# IMPORTANCE OF DEDUCTIONS FOR SALARIED INDIVIDUALS: A STUDY

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## Abstract

The main purpose of these deductions is to encourage savings, investment and to attract assesses in respect of some specified schemes which directly or indirectly helps in economic development of economy. In this paper main focus is on importance of these deductions mainly for those persons who are receiving income from salary head. How these people can avail benefits of these deductions and minimize their tax liability.

**Keywords: deductions, investment, saving, salary and tax liability.**

## INTRODUCTION

In India Income tax is governed by the Income tax Act 1961. It was first come into force on 1-4-1962. Income tax Act is used for determination of taxable income, tax liability and also provides procedure for assessment, appeal, penalties and prosecutions. Every year Finance Act brings amendment to this Act. Income Tax is charge on total income earned by every person during the relevant previous year if income exceeds exemption limit. Income includes income from following heads:

- Salary
- House Property
- PGBP
- Capital Gain
- Other Sources

On total of Income from above five heads some exemptions are available to assessee which reduces tax liability of assesses. These exemptions are known as "Deductions". The main purpose of these deductions is to encourage savings, investment and to attract assesses in respect of some specified schemes which directly or indirectly helps in economic development of economy. Chapter VI – A of Income Tax Act, 1961 provide some deduction provided by Income tax from Section 80C to 80U. These deductions are allowed from the gross total income. These deductions are very important to determine net tax liability. These deductions are not allowable against LTCG, STCG (111A), any income by way of winning from lotteries, crossword puzzles, card games or other games.

## Salary [Sec 17(1)]

According to Section 17(1) salary includes the following amounts received by an employee from his employer, during the previous year

- Wages;
- any annuity or pension; (Family pension received by heirs of an employee is taxable under income from other sources);

- any gratuity;
- any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages;
- any advance of salary;
- any payment received by an employee in respect of any period of leave not availed of by him; (Leave encashment or salary in lieu of leave);
- the annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax under Rule 6 of part A of the Fourth Schedule; and
- the aggregate of all sums that are comprised in the transferred balance as referred to in sub-rule (2) of Rule 1] of Part A of the Fourth Schedule, of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax, under sub-rule *(4) there, i.e., taxable portion of transferred balance from unrecognised provident fund to recognised provident fund.*
- The contribution made by the Central Government or any other employer in the previous year, to the account of an employee under a pension scheme referred to in Section 8OCCD.

The above definition of word *'salary' U*/s 17(1) includes the above mentioned items. These can be explained in following manner

- **Wages**—any amount received by a person for work done or job rendered is called wages. It may be received under the name of 'Pay', 'Basic Pay', and 'Salary', 'Basic salary' or 'Remuneration'. It may be for actual work or leave salary or actually received or due during the relevant previous year. *Salary in lieu of Notice.* It is fully taxable u/s 15 if received during the relevant previous year.
- **Any Annuity or Pension**—any amount received by employee from past employer after attaining the age of retirement or superannuation is fully taxable. It may be received direct as pension or out of a superannuation fund created by employer; in both cases it is taxable.
- **Any Gratuity**—any sum received by employee from his past employer as a token of gratitude for services rendered in past is called gratuity. This amount is exempted upto certain limits given u/s 10(10) and it is dealt with in this very chapter at a later stage.
- **Any Fee**—any amount received from employer under the name of fee is also fully taxable.
- **Any Commission—any** commission given by employer to employee is fully taxable. Any commission received by a director for standing guarantee for repayment of loan, and if he is not employee of the company, shall be taxable under "Income from other sources**".** In case commission is given to an employee and it is paid as a fixed percentage of *turnovers achieved by such employee,* such commission shall also be treated as part of the salary for all practical purposes. *[Gestener Duplicators (P) Ltd. vs. C.I. T. (1979) SC).*
- **Any Bonus**—Bonus is fully taxable under the head 'Salaries' on receipt basis. In case arrears of bonus are received in a previous year, these are fully taxable. Bonus can be of two types :

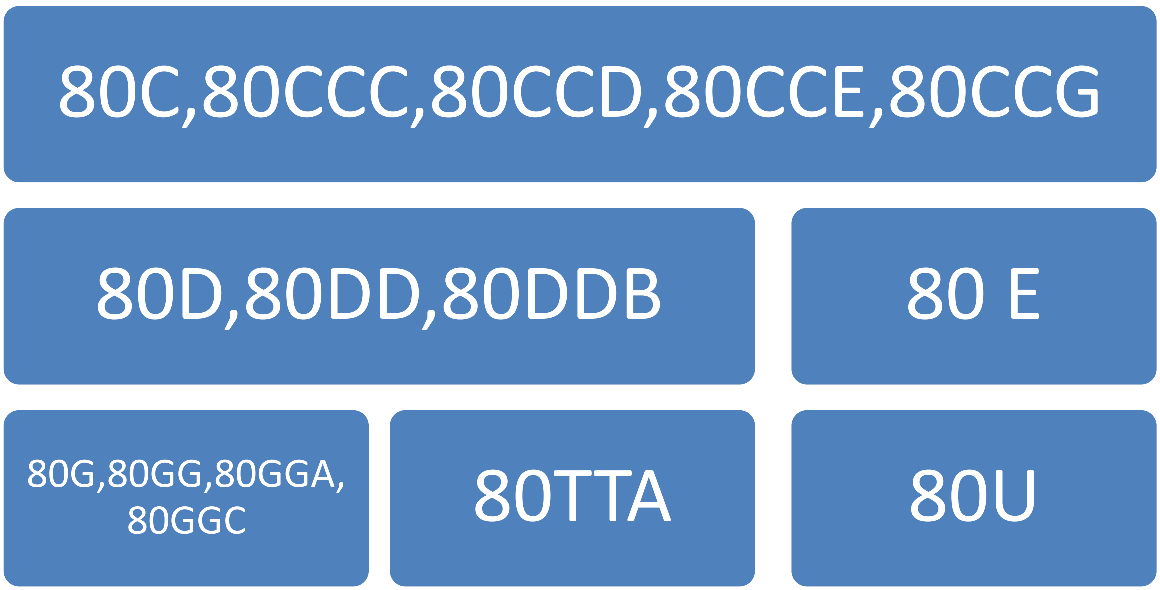
  ***Statutory Bonus***—*It* is received under some legal or contractual obligation and is fully taxable.

  ***Gratuitous Bonus—It*** is a casual benefit and is taxable as a receipt from employer and having no other implication.

- **Any Perquisite—any** benefit or amenity allowed by employer to employee. These are explained in detail later in this chapter u/s 17(2).

- **Any Profit in lieu of or in addition to salary—**any cash payment received by employee from employer is called profit in lieu of salary and these are explained later in this chapter u/s 17(3).
- Any salary in lieu of leave received during service is fully taxable.
- Any advance salary—In case an assessee receives some salary in advance in a previous year and which was actually not due in that year shall be taxable in the year of receipt. It does not include any loan or advance taken from employer.

Deductions available for Salaried Individuals (F/Year 15-16):




- **80C**

Section 80C replaces the Section 88 with more or less same investment mix available in Section 88. The new section 80C has become effective w.e.f. 1st April, 2006. This new section has allowed a major change in the method of providing the tax benefit. Section 80C of the Income Tax Act allows certain investments and expenditure to be tax-exempt. One must plan investments well and spread it out across the various instruments specified under this section to avail maximum tax benefit. Unlike Section 88, there are no sub-limits and is irrespective of how much you earn and under which tax bracket you fall. The Maximum limit of deduction under section 80C is Rs 1.50 lakh from financial year 2014-15 / Assessment Year 2015-16. Before FY 2014-15 the limit was Rs. 1 Lakh.

Payment towards following schemes eligible for deduction u/s 80C:

- Provident Fund (PF): PF is automatically deducted from your salary. Both you and your employer contribute to it. While employer's contribution is exempt from tax, your contribution (i.e., employee's contribution) is counted towards section 80C investments.
- Public Provident Fund (PPF): Among all the assured returns small saving schemes, Public Provident Fund (PPF) is one of the best. Current rate of interest is 8.70% tax-free (Compounded Yearly) and the normal maturity period is 15 years. Minimum amount of

contribution is Rs 500 and maximum is Rs 150000. A point worth noting is that interest rate is assured but not fixed.

- Life Insurance Premiums: Any amount that you pay towards life insurance premium for yourself, your spouse or your children can also be included in Section 80C deduction. Please note that life insurance premium paid by you for your parents (father / mother / both) or your in-laws is not eligible for deduction under section 80C. If you are paying premium for more than one insurance policy, all the premiums can be included. It is not necessary to have the insurance policy from Life Insurance Corporation (LIC) – even insurance bought from private players can be considered here.
- Equity Linked Savings Scheme (ELSS): There are some mutual fund (MF) schemes specially created for offering you tax savings, and these are called Equity Linked Savings Scheme, or ELSS. The investments that you make in ELSS are eligible for deduction under Sec 80C.
- Home Loan Principal Repayment: The Equated Monthly Instalments (EMI) that you pay every month to repay your home loan consists of two components – Principal and Interest. The principal component of the EMI qualifies for deduction under Sec 80C. Even the interest component can save you significant income tax – but that would be under Section 24 of the Income Tax Act.
- Sukanya Samriddhi Account : Sukanya Samridhi Account' can be opened at any time from the birth of a girl child till she attains the age of 10 years, with a minimum deposit of Rs 1000. A maximum of Rs 1.5 lakh can be deposited during the financial year. Interest on this account is fully exempt from tax in the year of accrual as well as in the year of receipt. Sukanya Samriddhi Account meaning Girl Child Prosperity Scheme is a special deposit scheme launched by Prime Minister Narendra Modi on 22 January 2015 for girl child. The scheme of Sukanya Samriddhi Account came into effect via notification of Ministry of Finance. The notification details are Notification No. G.S.R.863(E) Dated 02.12.2014. Scheme will be governed by 'Sukanya Samriddhi Account Rules, 2014'.

In spite of above payments, investments in NSC (National Saving Certificates),Infrastructure Bonds, 5 Years fixed deposits, senior Citizen saving Scheme, Nabard Rural bond and Unit Linked Insurance Plan also eligible for deduction u/s 80 C.

- **80CCC**

This section is introduced so as to encourage taxpayers to invest in Pension Funds and secure their future. If a taxpayer has paid any amount to initiate or continue any annuity plan of any insurance company for receiving any pension, the taxpayer would be allowed a deduction for the amount paid from the Gross Total Income. The maximum deduction allowed under section 80CCC is Rs.150000. If amount deposited in pension fund has been claimed as a deduction u/s 80CCC, it should not be claimed as deduction in any other section.

- **80CCD**

As per the provisions of section 80CCD of the Income Tax Act, 1961, An assessee, being an individual employed by the Central Government on or after the 1st day of January, 2004, has in the previous year paid or deposited any amount in his account under a pension scheme as notified vide

Notification No. F.N. 5/7/2003- ECB&PR dated 22.12.2003, he shall be allowed a deduction in the computation of his total income, of the whole of the amount so paid or deposited as does not exceed 10% of his salary in the previous year. The benefit of new pension scheme has been extended to any other employees (also self-employed person) with retrospective effect from 1-4- 2009 (A.Y. 2009-10) Similarly, w.r.e.f A.Y. 2009-10 deduction u/s 80CCD is also allowed to employees up to 10 per cent of salary in the previous year and in other cases up to 10 per cent of his gross total income in the previous year. As per amendment made under budget 2015 in Sec 80CCD to encourage people to contribute towards National Pension Scheme the maximum amount allowed to be invested in NPS has been increased from Rs.1lakh to Rs.1.5lakh. Moreover, in the budget 2015 announced by Mr.Arun Jaitely- a new sub section 1B has also been introduced so as to provide for additional deduction in respect of any amount paid, of upto Rs.50000 for contributions made by any individual assesses under NPS. The additional benefit of Rs.50000 is over and above the benefit of Rs.150000.

- **80CCE(Pension Funds)**

This section limit the aggregate amount of deductions allowed under Sec 80C, 80CCC and 80CCD (1). Total Deduction under these three sections cannot exceed Rs 150000.

- **80CCG(National Pension Scheme)**

Deduction under section 80CCG a new scheme was introduced to encourage flow of saving in financial instruments and improves the depth of domestic capital market. However, it also aims to promote an 'equity culture' in India. This is also expected to widen the retail investor base in the Indian securities markets and further the goal of financial stability and financial inclusion. The Scheme is named after the former Prime Minister of India Shri. Rajiv Gandhi. The deduction under section 80 CCG was enacted in 2012. The broad provisions of the Scheme and the income tax benefits under it have already been incorporated as a new Section -80CCG- of the Income Tax (IT) Act, 1961, as amended by the Finance Act, 2012. This concept was introduced in India in the finance Act,2012. Finance Act,2012 introduced a new scheme under " Chapter VI A" to provide for a one time deduction to a resident individual who acquires listed equity shares in a previous year in accordance with a scheme notified by the Central Government. SEBI vide circular no. CIR/MRD/DP/32/2012 dated December 06, 2012 directed inter-alia Mutual Funds to take a note of RGESS(Rajiv Gandhi Equity Share Scheme) notification and take necessary steps to implement the RGESS. In the Finance Act, 2013, certain conditions of RGESS were liberalized. Ministry of Finance thereafter vide Notification no. 94/2013 F. No. 142/35/2012 -TPL dated December 18, 2013 notified RGESS, 2013 i.e. the amended RGESS. The deduction was 50 % of amount invested in such equity shares or ₹ 25,000, whichever is lower. The maximum Investment permissible for claiming deduction under RGESS is Rs. 50,000. The benefit is in addition to deduction available u/s Sec 80C. The Finance Act, 2013 has amended the provisions of section 80 CCG w.e.f. AY 2014-15. After that benefit of deduction under section 80 CCG is available to a new investor, being a resident individual with gross total income of up to 12 lakh, for investment in listed equity shares or listed units of equity oriented fund, in accordance with a notified scheme Further, the deduction shall be allowed for three consecutive assessment years, beginning with the assessment year relevant to the previous year in which the listed equity shares or listed units of equity oriented fund were first acquired. The minimum lock in period in respect of such investment is three years from the date of acquisition remain the same.

- **80D (Medical Insurance)**

Mediclaim insurance is a must-have for all. It safeguards us and our families from a financial crisis during critical illnesses or accidents. Apart from covering medical expenses, health insurance also offers you access to tax saving schemes. Absence of Medical insurance can wipe out your savings. Deduction U/s. 80D of the Income Tax Act, 1961 in respect of Medical Insurance Premium (Mediclaim) paid, to keep in force insurance by individual either on his own health or on the health of spouse, parents and dependent children. The maximum amount allowed as deduction in this section is Rs.25000 for self, spouse and children and an additional deduction is allowed in respect of parents for Rs.25000. In case of Senior Citizen whether assesses or parents this maximum limit goes upto Rs.30000. Payment made by an assesses on account of preventive health check-up of self, spouse, dependent children or parents(s) during the previous year as eligible for deduction within the overall limits prescribed in the section. However, the proposed deduction on account of expenditure on preventive health check-up (for self, spouse, dependent children and parents) shall not exceed in the aggregate Rs.5, 000. For the purpose of the deduction under section 80D, payment can be made – (i) by any mode, including cash, in respect of any sum paid on account of preventive health check-up and (ii) by any mode other than cash, in all other cases.

- **80DD (Maintains of Handicapped Dependent)**

In Past few years cost of medical treatment has shoot up very sharply and has made medical treatment almost out of reach of lower and Middle class families in India. Government of India has in order to provide some relief to those who have a dependent with disability or sever disability provided some relief's from Income tax under section 80DD of the Income Tax Act, 1961.Expenditure for the medical treatment (including nursing), training and rehabilitation of a disabled dependent. Money paid to Life Insurance Corporation (LIC), Unit Trust of India or any other insurer for the purpose of buying specified scheme or insurance for the purpose of maintenance of such dependant. A person with disability means a person suffering from not less than 40% of any of the above disabilities. Severe disability means 80% or more of one or more of the above disabilities. The deduction allowed is Rs. 50,000 if disabled dependant is not suffering from severe disability. Limit is raised to Rs. 75,000/- from A.Y. 2016-17. Deduction allowed goes up to Rs. 1,00,000 if disabled dependant is a person with severe disability. Limit is Raised to Rs. 1,25,000/- from A.Y. 2016-17. Deduction not depend on amount of expenses incurred:- Even if your actual expenses on above mentioned disabled dependent relative is less then amount mentioned above you will be eligible to full deduction.

- **80DDB (Treatment of Specified Disease)**

Under the section 80DDB of the Act, an assessee, resident in India is allowed a deduction of a sum not exceeding Rs.40000, being the amount actually paid, for the medical treatment of certain chronic and protracted diseases such as Cancer, full blown AIDS, Thalassaemia, Haemophilia etc. This deduction is allowed up to Rs.60000 where the expenditure is in respect of a senior citizen i.e. a person who is of the age of 60 years or more but less than 80 years at any time during the relevant previous year and 80000 in case of Super Senior Citizen i.e. a person who is of the age of 80 years or more at any time during the relevant previous year. The above deduction is available to an individual for medical expenditure incurred on himself or a dependant relative. Dependant in case of an individual means the spouse, children, parents, brother or sister of an individual and in case of an HUF means a member of the HUF ,wholly or mainly dependant on such individual or HUF for his support and maintenance.

- **80E (Interest paid on Loan taken for Higher Education)**

Tax saved is simply means money saved. So tax planning is a must for all the tax payers. One of the best way to save tax for those salaried individuals who have children, who are either just entering college or going to take professional degree course, must think about not investing his own savings in education. Rather he should take the educational loan which is easily available these days. This deduction will assist you to know tax benefits on education loans. These benefits help you to reduce the overall cost of your education loan. An individual can avail of tax benefit if he/she has taken an education loan to support higher studies of self, spouse, and children or for the student of he/she is the legal guardian. Asseessee is eligible for deduction of full amount of interest paid by assessee during Current Previous Year. The loan must be taken for higher education which means education after senior secondary only through regular mode of study. This Deduction shall be allowed in computing the total income in respect of the initial assessment year* and seven assessment years immediately succeeding the initial assessment year or until the interest is paid by the assessee in full, whichever is earlier.

- **80G (Donations)**

The various donations specified in Sec. 80G are eligible for deduction up to either 100% or 50% with or without restriction as provided in Sec. 80G. 80G deduction not applicable in case donation is done in form of cash for amount over Rs 10,000.

**Donations with 100% deduction without any qualifying limit:**

- National Defence Fund set up by the Central Government
- Prime Minister's National Relief Fund
- National Foundation for Communal Harmony
- An approved university/educational institution of National eminence
- Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district
- Fund set up by a State Government for the medical relief to the poor
- National Illness Assistance Fund
- National Blood Transfusion Council or to any State Blood Transfusion Council
- National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities

- National Sports Fund
- National Cultural Fund
- Fund for Technology Development and Application
- National Children's Fund
- Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund with respect to any State or Union Territory
- The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund, Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
- The Maharashtra Chief Minister's Relief Fund during October 1, 1993 and October 6,1993
- Chief Minister's Earthquake Relief Fund, Maharashtra
- Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat
- Any trust, institution or fund to which Section 80G(5C) applies for providing relief to the victims of earthquake in Gujarat (contribution made during January 26, 2001 and September 30, 2001) or
- Prime Minister's Armenia Earthquake Relief Fund
- Africa (Public Contributions — India) Fund
- Swachh Bharat Kosh
- Clean Ganga Fund
- National Fund for Control of Drug Abuse

**Donations with 50% deduction without any qualifying limit.**

- Jawaharlal Nehru Memorial Fund
- Prime Minister's Drought Relief Fund
- Indira Gandhi Memorial Trust
- The Rajiv Gandhi Foundation

Donations to the following are eligible for 100% deduction subject to 10% of adjusted gross total income

- Government or any approved local authority, institution or association to be utilised for the purpose of promoting family planning
- Donation by a Company to the Indian Olympic Association or to any other notified association or institution established in India for the development of infrastructure for sports and games in India or the sponsorship of sports and games in India.

Donations to the following are eligible for 50% deduction subject to 10% of adjusted gross total income

- Any other fund or any institution which satisfies conditions mentioned in Section 80G(5)
- Government or any local authority to be utilised for any charitable purpose other than the purpose of promoting family planning

- Any authority constituted in India for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or both
- Any corporation referred in Section 10(26BB) for promoting interest of minority community
- For repairs or renovation of any notified temple, mosque, gurudwara, church or other place.

➢ 80GG (Deduction for House Rent Paid)

This deduction is available for rent paid when HRA is not received. The taxpayer, spouse or minor child should not own residential accommodation at the place of employment. The taxpayer should not have self-occupied residential property in any other place. The taxpayer must be living on rent and paying rent.

Deduction available is the minimum of:

1. Rent paid minus 10% of total income
2. Rs 2000/- per month
3. 25% of total income

➢ 80GGA (Donation for Scientific Research)

Section 80GGA allows deductions for donations made towards scientific research or rural development. This deduction is allowed to all assessees except those who have income (or loss) from business and profession. Donations can be made in cheque or by draft or in cash; however cash donations in excess of Rs 10,000 are not allowed as a deduction.100% of the amount that is donated or contributed is considered eligible for deduction.

➢ 80GGC (Donation to Political Parties)

Deduction is allowed to a taxpayer for any amount contributed to any political party or an electoral trust. Deduction is allowed for contribution done by any way other than cash. Political party means any political party registered under section 29A of the Representation of the People Act.

➢ 80 TTA (Interest on Saving Account)

A deduction of maximum Rs 10,000 can be claimed against interest income from a savings bank account. Interest from savings bank account should be first included in other income and deduction can be claimed of the total interest earned or Rs 10,000, whichever is less. This deduction is allowed to an individual or an HUF. And it can be claimed for interest on deposits in savings account with a bank, co-operative society, or post office. Section 80TTA deduction is not available on interest income from fixed deposits, recurring deposits, or interest income from corporate bonds.

➢ 80U (Person suffering from Physical Disability)

Deduction of Rs. 75,000/- to an individual who suffers from a physical disability (including blindness) or mental retardation. In case of severe disability, deduction of Rs. 1,25,000 can be claimed. Certificate should be obtained from a Govt. Doctor. The relevant rule is Rule 11D. This is a fixed deduction and not based on bills or expenses.

## CONCLUSION

The study concluded that various deductions available for a salaried employee, There are many options available for employees to reduce his or her tax liability by effective tax planning with regard to these deductions. Most of the employees try to save tax by saving under Section 80C of the Income Tax Act. However, it is important to know the other sections also so that one can make best use of the options available for exemption under income tax Act. One important point to note here is that one can not only save tax through these deductions but also can mobilize his/her savings by converting it into investment. Also tax can not only be saved through investments but some expenditure which you normally incur can also give you the tax exemptions. In spite of these deductions a salaried employee whose income is Rs.500000 or less can also reduce his/her tax liability by Rs.2000 U/S 87A. In spite of all about tax planning with regard to deductions It's shocking but true only 1% of a billion plus Indians pay taxes. There is a lot of reason of this, one of which is a huge parallel economy, which the government is trying hard to tackle or that agricultural income is tax free in an agrarian dominant society. As a result of this Super rich farmers don't have to pay a single paisa as tax, while the salaried class bear its full burden. Unlike self-employed individuals (Whether business persons or professionals), salaried employees only enjoy a few tax free allowances, and Deductions the quantum of which has clearly not kept pace with inflation.

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