INTRODUCTION TO PAYROLL PROCESSING IN INDIA AND AN OVERVIEW OF INVESTMENT DECLARATION AND ITS BENEFITS

Adithya Subramanian K, SASTRA Deemed University

ABSTRACT

Savings constitute a crucial part of an employee's earnings and any employee would aim to maximise their savings in different ways possible. There are direct forms of savings like fixed deposits, investments in stock markets, and a host of other options, as well as indirect savings like the declaration of tax-saving investments which will assist them in claiming tax benefits thus reducing their taxable income. Payroll processing helps employees understand their constituents and how it arrives. After understanding that, investment declaration becomes easier. Investment declaration involves the payment of taxes, claiming benefits for incurring expenses and investments of a certain nature, and adhering to statutory compliances, accompanied by indirect reimbursements. This article aims to provide a broad understanding of how the synergy between payroll processing and investment declaration can help in the maximisation of savings.

INTRODUCTION TO PAYROLL

Payroll is a rudimentary activity essential for any organisation irrespective of how big or small it is. Despite being a basic and pervasive process, it is vital to the functioning of an organisation. It deals with the components that go into the salary or the overall pay of the employees. It bears a huge significance, which makes it a tedious task to arrive at the final payable amount. One thing that has to be kept in mind is that not all the provisions hold good for an organisation and it is the organisation's duty to identify the applicable provisions and laws.

There are several departments in an organisation, and each department has a payroll section to oversee payroll operations. Each department must carry out the appropriate tasks, such as data preparation and collection. Due to changing needs, employee demands, and technological advancements, many of these current practices and procedures need to be reviewed. As a result, an organisation needs a payroll system that can efficiently manage personnel and payroll-related information, processing in each department, and payroll audit.

The whole process may seem daunting for a novel or small-scale enterprise. Although various enterprises have specific contours along the lines of which the payment is arrived at, there are a few must-include things:

• Coming up with a payroll policy after considering the relevant statutory requirements at all levels.

• Communicating the constituents of the policy and its components to the employees.

• Framing the pay structure with regulatory laws' compliance and the tax benefits which can be claimed under the Taxation Laws.

•Collecting information from various sources to complete payroll (attendance, expense claims, reimbursements, food and transportation facilities used, incentives, bonuses, salary increases or decreases, tax declarations)

• Depositing statutory deductions in terms of EPF, ESI, LWF, TDS, and PT made with the appropriate authorities;

STAGES IN PAYROLL PROCESSING

The activity of payroll processing has three stages that help in simplifying the process: Take these steps before you start calculating pay:

STAGE 1: Pre-Payroll Activities

Defining Payroll Policy

Setting up the policies necessary to handle payroll is the first step. These policies must be approved by the management. These policies include ones about attendance, compensation, leave, and perks, among others. A business needs a set of payroll policies and procedures to manage the payroll department efficiently and make sure that all employees are paid appropriately and on time.

Collecting data

The following stage is to gather information from multiple departments to guarantee that the payroll is calculated correctly. At first, the amount of data gathering may appear overwhelming. Payroll software, which includes features like attendance and leaves management, Employee Self Service Portal (ESS), and many more, must be used to make it simple.

Input checking

After all, data is acquired, next its accuracy must be confirmed because even a minor error can damage the entire payroll process. Make sure that there are no records of inactive employees and that the list only comprises active employees. Verify that the data complies with business policy. Make sure that the data is in the system and is formatted correctly.

STAGE 2: Actual Payroll Process

Calculating payroll

This step involves doing the actual work necessary to determine the employees' net pay after the pre-payroll tasks have been finished. Shift-based calculations for deductions, taxes, incentives, expenses, etc. will need to be performed during the pre-payroll activities using the already acquired payroll data, such as attendance and leave data. The data must now be fed into the payroll system after being checked. You will get your net salary once all relevant taxes and deductions have been adjusted. You should double-check the procedure to eliminate any potential for errors.

STAGE 3: Post-Payroll Activities

Legislative Compliance

The payroll administrator must strictly follow the law compliances while processing payroll. Various statutory deductions, including PF, ESI, and TDS, are taken during the processing of payroll. These deductions are afterward paid to the relevant government agencies and authorities.

Accounting for Payroll

Every organisation is required to keep correct books of accounts, and one of their key entries is the number of salaries paid. Salary information must therefore be recorded in the ERP or accounting system during the payroll process.

Payout

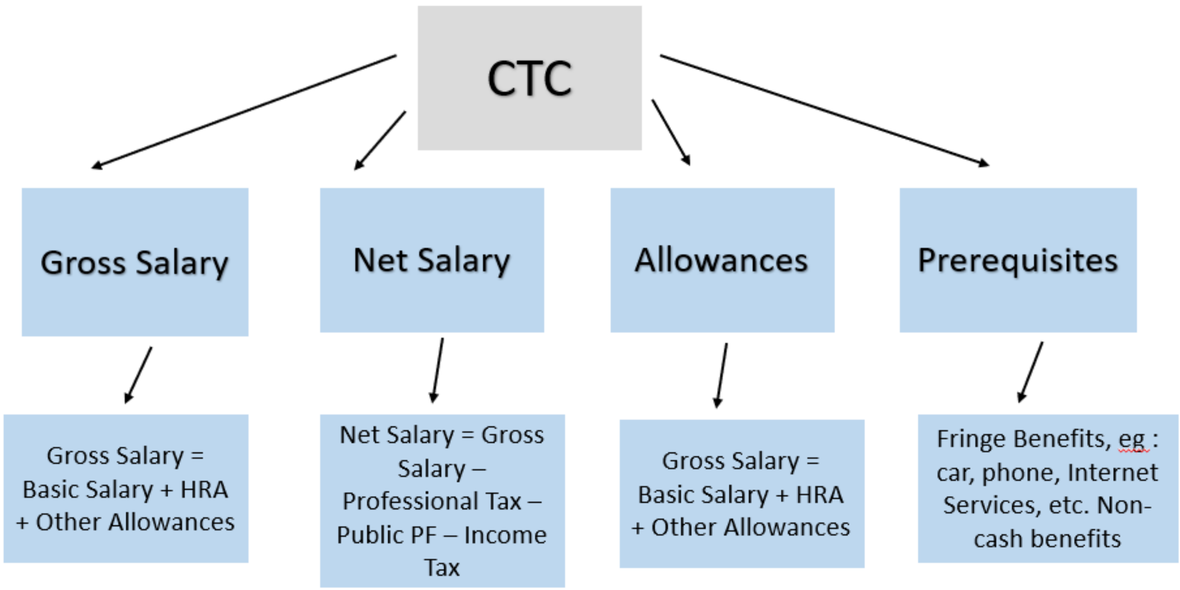
Once you've finished with these processes, you can pay the salaries with cash, checks, or bank transfers. It is always a good idea to establish employee salary accounts for smooth transfers. You must transmit salary bank account statements to the branch with information such as the employee ID, account number, etc. to make payments to the salary account.

Reporting

The next phase is reporting, where you must create reliable reports with data like personnel costs broken down by department and location. These reports are forwarded to the management group or the financial department for additional study.

COMPONENTS OF A TYPICAL PAYROLL SYSTEM

Every payroll in India includes several essential elements that are organised together to form a compensation package: the monthly payment and wage disbursement. To compute taxes, PF, ESI, benefits, LTA, and other expenses, both employers and employees must use these components.



COST TO COMPANY (CTC)

The CTC, or Cost To the Company, refers to the entire amount paid to employees. It is an employee's entire compensation package. All monthly elements, including "Basic Salary," "Perquisites," and "Allowances," are included in CTC. Please note that CTC is never an employee's take-home pay.

CTC = Gross Salary + PF + Gratuity

GROSS SALARY

Before-tax and other deductions, the gross salary is calculated by adding the employee's basic salary, allowances, and basic salary. It includes things like holiday pay, bonuses, and overtime compensation.

Basic Salary + HRA + Other Allowances = Gross Salary.

TAKE HOME SALARY/NET SALARY

The take-home pay, also known as the net pay, is determined by subtracting income tax deducted at source (TDS) and other deductions, under the company's HR policy.

Net salary = Gross Salary – Professional Tax – Public Provident Fund – Income Tax

ALLOWANCES

Mandatory benefits are offered in addition to the base pay and are either fully/partially taxable or completely tax-free. The following are some typical ones: Renter's Assistance (HRA):

Employees are given access to HRA to help with housing expenses. It offers tax advantages to employees for the amount they spend annually on housing. Basic (non-metros): 40%; Basic (metros): 50% Medical allowances for meeting medical expenses as and when an emergency arises. Leave Travel Allowances (LTA): LTA is a benefit provided to employees to help with the cost of travel while they are off the job. It is exempt from paying taxes. Conveyance: Employers provide their employees a conveyance allowance to cover the cost of their transport from home to work and vice versa. Allowances for children's education The workers receive a fixed amount for their children's education in India. Spending over the cap of INR 100 per child per day for a maximum of two children is taxable. Dearness Compensation (DA), which is granted to employees as a portion of their base wage, is intended to lessen the effects of inflation (DA). DA is often paid by the government to public sector workers and retirees.

PERQUISITES

These are non-cash or fringe perks that some employees receive as a result of holding a specific position in the company. Examples include being able to use the company car for personal travel, receiving free housing, and paying more for personal accident insurance. The value of perquisites is added to the salary and is taxed by the employee.

DEDUCTIONS

In Indian payroll processing, deductions are added to the CTC to determine the employee's real take-home pay. The following are some of the most typical deductions:

Provident Fund (PF)

Employee Provident Fund (EPF) is a benefit programme for employees in which both the business and the employee contribute money each month. How is it determined? - 12% of Basic Salary + DA + Special Contributions from Employer and Employee. To whom does it pertain?

- Organizations with 20 or more employees. For employees whose Basic DA and allowances total less than 15,000 pm, it is required.

Employee State Insurance (ESI)

The amount fully paid during the medical leave is known as ESI (depending on the job profile and company policy). A company must make use of the ESIC programme for any employees with a gross monthly pay of less than Rs. 21,000 if it employs ten or more of them (20 in Maharashtra and Chandigarh).

Professional Tax

On professionals and salaried workers, the government levies a professional tax. Labour Welfare Fund - A labour welfare fund is a legally required payment that is overseen by the relevant governmental agencies.

The National Pension Scheme (NPS)

An initiative of the Indian government is the NPS scheme. A person can build a retirement fund using this pension contribution system. It can be utilised as a post-retirement or saving-investment tool.

SYSTEMS OF PAYROLL MANAGEMENT

Management of payroll using Excel

Many startups and small businesses with a few employees choose to manage their payroll using an excel spreadsheet. Using an established payroll calculation template, payroll calculations are performed on excel sheets as part of payroll management using Excel. The mathematical ideas behind the computations made by the payroll officer. Even though this method is free, it has inherent drawbacks such as a high likelihood of clerical and mathematical errors when data is entered manually. Here, adding and removing employees from the list of employees on the payroll is a difficult operation. Duplicate data entries and omitted values or entries are frequent occurrences. Tax and other standard updates are frequently disregarded or put off.

Outsourcing Payroll

The ideal course of action for an organisation is to outsource payroll. You want an outside, specialised organisation to handle your daily payroll function if you outsource. Many businesses choose this solution when they need an error-free payroll solution. Each month, under their pay cycle, they submit the payroll service provider with information about employee salaries as well as other data, including attendance, leave information, reimbursement details, etc. Next, the service provider calculates payroll and handles legislative compliance. Businesses are typically reluctant to outsource payroll since it is such an important function and they want complete transparency and control over it.

Payroll Software

Payroll software To successfully handle payroll, you must make sure that payroll entries come from each source in a timely and reliable manner. The goal of employing software is to make obtaining inputs less difficult. There is sophisticated payroll administration software on the market that automates payroll computation and functions as a comprehensive portal for managing leave and attendance, human resources, and employee self-service. You may choose the best payroll software for your company based on the size and use cases of your organisation.

STATUTORY COMPLIANCE IN PAYROLL

Ensuring statutory compliance while preparing payroll implies paying under the relevant employment standards established by federal and state law. Some statutory regulations that apply to Indian enterprises include the establishment of minimum wages, payment of overtime wages to employees, TDS deduction, Provident fund, and ESI. You must take into account all of these deductions and contributions when calculating pay. One such deduction is the income tax. As a result, the employee must submit an "income tax declaration" at the start of the year detailing any additional income, tax-saving investments, etc. In light of this, we determine an employee's tax burden and subtract his TDS. You can compute your monthly tax obligation and subtract TDS using the aforementioned tax slabs. After that, a quarterly report detailing all deductions is filed along with a monthly deposit of the TDS with the government. Employees can receive form 16 after their TDS returns for the fourth quarter are finished. When completing their individual income tax returns, the employees use this form 16 as documentation of the tax deductions. Violations of the statutory legislation may result in hefty fines and penalties. You must therefore stay informed of any changes to the tax and payroll laws.

INTEGRATION WITH TIME-KEEPING, ATTENDANCE-KEEPING, AND LEAVE-TAKING SYSTEMS

Management of time

This module is frequently used to monitor the amount of time spent on specific tasks or projects. Strong leadership skills are necessary for critical project managers. Time management module for keeping track of time; occasionally, this information may also be utilised to bill customers.

Including accounting system integration

Every financial transaction must be recorded by your accounting or ERP system, including payroll data such as personnel costs broken down by department, specific payroll components such as reimbursements, tax owed and paid, etc. Some accounting software and payroll applications have API integration (a way to push data directly from one software to another).

The accounts department must get all transaction information from the payroll officer. In accounting and ERP software like Tally ERP, SAP, Quickbooks, etc., the accountant then manually enters it as journal entries. These interfaces can facilitate communication between the payroll and finance teams and eliminate the need for manual data entry.

Attendance

While the majority of small businesses use a manual attendance system, medium-sized and large businesses have begun utilising clever, automated technologies like biometric methods, auto-tracking via system log-in, access cards, iris capture, etc. The information is maintained in a system connected to the payroll application that employs this information to compute attendance days, overtime, etc. Make sure the programme includes attendance management and can be configured with access control devices for smooth payroll processing.

Leave Control

Every organisation requires its employees to take a set number of leaves, including privileges or annual leave, casual leave, sick leave, holiday leave, etc. This leave is something that practically all organisations give their employees. If the programme offers a component for managing leaves, such as sick or casual time off, HR can credit these leaves to the accounts of qualified employees. Therefore, the employee can use the system to request leave. A good plan should also specify how the employee's manager would be notified and given the option to approve or reject the request. Accurate payroll can be achieved with the aid of powerful payroll software that includes a leave management feature.

TERMINATION OF AN EMPLOYEE AND ITS EFFECT ON PAYROLL - FULL AND FINAL SETTLEMENT

What is the Full and Final settlement?

When an employee leaves the company, the employer must undertake a full and final payment procedure. The employee's last month's salary as well as any other earnings or deductions are included in these procedures. Companies perform these computations under the standards established by their policies and state regulations. In India, the processing time for F&F settlement is typically one month. On the employee's final day of employment, this assessment must take place. The final clearance might take anywhere between 30 and 45 days. This may soon change, though, as per the wage code that was announced on August 8, 2019, an employer is required to pay all earnings due to a relieved employee within two days of that employee's last day of employment.

How does the full and final settlement work?

For paying the employees within a specified time frame, several rules are governed by the respective State Governments. To be sure you are abiding by the law, check your state's laws. Your company can select whether the settlement will take place before the employee is let go or if it will happen after. Create a process for salaried personnel. Employees are required by customs and some contracts to provide notice before leaving a company. This allows the employer enough time to negotiate the ultimate settlement with the employee while simultaneously ensuring that the corporation has enough time to locate a successor. You may opt to create a rule governing the notice time for each new hire at your business and make it obligatory. Additionally, you must make sure the employee is paid for the full term of the notice period. However, as an employer, you can decide whether or not you want the employee to report for duty during this time.

The guidelines state that the employee must receive a complete and final settlement within 10 days of their last day of employment, as per their notice. Five to six days before the employee's last day of employment, the exit clearance process should begin. By establishing whether there have been any dues or outstanding sums during the employee's working tenure, the clearance procedure aids in establishing a common understanding between the employer and the employee.

There is no prescribed time for a full and final settlement if an employee resigns under the Payments Wages Act of 1936. The term of settlement for making the payment in the event of an employee resignation is not specifically mentioned in the Act. The time frame between the employee's resignation date to the date of an FnF settlement is referred to as the period of settlement. This includes completing every clearance and paying your employee's outstanding debts. The clearance will take time because there is paperwork involved, as was mentioned. The process will take between 30 and 45 days to finish. One month before their decision to leave the organisation, employees should give their employer advance notice. If they fail to notify their employers by the deadline, they risk the penalties outlined in the company policies

COMPONENTS OF A FULL AND FINAL SETTLEMENT

A full and final settlement consists of various elements. The process is time-consuming and difficult because every little element needs to be considered. The following elements must be present in the FnF: The ultimate compensation calculation is a difficult task. The elements that go into the final statement are listed below:

Unpaid salary

It is calculated by dividing the gross wage by 26 and multiplying the number of days of compensation by that number (Avg. number of working days per month). Bonuses and unused vacation days: Non-used vacation days, bonuses, and credits are all things that can be cashed by the employee during the settlement by company rules. According to the regulations [section 79 (11)] of the Factories Act,1948 all the unpaid dues should be paid by the 7th or 10th of the following month of resignation.

Calculation of non-availed leaves and bonuses

The total number of days of unused vacation times the base monthly wage, divided by 26 (Avg. number of working days per month). Or, per corporate policy, it might be a set sum for each unused leave, as determined by the company. An employee may receive a gratuity from their employers as compensation for their long-term dedication to the company. The employer must pay the gratuity if the employee has worked for the company for 4 years and 240 days or more within 30 days of their separation. The organisation will be responsible for paying the sum plus accumulated interest if it is unable to do so within the specified time limit.

Calculation of Gratuity

Fifteen days of the most recent paycheck for each calendar year, multiplied by the number of years worked, and divided by 26 (Avg. Number of working days per month).

Taxes that are due, such as professional and income taxes, as well as payments, such as provident funds, are included in deductions. Employees who do not receive the full amount of notice may also have salary reductions made. Please be aware that tax withholding at source is not applied to encashed earned leaves or the gratuity that is paid to the employee (TDS). According to section 72(5) of the Employees' Provident Fund Scheme, 1952, all other payments are subject to TDS.

Pensions

Employees who have completed at least 10 years of pensionable service are eligible for this. It can be availed by providing their certificate after their retirement (or after 58 years of age). Employees get this pension, as defined under the E.P.F. scheme, with a minimum pension amount of 1000. Calculation of E.P.F. pension: Pensionable salary multiplied by the service period divided by 70.

Full and final settlement in payroll

In the lack of well-established policies, reaching a full and final settlement can be a laborious procedure. Make sure your policies are clear and documented so that the payroll team's job is made easier. definite termination procedures: As we've seen, it's critical to have a termination policy that is both explicit and comprehensive. The dates for the notice period, leave balance computation, gratuity, and other requirements must also be specified in these guidelines. Due to these principles, there won't be any misunderstandings with the payroll staff or conflicts throughout the FnF settlement procedure. Partial payment in FnF: Some businesses opt to keep paying employees according to their usual pay schedule while withholding the income for the month of departure. In FnF, we also call this partial payment. The payroll team simply needs to compute the TDS and balances for the previous month throughout this process.

WHAT IS AN INVESTMENT DECLARATION?

The investment declaration in question relates to the tax-saving investments the employee intends to make this year. The employer will consider the suggested tax-saving deductions from salary income upon obtaining such a declaration from an employee when determining the estimated tax to be withheld at the source. This would decrease the employee's anticipated annual pay income in its entirety, which would consequently decrease the expected TDS for the year.

At the beginning of each fiscal year, employers ask salaried employees to declare their investments. In essence, a tax filing declaration is a list of all the investments that an employee plans to make to reduce their tax liability for the fiscal year in question. Even if the employee disagrees with all of these statements, the employer should be made aware of it.

To determine the tax liability of employees, employers ask for this information. This is determined by deducting home loans, medical expenses, and HRA under Section 80C of the Income Tax Act. It is simpler for the employer to deduct Tax at Source (TDS) monthly when this information is gathered at the beginning of the year. Section 192 of the Income Tax Act of 1961 governs TDS and mandates that employers deduct taxes from employees' paychecks. Due to the low tax deduction, the employee's monthly take-home pay will increase as investment amounts increase.

A salaried employee must submit Form 12BB to their employer to collect tax-saving benefits or rebates on investments and expenses. Form 12BB must typically be presented after the fiscal year.

	lakh rupees		
2.	Leave travel concessions or assistance		
3.	Deduction of interest on borrowing: (i) Interest payable/paid to the lender (ii)Name of the lender (iii) Address of the lender (iv) Permanent Account Number of the lender (a) Financial Institutions(if available) (b) Employer(if available) (c) Others		
4.	Deduction under Chapter VI-A (A) Section 80C,80CCC and 80CCD (i) Section 80C (a) .... (b) .... (c) .... (d) .... (e) .... (f) .... (g) .... (ii) Section 80CCC (iii) Section 80CCD (B) Other sections (e.g. 80E, 80G, 80TTA, etc.) under Chapter VI-A. (i) section.............. (ii) section.............. (iii) section.............. (iv) section.............. (v) section..............		
	Verification		
	I.....................son/daughter of........................ do hereby certify that the information given above is complete and correct.		
	Place..		
	Date..	(Signature of the employee)	

Investments made during the year for which tax returns are filed are included in the investment declaration. Any investments undertaken on a personal level, such as loans acquired to buy a home, may fall under this category. An employee of a company will be required by the Finance & Accounts to declare the indicative investments at the start of the year, present the final list of tax-related investments by December, and submit all supporting documentation by February. If non-evidenced investments were not made, the company will go ahead and deduct the tax from the pay.

After taking into account the awaiting investment proofs, the amended tax payable can be ascertained when filing the returns. Form 16 tax will be higher than the actual tax due as a result. Form 16/ 16A is the certificate of source deduction given upon source deduction by the employer on behalf of the employees. These certificates offer TDS/TCS information for numerous transactions involving the deductor and the payer. These certificates must be sent to taxpayers by law. A refund can be applied if the returns are filed online. It is always advised to have verifiable evidence of such investments for safety purposes.

DECLARATIONS UNDER FORM 12BB

An investment Declaration is made on Form 12BB that has to be submitted at the end of the financial year to the employer.

It applies to all salaried taxpayers and has to be made for the following tax-saving investments and expenses:

1. House Rent Allowance (HRA)

In the first part of Form 12BB, details permitted to claim a tax deduction on HRA must be filled in. The following details are essential for the same:

1. Name and address of landlord and rent paid.
2. If the rent paid during the year exceeds Rs. 1 lakh, the Permanent Account Number (PAN) details of the landlord have to be provided.
3. Rent receipts
4. In case the rent is paid in cash, a revenue stamp has to be affixed to the receipts.

2. Leave Travel Concessions or Allowance (LTC/LTA)

Leave travel concession or leave travel allowance is paid to a salaried employee as per the salary package and is applicable for domestic travel only.

Salaried employees also need to submit travel-related expenditure proofs to their employers if they want to claim a tax deduction on LTA/LTC.

The total expenditure being claimed as well as the number of documents being submitted should be mentioned in Form 12BB.

3. Interest on Home Loan

To claim a tax deduction on interest paid for a home loan, you need to provide details like interest paid /payable, lender's name, and lender's PAN in Form 12BB.

Stamp duty, registration fees and brokerage expenses paid towards the transfer of the property can be claimed as a deduction.

4. Deductions under Section 80C, 80CCC, 80CCD and 80D

Here is a quick list of deductions available under Section 80 that you can declare in Form 12B:

80C: Premium to be paid for life insurance and/or investments to be made in ELSS funds, PPF, NPS, and/or school tuition fees for children, etc

80CCC: Premium to be paid for annuity plan

80CCD: Additional contributions made to NPS

80D: Premium to be paid for medical insurance

80E: Interest to be paid on education loan

80G: Donations to be made to specified organisations

80TTA: Interest income earned from the savings bank account

COMMON MISTAKES WHILE SUBMITTING INVESTMENT DECLARATION

Submissions of investment proof take time and need manual labour. The following mistakes outlined below should be avoided to prevent making the procedure take longer.

1. Planning the Budget

The annual investments made as an employee must be planned at the start of the year. Opinions on what investments can be made may be consulted for better and more strategic investments.

2. Copy of the investment documentation

If the employee uses a manual payroll system, they are required to keep copies of the investment proof. These will be needed in the event of an Income Tax Office audit. The proof might instead be digitally stored with automatic payroll software.

3. Bills for reimbursement or invoice

Employees must adhere to organisational policies when requesting compensation for expenses.

If the employee fails to comply, the company will then be required to tax an equivalent portion of the individual's compensation.

4. Future investments

It is customary for employers to accept Income Tax Investment Proof documents till January 15. This is due to the potential tax implications, which may require that the salary for January, February, and March be adequately decreased. When the employee cannot offer suitable investment proof, this occurs. As a result, one has to claw back the tax money previously deducted from the paycheck from April to December over the next three months.

Additionally, the employee may need to make additional contributions in the future. Ideally, as an administrator, clear communication should be effected to enable staff to deliver proofs on schedule. In this case, the employee must also let the employer know about any potential investments. Employers take employee claims into account when calculating tax deductions. Therefore, an employee should provide a presentation to be taken into consideration by their company. If not, they will also lose the tax benefit.

5. Rushing the process

Even a small mistake in the Income Tax Proof submission process can result in a long delay. This cycle requires the employee's attention. The verification of all these proofs typically takes 30 days for small business administrators to complete. The annual hassle of filing income tax returns must be completed within a certain window of time. Make sure to submit your returns before the due date or last day for IT returns. Naturally, the government will hold one accountable in terms of fines to be paid, if there are investments in addition to salary (which is true for the majority of people who pay taxes). The whole point of paying taxes is to minimise the outgoings.

July 31st is the formal deadline for Income Tax returns for the fiscal year that ended in March. But in case that is not complied with, what are the legal penalties in this situation? Three separate circumstances should be comprehended because they each have unique ramifications.

Delayed filing of returns in cases when there is no tax due and no refund sought

There is no cause for concern if the employer has already deducted all of the fees owed, in the form of TDS. The returns can still be filed before the end of the relevant financial year even if the deadline is missed. No penalty will be assessed because no tax is owed. However, it is advisable to avoid this circumstance.

Delay in filing returns when there is a refund claimed from the IT department

If you are requesting a refund, the case may become a little more complicated. Reminder: If you want to get a refund, make sure to file your returns well in advance of the deadline. It is your responsibility to request a refund and to do so, you must submit your tax forms on time. You must abide by the IT department's standards to receive your reimbursement. You will still receive your refund if you file your returns late. The IT division is not required to pay you interest for late payment returns, nevertheless. If you are seeking refunds, the amount you lose by failing to file your income tax returns by the deadline. Your proof of investment for income tax and timely filing of returns is crucial for being a law-abiding citizen.

Delay in filing returns in case of recent losses, losses from speculation, etc.

Let's just give our case study one extra difficulty. Here, we're assuming that you experience annual short-term losses. It is crucial to keep in mind that if you file your IT returns late, you will not be able to offset or even carry forward any capital losses from that year. You may take rather significant financial damage as a result of that. Therefore, please make sure to file your returns on time if you have any speculative income or loss or any short-term capital gains or losses. Otherwise, you may incur significant potential costs as a result of missing the Indian income tax deadline.

Investment Declaration For Tax Saving

Employers primarily ask for this information from employees to calculate the amount of the employee's final taxable income after deductions under Section 80C of the Income Tax Act, medical expenses, house loans, and HRA. It is simpler for the employer to deduct a predetermined amount of TDS each month when this information is gathered. There are different cases:

Case 1: The amount invested is less than the employer's reported amount:

The employer would probably assume that their estimate of the employee's tax savings is inaccurate if the employee was unable to invest the amount of money as stated or if they were unable to provide the required documentation to their employers within the allotted time frame.

Additionally, it indicates that the company is paying less tax because the employee is more likely to have smaller tax-saving investments and hence owes more in taxes. In these situations, the employer is forced to recalculate the employee's tax burden before making the necessary adjustments within the next one or two salary months (February or March), which means that the employer will get a lesser salary in the last one or two months of the fiscal year. When filing returns, an employee should disclose any investments they have made to save on taxes. Additionally, you must ask the Income Tax division for a tax refund. The employee will immediately owe the government the tax if, for any reason, the employer fails to deduct it from the employee's prior month's pay. This kind of circumstance may also occur if the individual has additional income that the company is not aware of. In such circumstances, the employee will be required to pay the tax to the government directly. This can be completed online using Challan 280 on the Income Tax department's official website. At the end of the year, the returns can then be filed.

Case 2: The amount invested matches what the employee reported:

The employee's taxable income will be the same as that determined by the employer if the employee invests the identical amount that was disclosed at the start of the fiscal year. Additionally, it indicates that the employee's tax payment was equal to the sum payable to the IT division. The employee will only need to file the income tax returns at the end of the year in such circumstances. If the employee does not receive money from additional sources, filing taxes should be simple.

Case 3: The amount invested exceeds the amount the employee reported:

When an employee declares investments worth Rs. 60,000 but makes Rs. 1.2 lakhs in tax-saving investments, the person has saved more tax than that. However, the employer has been paying more tax than necessary to the government on behalf of the employee since they have been deducting the tax from the employee's income while assuming that the declaration was made for only Rs. 60,000. In certain circumstances, the employee will be entitled to a tax refund, which can be obtained when submitting returns. Most of the time, it makes sense to disclose the investments at the beginning of the year so that the company can ensure that less tax is paid while the employee is doing their part to aid potential tax savings.

Thus, by ensuring that the declaration of investments is made per the laws, filling Form 12BB with caution, and ensuring other guidelines are complied with, employees can maximise their savings potential through the process of investment declaration.

References

(n.d.). Home - Central Board of Direct Taxes, Government of India. Retrieved December 9, 2022, from http://incometaxindia.gov.in

The Employees' Provident Funds Scheme, 1952 CONTENTS CHAPTER I Preliminary 1 Short, title and application 2 Definition CHAPTER. (n.d.). Employees' Provident Fund Organisation. Retrieved December 9, 2022, from https://www.epfindia.gov.in/site_docs/PDFs/Downloads_PDFs/EPFScheme.pdf

THE FACTORIES ACT, 1948 _______ ARRANGEMENT OF SECTIONS. (n.d.). Ministry of Labour & Employment. Retrieved December 9, 2022, from https://labour.gov.in/sites/default/files/Factories_Act_1948.pdf

FORM NO. 12BB [See rule 26C] Statement showing particulars of claims by an employee for deduction of tax under section 192 1. Na. (n.d.). Income Tax Department. Retrieved December 9, 2022, from https://www.incometaxindia.gov.in/forms/income-tax%20rules/itrform12bb.pdf

Full and Final Settlement: See how to run termination payroll. (n.d.). Asanify. Retrieved December 9, 2022, from https://asanify.com/blog/payroll/full-and-final-settlement-demystified-run-termination-payroll-in-seconds/

How to handle investment declaration in payroll? (n.d.). Asanify. Retrieved December 9, 2022, from https://asanify.com/blog/payroll/how-to-handle-investment-declaration-in-payroll/

THE INCOME-TAX ACT, 1961 ARRANGEMENT OF SECTIONS. (n.d.). Legislative Department. Retrieved December 9, 2022, from https://legislative.gov.in/sites/default/files/A1961-43.pdf

Investment Declaration For Tax Saving. (n.d.). BankBazaar. Retrieved December 9, 2022, from https://www.bankbazaar.com/tax/tax-saving-investment-declaration-to-employer.html

Investment Declaration Guide - Form 12BB | How to Fill Form 12BB | Download Form 12BB. (2022, December 5). ClearTax. Retrieved December 9, 2022, from https://cleartax.in/s/guide-to-form-12bb

Payroll Services Online | Payroll & HR Compliances in India. (n.d.). TAXAJ. Retrieved December 9, 2022, from https://www.taxaj.com/payroll-hr

Wagh, J., & Samani, N. (n.d.). India Payroll And Statutory Compliance - A Complete Guide. Deskera. Retrieved December 9, 2022, from https://www.deskera.com/blog/india-payroll/#payroll-statutory-compliance-in-india

What if you do not declare your tax investments and file returns on time. (n.d.). Motilal Oswal. Retrieved December 9, 2022, from https://www.motilaloswal.com/blog-details/What-if-you-do-not-declare-your-tax-investments-and-file-returns-on-time../1525

What is Payroll? - Basics, Process, Compliances and Methods. (2022, March 29). ClearTax. Retrieved December 9, 2022, from https://cleartax.in/s/payroll