

For the Financial Year 2003-2004



# Tax Planning Guide

6th Edition

Your guide to a  
'Tax efficient living'



always acting in your interest (%)

We thank our esteemed clients and readers for an overwhelming response to our "Bajaj Capital Tax Planning Guide" publication which was started in the Financial Year 1998-1999. We are pleased to present the Sixth Edition of our "Tax Planning Guide" which is relevant for the current financial year, i.e. 1.4.2003 to 31.3.2004. (Assessment year 2004-2005). Our endeavour is to present the complex provisions of Income Tax Act in a simplified manner which could be understood by a common investor as well as by a layman. Your suggestions for any further improvement in this guide are most welcome.

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The Tax provisions in our country have been simplified considerably in the last few years. Tax rates have been reduced and rate-structure has been changed to only three slabs, namely 10%, 20% and a maximum rate of 30%.

With effect from the current financial year, surcharge has been removed except in cases where the taxable income exceeds Rs. 8,50,000. The basic slab rates have been kept unchanged from last year.

Highest rate of Income Tax i.e., 30% (surcharge applicable in specific cases) compares well with most of the developed economies including USA where tax slabs go upto 40%. Gift tax was completely abolished in the financial year 1998-99. Estate duty was abolished way back in 1985.

Proper tax planning is a basic duty of every person which should be carried out religiously. Basically, there are four steps in tax planning exercise. You need not consult an Income Tax Practitioner or Chartered Accountant for this matter. In fact you can do it yourself. These four steps of tax planning are:

1. Calculate your taxable income from all sources such as salary/pension, interest etc.
2. Calculate tax payable on gross taxable income for whole financial year (i.e. from 1st April to 31st March) using a simple tax rate table, given on next page.
3. After you have calculated the amount of your tax liability. You have two options to choose from:
  - a. Pay your tax (No tax planning required)
  - b. Minimise your tax through prudent Tax Planning.
4. Most people should and do choose Option 'b'. Here you have to compare the advantages of several tax saving schemes and depending upon your age, social liabilities, tax slabs and personal preferences, decide upon a right mix of investments, which shall reduce your tax liability to "Zero" or to the "minimum" possible.

Tax provisions contain several ways of reducing tax liability through investment in specific schemes such as PPF, NSC, Insurance Premium etc. Also senior citizens (over 65 years of age) have been given additional tax rebate upto Rs. 20,000/- under section 88B.

You may consult your investment advisor for distributing your savings in various tax saving schemes.

Following rates are applicable for computing tax liability for current financial year ending on 31st March 2004 i.e. Assessment year 2004-2005. (next page)

## TAX RATES

Taxable Income	Tax
Upto Rs.50,000/-	Nil
Rs.50,001 to 60,000/-	10% of Income above Rs.50,000/-
Rs.60,001/- to Rs.1,50,000	Rs.1,000 plus 20% of income above Rs.60,000
Rs.1,50,001 to 8,50,000	Rs.19,000 plus 30% of income above Rs.1,50,000
Rs.8,50,001 and above	Rs.19,000 + 30% of income above Rs.1,50,000 + 10% surcharge on total amount of Income Tax

### Note:

1. For Senior Citizens (above 65 years) an amount of 20,000/- is deductible from tax liability.
2. Rules for "Senior Citizens" are same for "Men" as well as "Women". Any person who turns 65 years on any day prior to 31st March 2004 will be treated as "Senior Citizen" and accordingly shall be entitled to "Special Rebate" of Rs. 20,000/- under section 88B.
3. In case of women below 65 years of age, an exclusive rebate of Rs. 5000/- is allowed under section 88C. For women above 65 years of age, rebate of Rs. 20,000/- is allowed under section 88B as explained in point 2 above.
4. Surcharge (if applicable) should be calculated on final amount of tax payable after deducting tax rebate under sections 88 and 88B and 88C.

Annual Taxable Income	Tax Liability For General Citizens			Tax Liability For Senior Citizens		
	I.Tax	Such.*	Total	I.Tax	Such.*	Total
40,000/-	Nil	Nil	Nil	Nil	Nil	Nil
50,000/-	Nil	Nil	Nil	Nil	Nil	Nil
55,000/-	500	Nil	500	Nil	Nil	Nil
60,000/-	1,000	Nil	1,000	Nil	Nil	Nil
75,000/-	4,000	Nil	4,200	Nil	Nil	Nil
1,00,000/-	9,000	Nil	9,450	Nil	Nil	Nil
1,20,000/-	13,000	Nil	13,650	Nil	Nil	Nil
1,50,000/-	19,000	Nil	19,950	Nil	Nil	Nil
2,00,000/-	34,000	Nil	35,700	14,000	Nil	Nil
3,00,000/-	64,000	Nil	67,200	44,000	Nil	Nil
5,00,000/-	1,24,000	Nil	1,30,200	1,04,000	Nil	Nil
10,00,000/-	2,74,000	27,400	3,01,400	2,54,000	25,400	2,79,400

\*Applicable only if the Taxable Income is more than Rs. 8,50,000

## Filing of Income Tax Returns

1. Filing of Income tax return is compulsory for all individuals whose annual taxable income is above Rs. 50,000/- even if tax liability is "Zero" or has been made "Nil" with deductions at sources. Also for individuals covered under the '1/6" criteria it is compulsory to file the return even if the income nil.
2. Last date for filing of Income Tax return is 31st July, in case of individuals who are not covered in point 3 below.
3. If income includes business or profession income requiring Tax Audit (Turnover above Rs. 40 lacs), last date is 31st October.
4. Form 2E (Naya Saral) can be used to file the tax return.

## Tax Free Income

Following incomes are completely exempt from income tax without any upper limit.

1. Interest on PPF/GPF/EPF/Dividend on Shares and Mutual Funds.
2. Interest on GOI Tax Free Saving Plans.
3. Any capital receipt from Life Insurance Policies i.e. sums received either on death or on maturity of Life Insurance Plans.
4. Interest on Savings Bank Account with Post Office

**Gift Tax :** Gift Tax was abolished with effect from October 1, 1998. The Gifts are no longer taxable in hands of donor or donee. From a donor's point of view, gifting assets to a minor son/unmarried daughter or spouse is not tax efficient because the income from such assets is clubbed with the donor's income. But if gifts of financial assets like Bonds, NSCs, KVPs, etc. are made to minor children when they are under the age of 18 and timed such that the income from these investments accrues to the donee only on attaining majority then the income will not be clubbed in the hands of donor.

## Computation of Gross Taxable Income

First step of tax planning is to calculate your gross taxable income.

### Salaries

Salaried employees are issued a certificate of tax deducted at source from salaries, by their employers in Form No.16. Salaried employees are allowed a standard deduction from salary subject to the maximum limit as under :

### Following points should be noted:

Gross Annual Salary	Amount of Standard Deduction
1. upto Rs. 5 lakhs	Rs. 30,000 or 40% of the salary whichever is less
2. Above Rs. 5 lakh	Rs 20,000

- a. Pension from previous employer is treated at par with salaries and accordingly has to be included in gross taxable income.
- b. Standard deduction as explained above is also allowed on pension income.
- c. Arrears of pension/salaries are taxable in the year of receipt.

### Income from Interest

Interest Income from following sources is also required to be included in gross taxable

income.

- a. Interest on Company Deposits
- b. Interest on Debentures
- c. Interest on Savings Bank Account/ Fixed Deposits with Banks
- d. Interest on Post Office Savings Schemes like MIS, NSC, KVP etc
- e. Interest on Bonds issued by financial institutions as well as private and public sector companies
- f. Interest on private loans given to relatives, friends or any other entity
- g. Interest on Government securities  
(A total deduction upto Rs.15,000 is allowed in respect of certain interest incomes under section 80L which is discussed in detail elsewhere)

### Tax Deduction at Source

#### Interest payments by companies on fixed deposits.

Income tax is deducted @ 10% in case interest exceeds Rs. 5,000/- in one financial year.

#### Interest payments by Financial Institutions/ Companies on Bonds/Debentures

Income tax is deducted @ 10% in case interest amount exceeds Rs. 2,500/- in one Financial Year. Accordingly, in case of ICICI Tax Saving Bonds and IDBI Flexibonds tax is deductible at source in case annual payment of interest exceeds Rs. 2,500/-.

**Interest payments by Housing Finance Companies/Banks.** Income tax is deducted @ 10% in case interest exceeds Rs. 5,000/- in one financial year.

Note: Deduction of Income Tax at source can be avoided by filing form 15H in duplicate. However such forms can be submitted only by individuals whose total income in the Financial Year is expected to be below maximum amount not chargeable to tax, i.e. Rs. 50,000/-

**Note:** Interest from following sources is completely exempted from Income tax:

- A Interest earned on all types of Provident Funds such as PPF, GPF, EPF etc.
- B. Interest on GOI Tax Free Savings Bonds
- C. Interest on Savings Bank Account with Post Office.

### Dividend Income

Dividend in this financial year is exempt from tax in the hands of the investors.

### Capital gains

Capital gain arises when certain assets like property (plot or house – commercial as well as residential) or shares/mutual fund units/bonds etc. are sold for a profit. Treatment of capital gains is slightly different from other sources of income as listed above. It mainly depends upon whether the capital gain (profit on sale) is SHORT TERM or LONG TERM.

Capital gain is considered to be SHORT TERM if immovable property is sold/transferred within three years of acquiring the same. Similarly, if shares or other financial securities such as Mutual Fund Units are sold within one year of purchase, the profit earned is treated as SHORT TERM CAPITAL GAIN.

SHORT TERM CAPITAL GAIN is included in gross taxable income like other sources of income and normal rates of tax apply, which depends upon total amount of gross

taxable income from all sources including short term capital gains.

If immovable property is sold after three years of purchase, or financial securities such as shares, deep discount bonds, units of open ended or closed ended schemes of Mutual Funds (including UTI) are disposed of (sold/redeemed/transferred) after holding the same for more than twelve months, then the gain made is considered as "long term capital gain".

Tax is payable in respect of Long Term Capital Gains at a flat rate of 20% and the amount of gain has to be adjusted for inflation. This inflation adjustment is known as INDEXATION BENEFIT. Government of India announces inflation adjustment rate for every financial year and a detailed chart is given next page:

Financial Year	Cost Inflation Index
1981-82	100
1982-83	109
1983-84	116
1984-85	125
1985-86	133
1986-87	140
1987-88	150
1988-89	161
1989-90	172
1990-91	182
1991-92	199
1992-93	223
1993-94	244
1994-95	259
1995-96	281
1996-97	305
1997-98	331
1998-99	351
1999-2000	389
2000-2001	406
2001-2002	426
2002-2003	447
2003-2004	463

## Cost Inflation Index

Table

### Long term capital gains arising from sale/transfer of listed shares and securities (including units of UTI/Mutual Funds)

Long term capital gains tax in respect of listed shares and securities is payable at flat rate of 10% of the capital gain amount. But it should be noted that this lower rate of tax @

10% will be applicable in respect of such shares and securities (including bonds and debentures) which are listed on any recognised stock exchange and also for units of UTI/Mutual Funds. However, there is an option to avail the indexation benefits but in that case tax will have to be paid at normal long term capital gain tax rate of 20%.

### But how to choose between options to pay capital gain tax @ 20% with indexation benefits and @ 10% without indexation benefit ?

This can be explained with the help of an example.

#### Example 1:

Mr. Gupta Purchased 1,000 shares of a listed company @ Rs.10/- each in the financial year 1996-97. Mr. Jain purchased 1,000 shares of the same company at the same rate of Rs.10/- each on 10th Sept.2001.

Both Mr. Gupta and Mr. Jain have sold their shares for Rs.16/- each on 5th October 2003. Thus both Mr. Gupta and Mr. Jain have earned a long term capital gain of Rs.6,000/- [Sales Price (Rs.16,000/-) – Cost Price (Rs.10,000/-) = Rs.6,000/-]

Now Mr. Gupta should opt to pay capital gain tax @ 20% after taking indexation benefit and Mr. Jain should opt for paying capital gain tax @ 10% without indexation benefit.

Calculations to justify above are given below:

#### Other examples on Capital Gains:

##### Example 2:

Mr. Mehta had purchased 10,000 shares of ABC Company on 15.07.1984 @ 12.50 per share. He sold these shares in October 2003 @ Rs. 15.20 per share.

**Note:** Please note that Mr. Mehta has not earned any Capital Gain due to inflation

##### a. Mr. Gupta:

Sale Consideration = 16,000/-

Less: Indexed Cost of Acquisition :

$$\text{Purchase Price} \times \frac{\text{Cost inflation Index in the year of Sale}}{\text{Cost inflation Index in the year of purchase}}$$

$$10,000 \times \frac{463}{305} = 15,180/-$$

Capital Gain = 16,000 - 15,180 = Rs. 820/-

Tax @ 20% = 164/-

##### b. Mr. Jain:

Sale Consideration = 16,000/-

Less : Cost of Acquisition: = 10,000/-\*

Capital Gain = 6,000/-

Tax @ 10% = 600/-

\*Indexation benefit is not to be taken, since he has opted to pay tax @ 10%.

With indexation benefit tax liability would have been Rs. 1026/-.

factor. In fact he has incurred Long Term Capital loss of Rs. 3,11,000/- (Rs. 4,63,000 - Rs. 1,52,000) which can be set off only against any other Long Term Capital Gain earned by Mr. Mehta. This amount of loss can also be carried forward for next 8 years to be set off only against any Long Term Capital Gain earned in those 8 years.

#### Calculation of Capital Gain:

##### Total Sales Proceeds:

10,000 shares @ Rs. 15.20 = Rs. 1,52,000/-

Less: Cost of acquisition/purchase price = Rs. 1,25,000/-

Long Term Capital gain (Profit) = Rs.27,000/-

Calculation of Indexation Benefit

Indexed cost of Acquisition

$$\text{Purchase Price} \times \frac{\text{Cost Inflation Index in the year of sale}}{\text{Cost Inflation Index in the year of purchase}}$$

$$1,25,000 \times \frac{463}{125} = 15,180/-$$

Thus, Mr. Mehta has actually not earned any Capital Gain and hence, not liable to pay any Income Tax on this profit of Rs. 27,000/-.

#### Example 3:

Mr. Chakraborty bought a flat for Rs. 8 lacs in January, 1995. He has sold this flat in October 2003 for a net consideration of Rs. 20 lacs. Income Tax payable on capital gain of Rs. 12 lacs earned by him shall be as follows:

**Note:** Mr. Chakraborty can save this tax liability of Rs. 1,13,977/- by investing Rs. 5,69,834 in a investment scheme specified under section 54EC (Explained below)

#### Section 54EC

In order to save Capital gain tax, total amount of long term capital gain (after availing indexation benefits) has to be invested in any of the following 5 schemes specified

#### Adjustment of Purchase Price:

$$\text{Purchase Price} \times \frac{\text{Cost Inflation Index in the year of sale}}{\text{Cost Inflation Index in the year of purchase}}$$

$$8,00,000 \times \frac{463}{259} = 14,30,116$$

under section 54EC.

- A) Bonds Issued by Rural Electrification Board (REC)
- B) Bonds issued by National Housing Bank (NHB)
- C) Bonds issued by NHAI (National Highways Authority of India)
- D) Bonds issued by Small Industrial Development Bank India (SIDBI)
- E) Bonds issued by NABARD (National Bank for Agriculture and Rural Development)

**Note :** These bonds will have a minimum lock in of 3 years. If 100% capital gain amount

is invested in above mentioned bonds, 100% Tax is saved. Similarly, if 60% of capital gain amount is invested in that case only 60% of capital gain tax will be saved and balance 40% tax has to be paid.

#### Points to note

- (i) In case of sale/transfer of residential house, the same must have been held for at least three years. Only in that case, the gain (profit on sale) shall be considered as Long Term Capital Gain. Tax on long term capital gain can also be saved by buying another house within a period of two years from the date of sale or by constructing a new residential house within three years of sale.

#### Section 54ED

Section 54ED provides that the capital gains arising from transfer of a long-term capital asset, being listed shares, debentures or units of a mutual fund or of the Unit Trust of India shall be exempt from tax to the extent such capital gain is invested in equity shares forming part of an eligible public issue made by a public company. There is a lock-in period of one year. It also provides that where the cost of the new equity shares has been taken into account for the purposes of this section, a deduction from the amount of income-tax with reference to such cost shall not be allowed under section 88.

Important Point to Note: (1) Short term capital loss can be set off against any capital gain whether short term or long term. (2) However, long term capital loss can only be set off against long term capital gain. (3) Unabsorbed short term capital loss can be carried forward for 8 years and can be set off against any capital gain, whether short term or long term.

(4) Similarly unabsorbed long term capital loss can also be carried forward for 8 years and can be set off only against long term capital gain.

## Deductions from Taxable Income

#### Section 80L

Section 80L is very important for individual Investors. Under this Section, maximum deduction of Rs.15,000 is allowed from the interest income arising out of investments in certain Post Office schemes, PSUs, Financial Institutions, Housing finance companies, Govt. Securities, Banks and dividend income from Shares and Mutual Funds. This overall maximum limit of Rs. 15,000/- is further broken into two parts, i.e. Rs. 12,000/- and Rs. 3,000/-.

#### Interest Income on which deduction is allowed under section 80L upto an overall maximum limit of Rs. 12,000/-

- a. Interest on NSC / NSS.
- b. Interest on Post Office Time Deposits, Post Office Recurring Deposits as well as Post Office Monthly Income Schemes.
- c. Interest on Fixed Deposits with Housing Finance Companies such as HDFC, HUDCO etc.
- d. Interest on Bonds issued by Financial/Banking Institutions such as IFCI, IDBI and ICICI.
- e. Interest on Bank Deposits including Savings Bank.

**Note:** Interest income from Savings Bank Account with Post Office is totally exempt from Income Tax.

### Interest on which additional deductions of Rs.3,000/ is allowed under section 80L

a. Interest on Central/State Government Securities.

#### Examples:

1. Mr. Gupta has invested Rs. 2,00,000/- in Monthly Income scheme of Post Office where he earns interest @ 8% per annum. His annual income from this investment shall be Rs.16,000/-. Mr. Gupta will get a deduction of Rs.12,000/- under section 80L and the balance amount of Rs.4,000/- shall be added to his taxable Income.
2. Mr. Sinha has earned an annual interest of Rs.9,000/- from Fixed Deposits with Hudco Ltd.. Further, he has earned an interest of Rs.2,500 from ICICI Tax Saving (Sec. 88) Bonds. Thus his total interest income is Rs.11,500/-. Mr. Sinha can avail full deduction under section 80L to the extent of Rs. 11,500/- and thus these incomes are virtually income tax free.

### Deduction under section 80CCC(1)

This section was introduced with effect from Annual Year 1997-98. Under this section 'Jeevan Suraksha' Pension Plan of LIC of India is a popular option. 'Jeevan Suraksha' Pension Plan is a contributory Pension Plan and contributions paid to LIC of India can be reduced from taxable income subject to maximum of Rs.10,000/- p.a. Accordingly a person who is in 30% tax bracket can save income tax of Rs. 3,000/- by contributing Rs.10,000/- towards 'Jeevan Suraksha' Pension Plan in a year.

**Note:** Private Sector Life Insurance Companies have also been allowed to offer "Pension" schemes which are eligible for deduction under section 80CCC(I).

*"Forever Life" is another popular Pension Plan which is offered by ICICI Prudential Life Insurance Co. and contribution amount towards premium upto Rs. 10,000/- is eligible for deduction u/s 80CCC(1).*

### Deduction under section 80D

Under this scheme a deduction upto Rs. 10,000/- (Rs.15,000/- in case of senior citizens) is allowed in respect of premium paid by cheque towards Health Insurance Policy, like 'Mediclam'. Such premium can be paid towards health insurance of spouse, dependent parents as well as dependent children.

Please note that because the deduction is allowed from taxable income, the exact savings in tax will depend upon the tax slab of the individual. Accordingly the person who is under 30% tax bracket can save upto Rs. 3,000/- of income tax by paying Rs.10,000/- as premium in 'Mediclam' policy in a year.

*Mediclam Plans from leading Insurance companies are available at Bajaj Capital Ltd..*

## Tax Rebate

### Tax rebate under section 88

Tax Rebate under section 88 is available only to individuals and HUF's. This rebate is

not available to Corporates or Non-individual Tax payers. Rules relating to calculation of Tax Rebate have been amended in the recent past. Now there are two slab rates of Tax Rebate, namely 20% and 15%. These are explained below:

1. For individuals whose total gross income is less than Rs. 1.50 lacs (whether from salaries or any other source of income and those who do not qualify for the special 30% rebate (as explained in point 3 below) tax rebate shall be allowed @ 20% (maximum of Rs.20,000). 2. If total gross income is more than Rs. 1.50 lacs but less than Rs. 5.00 lacs, tax rebate will be allowed @ 15% of amount of paying amount (maximum of Rs. 15,000).
3. Tax Rebate is allowed @ 30% of the investment amount provided the individual is a salaried employee and his gross total income is upto Rs. 1.00 lac. Also salary income should not be less than 90% of the gross total income.
4. In case of individuals whose gross total income is more than Rs.5.00 lacs no tax rebate is available to such individuals. Note: Gross total income is computed after allowing Standard Deduction from salaries wherever applicable, but before claiming deductions specified in Section 80.

In order to avail tax rebate u/s 88, amount has to be invested in specified schemes as prescribed from time to time. Maximum amount of investment in specified schemes can be Rs. 1.00 lac and tax rebate shall be Rs. 20,000/- or Rs. 15,000/- as the case may be. (Please refer Rules 1, 2, 3 and 4 above).

Please note that unlike section 80L, 80D and 80CCC (I), where amounts are deducted from taxable income, rebate under section 88 is reduced from tax liability.

However, this overall investment limit of Rs.1,00,000/- is further broken into two parts, i.e., Rs.70,000/- and Rs.30,000/- and the same is explained below:

### Specified investment schemes in which tax rebate under section 88 is allowed subject to maximum investment amount of Rs.70,000/- are:

1. Life Insurance Premiums
2. Contributions to Employees Provident Fund/GPF.
3. Public Provident Fund (Maximum Rs. 70,000/- in a year)
4. NSC/NSS
5. ULIP
6. Repayment of Housing Loan upto Rs. 20,000/- in a year.
7. Equity Linked Savings Scheme (ELSS), such as Birla Equity Plan or HDFC India Tax Saver scheme etc. subject to maximum investment of Rs.10,000/-.
8. Additionally, tuition fees including admission fees, college fees or any other educational institution paid for full time education of any two children of the assessee, upto Rs. 12,000 per child. (Any development fees or donation or payment of similar nature shall not be eligible for rebate).

### Investment schemes where an additional exclusive limit of Rs.30,000/- is available (in addition to above mentioned limit of Rs.70,000/-)

Infrastructure bonds issued by institutions such as ICICI, IDBI, REC etc.

*Confused ???? Come to Bajaj Capital and let our Investment Advisor help you create the ideal investment /tax saving portfolio for you.*

#### Example

- 1) Mr. Srinivasan has decided to avail tax rebate u/s 88 to reduce his tax liability. He invests Rs. 40,000/- in PPF and Rs. 40,000/- in IDBI Infrastructure (Tax Saving) Bonds. His annual income is Rs. 3.00 lacs. He shall get tax rebate @ 15% on investment of Rs. 80,000/-, i.e. Rs. 12,000/-.
- 2) Mr. Khanna has invested Rs. 60,000/- in NSC and further he has contributed Rs. 60,000/- in PPF. His annual income from business is Rs. 4,50,000/-. His rebate amount u/s 88 shall be limited to Rs. 10,500/- only, i.e. 15% of Rs. 70,000/-.
- 3) Mr. Rao has made following investments:  
 Rs. 40,000/- in LIC Premium  
 Rs. 40,000/- in HDFC India Tax Saver scheme  
 Rs. 25,000/- in IDBI Infrastructure (Tax Savings) Bonds  
 His annual income is Rs. 1,50,000/- from salaries and Rs. 1,50,000/- from interest, thus aggregating to Rs. 3,00,000/-.  
 Mr. Rao shall get tax rebate of @ 15% of Rs. 75,000/- only because his investment in "HDFC India Tax Saver" scheme will qualify for rebate of Rs. 10,000/- only. Accordingly Mr. Rao will get tax rebate of Rs. 11,250/- only.
- 4) Mr. Diwan is earning monthly salary of Rs. 14,000/- per month. He invests Rs. 50,000/- in IDBI Infrastructure (Tax Savings) Bonds. He shall be entitled to tax rebate of Rs. 10,000/-, i.e. 20% of Rs. 50,000/- because his annual taxable income is Rs. 1,38,000/- i.e. below Rs. 1,50,000/-. (After standard deduction of Rs. 30,000).

### Reduction of Income tax liability through Housing Loans

"A 'loss' from house property is allowed to be set off against other sources of income. Accordingly, on a self occupied house property, where interest payments are made towards a housing loan, the amount of interests paid (upto Rs. 1,50,000 annually) would lead to such a 'notional loss from house property'. This would lead to a reduction in income (since loss would be a negative figure), and could lead to a reduction in the tax liability. Further, in case of salaried individuals the amount of loss can be intimated to the employer, and the employer can adjust the amount while calculating the amount of tax to be deducted (which would be lower amount after such intimation).

#### Example:

Mr. Mishra is earning monthly salary of Rs. 50,000/- per month. His annual salary income is Rs. 6,00,000/- and he is not entitled to any standard deductions. Accordingly his taxable income is also the same, i.e. Rs. 6,00,000/-. He is also not entitled to any tax rebate u/s 88. However he can reduce his tax liability by claiming deduction u/s 80 CCC (1) (by contributing to specified Pension Plan) and/or u/s 80D (by contributing to a Health Insurance Plan). Alternatively he can reduce his tax liability by going in for a Housing Loan where interest payment upto Rs. 1,50,000/- can be reduced from his salary income of Rs. 6,00,000/- thus bringing it down to Rs. 4,50,000/-. Now Mr. Mishra can also avail tax rebate u/s 88 by investing in any of the scheme like PPF, LIC Policies, Infrastructure Bonds etc.

### An example of proper tax planning

Mr. Mehta has retired on 1/4/2003 after a long career in the ministry of Finance. He has received Provident Fund and other retirement benefits totaling to Rs.8 lacs. His monthly pension has been fixed at Rs.7,500/-. He visits his Investments Advisor and builds up his portfolio as given below:

- a. He invests Rs.3 lacs in Post Office Monthly Income Scheme @ 8% per annum to supplement his pension income.
- b. He invests Rs. 2.67 lacs in LIC Varishta Bima Yojna at 9% p.a.
- c. He invests Rs. 44,000/- in ICICI Tax Saving Bonds @ 5.6% per annum to avail tax rebate u/s 88.
- d. He invests Rs. 1,90,000/- in 6.5% RBI Tax Free Bonds where he receives a interest of Rs. 12,350/- in March 2004.

His income from various sources will be calculated as given in next page.

Conclusion Every citizen has a fundamental right to avail all the tax incentives provided by the Government. Therefore, through prudent tax planning, not only is the income-tax liability reduced, but also a better future is ensured due to compulsory savings in highly safe Government schemes. We sincerely advise all our readers and clients to plan their investments in such a way that the post-tax yield is the highest possible keeping in view the basic parameters of safety and liquidity.

# Save Tax

## Upto Rs.21,000

### On an investment of Rs. 1,20,000\*

\*Individuals whose gross total income in FY 2003-04 is between 1.5 lacs & 5 lacs

Particulars	Annual Income	Taxable Income
Pension @ Rs.7,500/- p.m.		90,000
Less: Standard Deduction	30,000	60,000
Income from Post Office MIP	24,000	
Less: deduction u/s 80L	12,000	12,000
Interest received from		
6.5% RBI Tax Free Bonds	12,350	
Less Exempt u/s 10	12,350	—
Interest on Varishta Bima Yojana		24,000
Interest on ICICI Tax Saving Bonds		2,464
Gross Taxable Income		98,464
<b>Income Tax Liability:</b>		
First Rs.50,000/-		Nil
Next Rs.10,000/-		1,000/-
Balance – Rs. 38,464/- @ 20%		7,693/-
Total Tax Liability		8,693/-
Less: Tax Rebate u/s 88 for investments		
in ICICI Tax Saving Bonds (Maximum upto)		8,800
Tax payable by Mr. Mehta		Nil