TAX GUIDE

2012-13

THE WAY FORWARD - How to go about tax planning for 2012-13

- *Identify a financial planner best qualified for the job; if required get references from friends, acquaintances*
- *Involve your family members who understand the implications*
- *Set a deadline for execution*
- *Write down everything, review periodically and stick to the plan*

DOS & DON'TS OF TAX PLANNING

- Common pitfalls of investing in a hurry to save tax
- A person with low risk profile invests in a fund or policy that carries high risk.
- Invests in a new policy every year not knowing that paying the yearly premium for a policy taken in the previous year can also save tax.
- Invests in multiple products, aggregate sum invested being more than what is required to get the maximum tax benefit available.
- Enters a market-linked product at a high price since everyone is rushing to invest, and money managers keep deploying funds.
- Misses out on investments that offer higher post-tax returns than the ones which save taxes but offer lower post tax returns on a net basis.

THINGS TO REMEMBER WHILE MAKING A FINANCIAL PLAN

- Don't look at it only as a yearly exercise to save taxes; see this as part of your and your family's long-term financial planning.
- Get a financial wrapper: Prefer to have a single financial advisor /planner to help you with all your investments, rather than different person selling different products to you.
- Your tax and financial planning is not only for you. It is also for your family. So involve your family members during the planning stage. It enhances financial bonding within the family.
- Tax and financial planning is your responsibility, and not the responsibility of your financial planner. So get fully involved in the exercise, ask questions and at times may be you can even agree to disagree to get the best out of the situation.

MEET SHORT & LONG TERM GOALS WITH TAX PLANNING

Every year the Government opens up new options for tax savings to encourage the tax payers utilize their monies better! However, most of the time, tax payers tend to put off saving plans to the last minute and miss out the right investment opportunities.

Here is a list of tax saving options that will meet your long term and short term financial goals

"In this world nothing can be said to be certain, except death and taxes" – Benjamin Franklin. While we cannot do anything with death, we can certainly reduce the burden of taxes by intelligent planning.

Tax Saving Options

A little bit of planning can give you the twin benefit of sound investment combined with tax benefits.

Let's look at some of the saving options available in the market currently:

Deduction of 1 lakh under 80C :

This allows people to invest up to 1 lakh in various assets. The tax payer can deduct this amount from his taxable income. Options available under this are EPF, PPF, Insurance plan, Pension plan, ELSS with a lock in of 3 years, ULIP with a lock in of 5 years, bank fixed deposits with a lock in of 5 years, and few Government schemes such as national savings certificate, Kisan Vikas Patra, post office deposits etc. Let's take a look at the typical returns given by various instruments.

Instruments	Average returns	Details
EPF	8.50%	The EPF is handled by employee and employer by sharing the investment in equal proportion.
PPF	8.00%	This can be taken from any bank or post office. Limit is 70,000 per year and term is 15 years.
NSC, Post Office, KVP	7.5% - 8.0%	These are Government schemes and can be bought from banks, post office or any broker. The interest is taxable. The term is usually 5-10 years.
ELSS	12% - 18%	This is a mutual fund with a lock in period of 3 years. Returns are non-taxable because of 3 year lock in period which falls under long term capital gains.

EPF and PPF are the best investments because the interest earned is tax free. They are also called risk free because both are guaranteed by the Government of India and there is virtually no risk of default. The only drawback is their long term nature. In a way, the long term nature is good because it imposes financial discipline.
NSC, KVP, and Post office savings are other options but the interest earned is taxable. The advantage is their short term maturity. You should look at individual plan's lock in period.
ULIP is a good option but the charges are humongous. After the change in ULIP structure by IRDA, this will be a better option. However there is apprehension that ULIP funds will be more conservative in investing and hence returns will be less.
Clearly, ELSS is best instrument for long term investment. It not only saves taxes but also provides highest returns among them. The risk is also high in this case as the returns are market linked. There are immense varieties of ELSS available in the market and investors can look at the debt and equity proportion to decide the suitable ELSS for investment.
You must do some research in ELSS to find out the right fund house for your investment. Take a look at the past returns data – the last five years and an overview of the returns since inception of the fund to have a basic idea of the trends that can be expected.

Other Deductions

Interest and Principal on Home loan:

The principal portion of the home loan is deductible under 80C subject to 1 lakh limit. The interest can be deducted up to 1.5 lakhs.

Education Loan:

Your education loan can be used for tax saving purpose as the interest on the education loan is deductible under the clause 80E.

Health Insurance:

You can claim up to 15000 under health insurance mediclaim clause 80D.

Infrastructure Bonds:

The Government has provided another option this year, under the income tax clause 80CCF, in the form of infrastructure bond where you can invest up to 20,000 and claim for deduction.

Others:

Under clause 80DD, if you have dependents who are disabled, you can further get a deduction from 50,000 to 1 lakh depending upon the severity of the case. At the same time, donation can be deducted from the income under clause 80G.

You should choose the tax saving investment carefully. This should be a planned exercise by keeping your short term and long term requirement in view and not a last minute decision to save the taxes. Remember that saving tax is a legitimate goal of investment but return on investment supersedes everything.

The Government of India is going to change the tax regime from April 2012 that will take out any equity linked tax saving schemes. The new tax regime will not have ULIP, ELSS, FD, NSC, insurance plan with return component, and post office savings under tax saving instruments. The tax saving schemes under direct tax regime will only limit to provident fund, new pension scheme, pure term insurance plan, and other Government scheme as per directed.

There may be changes in this when it is implemented.

QUICK GUIDE TO FILING TAX RETURNS

After having identified your sources of income, you need to select the right income tax form. Forms have been categorized on the basis of streams of income. The income tax website clearly specifies which form to pick, depending on your stream of income. For .e.g. if you are a salaried individual and have only salary and income from other sources as your source of income, then you need to pick ITR-1.

We are ten days away from the deadline of filing income tax returns. You now need to get your act together if you haven't yet done the groundwork to file your returns.

Here is a quick guide of the steps you should follow to ensure that you are able to meet the deadline without any hassles.

IDENTIFY ALL YOUR SOURCES OF INCOME

Income can be from various sources such as salary, business, renting of a owned house, capital gains on share trading or sale of immovable property, fees for consultancy services rendered or from other sources such as bank interest. The first step is to identify all your sources of income.

ENSURE THAT IMPORTANT DOCUMENTS ARE HANDY

You will need to have some documents in place which will help in filling the form. For income from salary, Form 16 is needed, for capital gains on shares, transaction documents may be needed and for income from other sources, bank passbook and other supporting documents may be needed. Make sure you keep all the documents handy so that lack of information/insufficient does not obstruct your return filing process.

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ARRIVE AT YOUR TAXABLE INCOME NUMBER

In order to arrive at your taxable income number, you need to add all your sources of income which will give you your gross total income number; and then subtract the deductions available under Section VI-A of the Income tax Act from the gross total income. The number you arrive at will be your taxable income. The deductions available under Section VI-A of the Income tax Act pertain to section 80 of the Income tax Act.

CALCULATE TAX PAYABLE

In order to assess the tax you need to pay to the income tax authorities, subtract tax deducted at source (TDS) from the tax liability calculated above. The balance will be the amount you need to pay. You should pay the same to the Income tax authorities. The same can be done online or you can pay cash at any designated bank branch or by cheque at a bank branch where you have an account. You will get a receipt number also called the challan number which is required to be quoted in your income tax return form.

In cases where the TDS is greater than your tax liability, you will be eligible for a tax refund. For the same, you need to clearly specify your bank account number and in case you want an electronic refund, the MICR code needs to be mentioned.

INFORMATION ON EXEMPT INCOME AND ANNUAL INFORMATION RETURN

The income tax authorities require you to disclose exempt income received during the financial year and all transactions crossing a particular threshold under Annual information return. This section is as important as all other details that need to be filled. So make sure adequate importance is given to it.importance is given to it.