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A Study of Tax Saving Schemes Adopted by Individual Assessee

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***Abstract*—The aim of the paper "A study of tax saving schemes adopted by individual assessee" is to spread awareness about the importance of tax payment and the schemes available for individual tax payers under the Income Tax Act, 1961. Taxes are looked at as unnecessary burden and many people find it unjust to pay more taxes as their income increases. This paper will bring up the positive effects of timely tax payment and the benefits that can be enjoyed along with it. Taxation is supposed to be a helping hand for the overall development of the nation. The project will throw light upon various legal aspects which will help in reducing the misconceptions and fears relates to taxes.**

***Index Terms*—Tax Saving Schemes**

I. Introduction

Income Tax Act, 1961 governs the taxation of incomes generated within India and of incomes generated by Indians overseas. This study aims at presenting a lucid yet simple understanding of taxation structure of an individual's income in India for the assessment year 20017-18. Income Tax Act, 1961 is the guiding baseline for all the content in this report and the tax saving tips provided herein are a result of analysis of options available in current market. Every individual should know that tax planning in order to avail all the incentives provided by the Government of India under different statures is legal. Project covers the basics of the Income Tax Act, 1961 and broadly presents the nuances of prudent tax planning and tax saving options provided under these laws. Any other hideous means to avoid or evade tax is a cognizable offence under the Indian constitution and all the citizens should refrain from such acts.

II. Objectives of the Study

1. To study the planning of individual income tax.
2. To study the saving schemes available for individual to save income tax.
3. To understand the difference between tax planning and tax evasion

III. Scope of the Study

1. Taxation is considered as a complex matter affecting financial planning of each individual income tax assesse. The scope of the study is limited to tax planning measures adopted by salaried income tax assesses.
2. The saving habits, investment pattern, tax planning measures adopted for the period under study.

IV. Deductions on Section 80C, 80CCC & 80CCD

A. *Section 80C*

The deduction under section 80C is allowed for your gross total income. The deductions under this section is allowed to an individual or HUF. Total deduction under section 80C cannot exceed Rs. 1, 50,000 for the financial year 2017-18.

1) *Investments in PPF*

PPF contributions made every year are eligible for tax deductions u/s 80C of the Income Tax Act, 1961. The deductions can be claimed by anyone for the given limit. The deduction limit for PPF deposits is Rs.1.5 lakhs. PPF account have a maximum deposit limit of Rs.1.5 lakhs per year, therefore, all deposits made to your PPF account can be claimed as deductions u/s 80C. Section 80C allows for a maximum deduction of Rs.1.5 lakhs per year inclusive of all investment financial instruments. The PPF account matures after 15 years. Interests earned from PPF deposits are tax-free. But only after 5 years of depositing money in PPF account a person can withdraw money.

2) *Employee Provident Fund*

The aim of the Employee Provident Fund scheme is to promote retirement savings for employees across India. The Employees' Provident Fund (EPF) is a corpus of funds built through regular, monthly, contributions made by an employee and his/her employer. The amount contribution to the fund is based on a fixed rate. Employees earn interest on their EPF balance. Both, the interest earned and the total amount withdrawn at maturity are tax-free, making this one of the most popular forms of long-term retirement savings among the working population in India. Besides retirement, funds accumulated in an employee's EPF account can also be used at time of resignation or death of employee. It also offers financial security in times of any emergency and if an employee is rendered unfit for unemployment.

3) *Purchase of NSC*

NSC is a combination of attractive interest rate, safe investment avenue and tax benefits are the National Savings Certificates or NSC. These are investment tools that can help investors get returns on the money invested in this scheme and also get benefits in their taxable incomes. The inception of the NSC can be traced back to the 1950s when the government issued savings certificates to raise money to help fund the development of a new and independent India. They are issued by the post office and can be received from any branch of the Indian postal service while investing in NSC person need to know about how the whole scheme works. How the whole thing works is, person buys an NSC worth a specific amount which is considered your investment. The purchase of the certificates will be done to the tune chosen by person but in denominations designated by the government. This means that if you choose to invest the investment can earn an interest based on the rates associated with the type of certificate bought. The maturity date for these certificates is set to 5 or 10years from the date of purchase but the interest calculation is based on year. This interest will not be paid to the certificate holder till the time of maturity of NSC. The interest that is earned can be reinvested in the NSC itself.

4) Life Insurance Premium

One of the most popular investment tools to get tax deduction under Section 80Cof the Income Tax Act, 1961 is the life insurance plan. The plan is a highly preferred investment option for taxpayers and has been in existence for many years. It has become popular mainly because it provides life cover and the premium paid on the life insurance plans qualifies for a deduction under Section 80C of the Income Tax Act, 1961. Moreover, the full premium amount further qualifies as a deduction under the same section. Apart from the other investment options under this section, taxpayers may claim a deduction for the premium paid by them on the life insurance plan. Under this section, the deduction limit is up to an amount of INR 1.5 lakh. In the case of a single premium life insurance plan, the individual should hold it for two years from the date of commencement of the policy.

5) Children's tuition fee payment

Section 80C of the Income Tax Act has provisions for tax deductions on education fees paid by a parent towards educating his/her children. Taxpayers can avail deductions to a tune of Rs 1.5 lakh under Section 80C (as per 2017- 2018 tax slabs), with other investments also eligible for this rebate. Parents can claim the education fee paid by them towards their children's education as deductions, ensuring that they save tax even if they don't have other tax saving instruments. Parents can claim the actual fee paid by them only in a particular financial year.

6) Principal repayments on loan for purchase of house property

Under Section 80C of the Income Tax Act, one can enjoy tax benefits on principal amount of the home loan. Maximum tax deduction allowed is Rs.1, 50,000. The tax deduction is on the payment basis and irrespective of the year for which the payment has been made. The amount paid towards registration fees and stamp duty charges is allowed for deduction under Section 80C. The registration fee and stamp duty charges are allowed for deduction even if you haven't taken a home loan. Tax benefit for repayment of principal loan amount is allowed after the construction of the house property is complete.

7) Investment in sukanya samridhi account

Sukanya Samriddhi Scheme is one of the most popular government schemes launched by the Indian Prime Minister, Shri. Narendra Modi. The scheme is aimed at betterment of girl child in India. Sukanya Samriddhi scheme has been launched to offer to save girl child in every family. The money saved through this scheme is to provide for higher education of girl and for her wedding expenses. The scheme has been accepted very well by the public since this is a good step towards providing financial security and financial dependence to women. Attractive rate of interest of 8.1% per annum which is more than the most other schemes in the market. This rate is to be revised by the ministry of finance every year in the month of April. For the financial year 2017-2018, the interest rate was as high as 9.2%. Any change in rate will then be communicated to the account holders. Investments made under the Sukanya Samriddhi Scheme are exempt from income tax under section 80C of the Income Tax Act, 1961. Once the girl child attains the age of 18 years, partial withdrawals on account of higher studies or marriage are allowed. The account can be opened by the parent or guardian of the girl child and can be operated on behalf of her until she reaches the age of 18. Sukanya Samriddhi Scheme can be available for any girl child who is 10 years old or less than 10 years. Birth certificate of the girl child is required to open the Sukanya Samriddhi Account. The maturity period for this account is 21 years from the date of opening the account. Payment for this scheme needs to be made for 14 years. After that the benefits continue to accrue until the 21st year of the policy. The maximum amount that can be deposited in an account, under this scheme is Rs.1, 50,000.

8) ULIPS or Unit Linked Insurance Plan

Unit Linked Insurance Plan is the instrument which provides insurance and investment at the same time. The investment can be made in the mutual funds, stocks or bonds. The amount paid as the premium is divided into two parts with the weight as specified by the policy-holder. The returns on the investment and the maturity amount is credited in the account of the policyholder. If the policy-holder dies before maturity, his nominee will get the said amount. Working of a ULIP is almost similar to the mutual funds. The amount received from each policy-holder along with other policy-holders is invested in different sectors. The return received from these sectors is then received by the policy-holder as per his investment after maturity. The returns are calculated on the basis of the net asset value. The returns given by the ULIPs are approximately 8-10%

compared to 12-14% returns given by the ELSS. ULIPs have a lock-in period of 5 years or in multiples of 5 years. At the start of ULIP, the insured has to pay the entire premium amount. After that, he has to make monthly payments as mentioned as annually, quarterly, monthly etc. A ULIP is an insurance plan where the premium paid is invested in equity, debt, or money market instruments. Subject to certain conditions, the premium paid towards this policy is allowed as a deduction u/s 80C of the Income Tax Act. So, ULIP premiums can be deducted from your taxable income up to the permissible limit u/s 80C, which is currently at Rs. 1.5 lacs. The only condition is that the premium amount should be less than 10% of the sum assured under the ULIP. So, if the sum assured is Rs. 15 lacs and the premium paid is less than Rs. 1.5 lacs, then the entire amount can be claimed as deduction u/s 80C. If the premium is more than 10%, say Rs. 2 lacs for sum assured of Rs. 15 lacs, then the deduction amount is capped at 10% i.e. Rs. 1.5 lacs.

9) Investment in ELSS

ELSS or tax saving mutual funds qualify for tax deduction under Section 80C of the Income Tax Act. One can invest in ELSSs and claim a maximum tax deduction of up to Rs 1.5 lakh in a financial year. However, many investors were attracted to ELSS mainly because the returns from them were tax-free after the lock-in period of three years.

B. Section 80CCC: Deduction for Premium Paid for Annuity Plan of LIC or Other Insurer

This section provides a deduction to an individual for any amount paid or deposited in any annuity plan of LIC or any other insurer. The plan must be for receiving a pension from a fund referred to in Section 10(23AAB). Pension received from the annuity or amount received upon surrender of the annuity, including interest or bonus accrued on the annuity, is taxable in the year of receipt.

C. Section 80CCD: Deduction in respect of contribution to pension account

Any individual taxpayer within the age of 18-60 years can contribute voluntarily to the National Pension Scheme. The Section 80CCD provides tax deductions to income tax assessees who have made contributions to the National Pension Scheme (NPS) as well as on contributions made by an employer for the same reason. You need to make a minimum contribution of Rs.6, 000 yearly and Rs.500 as minimum single contribution under Tier-1. Tier-2 contributions should be at least Rs.2, 000 in a year with a single contribution being Rs.250 or more. Any deductions claimed u/s 80CCD cannot be claimed again u/s 80C. Total deduction limit – Section 80C + Section 80CCD = Rs.2 lakhs. The proceeds from the pension fund whenever released such as for monthly pension payment or surrendered accounts will be taxable under respective income tax brackets. If the funds released from NPS are reinvested in an annuity plan, no income tax has to be paid on the redeemed amount. Deductions u/s 80CCD (1) are limited to Rs.1 lakh per year, while the deductions u/s 80CCD (2) can be claimed over and above this limit, subject to a maximum deduction of Rs.1.5 lakhs. There are two parts of this section namely:

D. Section 80CCD (1)

This section deals with providing tax deductions to all assessees whether employed by the government, any other employers or self-employed individuals. The deduction is limited to a maximum of 10% of salary (basic + dearness allowance only) in case of salaried employees and 10% of gross income in case of self-employed taxpayers. The deduction limit cannot exceed Rs.1 lakh in a fiscal year.

E. Section 80CCD (2)

This section deals with the employer contribution toward an employee’s NPS funds. Employees can claim this amount as deductions u/s Section 80CCD (2). The amount of deduction is limited to 10% of the employee’s salary.

F. Section 80TTA: Deductions on savings bank account

The interest you receive on your savings bank account is considered as your income and therefore it is taxable. However, you also get some tax deduction on the same income. Section 80TTA of the Income Tax Act offers tax deduction on interest income earned from deposits held in savings account of some financial institutions. This tax deduction is available to all individual taxpayers and HUF. Interest income earned from a savings account up to Rs. 10,000 is tax deductible from the gross income. Any interest earned over and above Rs. 10,000 is considered “Income from Other Sources” and therefore taxable. In other words, maximum deduction allowed u/s 80TTA is Rs. 10,000.

G. Section 80GG: Deduction on house rent

Usually HRA forms part of your salary and you can claim deduction for HRA. If you do not receive HRA from your employer and make payments towards rent for any furnished or unfurnished accommodation occupied by you for your own residence, you can claim deduction under section 80GG towards rent that you pay. The deduction available is the least of the following amounts: a) Actual HRA received; b) 50% of [basic salary + DA] for those living in metro cities (40% for nonmetros); or c. Actual rent paid less 10% of basic salary + DA.

H. Section 80E: Deduction on loan for higher studies

Deduction with respect to interest on loan for higher studies.

Just like expenses incurred on school education bring you tax benefits, expenses on higher education also fetch you tax deductions. If higher education is supported by education loan, then interest paid on it can reduce you taxes. Only individuals who pay interest on education loan can claim the benefit. The tax benefit is not available to HUF. The benefit can be claimed by the parent as well as the child, which means that the person who pays the education loan whether parent or child can start claiming this deduction. Deduction is available on education

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loan taken for self, spouse and children or someone for whom the individual is a legal guardian. The deduction amount is only the interest paid on the loan taken for higher studies and there is no upper limit. You can get tax benefit on entire amount of interest paid but not the Principal amount. Deduction is only available if interest is paid out of income chargeable to tax (i.e., deduction under this section cannot exceed the taxable income). The maximum period allowed to claim deduction is up to 8 years starting the year in which you start repaying the interest on the loan or till the time interest is paid fully, whichever is less.

I. Section 80EE: Deduction for 1st time home owners

Deduction on home loan interest for 1st time home owners.

Section 80EE allows tax benefits for 1st time home buyers. Income tax deduction can be claimed on home loan interest towards the first house property. The deduction allowed under this section is for interest paid on home loan up to Rs 50,000 per financial year. You can continue to claim this deduction until individual have fully repaid the loan.

J. Section 80D: Deduction on Medical Insurance

Deduction in respect of Medical Insurance

Today, changes in global climate and unhealthy lifestyle have made us very vulnerable to various kinds of diseases. Therefore, a good health insurance has become a necessity for every person. A medical insurance can make you financially prepared for any medical emergency plus it comes with some tax benefits. As a taxpayer, if you have incurred expenses towards medical insurances, preventive health checkup and other medical expenses, then you can claim tax deductions under section 80D. You can get an income tax deduction tax up to Rs. 60,000 under section 80D.

K. Section 80DD: Deduction on Medical Expenditure for a Handicapped Relative Deduction with respect to Rehabilitation of Handicapped Dependent Relative

The Income tax department is lenient towards the taxpayers who are disabled or have a disabled family member dependent on them. If you have a dependent person in your family who is suffering from a disability, then you can avail tax benefit u/s 80DD. This deduction is offered to help you take care of that disabled family member who is dependent on you. If the individual himself is suffering from a disability, then he/she can claim tax benefits under section 80U.

Who is a Disabled Dependent under Section 80DD?

- For individuals, a disabled dependent can be a spouse, son/daughter (any child), parents, and siblings.
- For HUFs, a disabled dependent can be a member of the HUF.

Deduction Amount

Deduction allowed varies based on whether the dependent person has disability or severe disability.

a) Dependent person with disability
- If the dependent person has at least 40% of the specified disability, then he is considered a person with disability.
- Hence, the individual who is taking care of the medical expenses of dependent person with disability can get tax deduction of Rs. 75,000.

b) Dependent person with severe disability
- If the dependent person has 80% of any disability, then he is considered a person with severe disability.
- Hence, the individual who is taking care of the medical expenses of dependent person with severe disability can get tax deduction of Rs.1,25,000

Disabilities covered under section 80DD

The following disabilities are covered under section 80DD of the Income Tax Act, 1961:

1. Blindness
2. Mental illness
3. Cerebral palsy
4. Leprosy-cured
5. Hearing impairment
6. Mental retardation
7. Autism
8. Low vision
9. Loco motor disability

Amount of deduction allowable under this section as per the limits mentioned above will be reduced by the amount received (if any), under an insurance from an insurer, or reimbursed by an employer, for the medical treatment of the person. Specified diseases and ailments for the purpose of deduction u/s 80DDB.

For the purposes of section 80DDB, the following shall be the eligible diseases or ailments:

1. Neurological Diseases where the disability level has been certified to be of 40% and above,
   a) Dementia
   b) Dystonia Musculorum Deformans
   c) Motor Neuron Disease
   d) Ataxia
   e) Chorea
   f) Hemiballismus
   g) Aphasia
   h) Parkinsons Disease ;
2. Malignant Cancer
3. Full Blown Acquired Immuno
4. Chronic Renal failure
5. Hematological disorders: 1) Hemophilia, 2)Thalassaemia.

L. Section 80U: Deduction on Person Suffering from Physical Disability

Section 80U and 80DDB provide tax benefits to individual and his/her family members with disabilities. An individual suffering from disability himself can get tax benefit under section 80U while an individual gets tax benefits under section 80DDB if any dependent family member of the individual is suffering from a disability. Tax benefit is allowed to any resident individual who is certified as "a person with disability" by the "medical authority".

Deduction limit

For deduction under section 80U, individuals with disability are categorized into two types:

- Person with disability: An individual with disability means the person is suffering from at least 40% of a disability then he is eligible for a deduction of Rs. 75,000.
- Person with severe disability: An individual with disability means the person who is suffering from at least 80% of a disability. If an person has severe disability (i.e.80% or more of a disability) then he is eligible for a deduction of Rs. 1, 25,000.

M. Section 80G: Deduction for donation towards Social Cause

Section 80G allows a tax deduction for donations to certain prescribed funds and charitable institutions. Following are the details of the section.

Deduction Limit

The extent of deduction is either 50% or 100% of the contribution, based on the charitable institution donated to.

For certain funds, the aggregate deduction is limit to 10% of the “Adjusted Gross Total Income”. So, in such cases, even if you do make a donation larger than 10% of your Adjusted Gross Total Income, the donation amount allowed for claiming a deduction would be capped at 10% of the Adjusted Gross Total Income. The Adjusted Gross Total in this case, is the gross total income minus long term capital gain, short term capital gain and all deductions under section 80CCC to 80U except any deduction under this section.

V. Conclusion

Individual’s tax strategies are directly related to their age and income. Any individual who want to be assessee income tax and want to do tax planning and savings, first calculate total income then compute the income tax by deduction and adjustment in total income according to tax table structure. The tax is paid in access then get refund from the income tax department. Government constantly introduces the different schemes for tax saving purpose.

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