



A Study on Income tax planning of individual assessee

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ABSTRACT

Tax payment is compulsory for every person. No one can escape from payment of tax, just like death. So, we need a tax planning Tax planning is an indispensable part of our financial planning. Effective tax planning enables us to lessen our tax liability. This is done with the use of all tax exemptions, concessions, deductions, provisions, rebates and allowances. This paper purports to find out the most suitable and effective tax saving instruments used to reduce payment of tax. The overall findings reveal that the foremost adopted tax saving instrument is life insurance policy, that got the primary rank during this study and also the second most adopted tax saving instrument is provident fund.

Keywords

Tax, Tax saving Instruments, Tax provisions, Tax exemptions, Tax deductions, Life insurance, provident fund.

INTRODUCTION

The Government will collect tax to meet welfare activities of the state. Tax is a solution for the collective problems of the state. It is a charge levied by the state up on its citizens. A tax payer may get variety of income in the period of 12 months starting from April 1st to 31 st march of the next year(financial year). Payment of tax is inevitable. So, each and every person has to pay tax to the government. But here we have ways and means with the help of legal provisions to reduce tax burden. Efficient tax planning enables us to reduce our tax liability. Tax planning is possible through appropriate savings and wise investment decisions. Tax payers normally think about their tax liability only at the end of the year. So, they have a minimum chance to save their income. On other hand if it is planned well in advance one can save.

TAX PLANNING: Tax planning is an arrangement of financial affairs of a tax payer in such a manner. Tax planning is done for the reduction of tax burden. Tax planning avoids any type of raids and penalties. Tax planning is not tax evasion. It involves sensible planning of assessee's sources of income and ways of investments. Tax planning is not merely just putting money blindly in to any 80c investments.

METHODS OF TAX PLANNING:

1.Short Term Tax Planning: Short term tax planning means, the planning which will be followed by the tax payers, at the end of the year in a legal way. Such plan does not involve any long term investment.

2. Long Term Tax Planning (LTTP): L.T.T.P means the plan which will be followed by the tax payers throughout the year. It will help to the tax payers in the long term commitment.

3. Permissive Tax Planning (Pe.T.P): This means making plans which are permissive under different provisions of the law, such as planning of earnings income covered by section 10. Tax loss of our country offer many exemptions and incentives.

4. Purposive Tax Planning(Pu.T.P): This means making plans with specific purpose for the availability of maximum benefits to the assessee through correct selection of investment making suitable decisions for the replacement of assets.

TAX EVASION:

Tax evasion may involve stating an untrue statement willingly, submitting misleading documents, suppressing facts, not maintaining proper accounts for earned incomes in assessment. An assessee guilty of tax evasion is punishable under the relevant laws. Tax evasion is illegal practices adopted by the payer and paying less than what he actually has to pay.

TAX AVOIDANCE:

The line of demarcation between tax planning and tax avoidance is very thin and blurred. It is an art of reducing tax without breaking the law. By using the loopholes in law, the assessee tries to reduce the tax liability. If it is detected by the tax authorities, they will punish such type of assessee. Hence tax avoidance though legal, but it is not long lasting.

Tax planning is not tax evasion. It involves sensible planning of our income sources and investments. Tax planning is not just putting our money, blindly in to any 80c investments. It is not difficult, it is very easy.

TAX MANAGEMENT:

Tax management is essential for every assessee. It helps in avoiding payment of interest, penalty, prosecution etc. Tax management is an internal part of tax planning. Tax management takes necessary precautions for the reduction of tax amount by using tax exemptions, deductions and tax rebates. Tax management is actual implementation of a tax planning provision.

The important options mostly used by the assessee: Deductions U/s 80c is allowed only to individual or HUF, up to a maximum of Rs 1,50,000 and the deduction is allowed only when the amount has been actually paid by the assessee.

1. Provident fund: The contribution made towards recognised provident fund and public provident fund is eligible for deduction U/s 80c. While the contribution paid to RPF, deduction is allowed up to 12% of the salary and PPF up to 1.5 lakhs U/s 80c

2. Life insurance policy: Life Insurance policies have been the most popular tax saving instruments among tax payers. Insurance policies offer double advantage for tax deduction on Premium paid and insurance cover the insurer and his family in case of accident, death etc. The premium paid on life insurance policies qualify for tax deduction U/s 80c, subject to a maximum of 1.5 lakhs per annum.

3. Equity linked saving schemes: ELSS is an instrument sold by mutual funds for the specific purpose of tax payers to save their tax. The tax deduction for ELSS is available U/S 80c.

4. National saving certificates: These certificates bought from any post office and the deduction will be available up to 1.5 lakh per annum U/s 80c.

5. Home Loans: Repayment of principal amount of loan taken for purchase or construction of Residential house property from central or state government, Banks, LIC, or from employers is eligible for deduction U/s 80c up to 1.5 lakhs.

METHODOLOGY

This study takes in to account different sections and provisions of income tax in explaining tax instruments. This study has made by using both the primary and secondary sources of data.

The primary data are collected through a structured questionnaire. The questionnaire furnishes the information relating to tax provisions and saving instruments and their tax planning.

The secondary source includes books of income tax and the journals related to income tax.

NEED FOR THE STUDY

Many individuals are not equipped with proper knowledge of taxation and tax saving avenues available. This article will help the individuals to save what ever extra rupee they pay from their earned income.

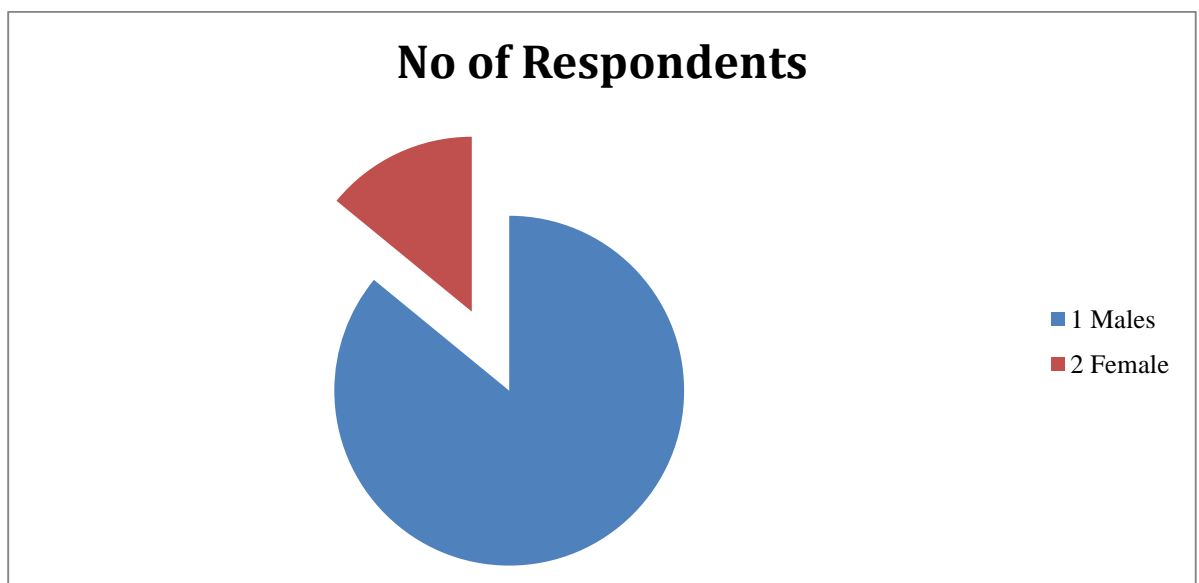
OBJECTIVES OF THE STUDY

- 1.The purpose of study is to find out the most suitable tax saving instrument used .
2. To study taxation provisions of the Income Tax Act , 1961.
3. To explore and simplify the tax planning procedure.

DATA ANALYSIS:

1. Gender of the Respondents

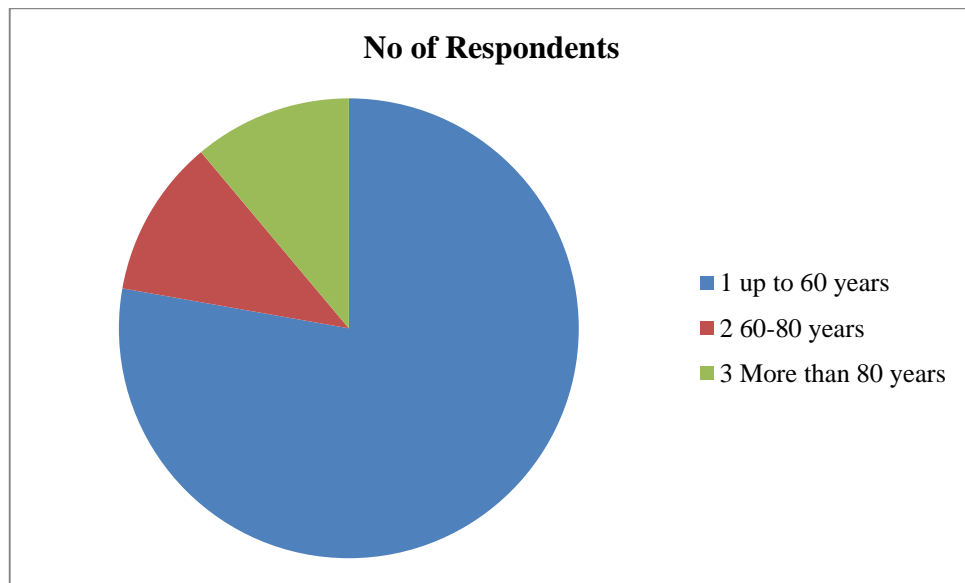
S.No	Gender of the Respondents	No of Respondents	Percentage
1	Males	464	86
2	Female	76	14
	Total	540	100



Interpretation: From the survey 86% of male and 14 % of female Respondents are paying taxes regularly.

2. Age of the Respondent.

S.No	Age	No of Respondents	Percentage
1	up to 60 years	420	78
2	60-80 years	60	11
3	More than 80 years	60	11
	Total	540	100

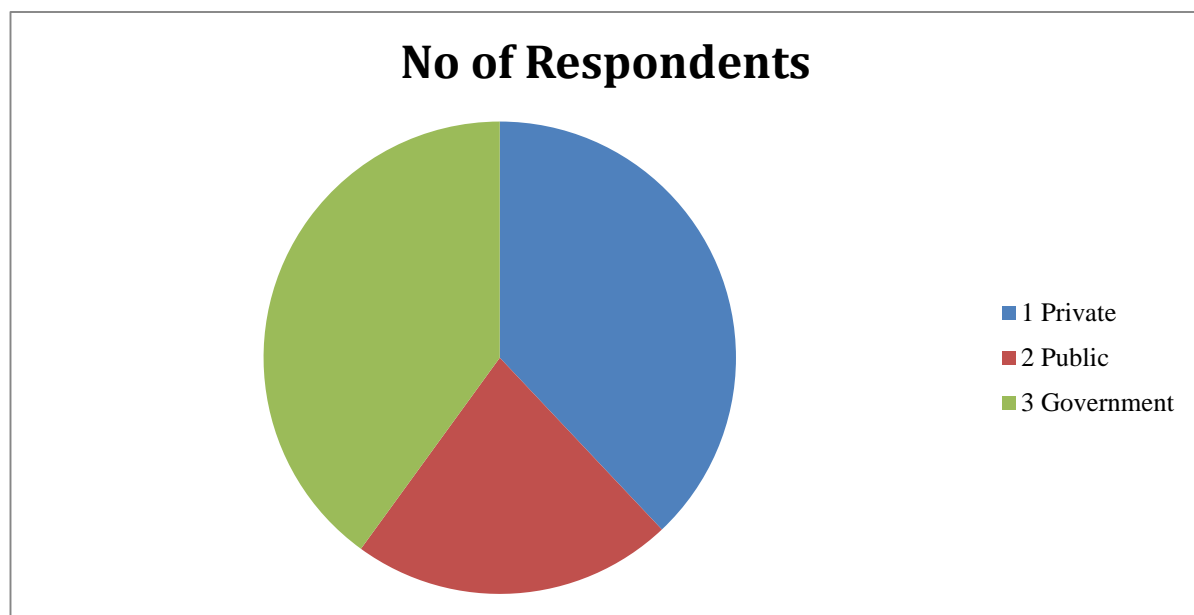


Interpretation :

The result shows that maximum Respondents are in up to 60 years i.e 78% , 11% are ages between 60-80 years and 11% respondents are in more than 80 years.

3. Status of the Employees

S.No	Status of the Employees	No of Respondents	Percentage
1	Private	205	38
2	Public	119	22
3	Government	216	40
4	Total	540	100

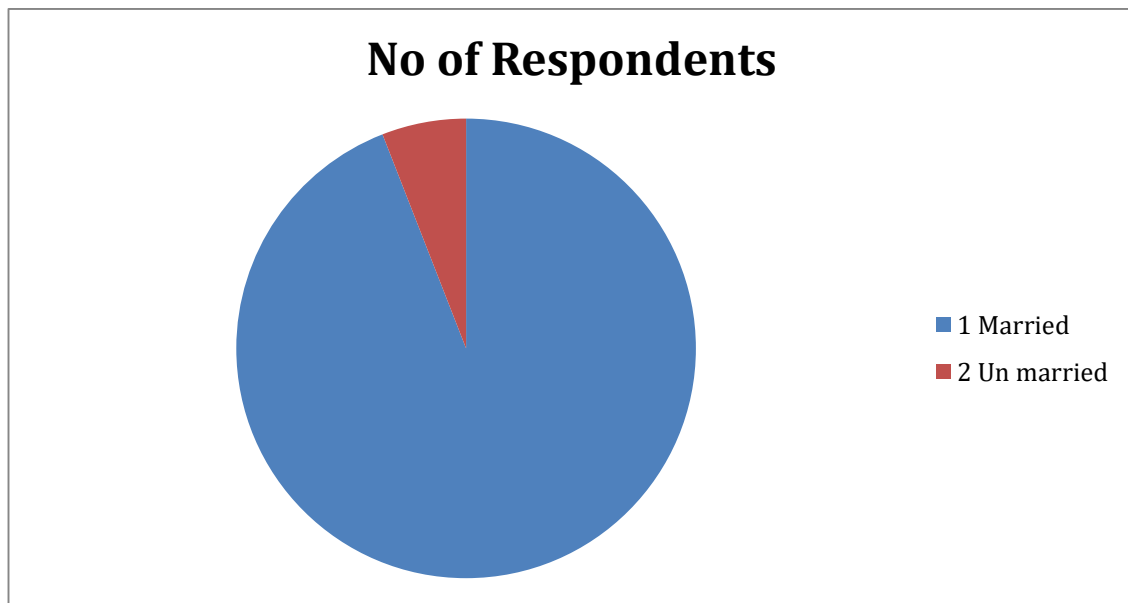


Interpretation :

The above graph shows that majority of respondents are Government employees who paying taxes and also private employees i.e 40% , 38% and public sector employees is nearly 22%.

4. Marital Status of the Respondents

S.No	Marital Status of the Employees	No of Respondents	Percentage
1	Married	508	94
2	Un married	32	6
3	Total	540	100

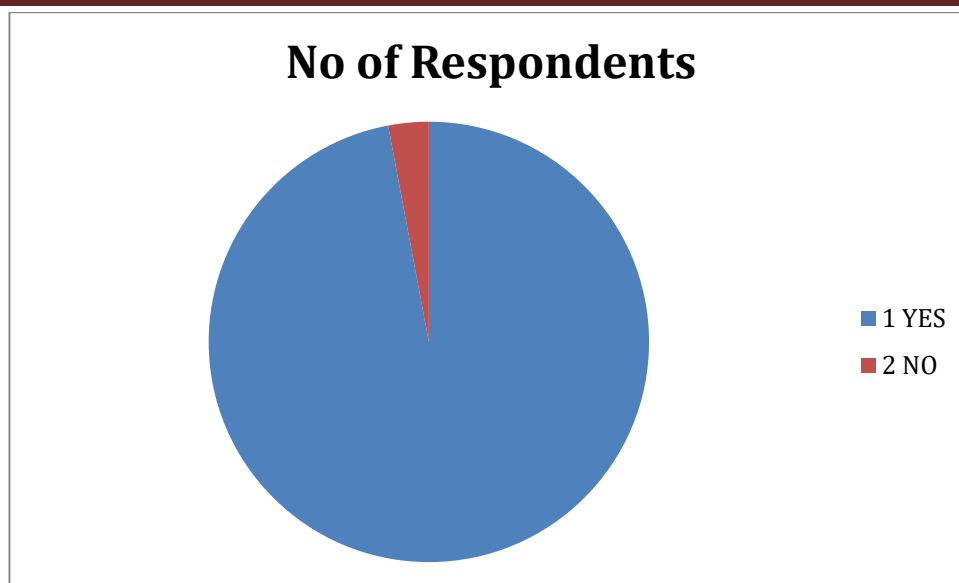


Interpretation:

The above graph shows that majority of respondents are married people, who are paying tax regularly i.e 94%.

5) Are you Regular Tax Payer

S.No	Regular Tax Payers	No of Respondents	Percentage
1	YES	524	97
2	NO	16	3
	Toatl	540	100

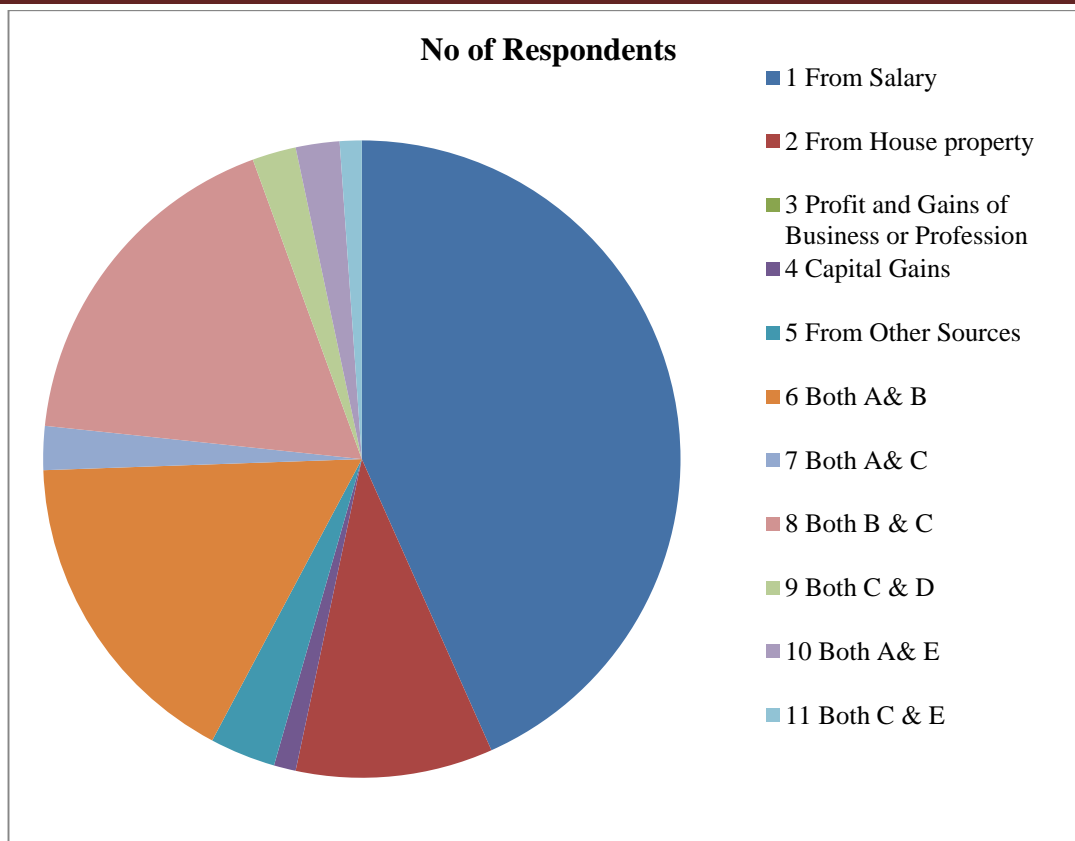


Interpretation:

From the above graph it is known that nearly 97% of people had paid the tax and only 3% Of people did not pay the tax.

6). Under which head your income become taxable?

S.No	Source of Income	No of Respondents	Percentage
A	From Salary	39	43
B	From House property	9	10
C	Profit and Gains of Business or Profession	0	0
D	Capital Gains	1	1.11
E	From Other Sources	3	3.33
F	Both A&B	15	16.6
G	Both A&C	2	2.22
H	Both B&C	16	17.77
I	Both C&D	2	2.22
J	Both A&E	2	2.22
K	Both C&E	1	1.11
	Total	90	100

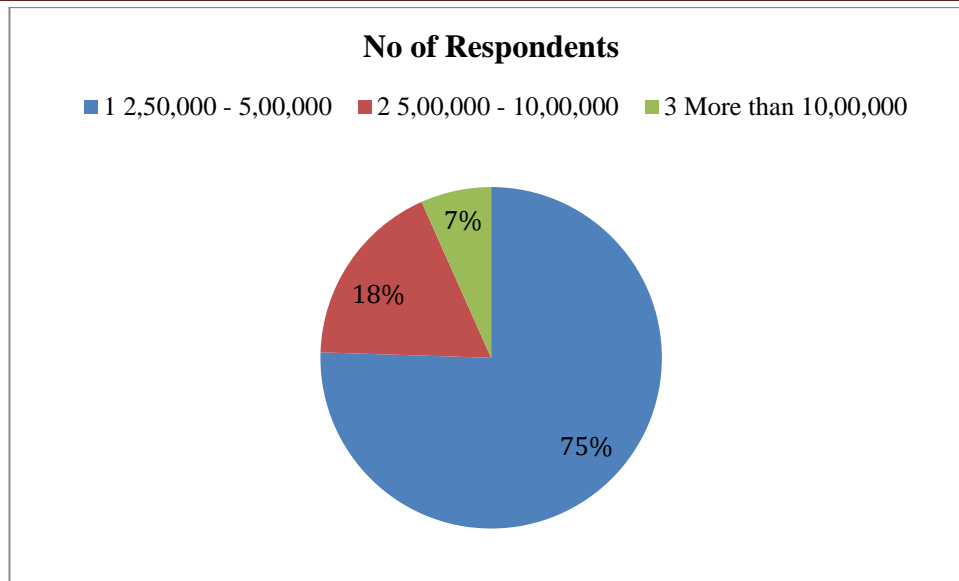


Interpretation:

From the above graph it is clear that 43% of people income is taxable by means of salary

7. Income Range of respondents?

S.No	Income Range of the Respondents	No of Respondents	Percentage
1	2,50,000 - 5,00,000	407	76
2	5,00,000 - 10,00,000	96	18
3	More than 10,00,000	36	6
	Total	540	100

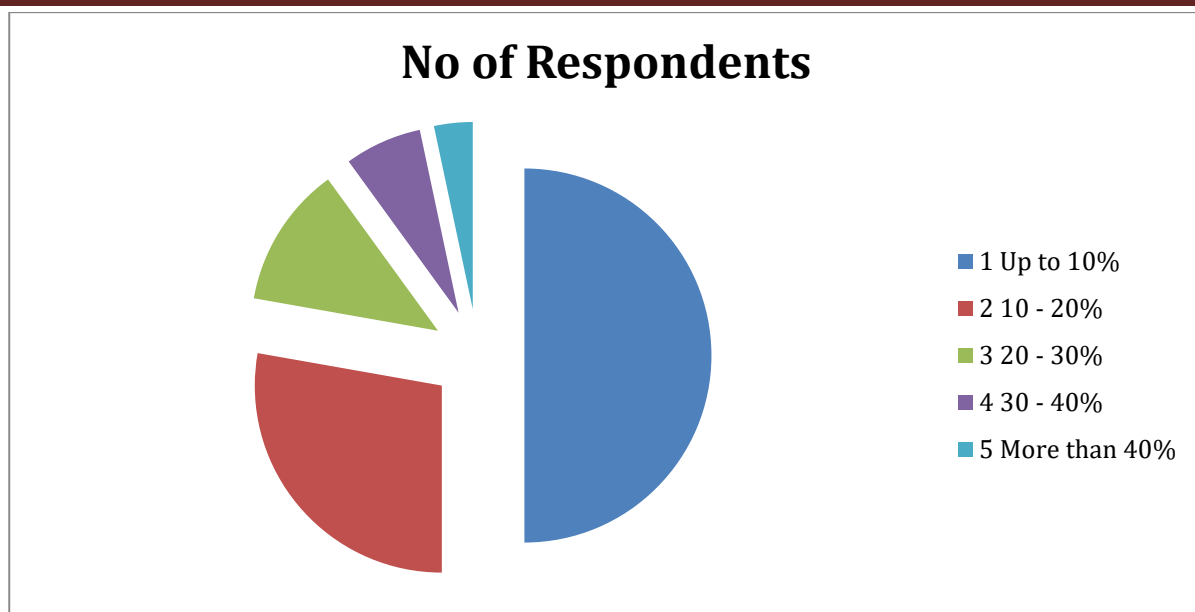


Interpretation :

The researcher explaining that the income range of related respondents like 2.5 lakhs to 5 lakhs are 76% and between of 5 lakhs to 10 lakhs are 18% and least percentage is 6% they are employees who are more than 10 lakhs

8)How much of your Income in a year saved

S.No	Income Saved in a year	No of Respondents	Percentage
1	Up to 10%	270	50
2	10 - 20%	150	28
3	20 - 30%	66	12
4	30 - 40%	36	7
5	More than 40%	18	3
	Total	540	100

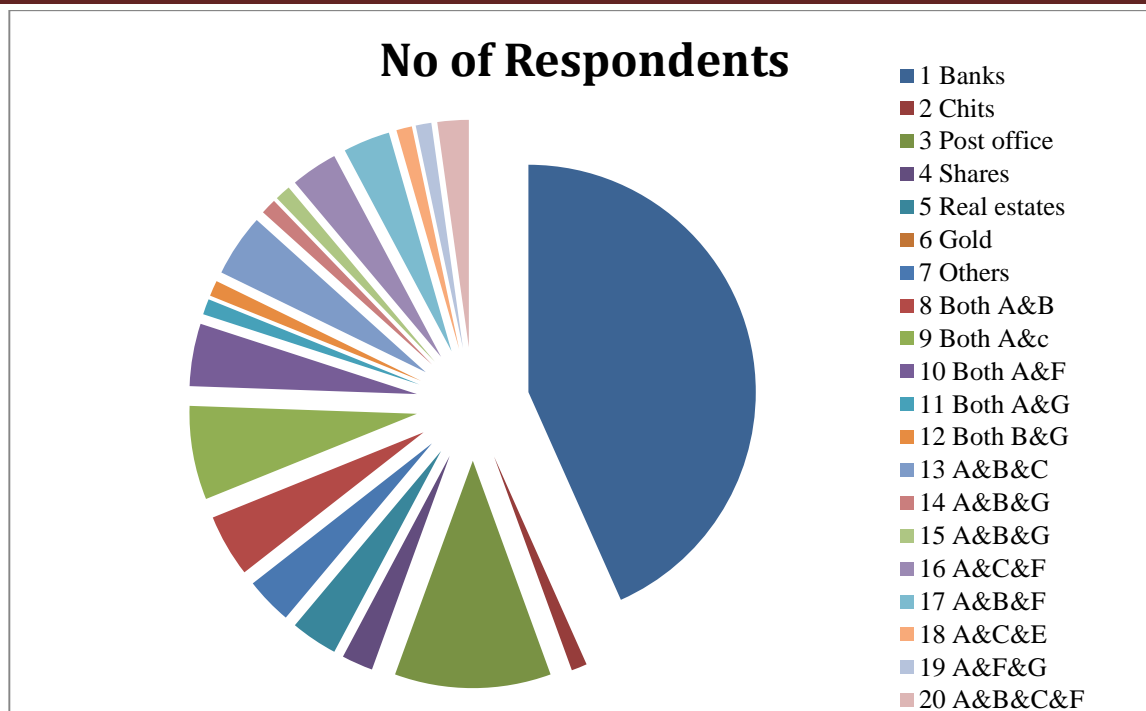


Interpretation :

The above graph explains to us is maximum half of the respondents are saving low percentage rate i.e 10% only and remaining respondents are like 10%-20% is 28%, 20%-30% is 12% , 30% - 40% is 7% and more than 40% is only 3%.

9). Where you investing your savings

S.No	Area of investing of savings	No of Respondents	Percentage
A	Banks	234	43.33
B	Chits	6	1.11
C	Post office	60	11.11
D	Shares	12	2.22
E	Real estates	18	3.33
F	Gold	0	0
G	Others	18	3.33
H	Both A&B	24	4.44
I	Both A&c	36	6.66
J	Both A&F	24	4.44
K	Both A&G	6	1.11
L	Both B&G	6	1.11
M	A&B&C	24	4.44
N	A&B&G	6	1.11
O	A&B&G	6	1.11
P	A&C&F	18	3.33
Q	A&B&F	18	3.33
R	A&C&E	6	1.11
S	A&F&G	6	1.11
T	A&B&C&F	12	2.22
	Total	540	100

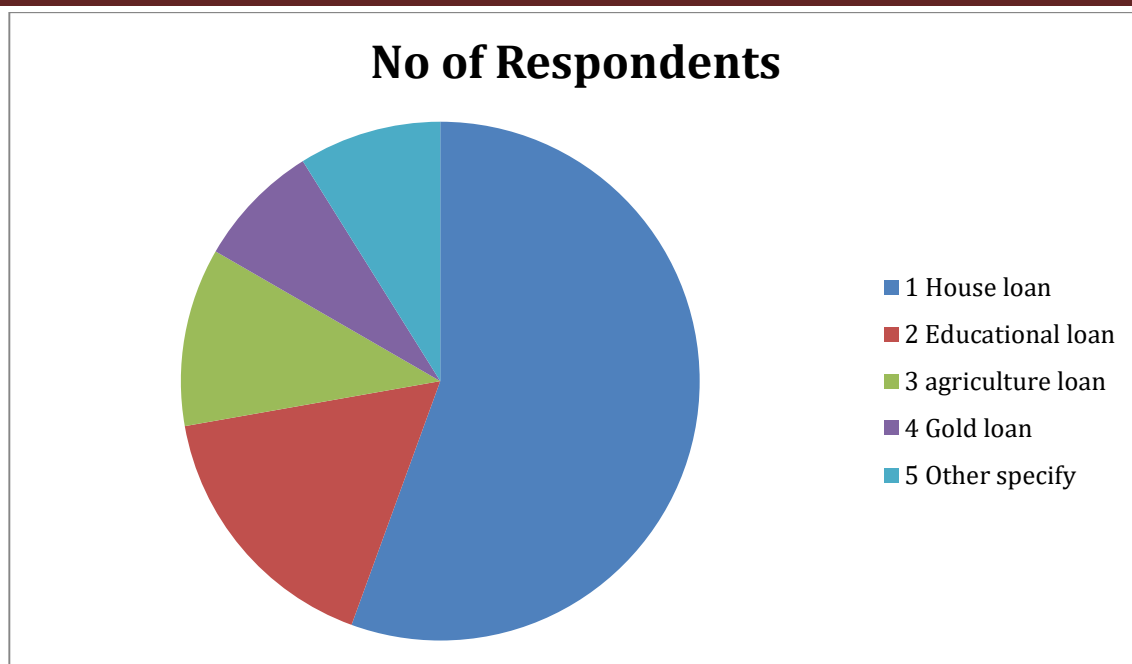


Interpretation :

The above data showing to us like the respondents who are investing their savings in Banks, chits post office, shares, real estates, gold and others like majority of respondents are investing in banks i.e 43% and the remaining sources are by their convenience.

10) Respondents were asked regarding their Repayment of loans:

S.No	Repay of loans	No of Respondents	Percentage
1	House loan	300	56
2	Educational loan	90	17
3	agriculture loan	60	11
4	Gold loan	42	7
5	Other specify	48	9
	Total	540	100



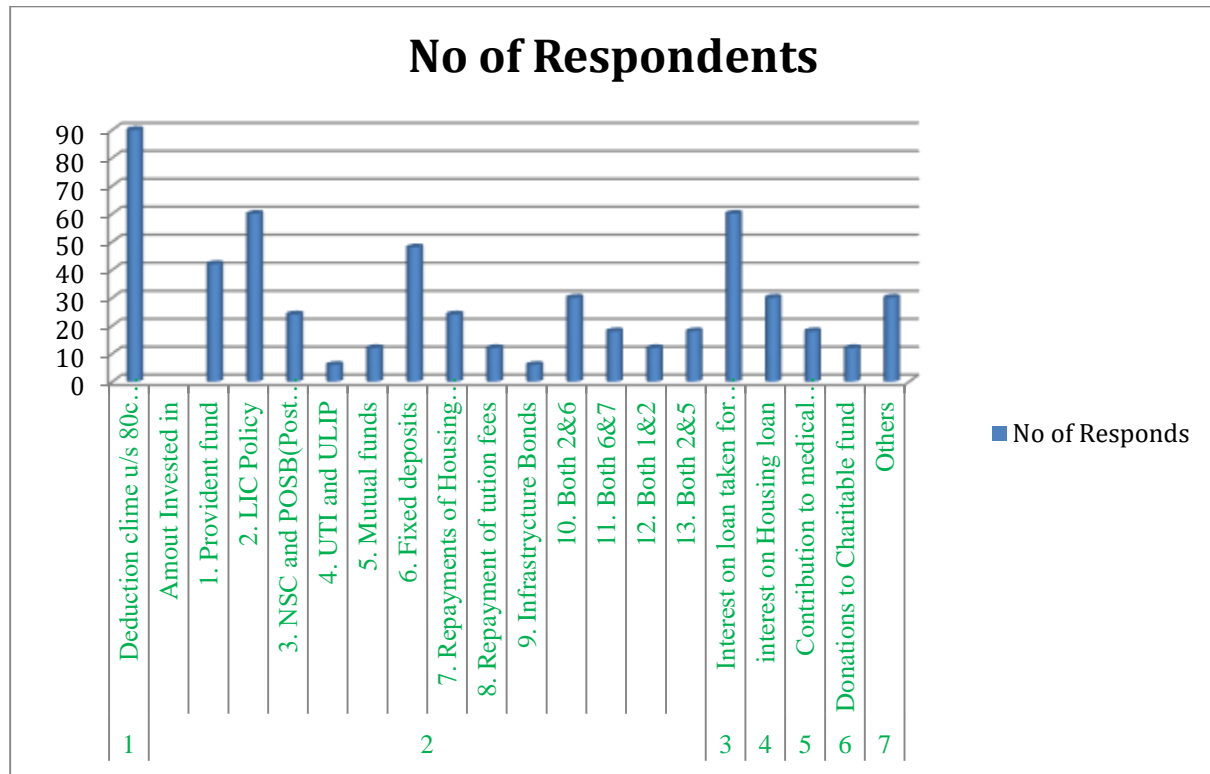
Interpretation:

From the above graph it is clear that nearly 56% of people had paid the housing loan and the least 7% of people had repaid the gold loan.

11)Tax planning mergers adopted by the respondents

S.No	Planning Merger	No of Respondents	Percentage
1	Deductions u/s 80c 80ccc, 80CD	90	17
2	Amount Invested in		
	1. Provident fund	42	8
	2. LIC Policy	60	11
	3. NSC and POSB(Post office savings bank)	24	4
	4. UTI and ULIP	6	1
	5. Mutual funds	12	2
	6. Fixed deposits	48	9
	7. Repayments of Housing loans (Principle Amount)	24	4
	8. Repayment of tuition fees	12	2
	9. Infrastructure Bonds	6	1
	10. Both 2&6	30	6
	11. Both 6&7	18	3
	12. Both 1&2	12	2
	13. Both 2&5	18	3
3	Interest on loan taken for higher education	60	11

4	interest on Housing loan	30	5
5	Contribution to medical Insurance Policy	18	3
6	Donations to Charitable fund	12	2
7	Others	30	6
	Total	540	100



Interpretation:

From the above table it is clear that the various respondents are showing interest in LIC policy, fixed deposits and provident fund.

Findings :

1. It is found that 86% of males are paying taxes regularly.
2. It is also found that most of the tax payers are government employees.
3. It is found that insurance policy and provident funds are important tax saving instruments for assessee..
4. It is found that majority of respondents are lying between the income range of 250000 to 500000.

Suggestions:

- 1.The government should clearly explore and simplify the tax planning procedure .
- 2.Awareness should be created among females regarding the payment of income tax.
- 3.Awareness should be created among the private employees and should stop them from "TAX EVASION".
- 4.A common idea should be generated among the tax payers that how the collected amount is

used for the welfare of the society.

Conclusion :

The payment of tax is compulsory for each and every assessee so every individual should pay the tax to the government. At the same time tax payer should have awareness about all the properties and deductions, provided by the tax Department. They should have a tax planning to reduce their tax liability with the help of tax provisions and deductions.

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