



How to Save Income Tax?

FOR THE NEWBIES IN THE CORPORATE/SALARIED PROFESSION



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This is a free compilation of various articles, which are deemed to be authentic. Nevertheless, discrepancies and incorrect information herein, if any, are inadvertent. Kindly check with official sources before making any financial decisions.

I thought of making a note like this for people I asked my doubts to were not able to solve them. Then I came to know that some of us are unaware of these basic facts about income tax. That prompted me to learn things from the web. I am writing this because I believe it might help someone else from amongst us.

I have tried my best to keep things simple and lucid. Should you have any question, please feel free to write to me. Heavy thanks to **Malayala Manorama Sampadhyam** magazine, and of course, **Google!** This article is written on academic perspective and not in commercial tone.

I have skipped some details, which are irrelevant for non-senior citizens.

Please write to me, in case you stumble up on some error(s) or you've something to discuss: aruntaoo7@gmail.com

Happy Tax Saving!

Table of Contents

List of Tables.....	2
Introduction	3
What is Income Tax?	3
Is PAN card a Must?.....	3
Calculate my Income Tax	3
What's Income Tax Return.....	4
How Can I Save the Income Tax I Pay?.....	5
Tax saving – how to?.....	5
<i>Medical Expenses</i>	6
<i>Tuition Fees of Children</i>	6
<i>Premiums</i>	6
<i>Mediclaime Premium</i>	6
<i>Bank Fixed Deposit</i>	6
<i>Post Office Time Deposit</i>	7
<i>Repayment of House Loan</i>	7
<i>Repayment of Education Loan</i>	7
<i>Public Provident Fund</i>	7
<i>Employee Provident Fund</i>	7
<i>National Savings Certificates</i>	8
<i>Rajiv Gandhi Equity Savings Scheme (RGESS)</i>	8
<i>Mutual Funds Based on Equities</i>	8
So, Can I Combine These and Save All My Taxes? [IMPORTANT].....	9
Dude, What's this 80 thing?	9
No, I am NOT Satisfied at all!.....	10

List of Tables

Table 1 : Income Tax Slabs in India (FY 2013-14).....	3
Table 2 : IT Exemption Rules (80 Rules).....	9

Introduction

This section gives the very radical, fundamental idea on what income tax is. This is meant for those who are completely naïve about the topic. If you are not one, just skip to the next section.

WHAT IS INCOME TAX?

Income tax is a direct tax paid to the Department of Income Tax, Government of India, by individuals, firms and organizations. In this document we are concentrating on the income tax payable by the professionals/salaried personnel.

Not all those who have income are bound to pay income tax. There are some pre-defined slabs to determine who should pay how much tax as income tax. This stipulation may or may not be updated every year in the budget. Every April-March period is considered as the Financial Year (or *Fiscal Year*) in India. Income Tax is calculated for this period.

As per the latest budget (for FY 2013-14), the following table shows the slabs of income tax. This data is for us, who are not senior citizens. For senior citizens, there are certain other slabs, which is not our cup of tea.

Table 1 Income Tax Slabs in India (FY 2013-14)

Income (in lakhs per annum)	Income Tax Payable
Up to 2	No Tax
2 to 5	10% of the amount in this slab
5 to 10	20% of the amount in this slab
Above 10	30% of the amount in this slab

IS PAN CARD A MUST?

Yes, PAN card is a must, or else you may be levied a higher percentage (20%) of amount as tax, as per IT rules.

CALCULATE MY INCOME TAX

Suppose my salary is INR 16 Lakhs per annum (just suppose!). But then, if this is the CTC (Cost to Company), I am not bound to pay income tax for this entire amount. There are certain legal deductions on this amount which are:

- i. Provident Fund

- ii. Gratuity
- iii. Your meal coupons

Further, House Rent Allowance (HRA) is taxable, but this can be saved if you declare your monthly house rent. Suppose your HRA is Rs. 20000/- per month, and the rent you declare is Rs. 15000/- per month, then (Rs. 5000/- * 12 Months =) Rs. 60000 will be treated as taxable income. If you do not declare your rent, the entire (Rs. 20000/- * 12 Months =) Rs. 240000/- will be taxable. **Hence, declare your house rents in your HR/Tax website (most of the companies have their affiliates who deal with taxes) today itself, if not done already!**

Let's calculate my tax. Basically, out of 16 lakhs, let 11 lakhs is your taxable income (after reducing PF, Gratuity, meal coupons, rentals, medicals, LTA etc.). Then:

Up to 2 Lakhs: No Tax

2-5 Lakhs: 10% = 30,000/- (ten percentage of 3 lakhs)

5-10 Lakhs: 20% = 1,00,000/-

10-11 lakhs: 30% = 30,000/-

Hence the amount I have to pay as tax is 1,60,000/- per year. This tax is calculated for a year, and hence (160000 / 12 months =) 13333.33/- per month is reduced as income tax from my monthly salary. The amount I get in your banks is this amount (the tax deducted amount). The amount deducted per month from our total salary is called **Tax Deducted at Source (TDS)**. *Check whether your company follows this system itself.*



Income Tax Department

Department of Revenue, Ministry of Finance, Government of India

WHAT'S INCOME TAX RETURN

All those who have gross salary of above 2 lakhs per annum must submit income tax return. The normal deadline of filing income tax returns is the last week of July or before. *Income Tax Return* can be explained as given below:

Every tax payer is required to declare to the Income tax Department in the Government of India, at the end of a financial year, in a form prescribed by the Government, summary of incomes which he earned during the year ended on 31st March.

While it is true that one might have paid all due tax on his salary earnings, it is possible and highly probable that he has other incomes like interest on savings bank, dividends from companies, cash incomes from part time work or other varied sources like rent, fees, royalties on which no tax has been deducted or, if deducted, only on a portion/part.

The Government collects this statement in the form of a Tax Return in one of the eight forms prescribed.

This statement duly signed and affirmed by the individual as it being a complete and true statement of his income during the previous financial year is called RETURN OF INCOME. (Income Tax Return)

How Can I Save the Income Tax I Pay?

To know how to 'save' the amount you pay towards income tax, you should know the following facts. Please read carefully because it might help you save better (I've started trying these😊)

Note: As I told you before, you can declare your investments, House Rent, other incomes, etc. in your HR/Tax website. These declarations will increase/decrease the amount of tax you pay. This way, you can increase/decrease the TDS. Suppose, you declared that you 'would' invest Rs. 10000/- towards an LIC policy but you didn't until the following March end. What will happen? Nothing, except you will have to pay the tax you 'saved' by this declaration in the month of March. That's all. So no worries!

TAX SAVING – HOW TO?

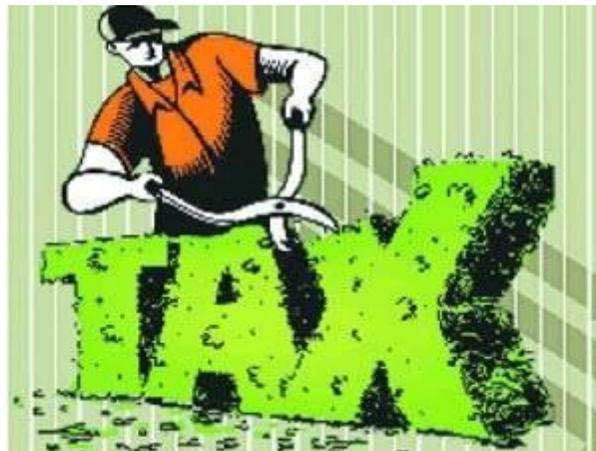
The following are various ways to save tax. Nevertheless, these are optional ones.

Medical Expenses

You can deduce the amount towards medical expenses of yourself or of the members of your family. The total amount that can be saved is up to Rs. 15,000/- (I mean, you can save not the tax amount Rs. 15000, but the tax that has to be paid for this 15000/- can be saved). Please do not confuse this with the medical insurance. That's a different thing. To get these expense exempted from income tax, we have to submit the medical bills.

Tuition Fees of Children

The tuition fee paid for your children, for a maximum of two children, and Rs. 12000/- per child can be exempted from income tax. Hence, a maximum of Rs. 24000/- per year.



Premiums

Premium payment towards Insurance, Pension Plans, etc. are exempted from income tax. There is a cap of Rs. 1 Lakh in total towards this section.

Mediclaim Premium

This section is for the premium towards mediclaim payments (for self, spouse, children). A cap of Rs. 15000/- in this section is applicable. If policy is taken for parents, there will be additional exemption of Rs. 15000/-. If the age of parent is above 60, this cap will be lifted to Rs. 20000/-.

Bank Fixed Deposit

Actually, this title is interesting. But I should say, it must not be that interesting after you read this paragraph. For a maximum of Rs. 1,00,000/- per year deposited

in the tax saver fixed deposit plans of scheduled banks is exempted from income tax. But then, the lock-in period of this deposit is 5 years! There's the problem. Further, you can't withdraw the deposit within five years, and no loans are allowed on this deposit. Again, the interest you get from this deposit is subject to income tax.

Post Office Time Deposit

Same as 'Bank Fixed Deposit'.

Repayment of House Loan

It gives exemption for up to Rs. 1,00,000/- towards principal amount and Rs. 1,50,000/- towards the interest per year. Hence a maximum exemption for up to Rs. 2,50,000/- per year.

Repayment of Education Loan

Yes! It gives exemption from paying income tax for the amount paid towards INTEREST only, for the education loans taken for self, spouse or children. There is no cap in this section. Note that exemption is for the interest payment only; not for the repayment of the principal amount. This exemption applies either for eight years or until the whole interest is paid (whichever is earlier).

Public Provident Fund

This is a public form of PF. We can deposit a minimum of Rs. 500/- and up to Rs. 1,00,000/- per year. This amount is tax-free. The attraction is that there's no tax for the interest you get from this fund.

Employee Provident Fund

As per the existing laws, 12% of the basic of our salary is contributed by us as well as by our employer towards PF. The amount paid towards PF is exempted from income tax. We can increase our payment (though the company's share will be intact) too.



National Savings Certificates

NSCs that are available in the India Post Offices give us a chance to save income tax for amounts up to Rs. 1,00,000/- The interest from this deposit is taxable.

Rajiv Gandhi Equity Savings Scheme (RGESS)

If your annual salary (CTC) is less than or equal to 10 lakhs, and you are not yet a shareholder anywhere, you can deposit in this scheme, for a sum up to Rs. 50,000/- . The half of the deposit amount, i.e. up to Rs. 25,000/- is tax-free. In addition, for a person to be eligible, he should not have had a Demat account account prior to 23 November 2012, or should only have a Demat account that has never been used to trade. There is a lock in period of three years.

Mutual Funds Based on Equities

The tax saver funds of mutual funds gives exemption from income tax for a sum up to Rs. 1,00,000/-. Three years is the lock-in period. The dividend you get from this deposit is tax-free. Whatever profit you get when the fund becomes mature is also tax-free.

So, Can I Combine These and Save All My Taxes? [IMPORTANT]

No. There are certain restrictions on this. You cannot save, at a time, Rs. 1 Lakh towards premium payment, Rs. 1 Lakh towards Home Loan Principal repayment and so on and on... For simplicity, I shall put it this way:

- As you know, you are waived from paying tax for the first two lakhs rupees (as on FY 2013-14).
- Apart from above, you can save tax for up to Rs. 2.5 Lakhs per year as follows:
 - Up to Rs. 1.5 Lakhs per year toward repayment of INTEREST of Home Loan
 - Up to Rs. 1 Lakh toward all other savings put together (home loan principal amount repayment, insurance premiums, equities, mutual funds, etc.). **Note that this 1 lakh rupees is inclusive of the employee's contribution toward PF. That means, if you pay 60,000/- toward PF a year, then in this section, you can save tax for amount up to 40,000/- only (i.e. 1 lakh - 60,000 = 40,000/-).**
 - Up to Rs. 25,000/- toward RGS scheme (which is not covered under the above 1 lakh) is possible under 80 CCG of IT Act. Note that for RGS to work for tax exemption, you should be a newbie in share market, i.e. you should not have any existing equities/shares anywhere else, and your annual CTC must be less than or equal to 10 Lakhs.

Dude, What's this 80 thing?

You might have heard terms like 80C, 80D, etc. Let's see what these are. These are some 'sections' of law which 'give' income tax exemptions. Let me comprehend these in a tabular format for better understanding.

Table 2 IT Exemption Rules (80 Rules)

80C	Deposits (as we discussed above), repayment of interest and principal amount of house loans, etc.
80CCC/CCD	Deposits in Pension Funds, annuity plans of LIC, etc.
80CCF	Subscription to any infrastructure bonds
80CCG	Deposits in Rajiv Gandhi Equity Scheme
80D	Premium payments in mediclaim policies
80DD	Expense towards Medical Treatment

8oE	Repayment of interest of education loans.
8oG	Donations made to certain funds (PM's fund, CM's fund, etc.)/charitable organizations.
8oGGC	Donation made by a person to any political party or electoral trust
8oU	For a person with disability, a flat amount of Rs. 50,000/- is exempted from income tax. If the disability is severe, this cap will be Rs. 1,00,000/-

Note: There can be some more exemptions for you for some more expenses, depending on how your company's policy is built up on. Please consult your HR.

No, I am NOT Satisfied at all!

Is it? May I suggest that you visit and read the following:
<http://www.incometaxindia.gov.in/> | <https://incometaxindiaefiling.gov.in/>
<http://www.incometaxsaving.co.in/>

Thanks and Love,

~TAA