAGEMENT