Chapter - V

Tax Considerations
5.1 TAXATION

Taxation is an important factor in investment planning because the objective of investment for growth or income is to maximize take-home return, which in effect are after-tax returns.

One must, as a prudent person, arrange his financial affairs in such a manner as to pay the minimum tax required by law. The law (IT Laws) provides several tax saving facilities and exemptions and it is imperative that one is aware of these in order to avail of them.

Having said that as an investor one should remember that;

a. Tax considerations alone should not determent investment decisions not should tax considerations override investment decisions. The login or the strength of the investment choice must be the basis for the investment or disinvestments. The taxation factor must always be secondary.

b. One should not be very bothered about tax planning and ‘tax shelters’ unless one is in the very high tax bracket. Most investors need only a working knowledge of tax and need not be too concerned about tax planning as far as investments are concerned as most likely, they will not need to tax plan extensively.
A. INCOME TAX

EXEMPTED INCOMES

- Agriculture Income [Sec 10 (1)]

- Any sum received from Hindu Undivided Family (H.U.F) [Sec 10(2)]

- Share of Income from Firm [Sec 10 (2A)]

- Interest paid to Non-Resident [Sec 10 (4)(i)]

- Interest to Non-Resident on Non-Resident (External) Account [Sec 10 (4) (ii)]

- Interest paid to a person of India Origin and who is Non-Resident [Sec 10(4B)]

- Travel Concession to an Indian Citizen Employee [Sec 10 (5)]

- Certain Incomes received by an individual who is not a citizen of India [Sec 10(6)]

- Tax paid by Government or Indian concern on Income of a Foreign company [Sec 10(6A), (6B), (6BB) and (6C)]

- Perquisites and Allowance paid by Government to its Employees serving outside India [Sec 10(7)]

- Employees of Foreign Countries working in India under Cooperative Technical Assistance Programme [Sec 10(8)]

- Income of a Consultant [Sec 10 (8A)]

- Income of Employees of Consultant [Sec 10(8B)]
Income of any member of the family of individuals working in India under co-operative technical assistance programmes. [Sec 10(9)]

- Gratuity [Sec 101(10)]
- Committed value of pension received [Sec 10(10A)]
- Amount received as leave encashment of retirement [Sec 10(10AA)]
- Retrenchment compensation paid to workmen [Sec 10 (10B)]
- Payment received under Bhopal Gas Leak Disaster (Processing of Claims act 1985. [Sec 10 (10BB)]
- Retirement compensation from a public sector company or any other company. [Sec 10 (10C)]
- Income by way of tax on perks [Sec 10 (10CC)]
- Any sum received under a life insurance policy [Sec 10(10D)]
- Payment from Statutory Provident Fund [Sec 10 (11)]
- Payment from Recognized Fund [Sec 10 (12)]
- Payment from superannuation Fund [Sec 10(13)]
- House Rent Allowance [Sec 10 (BA)]
- Any allowance given for meeting Business Expenditure [Sec 10(14)]
- Interest Incomes [Sec 10 (15)]
_payment made by an Indian company engaged in the business of operation of aircraft [Sec 10(15A)]

_payment [Sec 10(16)]

_allowance of M.P/M.L.A/or M.L.C [Sec 10(17)]

_awards instituted by Government [Sec 10(17A)]

_pension received by the winners of Vir Chakra etc.[Sec 10(18)]

_family pension of war widow [Sec 10(19)]

_income from one palace of a former ruler [Sec 10(19A)]

_income of a local authority [Sec 10(20)]

_income of scientific research association [Sec 10(21)]

_income of a News Agency[Sec 10(22B)]

_income of some Professional Institution [Sec 10(23A)]

_exemption of Income Received by Regimental Fund [Sec 10(23AA)]

_income of a Fund set-up for the welfare of employees or their dependents[Sec 10(23AAA)]

_income a pension fund set up by LIC or other insurer. [Sec 10(23AAB)]

_income of Institutions established for development of Khadi and Village Industries. [Sec 10(23B)]

_income of State Level Khadi and Village Industries Board. [Sec 10(23BB)]
Income of certain Authorities set up to manage Religious and Charitable Institutions. [Sec 10(23BBA)]

Income of European Economic Community. [Sec 10(23BBB)]

Income of a SAARC Fund for regional projects. [Sec 10(23BBC)]

Any income of the Secretariats of the Asian organisation of the Supreme Audit Institutions [Sec 10(23BBD)]

Any income of Insurance Regulatory and Development Authority [Sec 10(23BBE)]

Any income received by a person on behalf of following Funds. [Sec 10(23C)]

Income of Mutual Fund [Sec 10(23D)]

Income of Investor Protection Fund [Sec 10(23EA)]

Income of the Credit Guarantee Trust for small Industries. [Sec 10(23EB)]

Income of Venture Capital Company. [Sec 10(23F)]

Income of venture capital fund [Sec 10(23FA)]

Income of a Venture Capital Company or venture Capital Fund [Sec 10(23FB)]

Any income by way of Dividend, Interest or Long Term Capital Gain of an Infrastructure Company, Infra Structure Fund or a Cooperative Bank. [Sec 10(23G)]

Income of Registered Trade Unions [Sec 10(24)]
• Income of Provident and Superannuation Funds [Sec 10(25)]
• Income of Employee’s State Insurance Fund [Sec 10(25A)]
• Income of Schedule Tribe Members [Sec 10(26) and 10(26A)]
• Income of a corporation set-up for promoting the interests of scheduled castes, Scheduled Tribes or Backward Classes. [Sec 10(26B)]
• Income of a corporation set-up to protect the interests of Minorities [Sec 10(26BB)]
• Any income of a corporation for ex-servicemen. [Sec 10(26BBB)]
• Income of cooperative society looking after the interests of scheduled Castes or Scheduled Tribes or Both. [Sec 10(27)]
• Any income accruing or arising to Coffee Board etc., [Sec 10(29A)]
• Amount received as subsidy from or through the Tea Board. [Sec 10(30)]
• Amount received as subsidy from or through the concerned Board. [Sec 10(31)]
• Income of child clubbed U/s 64(1A) [Sec 10(32)]
• Income from transfer of capital assets of UTI [Sec 10(33)]
• Income by way of dividend from Indian company [Sec 10(34)]
• Income from units of UTI and other mutual funds [Sec 10(35)]
• Income from sale of shares in certain cases [Sec 10(36)]
• Capital Gain on compulsory acquisition of urban Agricultural Land. [Sec 10(37)]

• Long Term Capital Gain on transfer of shares and securities covered under Security Transaction Tax (STT). [Sec 10(38)]

• Income from international sporting event [Sec 10(39)]

• Income received as grant by a subsidiary company [Sec 10(40)]

• Income from transfer of asset of an undertaking engaged in the business of generation, transmission or distribution of power. [Sec 10(41)]

INCOME FROM INTEREST

Interest income from following sources is also required to be included in Gross Total Income.

• Interest on Company Deposits,

• Interest on Debentures,

• Interest on Savings Bank Account/Fixed Deposits with Banks.

• Interest on Post Office Savings Schemes like MIS, NSC, KVP, etc.,

• Interest on private loans given to relatives, friends or any other entity.

• Interest on Government Securities.

(A total deduction up to Rs.15,000 is allowed in respect of certain interest incomes Under Section 80L).
DIVIDEND INCOME

Dividend Income from Companies/Equity-oriented Mutual Funds is fully tax-free Under Section 10(34) and (35) in the hands of investors. Dividends are also tax-free in the hands of investors, in case of debt-oriented mutual fund schemes. However, the Asset Management Company is liable to deduct 12.5% distribution tax in case of an individual.

CAPITAL GAINS

1. Total income shall be divided in three parts.

   (i) Short Term Capital gain on shares (which are subject to securities transaction tax)

   (ii) Long Term Capital gain on all assets except on shares (which are subject to securities Transactions. Tax, which is fully, exempted u/s. 10(37).

   (iii) Balance total income.

b. On short term capital gain on shares (which are subject to securities transaction tax) income tax shall be levied @ 10% of such gain u/s 111(A).

c. On Long term capital gain on all assets (except on shares which are subject to Securities Transaction Tax which is fully exempted u/s 10(38) tax shall be levied @ 20% of such gain u/s 112;
d. On balance total income tax is to be calculated at scheduled rates.

f. In case the balance total income is less than the exempted limit of Rs.1,00,000 the difference between actual balance income and Rs.1,00,000 shall be adjusted from short term capital gain if there is no long term capital gain and if there is long term gain it shall be adjusted from such long term capital gain and balance capital gain shall be taxed at prescribed rates as per above.

g. Deduction u/s 80C to 80U are also not admissible out of short/long term capital gain.

DEDUCTION FROM TAXABLE INCOME

These deductions are divided under two categories

a. Deductions in respect of certain payments.

b. Deductions in respect of certain incomes.

DEDUCTIONS IN RESPECT OF CERTAIN PAYMENTS

1. Deduction regarding approved savings in P.F. Life Insurance Premium, etc. etc. [Sec 80C]

2. Deduction in respect of contribution to Pension Fund [Sec 80CCC]

3. Deduction in respect of contribution to pension scheme of Central Government [Sec 80CCD]
4. Restriction on total amount of deductions u/s 80C, 80CCC and 80CCD [Insertion of new Section 80CCE]

5. Deduction in respect of Medical Insurance Premia [Sec 80D]

6. Deduction in respect of maintenance including medical treatment of a dependent that is person with disability [Sec 80DD]

7. Deduction in respect of medical treatment, etc., [Sec 80DDB]

8. Deduction in respect of interest on loan taken for higher education. [Sec 80E]

9. Deduction in respect of donations to certain funds, Chartable Institutions etc., [Sec 80G]

Qualifying amount for deduction U/s 80C

1. Own contribution to P.F.
If S.P.F.. fully qualifies [Govt.. LIC. University. SBI. RBI etc.]
If R.P.F.. fully qualifies.
If P.P.F.. fully qualifies. Account can be in the name of self, spouse or any child If U.R.P.F.. does not qualify.

2. Any amount contributed by employee towards Approved Superannuation fund Fully qualifies.

3. Life insurance Premium paid by employee or by employer to assure life of employee, his spouse or children (minor or major, married or unmarried) shall qualify up to actual premium paid or 20% of sum
assured whichever is less. Sum assured shall not include bonus or any premium agreed to be returned.

4. Any amount deducted from the salary payable by or on behalf of the Government to any individual in accordance with the conditions of his service, for the purpose of securing to him a deferred annuity or making provision for his spouse or children, in so far as the sum so deducted does not exceed one-fifth of the salary.

5. Any amount contributed to keep in force a contract for a deferred annuity, not being an annuity plan referred to in clause (12). The persons on whose name savings can be made are in the case of an individual, the individual, the wife or husband and any child of such individual. Such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of the annuity;

6. Any amount deducted by employer (Govt.) out of employee's salary under group insurance scheme fully qualifies.

7. Any amount invested by a person with UTI or LIC under Unit Linked Insurance Plan (ULIP) fully qualifies.

8. Any amount invested in NSC VIII issue fully qualifies,

9. Interest Accrued on NSC VIII issue Purchased earlier is deemed to be reinvested hence fully qualifies.
10. Any amount deposited under notified deposit scheme 92 fully 
    qualifies.

11. Any amount paid to LIC under New Jeevan Dhara, New Jeevan 
    Dhara I, or New Jeevan Akshay, New Jeevan Akshay I, New Jeevan 
    Akshay II plans fully qualifies.

12. Any amount deposited with mutual fund under a scheme of pension 
    fund i.e. UTI retirement Pension Fund shall fully qualify.

13. Any amount deposited with nationalised bank under home deposit 
    scheme of National Housing Bank fully qualifies.

14. Any amount deposited with an authority engaged in housing 
    development or town and rural development fully qualifies.

15. Any amount deposited with housing finance institutions fully 
    qualifies.