TAX PLANNING TECHNIQUES AND TAX MANAGEMENT

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ABSTRACT

Tax being the compulsory collection from the public at large but we could find that even the rich will have a tax liability as par with an ordinary person as they have proper and efficient tax planning. So, rather than trying to reduce the tax liability by fraud, tax planning a way a person is able to reduce the tax liability legally. Through my article I have discussed the concept of tax planning, its advantages, various methods of the tax planning and has tried to cover the major provisions which comes under the Income Tax Act which provides various exemptions and deductions on satisfying the prescribed conditions as given. Tax planning plays a crucial role in the development of the economy of the country. Therefore, being aware of various tax planning techniques will help the citizen to achieve his or her financial goals and ultimately nation as a whole it will be able achieve its economically goals.

Keywords : Tax,investment, finance, Planning, scheme

Introduction

Tax is the mandatory sum of money which is levied by the respective governments from the individuals or corporations for the public services provided to the citizens of the country. Some of the tax revenue activities may include public works and services, social security, medicare and so on. Levy of tax has been done from ancient period itself which is the primary source to enhance the revenue for the government and the smooth functioning of the nation.Therefore the system of collection of tax could be witnessed across the globe. Hence in the present scenario, tax being the compulsory contribution of a sum, the concept of tax planning gains great prominence.The taxpayers always tries to reduce the tax liability upon them.Therefore they resorts mainly to three methods, namely,

- Tax planning
- Tax Avoidance
- Tax Evasion

Tax planning

Tax planning could be referred as the legal way of reducing the tax by the tax payer through making use of several investment plans as prescribed by the Act and by the government as notified from time to time in a year. It may also include entering or exiting investment schemes so as to save maximum tax possible within the legal framework[1].

Tax payment is compulsory contribution to the government from all sections of the society irrespective of caste, sex, age or any other. Therefore, in these years the tax planning plays a crucial role in reducing the tax liability upon the individual.With tax planning, one will be able to make his/her tax payments such that he or she will receive considerable returns over a specific period of time involving minimum risk[2].

Therefore,effective tax planning could be done by the tax payer every year.

Advantages of Tax planning

[1] Sakshi Sharma, *Tax planning for individuals under Income Tax*(Jun.11, 2021), TAXGURU, https://taxguru.in/income-tax/tax-planning-individuals-income-tax.html

[2] Ibid

- When citizens don't do the proper tax planning it could result in payment of excess tax amount. But also sometimes the employer could mistakenly deduct extra amount from the tax payers account hence one will be able to notice the excess deduction only if one have sufficient tax planning.There always exist a friction takes place between the tax collectors and tax payers, tax collectors always tries to extract the maximum amount possible while the latter will try to minimize the tax liability upon him.

- Besides, every tax payer try to save the money for the future purposes.Therefore, if one could efficiently do tax planning by investing to the tax planning investment schemes which are offered under the Income Tax Act , 1961.

- It help one to understand when to realize to capital gain and when to withdraw money from different schemes.

- When we invest to the specified schemes specified under the Income Tax Act, the investor will be getting free return or fixed return which are free from tax subject to certain conditions under the Act.

- Having tax planning will enable the tax payer to channelizing the funds from taxable sources to different income generating plans which ultimately ensures the optimal usage of the funds for the future plans.

- Effective tax planning and the management helps to enhance the healthy flow of the white money to the economy of the country which will help even for the betterment of the country.

Types of Tax planning

A vast majority of citizens are perceived by tax planning only on the ground that it will reduce the tax liability in a year. But when we analyse it on a broader perspective it is also about knowing to invest in the right securities so as to achieve the financial goals in a long run. Hence, one must definitely be known about tax planning and various types of the same.

Different types of tax planning includes,

1. Short range tax planning

Short range tax planning is a method of tax planning where the investors try to resort to tax planning as a measure with an intend of reduce the tax liability at the end of the year in a legal way. In short, in this method, the tax planning is thought and executed by the tax payer at the end of every fiscal year. Besides, it could still be seen as an method to promote substantial tax savings.This method does not give rise to a long term commitment.

For example, if the tax payer at the end of the income year, finds that his tax is comparatively too high from the last year, then he or she may try to reduce the tax liability of the respective year in a legal way. For instances, he may take help of provisions as such Section 88, to an extend he get rebate and reduce the substantial portion of his tax liability.

2. Long term tax planning

Long term tax planning is the one method of tax planning where the tax payer resort to the tax planning in the very beginning of the fiscal year. The tax payer will be resorting to the same plan throughout the year. When we analyse it, unlike short-range tax planning, the tax payer may not be offered with immediate tax benefits but it would definitely prove useful in the long run by investing to the right securities and gaining the financial progress.

For example, when an assessee transfers the shares that he owns to his spouse or minor children. But the same income will be clubbed to his own name while calculating the tax liability under Section 64.Yet the income is treated to be invested by the minor children or the spouse.Even when the company issues further shares that will be amounting to be income in the hands of the spouse or the minor.

3. Permissive tax planning

Permissive tax planning involves the method of planning incorporating various provisions of the Income Tax Act. In India, tax planning offers several provisions such as standard deductions, exemptions, contributions and incentives.

For examples, Section 80C of Income Tax Act 1961 provides different types of deductions on various tax saving instruments. Further as per section 10 of the Income Tax Act tax more specifically Section 10(1) planning could be done on earning Income through deductions and incentives, availing the tax concessions etc.

4. Purposive tax planning

It means making plans with specific purpose to ensure the availability of maximum benefits to the assessee through correct selection of investment, making suitable programme for replacement of assets, varying the residential status and diversifying business activities and income etc[3].

Tax saving provisions under Income Tax Act

Tax payer's in India are provided with several viable options in-order to reduce the tax liability by adopting to proper tax planning techniques. Various provisions across the Income Tax Act provides with tax deductions and exemptions , among which Section 80C of the gains a prominent importance in this scenario as a means of tax saving avenue. For instance, it provides with Deposits in Public Provident Fund, Investments in ELSS Scheme, National Savings Certificates, Five year bank deposits and so on.

Therefore, when ever there is a revision in the income, the most optimal way in reducing the tax is by efficient tax planning techniques. Moreover, it is always good for an investor to invest to make the right investment from the beginning of the year rather than investing at the end of the year as cause making incorrect investment decisions. Hence, inorder to know how to make right investment at right point of time, one must be aware of the various deductions and exemptions available under the provision, so the same could be utilized for his benefit on reducing the tax liability.

Tax saving provision under Section 80C

Section 80C of the Income Tax Act , one of the most prevalent sections in the Income Tax Act, 1961, provides provisions to save up to Rs46,800 (assuming the highest slab of income tax i.e. @30% plus education cess 4%) on tax liabilities each year[4].

Investing in the Equity Linked Savings Schemes which is commonly known as ELSS, is one of the most commonly used tax saving avenues under Section 80C.So when we analyse the same, such tax planning mutual funds offer the dual benefits which may includes tax savings by reducing the liability as well as potential capital appreciation.Apart from Equity Linked

[3]*Meaning and Method of Tax planning, INCOMETAX MANAGEMENT.COM,https://incometaxmanagement.com/Pages/Tax-Management-Procedure/5-1-Meaning-of-Tax-Planning.html*

[4] *Tax Planning*, FRANKLIN TEMPLETON, https://www.franklintempletonindia.com/investor-education/smart-tax-planning/article/tax-planning/tax-planning

Savings Schemes, one can also invest in other investment plans such as Public Provident Funds, National Savings Certificate, tax saving fixed deposit schemes,Infrastructure bonds,Senior citizens savings scheme, Sukanya Smriddhi Yojana,and so on . So the cumulative investments under these securities can offer deduction which could in aggregate reduce the tax liability upto 1,50,000 Rupees.

Tax saving provision under section 80CCC

This is one of the deductions under section 80C.The condition to be satisfied for availing the exemption includes that the policy for which the money has been invested must be providing a pension or a periodical annuity.It provides deductions upto Rs 1,50,000Rs per annum for contributions made towards the specified pension funds by life insurance as prescribed under the Act.

Tax saving provision under Section 80CCD

Pursuit to section 80CCD(1), In case of employee's contributions from which the maximum which could be deducted is the least of the following;

- In cases where the tax payer is the employee, then 10% of the salary
- In case if the tax payer is self employee, then 20% of the gross total income.

As per section 80CCD(2), In case of employer's contributions from which the maximum deduction allowed is 10% on aggregate of basic salary along and dearness allowance.The benefits under this section is only allowed to the salaried individuals and not to the self employed.

However,one should be noted that the maximum deductions which could be availed from all these sections together , ie. 80C, 80CCC, 80CCD(1) and 80CCD(2) is 1,50,000Rs.Additionally, upon the 1.5 lakh Rs., two more deductions which could be availed included under section 80CCD(1b).The abovementioned section says that if the tax payer is a person who deposits in NPS account then 50,000 Rs could be deducted or who contributes to Atal Pension Yojana the contributed amount will be eligible for deduction from the tax liability.

Tax saving provision under Section 80D

Under Section 80D of the Income Tax Act, tax payers are offered deductions on investment on premium payments such as health insurance policies.According to section 80D, a tax payer can claim the following deductions and reduce the tax liability, for the same the tax payer have to avail any of the following namely,

- Availing up to 25,000 Rupees on the premium paid towards health insurance for children, spouse or self
- If assessee is a senior citizen, then the assessee can avail a deduction upto 50,000 Rupees
- If assessee's parents are also covered under assessee's health insurance plan then deduction of 25,000 Rupees could be availed.In cases where parents comes under the brackets of senior citizens, then the allowable deduction would be Rs. 50,000.

Tax saving provision under Section 80E

Pursuit to Section 80E of Income Tax Act,the tax payer can avail a deduction on the interest paid for an educational loan.Deductions under this section can be availed from the date of repayment and it could be availed for a period of eight years.In short, the assessee could claim the entire amount which is paid as interest from the taxable income in the fiscal year.In this scenario, there is no upper limit for the deductible income under this section.

Tax saving provision under Section 80GG

When HRA is not received, then deduction is available for the rent paid.The permissible deduction under this section is the least of the following,

- Rupees 50,000/- per month
- 25% of adjusted total income or
- Rent already paid to be reduced from 10% of the adjusted total income

Conclusion

Tax planning is the first step one should be taking for financial planning. When we analyse the concept of tax planning techniques and management, primarily it could be seen as a method of reducing the tax liability in a year but ultimately the citizens will be able to have different income sources as they have efficient tax planning.Moreover, it will enhance the countries economy in a healthy manner as the inflow of white money could be raised. The participation of citizen and their involvement in the nation building through the economical development is crucial in the development of every nation.Therefore, being aware of the tax planning and utilizing the given provisions will ultimately benefit not only an individual but also a whole nation.