# TAX Saving Guide

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**Objective**

1. This document will help salaried person to reduce tax liability.
2. Give insight of various sections under which a person can be benefited.
3. To illustrate importance of various government schemes such as EPF, EPS, Chapter V1A Concessions, concessions under section 10, etc.
4. Employee's right to other statutory benefits under Government laws such as bonus, gratuity etc.

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**Tax Saving Strategies for Salaried Individuals**

At the end of every financial year, many tax payers frantically make investments to minimize taxes, without adequate knowledge of the various available options. The Income Tax Act offers many more incentives and allowances, apart from the popular 80C, which could reduce tax liability substantially for the salaried individuals. Here are some smart tips to help you save more and reduce taxes.

**1. Section 80C mother of all sections**

Section 80C offers a maximum deduction of up to Rs. 1, 00,000. Utilize this section to the fullest by investing in any of the available investment options. A few of the options are as follows.

- Public Provident Fund
- Life Insurance Premium
- National Savings Certificate
- Equity Linked Savings Scheme
- 5 year fixed deposits with banks and post office.
- Tuition fees paid for children's education, up to a maximum of 2 children.
- Principal amount of Loan on Housing.

**2. Options beyond 80C**

If you have exhausted your limit of one lakh under section 80C, here are a few more options.

- Section 80D – Deduction of Rs. 15,000 for medical insurance of self, spouse and dependent children and Rs. 20,000 for medical insurance of parents above 65 years.
- Section 80DD - Medical For Dependant handicapped max limit of Rs 75000 p.a. Expenditure must be actually incurred by resident on himself or dependent relative for medical treatment of specified disease or ailment specified in Rule 11DD. A certificate in form 10 I is to be furnished by the assesse from a specialist working in a Government hospital.
- Section 80DDB -Medical Treatment on Self or dependant max limit of Rs 40000 p.a.

- Section 80E - For Higher Education (Only Interest Paid Exempted) by self or spouse or children of the assessee.
- Section 80CCF - Deduction of Rs 20,000, in addition to the Rs 1 lakh under 80C, for investments in notified infrastructure bonds.
- Section 80G - Donations to specified funds or charitable institutions.
- Section 80U - On Physical Disability for Self max limit Rs 75000 p.a.
- Section 24 -Interest On Home Loan max limit Rs 150000. The principal component of your loan, is included under Section 80c, offering a deduction up to Rs. 1, 00,000. The interest portion offers a deduction up to Rs. 1, 50,000 separately under Section 24.

**3. House Rent Allowance**

Are you paying rent, yet not receiving any HRA from your company? Insist your employer on HRA. If HRA forms part of your salary, then the minimum of the following three is available as exemption.

The least of the following could be claimed under Section 80GG of chapter VIA.

- The actual HRA received from your employer
- The actual rent paid by you for the house, minus 10% of your salary (this includes basic + dearness allowance, if any)
- 50% of your basic salary (for a metro) or 40% of your basic salary (for non-metro).

✔ So Insist on HRA in your salary structure.

**4. Leave Travel Allowance**

Use your Leave Travel Allowance for your holidays, which is available twice in a block of four years. In case you have been unable to claim the benefit in a particular 4 year block, you could now carry forward one journey to the succeeding block and claim it in the first calendar year of that block. Thus, you may be eligible for three exemptions in that block.

You can receive LTA as either reimbursement or allowance.

Reimbursement - In case of LTA as reimbursement, it is not taxable. Let's say your company offers an LTA of Rs 50,000. For proof of travel, you produce an air ticket of Rs 10,000. In such a case, you can claim only Rs 10,000 as LTA and it will be exempt from tax.
Allowance - If you do not submit any proof of travel, you will get your LTA but will have to pay tax on it. If you produce proof of travel, it will not be taxable to the extent your proof of travel is covered. Let's say you are entitled to Rs 50,000 as LTA as part of your salary. Since you produced proof of travel as Rs 10,000, you will not be taxed on this amount. However you will be taxed on the net Rs 40,000 as per your income tax slab rate.
LTA is not a fringe benefit as the latter are benefits that are usually enjoyed collectively by the employees and cannot be attributed to individual employees.

✔ So Insist on LTA in your salary structure.

**5. Section 10**

Following incomes are exempted from salary and are not considered while taxation.

| Section | Nature of Income | Exemption limit, if any |
| --- | --- | --- |
| 10(1) | Agricultural income | |
| 10(2) | Share from income of HUF | |
| 10(10D) | Receipts from life InsurancePolicy | |
| 10(16) | Scholarships to meet cost of education | |
| 10(17A) | Awards and rewards | |
| | (i) from awards by Central/State Government | |
| | (ii) from approved awards by others | |
| | (iii) Approved rewards from Central & State Governments | |
| 10(32) | Minor's income clubbed with individual | Upto Rs. 1,500/- |
| 10(15)(i)(iib)(iic) | Interest, premium on redemption or other payments from notified securities, bonds, Capital investment bonds, Relief bonds etc. | To the extent mentioned in notification |
| 10(15)(iv)(h) | Income from interest payable by a Public Sector Company on notified bonds or debentures | |
| 10(15)(iv)(i) | Interest payable by Government on deposits made by employees of Central or State Government or Public Sector Company ofmoney due on retirement under a notified scheme | |
| 10(15)(vi) | Interest on notified Gold Deposit bonds | |
| 10(15)(vii) | Interest on notified bonds of local authorities | |
| 10(5) | Leave Travel assistance/ concession | Not to exceed the amount payable by Central Government to its employees |
| 10(7) | Allowances and perquisites by the government to citizens of India for services abroad | |
| 10(10) | Death-cum-retirement Gratuity- | |
| | (i) from Government | |
| | (ii) Under payment of Gratuity Act 1972 | Amount as per Sub-sections (2), (3) and (4) of the Act. |
| | (iii) Any other | Upto one-half months salary for each year of completed service. |
| 10(10A) | Commutation of Pension- | |

| | | |
|---|---|---|
| | (i) from government, statutory Corporation etc. | |
| | (ii) from other employers | Subject to limit |
| | (iii) from fund set up by LIC u/s 10(23AAB) | |
| 10(10AA) | Encashment of unutilised earned leave | |
| | (i) from Central or State government | |
| | (ii) from other employers | Upto an amount equal to 10 months salary or Rs. 1,35,360/- which ever is less |
| 10(10B) | Retrenchment compensation | Amount u/s. 25F(b) of Industrial Dispute Act 1947 or the amount notified by the government, whichever is less. |
| 10(10C) | Amount received on voluntary retirement or termination of service or voluntary separation under the schemes prepared as per Rule 2BA from public sector companies, statutory authorities, local authorities, Indian Institute of Technology, specified institutes of management or under any scheme of a company or Co-operative Society | Amount as per the Scheme subject to maximum of Rs. 5 lakh |
| 10(11) | Payment under Provident Fund Act 1925 or other notified funds of Central Government | |
| 10(12) | Payment under recognised provident funds | To the extent provided in rule 8 of Part A of Fourth Schedule |
| 10(13) | Payment from approved Superannuation Fund | |
| 10(14) | Prescribed [See Rule 2BB (1)] special allowances or benefits specifically granted to meet expenses wholly necessarily and exclusively incurred in the performance of duties | Rs 800 per month. |
| 10(18) | Pension including family pension of recipients of notified gallantry awards | |

## 6. Salary Restructuring

Restructuring your salary may not always be possible. But here are some tips to reduce your tax liability. Below mentioned tax saving options are illustrated in section 17 under tax free perquisites.

- Opt for food coupons instead of lunch allowances, as they are exempt from tax. Please refer section 17(2) of Indian income tax.
- Include medical allowance, transport allowance, education allowance, uniform expenses (if any), and telephone expenses as part of salary. Produce bills of actual expenses incurred for these allowances to reduce tax. Transport allowance upto Rs 800 p.m. and medical allowance upto Rs 1250 p.m. is exempted from tax under section 10. Section 10 discussed in detail below.
- Opt for the company car instead of using your own car, to reduce high perquisite taxation.

Following perquisites are tax free:

- Medical facility
- Medical reimbursement
- Refreshments
- Subsidized Lunch/ Dinner provided by employer
- Facilities For Recreation
- Telephone Bills
- Products at concession rate to employee sold by his/ her employer
- Insurance premium paid by employer
- Loans to employees by given by employer
- Transportation
- Training
- House without rent
- Residence Facility to member of Parliament, judges of High Court/ Supreme Court
- Conveyance to member of Parliament, judges of High Court/ Supreme Court
- Contribution of employers to employee's pension, annuity schemes and group insurance

## One should remember following tips.

- Give your employer details of loans and tax saving investments before hand, to prevent any excess deduction.
- Check the Form 16 received at the end of each year from your employer thoroughly.
- It is important to start your tax planning well before 31st March, and to file your returns before the 31st of July each year.

### *Employees' Pension Scheme 1995 (EPS-95)*

An amount equal to 8.33% of Wages is pooled into the EPS from the Employer's contribution subject to a maximum limit of Rs 541 (8.33% of Rs 6500).

**Four situations When Pension can be applied for :**

1. On superannuation: Age 58 years or More and atleast ten years of service.
2. Before superannuation: Age between 50 and 58 years and atleast ten years of service
3. Death of the member
4. Permanent disability

**Calculation of Pension Salary**

The formula of calculation of pension is

$$\frac{\text{Average Salary} \times \text{Years of Service (Max 35)}}{70}$$

Maximum service for the calculation of service is 35 yrs. i.e. max pension amount will be

$$\frac{\text{Average Salary}}{2}$$

The Average Salary here refers is named as *pensionable salary* in the scheme. It is arrived by considering the average contributing salary preceding 12 months from the date of exit. Maximum limit is Rs 6500 per month. Even though you may be drawing Rs.20,000/- as salary per month, your company need to contribute only Rs. 541/- towards pension fund.

Say Mr Sharma has a contribution to PF of Rs 6500, the employer contribution to EPS will be Rs 541 per month. He continued to be under the scheme for say 35 years before retiring at the age of 58.

The total EPS contribution by his employer(s) in his EPS account will be Rs 541*12*35=Rs 2,27,220. and his pensionable salary will be Rs 6500/2 = Rs 3,250.

**Two Pension Capitalizing Options are available:**

1. **Commutation:**

   You can opt for commutation of pension and percentage of commutation. Maximum% of commutation is 33.33%. In this case, the pension will be reduced by 33.33% and you get 100 times of commuted value as lump sum. eg. The commutation will not cease and the original pension will not be restored.
   If commuted, the pension after commutation will be taken as ORIGINAL Pension for the calculation of lump sum amounts related to Capital Return.

   If Mr Sharma opts for commutation then he will receive 33.33 % of 3250 *100 = Rs 1,08,322 as lump sum. The remaining 66.67% of Rs 3250 = Rs 2,167 will be pensionable salary.

2. **Capital Return**

   Three types of Capital Return Options are available: (The Capital Return Amounts are ADDITIONAL to all other usual benefits)

**Option 1**

| | | |
|---|---|---|
| If opted, 10% of pension will be reduced. If original Pension is Rs. 1000/-, you get monthly pension of Rs. 900/-. | On Member Pensioner's Death, Rs. 1000 x 100 (hundred times of pension) as lump sum will be paid to nominee (Nominee can be anyone including spouse). | Widow pension & 2 Children Pension will be paid as usual |

**Option 2**

| | | |
|---|---|---|
| If opted, 10% of pension will be reduced. If original Pension is Rs. 1000/-, you get monthly pension of Rs. 900/-. | On Member Pensioner's Death, 80% of pension will be given to Widow additional to her entitled widow pension. and on the death or remarriage of widow, Rs. 1000 x 90 (ninety times of pension) to nominee as lump sum (nominee can not be spouse) | Widow pension & 2 Children Pension will be paid as usual. |

**Option 3**

| | | |
|---|---|---|
| If opted, 12.5% of pension will be reduced. If original Pension is Rs. 1000/-, you get monthly pension of Rs. 875/-. This amount will be paid for a fixed period of 20 years only. | In case the member dies before 20 years, the pension will be paid to his nominee for the balance period. On attaining this 20 years, Rs. 1000 x 100 (hundred times of pension) will be given to the member if he is alive, otherwise to his nominee. | Widow pension & 2 Children Pension will be paid as usual. |

## *Gratuity*

Gratuity payment is a lump sum that your company will pay you as an acknowledgement of your loyalty to the company. Naturally, gratuity becomes payable only after you have spent a certain number of years with the company. You will receive this benefit either at the time of retirement or when you resign from employment.

There are two conditions that must be satisfied in order to be eligible to get the gratuity benefit:

**Conditions**

**(i)** Your organization has a minimum of 10 people on payroll, i.e., at least 10 employees receiving salaries from the organization. Note that people on contract are not considered.

**(ii)** You have completed at least 5 years with the organization. If an employee dies during the tenure of his employment or if employment terminated due to disablement then the 5-year rule is relaxed. So, even if such employee's period of service is as little as 1 year, he/she will be eligible to receiving gratuity if the first condition is met.

**Calculation**

According to the law, the amount payable as gratuity is equivalent of half month's salary for every full year of your employment or Rs. 10 L, whichever is lower. This is the minimum amount payable under the law. Some companies may pay a higher amount. This upper limit depends upon the company's policy.

For example, if you have put in 10 years of service before you resign from the company, you are entitled to the lower amount of:

An amount equal to 5 months' salary or Rs. 10L or more (limit set by company)

**Calculation of the amount of gratuity payable**

Your last paycheck before you retire or resign is the amount you should consider in your gratuity computation. Also, only your 'Basic' and 'Dearness Allowance (DA)' should be taken into consideration.

For example, assuming Mr Sharma retires this year after completing 30 years with his company and his last pay check looks like the following, let us calculate the amount of gratuity that Anil's company should pay him:

**Basic:** Rs. 60,000 **DA:** Rs10,000

**Gratuity payable:** (Last month's salary (Basic + DA ) / 26) * 15 * Completed years of employment

Last month's salary to compute gratuity = Basic + DA = Rs. 70,000.

Gratuity payable = (70,000 / 26) * 15 * 30 = Rs. 12,11,538

Since there is a limit of Rs. 10L, Anil is entitled to receive Rs. 10L towards gratuity. If his company has a policy to pay gratuity up to an amount of Rs. 15L, then Anil's gratuity benefit will be Rs. 12.11L.

Gratuity is given on termination of service by employer to employee.

## ***Bonus***

As per the latest notification on payment of Bonus act 1965, ceiling limit for bonus is been changed 2500 to 3500. Further minimum limit for bonus is 8.33% of bonus applicable wages you can pay maximum amount upto 20% of the same as Bonus, if any one want to pay more then this limit then it should be covered under the exgratia payments. Calculation of Bonus is for all employees who were drawing salary less then Rs 10000/-
Min 8.33% Max 20% of Basic + DA maximum limit of bonus is only Rs 3500/-

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