

TAX PLANNING AND TAX SAVING INSTRUMENTS

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Abstract - Tax planning is something that analyses the financial situation to ensure that all the things work together to allow an individual to pay the lowest taxes possible. A plan that minimizes how much you pay in taxes is referred to as tax efficiency. Tax planning should be an essential part of an individual investor's financial plan. Purpose of this study is to understand tax, tax planning, tax management and to find out the most efficient way of getting tax benefits from numerous tax saving instruments.

Key Words: Tax, Tax Planning, Tax Management, Tax Saving Instruments.

1. INTRODUCTION

Tax is planned in order to minimize the payment of taxes. It is a plan of analyzing one's financial situations to make sure all elements work and helps in paying lowest taxes possible. Tax Saving decreases the tax portion which is payable to the relevant Tax department attributable to a Tax Benefit.

1.1 Tax

A mandatory financial charge imposed on an individual by the government organization to fund their spendings and expenditures is known as tax. If an individual fails to do so then he will be held punishable.

1.2 Income Tax

A type of tax that governments impose on income generated by businesses and individuals within their jurisdiction is known as income tax. It is used to pay government obligations, fund public services and provide goods for citizens.

An individual income tax or a personal income tax is a type of income tax that is charged on an individual's salary, wages and investments or any other form of income.

1.3 Tax Planning

Tax planning is nothing but an analysis of financial situations or plans, this is to ensure that everything works together to allow you to pay lowest taxes possible. This is a plan that minimizes the amount you pay in taxes, this is referred to as tax efficiency.

Tax planning plays an important role in an individual's life, therefore one must need to know how to plan it properly. Many taxpayers delay this till the last part of the year

which results into a great loss. One must start planning their saving investments at the beginning of the year, this will help them in fulfilling their long term goals. If an individual's tax saving expense covers the maximum limit which is of Rs.1.5 lakh then they will not require to invest the whole amount. An individual should keep a check on all their tax saving expenses.

1.4 Tax Avoidance

The legal use of the tax system in a single area to one's own advantage to reduce the amount of tax which is payable by the means that are within the law is known as tax avoidance.

1.5 Tax Evasion

The illegal use of taxes by organisations, trusts or individuals is known as tax evasion.

Tax evasion often necessitates taxpayers intentionally manipulating the true state of their affairs to the tax authorities to reduce their tax responsibility which includes dishonesty in tax reporting such as declaring less income, gains than the actual amount earned.

1.6 Tax Management

A planning that leads to filing of various returns on time, compliance of the applicable provisions of law and avoiding the charge of interest and penalties can be termed as efficient tax management.

It is basically an exercise by which defaults are avoided and legal compliances are secured. Tax management is a very important aspect of tax planning.

Tax Managing includes:

1. Supporting document evidencing transactions.
2. Compilation and preservation of data.
3. Timely payment of taxes.
4. Tax Deducted Source compliance.
5. Tax Collected Source compliance.
6. Acceptance of loan.
7. Payment of expenses.

8. Timely filing of statements and returns.
9. Record preservation till the prescribed limit.
10. Responding to requests from other assesseees regarding balance confirmation.

2. RESEARCH METHODOLOGY

In this research we try to understand that planning and management of our taxes is really important. We also try to analyze the best tax saving instrument among number of tax saving instruments available in the market in order to pay lowest taxes possible and get maximum benefits.

3. TAX SAVING INSTRUMENTS

Tax saving is necessary for many investors to prevent the destruction of total income generated. There are numerous instruments that provide us this facility by remarkably increasing the effective investment portfolio in our country as everyone would want to avail this opportunity.

3.1 SECTION 80C

Section 80C provides an efficient way in saving taxes, it allows deduction from gross total income of Rs.1.5 lakh per year.

3.2 SECTION 80CCD(1B)

The income tax act Section 80CCD(1B) deals with deductions offered to investors contributing to NPS.

3.3 Equity Linked Saving Scheme

Equity Linked Saving Schemes primarily focuses on tax saving, it is a popular tax saving instrument and an important market investment among the investors. ELSS works under section 80C for saving taxes, also it has earned substantial returns by gaining market advantage. Its funds invest at least 80% of total portfolio on equity securities. It yields highest returns than any other tax saving instruments available in the market. Lock in period of this instrument is 3 years and it is compulsory. To ensure substantial tax reduction on funds the following provisions are made under section 80C: If the amount is under Rs.1.5 lakh then the total principal amount invested is exempt from taxation. In the long term capital gains any capital gains less than Rs.1.5 lakh is not levied.

3.4 Public Provident Fund

Public Provident Fund is known to be one of the best tax saving instruments under section 80C. Lock-in-period of PPF is 15 years and that is mandatory. It is sponsored by the government. Though the Lock-in-period may harm the liquidity requirements of the investor. Government announces the interest rates earned every quarter and then it remains fixed till the specific time period. Returns of PPF remains fixed depending upon the interest rate set

by the Central Government. In a PPF account one can invest around 1.5 lakh in one financial year through a lump sum of monthly investments. It is called one of the best of tax saving instruments under section 80C as the entire amount can be exempted from taxation.

3.5 Senior Citizen Savings Scheme

Senior Citizen Savings Scheme is also one of the best Tax

Saving Instruments under section 80C. It is backed by the Government. This is to offer help to Indian citizens over the age of 60 years. Citizens can enjoy tax deduction upto Rs.1.5 lakh on investment amount. Citizens over the age of

5t years who avail voluntary retirement can also go for SCSS. Any citizen of Defense Sector of India over 50 years of age will come under this criteria.

3.6 Sukanya Samriddhi Yojna

Sukanya Samriddhi Yojna account is basically a girl child prosperity account. It is backed by the Government of India. It is for the parents of a girl child. This scheme primarily focuses on encouraging parents to build a fund for their girl child for her future, like education and wedding expenses. SSY is another best Tax Saving Instrument under section 80C of income tax act. However, an individual that has a girl child under 10 years of age can only open an account in SSY. Interest rate stated by government on this amount is higher than any other tax saving instruments as it is a part of 'Beti bachao, Beti parhao' policy. SSY does not consider any investment over Rs.1.5 lakh in a year.

3.7 Fixed Deposit

Bank provides FD which is another great financial tax saving instrument to the investors which gives them much higher rate of interest than a regular savings account till the given date. Lock-in-period of FD is 5 years. Tax exemption of 1.5 lakh on principal amount. Returns being fixed depending upon the interest rate set by the concerned financial institution.

3.8 National Pension Scheme

By the name it is a voluntary defined pension system in India. NPS primarily aims on providing financial security to the citizens on retirement. NPS is one of the best tax saving instruments under section 80C. Its tax exemption is 1.5 lakh on total principal amount. NPS Scheme is such that it accepts funds in the case of salaried individuals of employees and employers. An employee can make a tax free investment upto 10% of their salary. A self employed person can claim NPS tax benefits of Rs.50,000 under section 80CCD(1B).

3.9 National Savings Certificate

Aims on providing security to investors in case of stock market fluctuations. NCS Scheme provides us with immense tax saving benefits with exemptions upto 1.5 lakh on principal amount. Lock-in-period remains fixed at 5 years and 10 years, so it depends upon the investor to choose among the given periods.

3.10 Unit Linked Insurance Plans

Insurance companies offered ULIP, not like pure insurance policy which provides individuals with both investment

and insurance. ULIP is also one of the best tax saving instrument under section 80C with exemption of 1.5 lakh on insurance premium. **3.11 Life Insurance**

Life Insurance is basically an insurance contract between the company providing it and the insurance policy holder. It is Provided to an individual when they promise to pay a sum of money in exchange to a premium after the death of that individual or till the set period. LI is one of the best tax saving instruments under section 80C with tax exemption of Rs.1.5 lakh on insurance premium. Returns is fixed depending upon the rate of interest set by the insurance company.

Following table shows tax benefits and comparison between tax saving instruments:

Tax Saving Instruments	Tax Benefits Under Section	Lock-in period	Returns	Benefits of Tax exemption
Equity Linked Saving Schemes	Section 80C	3 years	It is market oriented	1.5 lakh on principal amount
Public Provident Fund	Section 80C	15 years	Fixed depending upon the interest rate set by the government	1.5 lakh on principal amount
Unit Linked Insurance Plans	Section 80CCC	5 years	Fixed depending upon the interest rate set by the government	1.5 lakh on insurance premium
Sukanya Samriddhi Yojna	Section 80C	21 years	Fixed depending upon the interest rate set by the government	1.5 lakh on principal amount
National Pension Scheme	Section 80CCD(1B)	Can get only at the age of 60	Fixed depending upon the interest	1.5 lakh on principal amount

			rate set by the government	
Life Insurance	Section 80C premium	Depends on Scheme chosen	Fixed depending upon the interest rate set by the insurance company	1.5 lakh on insurance premium
National Savings Certificate	Section 80C	5 years, 10 years	Fixed depending upon the interest rate set by the government	1.5 lakh on principal amount
Fixed Deposit	Section 80C	5 years	Fixed depending upon the interest rate set by the concerned financial institution	1.5 lakh on principal amount

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4. CONCLUSIONS

In this study we have seen tax planning and management and why it is important to do so, we have also seen popular tax saving techniques through which we can fulfill our long term goal. From this we understand that it is important to plan taxes in advance and to wisely choose among tax saving instruments in order to utilize tax benefits completely.