Tax Planning tips for Individuals FY 2020 - 2021

IFE Academy

Education Simplified

Investors Financial Education Academy

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The Power of COMPOUNDING

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STARTING EARLY WORKS TO YOUR ADVANTAGE.
And the earlier you start saving, the more powerful that advantage can be.

Amrita - Age 30

Starts Investing

₹ 5,000

from her monthly salary

₹18 lacs invested over 30 years

Jeniffer - Age 45

Starts Investing

₹ 10,000

from her monthly salary

₹18 lacs invested over 15 years

At Age 60

Amrita	**Rs. 1,01,65,176**
Jeniffer	**Rs. 39,59,486**

Assumes 9.50% annual investment return, which is not representative of the performance of any investment.

Amrita accumulated Rs.62 lakhs more than Jennifer

- START EARLY
- SAVE REGULARLY
- BE CONSISTENT

Maximise the power of compounding.

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Tax Planning tips for Individuals

FY 2020 - 2021

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Objectives of Tax Planning

Tax planning is a focal part of financial planning. It ensures savings on tax while simultaneously conforming to the legal obligations and requirements of the Income Tax Act, 1961. The primary concept of tax planning is to save money and mitigate a person's tax burden.

Importance of Tax planning

1. Tax planning facilitates the smooth functioning of the financial planning process.
2. Compliance regarding tax payment reduces legal hassles.
3. Tax planning helps to reassign the taxable income to various investment plans.
4. Promotes economic stability.

Tax Rate for Individual Taxpayers for FY 2020-21 (AY 2021-22)- OLD TAX REGIME

Individual taxpayers in India can be classified as the following, for the purpose of income tax:

- Individuals less than 60 years of age (Residents & Non-residents)
- Individuals between 60 and 80 years of age or Senior Citizens (Residents)
- Individuals above 80 years of age or Super Senior Citizens (Residents)

Income Range	Tax to be paid (Less Than 60 Years Old)
Income up to 2.5 Lakh	No tax
Income from 2.5 Lakh – 5 Lakh	5% of income above Rs. 2.5 lakhs
Income from 5 Lakh – 10 Lakh	Rs. 12,500+ 20% of income above Rs. 5 lakhs
Above 10 Lakh	Rs. 1,12,500+ 30% of income above Rs. 10 lakhs

Income Range	Tax to be paid (More Than 60 Years, Less Than 80 Years Old)
Income up to 3 Lakh	No tax
Income from 3 Lakh – 5 Lakh	5% of income above Rs. 3 lakhs
Income from 5 Lakh – 10 Lakh	Rs. 10,000 + 20% of income above Rs.5 lakhs
Above 10 Lakh	Rs. 1,10,000 + 30% of income above Rs.10 lakhs

Income Range	Tax to be paid (More Than 80 Years Old)
Income up to 5 Lakh	No tax
Income from 5 Lakh – 10 Lakh	20% of income above Rs. 5 lakhs
Above 10 Lakh	Rs. 1,00,000 + 30% of income above Rs.10 lakhs

There is an additional 4% Health & Education cess that needs to be paid on every front on the amount of income tax and surcharge being paid. Surcharge will be applicable based on Individual's Income Slab.

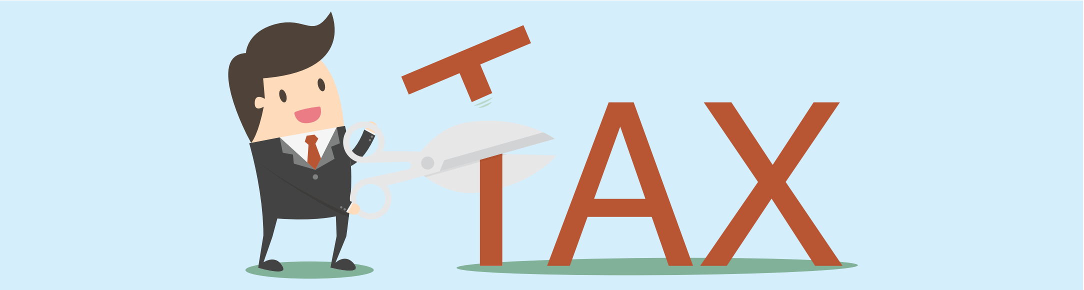
Tax Rate for Individual Taxpayers for FY 2020-21 (AY 2021-22) - NEW TAX REGIME

Income Tax Slab	Tax rates as per new regime
₹0 - ₹2,50,000	Nil
₹2,50,001 - ₹ 5,00,000	5%
₹5,00,001 - ₹ 7,50,000	₹12500 + 10% of total income exceeding ₹5,00,000
₹7,50,001 - ₹ 10,00,000	₹37500 + 15% of total income exceeding ₹7,50,000
₹10,00,001 - ₹12,50,000	₹75000 + 20% of total income exceeding ₹10,00,000
₹12,50,001 - ₹15,00,000	₹125000 + 25% of total income exceeding ₹12,50,000
Above ₹ 15,00,000	₹187500 + 30% of total income exceeding ₹15,00,000

List of Tax exemptions and deductions allowed and disallowed under NEW TAX REGIME:

Exemptions and deductions "not allowed" under New tax regime.	Tax deductions "allowed" under new Tax rate regime.
1. Leave Travel Allowance (LTA) 2. House Rent Allowance (HRA) 3. Conveyance allowance 4. Daily expenses in the course of employment	1. Transport allowance for specially disabled people 2. Conveyance allowance for expenditure incurred for travelling to work

Exemptions and deductions "not allowed" under New tax regime.	Tax deductions "allowed" under new Tax rate regime.
5. Relocation allowance 6. Helper allowance 7. Children education allowance 8. Other special allowances [Section 10(14)] 9. Standard deduction on salary 10. Professional tax 11. Interest on housing loan (Section 24) 12. Deduction under Chapter VI-A deduction (80C, 80D, 80E and so on) (Except Section 80CCD(2))	3. Investment in Notified Pension Scheme under section 80CCD(2) 4. Deduction for employment of new employees under section 80JJAA 5. Depreciation u/s 32 of the Income-tax act except additional depreciation. 6. Any allowance for travelling for employment or on transfer



Tax Exemptions and Deductions under the Old Tax Regime

The older tax regime offered high rates but lot of options to reduce the tax liabilities and save for long term. While exemptions are part of one's regular salary, deductions extend opportunities to lower the tax burden by investing, making savings or purchasing specific items. One of the biggest deductions comes under Section 80C up to Rs.1.5Lakh. Most common exemptions and deductions taxpayers can benefit from are –

Exemptions	Deductions
House Rent Allowance	Public Provident Fund & Employee Provident Fund
Leave Travel Allowance	ELSS (Equity Linked Saving Scheme)
Mobile and Internet Reimbursement	Saving Account Interest
Food Coupons or Vouchers	Life Insurance Premium
Company Leased Car	Principal and Interest component of Home Loan
Standard Deduction	Children Tuition Fees
Uniform Allowance	Health Insurance Premiums
Leave Encashment	Investment in NPS
	Donations
	Medical expenditure incurred for Parents

TAX Allowances

Allowances available in F.Y. 20-21

- **Standard Deduction- Rs.50,000/-** (For salaried Person)
- **House Rent Allowance- Least of the following is eligible for deduction**

  a) Total HRA or House Rent Allowance received

  b) Total amount of rent that is paid minus 10% of (Basic Salary + Daily Allowance)

  c) 50% of the total salary for metro-cities and 40% for non-metros

- **Leave Travel Allowance-**

  By this allowance, the bills of travel of an individual can be claimed for exemption against LTA. In a block of four years, can claim LTA twice.

Deductions available for the individuals in the F.Y. 20-21:

❖ **Section 80 C- Tax saving Investments:**

Section 80C of the Income Tax Act is a clause that points to various expenditures and investments that are exempted from Income Tax. It allows for a maximum deduction of up to Rs. 1.5lakh every year from an investor's total taxable income. Under this section, individuals can invest in several savings schemes to claim deductions on their taxable income. It basically allows certain expenditures and investments to be exempt from tax. The following are the various investments which allow for deduction of up to Rs 1.5lakhs under Section 80C of Income Tax Act:

❖ **Employee Provident Fund (EPF):**

EPF is a retirement benefit scheme done with employee's contribution. This amounts to 12% of salary plus Dearness allowance that is deducted by an employer and deposited in the EPF.

Eligibility: Can be opened by employee with basic salary greater than 15,000 /month

Rate of Interest: Interest rate on EPF is 8.5%.

Lock-in period - 5 years

Tax Treatment- The contribution towards EPF of up to 12% is eligible for deduction under Section 80C of Income Tax and is taxable if it exceeds 12% under old tax regime. If new tax regime is opted, then it will not be eligible to claim deduction under Section 80C.

- **Public Provident Fund (PPF):**

  The PPF scheme is one of the most popular long-term saving-cum-investment products, mainly due to its combination of safety, returns and tax savings. The least that can be contributed towards PPF is Rs.500 and the maximum contribution allowed is Rs.1.5lakh.

Eligibility: Can be opened by Resident Indian individuals, salaried and non-salaried individuals. A HUF cannot open a PPF account.

Rate of Interest: Interest rate on PPF is 7.1%

Lock-in period: 15 years

Tax Treatment: The amount that is being contributed towards PPF is eligible for tax deductions under Section 80C of the Income Tax Act under old tax regime.

- **National Saving Certificate (NSC):**

  The National Savings Certificate is a fixed income investment scheme that can be opened with any post office. This scheme was initiated by Government of India in order to encourage savings by small to mid income investors even by saving income tax. The minimum amount of money that can be invested in this certificate is Rs.100 and there is no maximum limit on the amount of investment.

Eligibility: No age limit.

Rate of Interest: Interest rate on NSC is 6.8%

Lock –in period - 5-10 years

Tax treatment- The amount you invest in National Savings Certificate is eligible for tax deductions under Section 80C of the Income Tax Act.

- **ELSS:**

  ELSS is a type of mutual fund scheme that primarily invests in the stock market or equity. It's a category of mutual fund which helps in saving taxes. ELSS offers you dual advantage of capital appreciation as well as tax saving. Investment can be made from Rs 100 a month there is no maximum limit on the amount of investment.

Eligibility: Can be opened by Resident Indian individuals, salaried and non-salaried individuals.

Lock-in period - 3 years

Tax treatment- Under section 80C, one can avail tax benefit of up to Rs 46,800 by investing in ELSS. Tax benefit cannot be availed on the investment exceeding ₹1.5lakh.

- **Tax saving Fixed deposits:**

  Tax-saving FD is one of the tax saving instruments where one can invest to save tax under section 80C of the Income Tax Act. Returns on a tax saving FD are also guaranteed contractually by the lender (the bank or post office) and fixed for the term of the FD. The Minimum investment limit is Rs 1000.

Eligibility: Can be opened by Resident Indian individuals.

Lock- in period: 5 years.

Rate of Interest: FD interest rate across different banks ranges from 5.5% to 7.75%

Tax Treatment: Interest earned in these tax savings FD is taxable.

- **Sukanya Samriddhi Yojana:**

  Sukanya Samriddhi Yojana Scheme is one of the most popular schemes by the Government of India. The scheme is aimed at the betterment of girl child in the country

Eligibility: Parents/guardians can open an account in the name of a girl child till she attains the age of 10 years

Lock-in period- The account shall mature on completion of 21 years from the date of opening of the account.

Rate of Interest: Interest rate on Sukanya Samriddhi Yojana from 7.60%

Investment Limit: Investment is limited to maximum Rs.1,50,000 in a financial year

Tax Treatment: Investment and withdrawals & maturity amount are tax-free

❖ Section 80CCC – Life Insurance Premium

Section 80CC provides a deduction to an individual for any amount paid or deposited in any annuity plan of LIC or any other insurer. The plan must be for receiving a pension from a fund referred to in Section 10(23AAB). Pension received from the annuity or amount received upon surrender of the annuity, including interest or bonus accrued on the annuity, is taxable in the year of receipt.

❖ Section 80CCD – Pension Contribution

- Employee's contribution under Section 80CCD (1)

This provision is applicable to all the employees and to those people who are self- employed.

The deduction u/s 80CCD (1) quantified as follows:

i) For Employees – 10% of his salary in the previous year

ii) For Self Employed Person – 20% of his gross total income in the previous year

- Deduction for self-contribution to NPS – section 80CCD (1B)

A new section 80CCD (1B) has been introduced for an additional deduction of up to Rs 50,000 for the amount deposited by a taxpayer to their NPS account. Contributions to Atal Pension Yojana are also eligible.

- Employer's contribution to NPS – Section 80CCD (2)

The provisions under Section 80 CCD (2) come into effect when an employer is contributing to the NPS of an employee. This deduction allows salaried individuals to claim deductions up to 10% of their salary which includes the basic pay and dearness allowance.

Tuition fees paid for school:

Section 80C of the Income Tax Act has provisions for tax deductions on tuition/education fees paid by a parent towards educating their children. Taxpayers can avail deductions of Rs 1.5lakh. Parents can claim the tuition fee paid by them towards their children's education as deductions, and can claim the actual fee paid by them in a particular financial year. An individual taxpayer cannot claim the fee paid towards educating more than 2 children as deduction.

❖ **Section 80CCE- Aggregate Deduction**

The Section 80CCE allows individuals to deduct up to Rs 1.5lakh from their gross total income that are invested in specified avenues like Section 80C, 80CCC, 80CCD. According to the section 80CCE, the maximum aggregate deduction that can be claimed under section 80C, section 80CCC and section 80CCD (1) cannot exceed more than Rs 1.5lakhs.

❖ **Section 80 D- Health Insurance**

Under this section, taxpayers are offered deductions on the premium paid towards health insurance policies. Under Section 80D, a taxpayer can claim the following amounts as deductions:

- Avail up to Rs25,000 on the premium paid towards health insurance for self, children, or spouse
- Avail up to Rs50, 000 if parents are also covered under the health insurance plan. If parents are not covered under Insurance, money spent on medical expenditure can be claimed.
- If either of the parents belongs to the senior citizen bracket, then a maximum deduction of Rs75, 000(25000 +50000) is allowed.

❖ **Section 80E- Education loan:**

Section 80E offers tax deductions on the interest paid for an education loan. These deductions can be claimed for eight years starting from the date of repayment. There is no upper limit on the deductible amount. This means that tax payer claim the entire amount paid as interest from the taxable income. The benefit of this deduction can be availed by both parent and child. This means the person who is repaying the education loan, whether child or parent, can claim the deduction.

❖ **Section 80 EEA- Interest on Home loan:**

Interest paid on housing loan is allowed as a deduction to the extent of Rs 2lakhs in respect of self-occupied property. Further an additional deduction of Rs 1.5lakhs for interest paid on loans taken for purchasing an affordable house up to Rs 45lakhs in value. An individual purchasing an affordable house, get an enhanced interest deduction up to Rs 3.50 lakhs.

❖ Section 80 TTA – Interest on Savings Account

Individual or an HUF, may claim a deduction of maximum Rs 10,000 against interest income from the savings account with a bank, co-operative society, or post office. This deduction is not available on interest income from fixed deposits, recurring deposits, or interest income from corporate bonds.

❖ Section 80GG – House Rent Paid

House Rent Paid where HRA is not received, deductions would be the least of the following:

- Rent paid minus 10% of adjusted total income
- Rs 5,000/- per month
- 25% of adjusted total income

Adjusted Gross Total Income is arrived at after adjusting the Gross Total Income for certain deductions, exempt income, long-term capital gains and income related to non-residents and foreign companies.

❖ Section 80 TTB – Interest Income earned by Senior citizens

Deductions with respect to interest income from deposits held by senior citizens will be allowed. The limit for this deduction is Rs.50, 000.

SUMMARY OF DEDUCTIONS:

Section	Essentials	Exemption Limit
80C	Investments in EPF,PPF, NSC, ELSS, Tax saving FD, Sukanya samriddhi yojana	Up to Rs 1,50,000
80CCC	Life Insurance Premium	Pension received from the annuity or amount received upon surrender of the annuity, including interest or bonus accrued on the annuity, is taxable
80CCD(1), (1B), (2)	Pension contribution	For Employees – 10% of his salary in the previous year ii) For Self Employed Person – 20% of his gross total income in the previous year and additional deduction of up to Rs 50,000.
80 D	Health Insurance	Rs25,000- for self, children, or spouse Rs50, 000- parents Rs 75000(25+50) - self, children, spouse & senior citizen parents.
80E	Education loan	Full amount can be claimed
80 EEA	Interest on home loan	Up to Rs 3,50,000
80 TTA	Interest on Saving Account	Rs 10,000
80GG	House rent paid	Rent paid minus 10% of adjusted total income Rs 5,000/- per month 25% of adjusted total income.
80 TTB	Interest Income earned by Senior citizens	Rs 50,000

Changes introduced in the budget on Taxability of Dividends in the hands of investor:

The dividends received until 31 March 2020 (FY 2019-20) is tax-exempted. This exemption was because the company or mutual fund paying the dividend was required to pay a dividend distribution tax. Budget 2020 has changed the method of taxation by imposing the liability to pay tax on the shareholders instead of the company.

- The dividends distributed by companies and mutual funds on or after 1 April 2020 is taxable income of the investor.
- A deduction is allowed for interest expense incurred against the dividend. The deduction should not exceed 20% of the dividend income received. However, cannot claim a deduction for any other expenditure incurred for earning the dividend income.
- It was also proposed in the Budget 2020 that TDS on dividend income distribution by companies or mutual funds a TDS of 10% applies to the dividend income distribution per investor.
- However, no TDS is applicable if the dividend receipt from a company or mutual fund does not exceed Rs 5,000 annually. For the FY 2020-21, the rate of TDS stands reduced to 7.5% for dividends paid till 31 March 2021.

Advance Tax

Requirements for Advance Tax:

Who are liable to pay?

Every person whose estimated tax liability for the year is Rs.10, 000 or more, is liable to pay tax in advance in the form of "Advance Tax".

Persons who are and not liable to pay Advance Tax:

- A resident senior citizen (an individual of age 60years or more) not having income from business or profession is not liable to pay advance tax.
- Normal tax rates are applicable to the individuals below the age of 60years.
- Advance tax for salaried employees would be deducted by the employer however other income of sources earned by the individual, advance tax is to be paid.

When to Pay Advance Tax for FY 2020-21?

Payment of Advance Tax

- First Instalment- by 15th June every year has to pay 15% of tax liability.
- Second Instalment- by 15th September has to pay 45% of tax liability.
- Third Instalment- by 15th December has to pay 75% of tax liability.
- The fourth Instalment- by 15th March has to pay 100% of tax liability.

Illustration:

Mr. Suresh receives a Basic Salary of Rs 1, 00,000 per month. HRA of Rs 50,000. Special Allowance of Rs 21,000 per month. LTA of Rs 20,000 annually. He pays a rent of Rs 40,000 and lives in Delhi.

Nature	Amount	Exemption/Deduction	Taxable(Old regime)
Basic Salary	12,00,000	-	12,00,000
HRA	6,00,000	3,60,000	2,40,000
Special Allowance	2,52,000	-	2,52,000
LTA	20,000	12,000 (bills submitted)	8,000
Standard Deduction	-	50,000	50,000
Gross Total Income from Salary			**17,50,000**

Also from Mr Suresh have income from interest from savings account of Rs 8,000 and a fixed deposit interest income of Rs 12,000 during the year. He has made some investments to save income tax PPF deposit Rs 60,000, ELSS investment Rs 40,000, LIC premium Rs 15,000, Sukanya samridhi Rs 15,000, NSC of Rs 20,000. Medical insurance paid of Rs 12,000. Here are the deductions Suresh can claim under the old tax regime.

Nature	Maximum Deduction	Eligible investments/ expenses	Amount claimed by Suresh
Section 80C	Rs.1,50,000	PPF deposit Rs 60,000, ELSS investment Rs 40,000, LIC premium Rs 15,000, Sukanya samuridhi Rs 15,000, NSC Rs 20,000	Rs 1,50,000
Section 80D	Rs 25,000 for self Rs 50,000 for parents	Medical insurance premium Rs 12,000	Rs 12,000
Section 80TTA	10,000	Savings account interest 8,000	Rs. 8,000

Calculation of gross taxable income in India (Old regime)

Nature	Amount	Total
Income from Salary	17,50,000	
Income from Other Sources	20,000	
Gross Total Income		17,70,000
Deductions		
80C	1,50,000	
80D	12,000	-
80TTA	8,000	1,70,000
Gross Taxable Income		**16,00,000**

With these simple steps, you can calculate the income tax payable for the assessment year 2020-21. It's important to pay your tax and file your IT returns on time, so you can avoid facing penalties and additional interest charges.

About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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