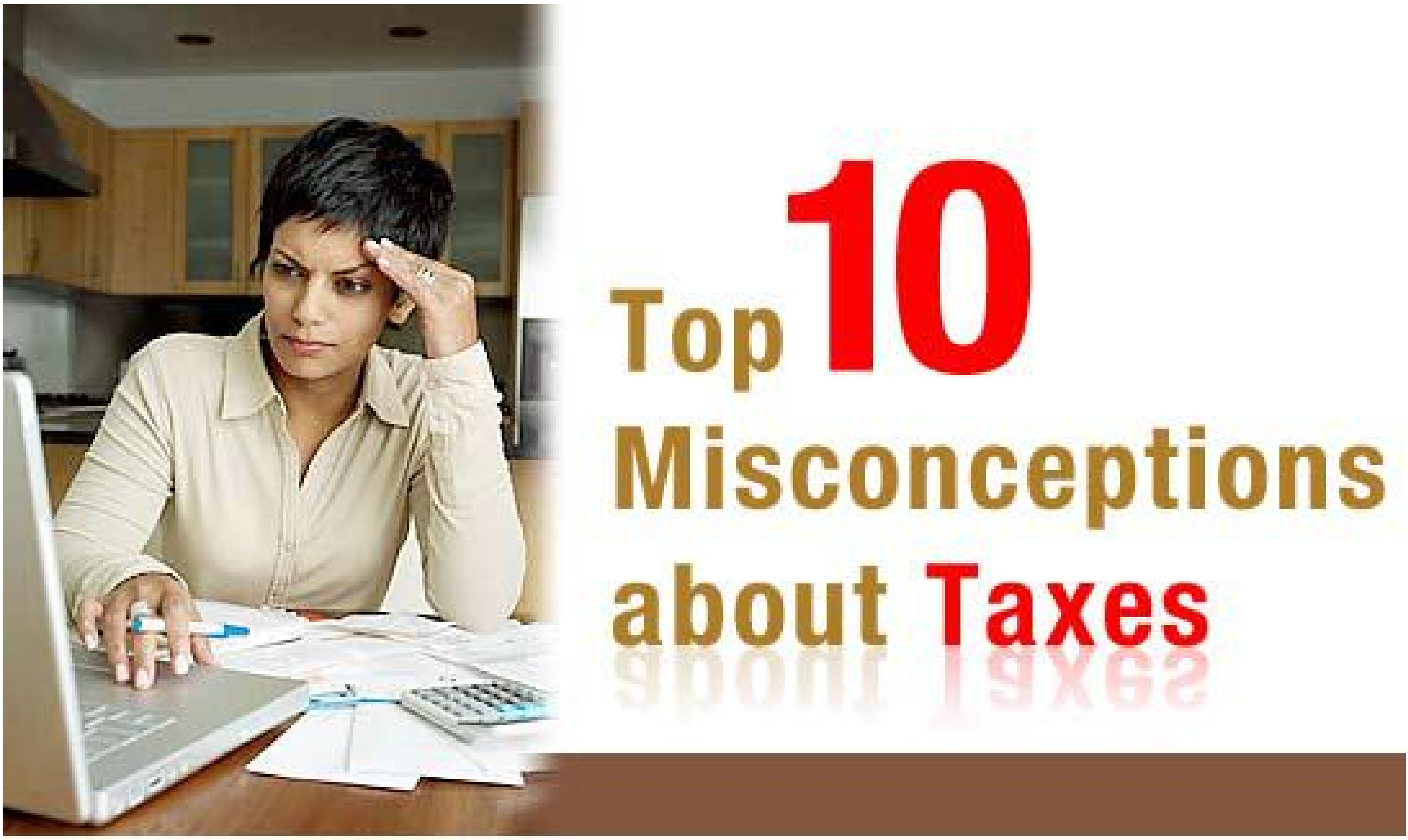


Do you need to file

Tax returns?

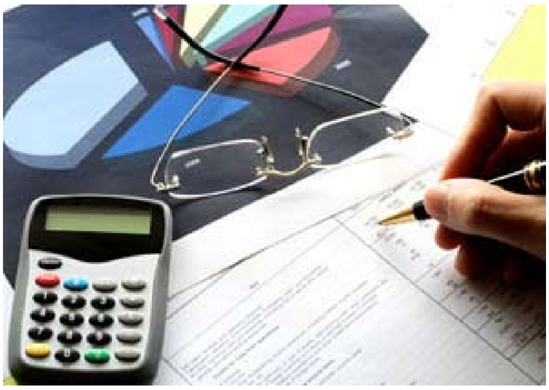
How do you file them?

Misconception 1

My employer has deducted tax at source from my paycheck and thus I don't have to worry about filing tax returns.

Just because taxes have been paid on your behalf does not mean that filing a tax return is not required. If your combined annual income from all sources is above the amount that is exempt from income tax you are required to file your returns. Your employer gives to you a statement called Form 16 at the end of the financial year that shows the amount of tax that has been deducted at source. You will need to put the tax deduction amount shown on the Form 16 on your tax return form. Therefore, it is important to ensure that you obtain this statement from your employer on time.

Misconception 2



Filing tax returns is a complex and cumbersome process. I need a Chartered Accountant to help me file my tax returns.

Contrary to popular belief preparing and filing a tax return is actually quite simple. In fact if you have a digital signature you can accomplish the entire process sitting at home on your computer thanks to the e-filing facility available you can submit the returns online, print a one-page receipt, sign it and drop it off at the income tax office within fifteen days of submitting the returns. No documents are required to be submitted with the receipt. If you so desire, you can fill out the forms on your own. However, if you want professional help there are many third party service providers who offer tax preparation and filing services for as low as Rs.200. Housing and tax

Misconception 3

The interest I pay on a home loan is deductible from my income from house property up to a maximum of Rs. 1,50,000 per year.

This is true if you have taken a home loan for a single house and it is self-occupied. However, if you take a home loan on a second house, the entire interest paid on the loan can be claimed as a deduction from your income on house property. If you are planning to invest in real estate with the expectation that the property would appreciate in value over time, you could take advantage of the above rule. Thus a smart investment strategy would be to take a home loan on a second house, rent out the house and claim interest paid on the loan as a deduction from the rental income, thereby reducing your borrowing costs significantly.

Misconception 4

I receive tax exemption on the actual rent I pay for my rented home.

This is not entirely accurate. Section 13 A of the Income Tax Act states that the maximum amount that is exempt from tax is the lower of the following amounts:

(i) The House Rent Allowance given by the employer

(ii) 50% of your basic salary if you live in a metro

(iii) Or, actual rent paid minus 10% of your basic salary.

Thus if actual rent paid is lower than 10% of your basic salary you receive no exemption. The other key point is that you cannot claim any exemption under this section if you live in your own home or if you are not paying rent to anyone.

The magical 80's

Misconception 5

Section 80C benefits are available only on making an investment or saving or paying a premium on insurance.

You can claim a deduction for the school or university tuition fees you pay for your children (maximum of two) as long as they are enrolled in a full time program at any institute in India. In addition you can claim a deduction for the repayment of principal on any home loan that you may have taken. Both these deductions have to of course be within the overall annual Section 80C cap of Rs.1lakh.

Misconception 6

If I avail of tax free medical reimbursement from my employer up to Rs.15,000, I cannot claim deduction on health insurance premium paid.

Tax free medical reimbursement by your employer

up to an amount of Rs.15,000 per year for your family's medical expenditure is separate from the Rs.15,000 deduction available under Section 80D for the premium you pay on buying health insurance. Both these exemptions are covered under different sections of the Income Tax Act and you can enjoy benefits from both. The former covers costs for your daily medical needs and outpatient treatment (OPD), while the latter protects you from expenditure for hospitalization.

Misconception 7

My friends tell me that the only interest payment I can claim an exemption for is the interest paid on home loans.

There is a section of the Income Tax Act called 80E that permits deduction on interest paid on loans taken for higher education for self, spouse and children. There is no limit on the amount of deduction you can claim. The only thing to keep in mind is that the program for which the loan

is taken should be a graduate or post-graduate program in engineering, medicine or management or a post-graduate course in the pure or applied sciences.

Interest income and others

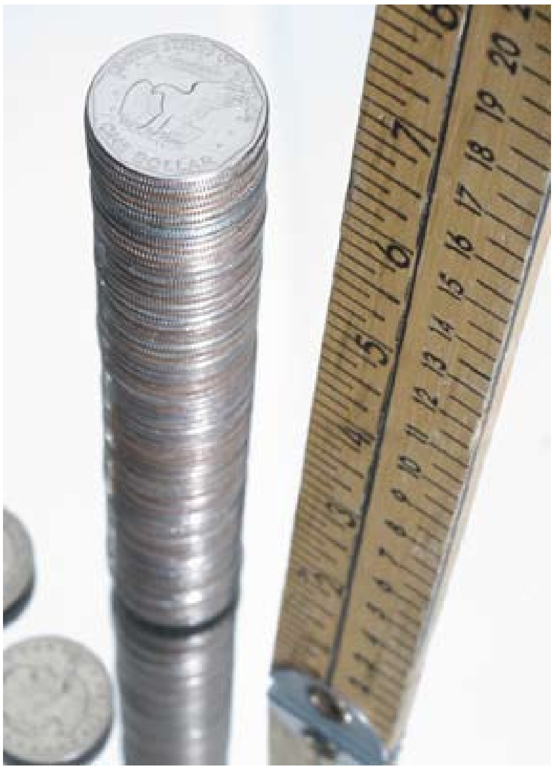
Misconception 8

Interest I earn on my savings account balance is exempt from income tax.

After the removal of Section 80L of the Income Tax Act, interest income from any source including savings account balance, is subject to income tax. What you may be referring to is the rule around tax deducted at source for the interest payments you receive on your savings account. As per existing rules, as long as the combined interest income that you earn, on any savings accounts or fixed deposits, at a single bank branch, is less than Rs.10,000 there will be no tax deducted at source. If you want to better manage your cash flow and do not want tax to be deducted at source you could consider spreading your deposits across multiple bank branches, even if they are of the same banking company.

Misconception 9

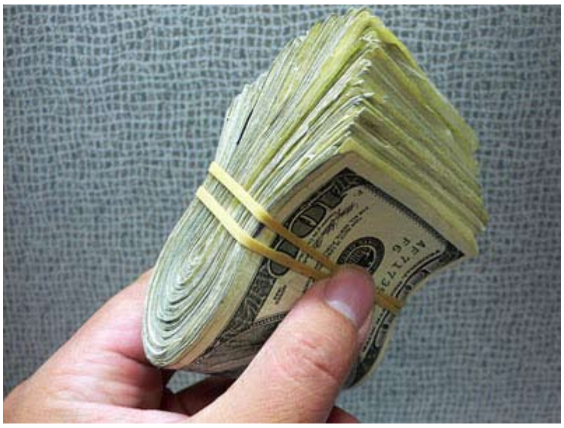
I have to pay taxes on interest received from my fixed deposits only on maturity.



Your tax liability on interest income from your fixed deposit is calculated on an accrual basis. Let's say that you have made a fixed deposit for three years and have elected not to receive any regular interest payouts and instead have decided to receive a lump sum payout on maturity after three years. That does not mean that you are not liable to pay income tax annually on the interest that is credited to your fixed deposit account every year, even though you do not have access to that interest income.

Misconception 10

I received cash as a gift from a close friend. I do not have to pay any tax.



You are right as long as the amount was less than Rs.50,000 during the financial year. The applicable rules for gift tax state that any cash gifts, without any upper limit, received from specified relatives are exempt from income tax. However, if you receive a cash gift from a friend, which exceeds Rs.50,000 in one financial year, you are liable to pay income tax on the excess amount. However, the good news is that cash gifts received during your marriage, of any amount, and from anyone are totally free from income tax.