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TAX PLANNING FOR SALARIED PERSON- A STUDY

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ABSTRACT: -

Tax planning may be defined as an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions of any Act, full advantage is taken of all exemptions, deductions, rebates and reliefs permitted under the Act, so that the burden of the



taxation on an assessee, as far as possible is the least. According to Prof. Coldar – "Tax planning is a moral way of saving, in it tax payer reduces tax liability, honesty and it is a long term process. To Minimize tax liability is the main object of tax planning. It not only reduces tax liability but also provides many other advantages. As for reducing

tax burden a Salaried Person does not spend his whole income, rather he deposits his savings in saving schemes. In this way he makes his income in form of reserve or fund for future purposes.

KEYWORDS: Tax planning, rebate relief, deduction, tax burden, tax liability, assessee,

INTRODUCTION :

Any remuneration paid by an employer to his employee in consideration of his services is called salary. It include monetary value of those benefits and facilities by the employer which are taxable. Under the Income tax Act Salary means cash amount received by an employee from his employer, Profit in lieu of salary and value of perquisites measured in term of money.

Tax planning is wide and vital term. Tax planning is a process to minimize tax liability through getting advantages of reliefs, deductions, incentives given in the tax laws. It is a legal intellectual and fore sight function. In other words Tax planning is a Scientific way to pay minimum tax by taking advantages of exemptions and incentives given under the government policy.

2. OBJECTIVES OF TAX PLANNING :-

Tax liability is reduces by tax planning salaried person have to Pay Income tax at higher rates. In such condition by adopting tax planning they can pay lesser tax. Objects of tax planning as following.

i.To Reduces Tax Liability – The reduction in tax liability is the biggest advantage of tax planning . By using different exemption, incentives and reliefs given in tax laws a salaried person can minimize his taxable income

ii.Elimination of Tax Liability- A salaried person can not only minimize but also eliminate tax liability completely by adopting well planned & legitimate tax planning. For example an employee earn Rs. 4,50,000 salary in the current financial year 2017-18 if he deposits Rs. 1.50 Lac in National saving certificate , provident fund, LIC etc.

and deposit Rs. 50,000 to National Pension system. Under Sec. 80C & 80CCD(1b). then he will get deduction on such investment and his tax liability will be Nil.

iii. Legal & moral Process- Tax planning is a moral and honest activity. and there is no violation of laws that is the reason that an intelligent salaried person follows tax planning to reduce the tax liability.

iv. Financial Security of Future – Tax planning is a fruitful activity. It secures the future of one who adopts it. for reducing tax liability invests his taxable income in LIC, Public Provident fund Mutual fund, exc. So it benefits in both present and future.

v. Beneficial for Government also – It is beneficial for government. If tax payers follow tax planning and invest their savings in government deposit plans, the government acquires fund for its various development plans.

vi. Healthy growth of Economy – The growth of a Nations economy depends upon the growth of its citizens. Savings through tax planning devices foster the growth of economy. The tax planning plays an important role in the development of backward districts and backward states.

Thus , the tax planning is not only the need of the tax payers but also of the society as a whole and the Government.

3. IMPORTANCE OF TAX PLANNING

Tax planning is not only important for tax-payer but it is beneficial for the development of the country, society, trade, industry, etc.

(1) For Tax-payer:- By tax planning the tax-payer reduces his tax liability. For this purpose he avails the benefit of deductions, reliefs and rebates permissible in the Act. He invests his savings in such schemes from where he gets the maximum tax advantage.

(2) For the country:- It means the Government. The Government starts development schemes for progress of the nation. The capital for the schemes is arranged by encouraging people to save and invest. This reduces the pressure on the government revenue.

(3) For society:- By tax planning the society is also benefitted in many ways. The amount saved is invested in industry. New industrial units provide opportunity for employment. This increases demand of goods and services resulting better standard of living.

(4) For industry and trade:- By tax incentive the Government encourages people for balanced development of different parts of the country. If an industrial undertaking is established in a Backward State or a Backward District, a certain percentage of profit for specified period is deducted from its income.

4. MAIN TOOLS OF TAX PLANNING FOR SALARIED PERSON

i. Getting free accommodation facility – A salaried person should get free accommodation facility from his employer, because valuation of this perquisite is being done at nominal percentage of salary, while actual rent of the accommodation is higher.

ii. House Rant Allowance –HRA Calculator can be used in order to calculate the tax benefit . H.R.A. is quite an Incredible way to save your salary structure comprise of H.R.A. Rent can also be given to parents but make sure that you fulfill all the formalities of the lease agreement.

iii. Conveyance facility – Conveyance facility provided by the employer is exempt or partly exempt. So, an employee may get conveyance facility in his salary package because.

- a. Free conveyance for employee's residence to place of work-fully exempted.
- b. Transport allowance exempted upto Rs. 1,600 per month.
- c. Motor car for official and personal purposes is not taxable for employee.
- d. Conveyance facility to perform the duty is not taxable.

iv. Children educational facility- Education facilities provided by the employer in the following manner-

- a. Education allowance exempt up to Rs. 100 per month per child (maximum two)
- b. Hostel allowance employer's upto 300 per month per child (maximum 2)
- c. Free education in employer's schools is fully exempt in case of non-specified employee , while in case of specified it is exempt up to Rs. 1000 per month per child.

- d. To get scholarship from the employer for intelligent child, as merit basis because it is not taxable.
- v. Medical facilities** – An employee should obtain free medical facilities from his employer because it is an exempted perquisites, while medical allowance is fully taxable, Reimbursement of medical bills is exempt upto Rs 15,000 per year.
- vi. Buy medical insurance for your family-** you can purchase a medical insurance to secure yourself, your spouse and your children and claim a deduction of maximum Rs. 25, 000 This is allowed under section 80D , you can also secure your parents and claim additional Rs. 30,000 for their insurance.
- vii. Free lunch and refreshment** – During the working hours an employee can enjoy free lunch and refreshment facility from taxation point of view-
- Free refreshment , tea etc. full exempt
 - Free lunch upto Rs.50 each meal .
- viii. Free light, gas and water facilities-** In case of non-specified employee (taxable salary upto Rs. 50000) free light , gas and water facility provided by the employer or bills paid by employer is not taxable. However these facilities are fully taxable in case of specified employee.
- ix. Free servants facility** – Gardener, watchman, sweeper, domestic servant provided by the employer to an employee are not taxable in case of a non-specified.
- x. Taken a Home loan :-** Claim tax benefit under Sec. 80C for the repayment of housing loan in a year and Under Sec. 24 of Income from house property towards interest payment on home loan upto Rs. 1,50,000 a year for self occupied house.
- xi. Taken a Education loan for children :-**Claim tax benefit under section 80C for the repayment of Housing loan in a year and Under Sec. 24 of income from house property towards Interest Payment an Home Loan upto Rs. 1,50,000 a years for Self occupied house.
- xii. National Pension System(N.P.S) U/s 80CCD (1b):-** A Salaried person invest maximum Rs. 50,000 in National pension system. The New section 80CCD (1b) maximize the benefits under both section. 80C and 80CCD (1b). Claim the full Rs. 50,000 under New section and 1,50,000 under Section 80C. So total deduction of Rs. 2,00,000. If Salaried person in the 30% tax bracket this is clear benefit Rs. 15,000 on Investment of Rs. 50,000.
- xiii. Deposit in PPF account:-** Public Provident fund account is scheme launched by the government is used for long term. A PPF account can be opened by anyone in a post office, SBI or other banks.

5. CONCLUSION :-

Tax planning is beneficial for not only tax payers but for government and Society also. It not only reduces tax liability but also provides many other advantages. Tax planning is a moral and honest activity and there is no violation of laws in it. Tax evasion is an incriminatory action which results as a penalty and prosecution for salaried person. That is the reason that an intelligent salaried person follows 'tax planning to reduce the liability. That does not violate the law and fulfils the object. Tax planning is a fruitful activity. It secures the future of salaried person who adopts it.

- Tax planning is a legal, moral and honest effort for the reduction of tax liability of salaried person
- Tax Planning increases possibilities and opportunities of investments it is seed of capital formation.
- Tax planning is about to take advantages of exemptions, incentives and relief provided by law.
- Tax planning is important for those salaried holder who want to reduce their tax burden.
- Tax planning is support to salary holder for saving and future benefits.

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