NSDL
Technology, Trust & Reach

The Financial Kaleidoscope

Defining the different shapes of investment

January 2019

From The Editor's Desk

Dear Reader,

"Taxes, after all, are dues that we pay for the privileges of membership in an organized society." These words from **Franklin D. Roosevelt** capture the essence of tax so well. A tax (from the Latin taxo) is a mandatory financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal entity) by a governmental organization to fund various public expenditures. A failure to pay, along with evasion of or resistance to taxation, is punishable by law.

As a responsible citizen, it is very important that we pay our tax dues on time to help our country and economy grow. It is equally important to understand the various avenues readily available to individuals to save tax.

With the start of the new financial year around the corner, this issue of 'The Financial Kaleidoscope' aims to demystify tax planning for individuals. It is a how-to guide that covers some practices for managing tax liability and the essentials of filing income tax returns.

We hope this issue will aid you to invest wisely to embark on a journey of being a financially prudent and socially responsible tax paying citizen. As always, your feedback and comments are welcome.

Regards

NSDL

Definition of 'Income'

For the purposes of Income Tax, any inflow of money (cash and kind) that a person receives is considered 'Income'. The Income Tax Act classifies it under five heads:

- **Salaries:** All forms of payments received from an employer, such as salary, allowances, perquisites, bonuses as well as pension.
- **Income from House Property:** Earnings received from owned property in form of rent.
- **Profits and Gains of Business or Profession:** Income received through business or any form of self-employment, this includes freelance and contractual work, professional services such as doctors and lawyers and payment received for providing services such as teaching, accounting and brokerage (real estate, insurance etc.) among others.
- **Capital Gains:** Income received from the sale of capital assets. This includes real estate (property and land) and investments in equity, stocks, mutual funds etc.
- **Income from Other Sources:** This includes income from interest on savings accounts, fixed deposits, post office deposits etc. It also includes all forms of winnings such as lottery as well as prize-money and gifts received from contests.

Who Needs to Pay Income Tax in India?

Every individual is required to pay Income Tax in India based on his / her category and residential status. For individuals, the categories can be further broken down as salaried persons, sole proprietorships and senior citizens. Each of these category of taxpayers receive specific deductions and benefits, and are taxed at varying rates.

What is Residential Status ?

An individual is deemed a 'Resident' if he or she has stayed in India for 182 days or more days within a financial year. In such a scenario, their entire income (earned in India and abroad) is liable to be taxed. This also includes foreign nationals working in India.

Income Tax Rates for Individuals in India

Income Tax Slabs

India follows a progressive system of taxation wherein the tax is charged based on your income slab. As announced in the recent Union Budget, the Income Tax slabs applicable for individuals for F.Y. 2019-20 are as below :

Tax Rate	Individuals (Below 60 years)	Senior Citizens (Between 60-80 years)	Super Senior Citizens (Above 80 years)
Nil	Up to ₹ 2,50,000	Up to ₹ 3,00,000	Up to ₹ 5,00,000
5%	₹ 2,50,001 to ₹ 5,00,000	₹ 3,00,001 to ₹ 5,00,000	-
20%	₹ 5,00,001 to ₹ 10,00,000	₹ 5,00,001 to ₹ 10,00,000	₹ 5,00,001 to ₹ 10,00,000
30%	Above ₹ 10,00,000	Above ₹ 10,00,000	Above ₹ 10,00,000

The above rates are exclusive of surcharge and cess.

Application of Income Tax Slabs

As mentioned above, India follows a progressive method of taxation, so the tax rates are staggered, not flat. Let us understand this with an example for an individual whose taxable income is ₹ 13,00,000 a year. In a flat rate system, the individual would be liable to pay ₹ 3,90,000 (30% of ₹ 13,00,000). However, actual income tax payable will be calculated as under:

Tax Rate	Slabs	Applicable Tax Rates	Income Tax Payable
Nil	Upto ₹ 2,50,000	-	-
5%	₹ 2,50,001 to ₹ 5,00,000	5% on ₹ 2,50,000	₹ 12,500
20%	₹ 5,00,001 to ₹ 10,00,000	20% on ₹ 5,00,000	₹ 1,00,000
30%	Over ₹ 10,00,000	30% on ₹ 3,00,000	₹ 90,000
Total Tax Payable			**₹ 2,02,500**

Tax Planning v/s Tax Avoidance v/s Tax Evasion

The terms Tax Planning, Tax Avoidance and Tax Evasion are often confused and incorrectly used. While the difference between the three can be nuanced, the implications are damaging. The grid below analyses the three terms in light of key parameters-

	Tax Planning	Tax Avoidance	Tax Evasion
Meaning	To save on taxes by leveraging provisions of the law	To dodge or defer payment of taxes by using loopholes in the law	To evade paying tax through fraudulent means
Attributes	Done with bonafide intentions and is legal	Done with malafide intentions, legal but immoral	Done with malafide intentions, Illegal and immoral
Outcomes	Helps reduce tax liability and improved financial planning	Can be questioned by the authorities and could lead to litigation	Could lead to penalties and even imprisonment

Deductions

The Income Tax Act provides several avenues that offer taxpayers a host of exemptions, deductions and rebates that help reduce the overall tax liability. These include incomes, insurance premiums, investments in specific schemes, PF, etc. benefits received by salaried individuals and contributions made to charitable institutions among others.

Section	Description	Annual Deduction Limit (in ₹)
80C	Investment in certain stipulated instruments like - life insurance premium, contribution towards Public Provident Fund (PPF), Fixed Deposits (FD), National Savings Scheme (NSC), Post Office Time Deposits (POTD), Equity Linked Savings Scheme (ELSS). Payment of tuition fee (for 2 children) and principal repayment of housing loan.	1,50,000
80CCC	Contribution to pension products offered by LIC or other insurers.	
80CCD	Employee's contribution towards pension.	
80CCD(1B)	Contribution to National Pension System (NPS), Atal Pension Yojana (APY).	50,000
80D	Premium paid for medical insurance for self, spouse and children ● Limit if the taxpayer is above 60 years old: ₹ 50,000	25,000
	Premium paid for medical insurance for parents ● Limit if the taxpayer's parents are above 60 years old: ₹50,000	25,000
80DDB	Expenditure on medical treatment of certain serious diseases such as Cancer, AIDS, Parkinson's Disease, Thalassaemia etc. This can be claimed for parents, spouse, children and siblings. ● Limit if the taxpayer is over 60 years old: ₹ 1,00,000	40,000
80DD	Maintenance and medical treatment for physically challenged dependents - parents, spouse, children and siblings. Includes physical disabilities, blindness, mental retardation, deafness etc. ● Limit if the dependent has severe disability: ₹ 1,25,000	75,000
80U	Deduction if the taxpayer is disabled. Includes physical disabilities, blindness, mental retardation, deafness etc. ● Limit if the taxpayer has severe disability: ₹ 1,25,000	75,000
80E	Interest paid on education loan for self, spouse or children There is no upper cap of amount of interest payment but is allowed for upto 8 years.	Full amount
80 EE	This is allowed on interest payment of first time home owners as additional rebate with certain condition on loan amount and cost of the loan. This is in addition to benefit available under section 24 towards Interest paid on housing loan up to ₹ 2,00,000/- on self-occupied property. (In case of joint ownership the amount of deduction is available to all the owners independently.)	
80G	Donation to approved charities and social organisations. ● Based on the organisation, the act permits either 100% or 50% deduction ● For certain types of donation, the permissible deduction is capped at 10% of gross annual income	100% or 50%
80 GG	This is allowed on the house rent paid by an individual who is not getting any HRA allowance and not owning any residential property.	
80GGA	Donation for scientific research or rural development. Based on the organisation, the act permits either 100% or 50% deduction For certain types of donation, the permissible deduction is capped at 10% of gross annual income.	100%
80GGC	Donation to registered political parties. The permissible exemption is capped at 10% of gross annual income.	100%

80 RRB	This is allowed on the royalty money received by any individual on patent of any nature up to ₹ 3,00,000/-.	
80TTA	Interest earned on savings banks deposit.	10,000
80TTB	Interest earned on bank deposit for senior citizens	50,000

- **Standard Deduction for Salaried Individuals:** Union Budget 2019 announced a standard deduction of ₹ 50,000 for all salaried individuals.

Investment Avenues for Tax Deduction

Section 80C of the Income Tax Act offers a deduction on taxes for certain kind of investments. While the objective is to reduce the tax liability, your investment decision should be based on your risk appetite and overall financial planning. Insurance premium, Public Provident Fund (PPF) and National Savings Certificate (NSC) are the most common avenues uses for tax planning. However, based on your financial objective you could consider investing in some of the following instruments as well:

Equity Linked Savings Scheme (ELSS)

- Also known as tax saving mutual fund, ELSS is an equity-based mutual fund offered by registered Asset Management Companies (AMC).
- Minimum investment required is ₹ 500, no cap on the amount of investment.
- Linked to the equity market, it has the potential to earn better returns and is recommended for people with higher appetite for risk.

Benefits:

- ✓ Investment up to ₹ 1,50,000 is eligible for deduction under Section 80C.
- ✓ The Long Term Capital Gains on ELSS are tax-exempt up to ₹ 1 Lakh and dividend received is tax-free in the hands of investors.
- ✓ ELSS have a lock-in period of three years, the least among all tax saving investments.

Unit Linked Insurance Plan (ULIP)

- A combination of insurance and investment, ULIPs are offered by authorised insurance companies.
- A portion of the investment is allocated to provide life insurance, the balance to equity or debt instruments.
- ULIPs have a lock-in period of 5 years.

Benefits:

- ✓ Investment up to ₹ 1,50,000 qualifies for deduction under Section 80C*.
- ✓ Gains upon maturity are exempt from tax.

National Pension System (NPS)

- NPS is a retirement-focussed, long term investment option open to all Indian citizens including NRIs between the age of 18 and 65 years.
- The returns are in the form of an annuity - a regular income a subscriber receives after retiring from work or upon reaching a pre-determined age.
- Managed by designated pension funds, a maximum of 50% of the corpus can be invested in equity markets. This offers a shield against market volatility while at the same time yielding comparatively higher returns.

NPS has two types of accounts

➢ **Tier 1:**

- It is default account with restricted withdrawal options.
- Minimum contribution required at the time of opening an account is ₹ 500.
- Require a minimum annual contribution ₹ 1,000, no upper limit.

➢ **Tier 2:**

- It is voluntary and an add-on to Tier 1 account.
- This offers no tax benefit, but subscribers are permitted to withdraw from it any time.
- Minimum contribution required at the time of opening an account is ₹ 1,000.
- Do not require a minimum contribution, no cap on contribution.

Benefits (for Tier 1 accounts only)

- ✓ The biggest benefit of NPS is the additional deduction of up to ₹ 50,000 it is eligible for, this is over and above the ₹ 1,50,000 available under Section 80C.
- ✓ For salaried subscribers, contribution up to 10% of salary (basic + dearness allowance) subject to a cap of ₹ 1,50,000 is allowed as deduction.
- ✓ For self-employed subscribers, contribution up to 20% of gross income subject to a cap of ₹ 1,50,000 is allowed as deduction.
- ✓ Partial withdrawals are tax exempted.
- ✓ Amount from withdrawal invested in annuity on exit is exempt from tax.
- ✓ 40% of the total corpus received as lumpsum by subscriber on maturity is exempt from tax.

Sukanya Samriddhi Yojana (SSY)

- Government scheme launched for the all round development of the girl child.
- Sukanya Samriddhi Account can be opened at the Post Office or any authorised commercial bank.
- An account can be opened by the parent or guardian of a girl child before she turns 10 years old.
- Maximum allowed deposit per annum is ₹ 1,50,000 with a minimum annual deposit of ₹ 250 required to keep the account active
- Deposits can be made for a maximum of 15 years from the date of opening of the account with a maturity period of 21 years.
- Interest rate for this account is linked to the market and is announced every quarter (the rate for October to December 2018 was 8.5%).

Benefits:

✓ Deposit up to ₹ 1,50,000 qualified for deduction under Section 80C*
✓ The Interest on the deposit is compounded annually and is fully exempt from tax
✓ Partial withdrawal allowed after the girls attains the age of 18 years
✓ Withdrawals and receipts upon maturity are also exempt from tax

- ***The cumulative tax deduction available for investments made under Sections 80C, 80CCC and 80CCD is ₹ 1,50,000 per annum.***

Decoding Income Tax Returns

What is an ITR?

An Income Tax Return is a document that records an individual's cumulative income, exemptions and deductions as well as tax payments. It is mandatory for all Indian citizens with an annual income of more than ₹ 2,50,000 to file an Income Tax Return even if you are not liable to pay income tax. Individuals are expected to file their income tax returns by July 31st every year.

Benefits of Filing an ITR

- **Getting loans or raising funds:** An Income Tax Return is a summary of your financial health. So getting a loan or raising funds become easier.
- **Travelling abroad:** Income Tax Returns have become a mandatory requirement for visa applications to most countries. Returns from recent years are used to gauge the financial stability of an individual and are key in deciding whether or not to grant the visa.
- **Claim refund:** If an individual does not have any tax liability, he or she can claim refund on TDS deducted by their employers or any other party.

Filing Your Income Tax Returns

Gather Relevant Information and Documents

Form 16

This contains details of your salary, Tax Deducted at Source (TDS) and tax deposited by your employer. It is mandatory for all employers to issue Form 16 to their employees.

Form 26AS

Issued by the Income Tax Department, it contains details of income tax paid by you and also that paid on your behalf by others (for example your employer). It also contains details of the specified transactions undertaken by you as reported by entities like banks, credit card companies etc. to income tax department. This statement is very important for all taxpayers and can be downloaded from the e-Filing portal **(Link: https://www.incometaxindiaefiling.gov.in/home).** Alternatively, NSDL SPEED-e and IDeAS users can view / download this statement through their SPEED-e / IDeAS login also.

- **Proof of Deductions Claimed Under Section 80:** Ensure you have supporting documents for all deductions claimed under various sub-sections of Section 80 as described above. This includes receipts for life and medical insurance, receipts for tax exempted donations, signed rent receipts with details of landlord's PAN, statement of interest from banks, receipts of earnings from investments among others.

Choose the ITR Form

ITR forms have been designed based on the category of taxpayers. The following ITR forms are applicable for individual taxpayers

- **ITR-1:** Known as 'Sahaj', this form is for individuals who are salaried and pensioners, may have income from one house or earn 'Income From Other Sources' including returns on investments. The total income should not exceed ₹ 50,00,000 and should not include 'Capital Gains', gains from other business or profession, or winnings from lotteries or horse racing.
- **ITR-2:** For individuals with total income more than ₹ 50,00,000 and who do not have additional income from 'Business of Profession'.
- **ITR-3:** For all individuals who have additional income from 'Business or Profession'.

E-Filing of Income Tax Return

It is mandatory for Income Tax Returns to be filed online on the **e-Filing portal** of the Income Tax Department. The only exceptions are Super Seniors over the age of 80 and taxpayers with an annual income under ₹ 5,00,000. Following are the simple steps to file your IT returns.

- **Step 1: Register** - Register on the e-Filing portal with PAN and basic details.
- **Step 2: Select ITR Form** - Choose Assessment Year and the right ITR Form.
- **Step 3: Enter Personal Information** - PAN, Aadhaar details (enrolment number if you do not have Aadhaar number) and other relevant information
- **Step 4: Compute Income and Tax** - Include details of all incomes and deductions claimed which will yield your total taxable income and the resulting tax payable. After including details of the taxes already paid (including all TDS and advance tax), you will get the next payable tax liability.
- **Step 5: Pay Tax or Claim Refund** - If your total tax due is more than total tax paid, you will be directed to e-Pay for paying the tax online. Alternately, if the total tax paid is more, you will be directed to claim your refund.
- **Step 6: Submit ITR** - After going through all these steps, submit your ITR and download the acknowledgement.
- **Step 7: e-Verification** - Unverified ITRs are not processes by the Income Tax Department, so this is the last and most crucial step in your income tax journey. Your ITR can be e-Verified on the e-Filing portal using EVC, Aadhaar or Demat account or through your netbanking portal.

Blog

Tax Planning

By Pramod Saraf, CFA

On a recent long weekend, I planned to spend time with my lovely sister Neena. Neena is a tech professional and employed with a renowned technology company and residing with family in Pune.

We were spending quality time over lunch and soon our conversation shifted to investment and tax. As she was aware of my financial industry background, she wanted my suggestions over her increasing income tax liabilities which will be even more worrying when her pay and position increases. To understand and advise effectively, I asked her to give some details about investments and income details of herself and her spouse. After going through the details, I found that while she was somewhat aware of few popular tax saving options, there were many others available but not availed. Being a salaried employee, certain deductions like standard deduction, professional tax, contribution for provident fund, HRA etc. were taken care of by her employer. But then there are many Smart Options beyond the usual 80 C which allow us to reduce our tax outgo in a different fashion and with some alertness and planning one can comfortably utilise them in routine. We can categorise them in three types -

1. **Tax Deferral:** This way of tax planning minimize the potentially compounding effect of taxes by paying them at the end of the investment holding period. Strategies that fall under this category focus on long term capital gains, low turnover, and loss harvesting through recognizing portfolio gains and losses simultaneously.
2. **Tax Free:** This way of tax planning is through investing in tax free securities. Special saving accounts and tax free bonds are examples of investment securities that generate tax free returns.
3. **Tax reduction:** This way of tax planning is through investing in securities that require less direct tax payment. Capital gains may be taxed at a lower rate than income, so securities that generate returns mainly as price appreciation offer the investor a lower effective tax rate.

All the above mentioned options can be considered as opportunities by anybody and can be of big benefit with lower tax outgo and higher disposable income in hand to be utilised for various purposes of wealth creation and even life style expenditure too.

I think my sis was happy with what I could tell her, coz I got an extra serving of ice cream after stupendous lunch.

Frequently Asked Questions

1) **What is the last date for filing my ITR?**

The last date for all individuals to file their ITR is July 31st of every year.

2) **What happens if I missed the deadline to file an ITR?**

You can file a ‘Belated Return’ if you have missed the deadline. A late fee will be levied depending on how many days you delay.

3) **How can I know my tax liability?**

Total Tax Payable is a function of your gross income, deductions claimed, taxes paid and the tax bracket applicable to you. You can use the interactive Income and Tax Calculator on the Income Tax website to factor in all those elements and estimate your tax liability.

4) **What happens if I have paid more tax when filing my ITR?**

Once an ITR is filed and if the Total Tax Paid exceeds Total Tax Payable, the difference amount will be credited to your bank account or sent in the form of a cheque via Speed Post. You can check your refund status on the e-Filing portal or on the Tax Information Network portal on NSDL.

5) **My full tax liability has been fulfilled through TDS, do I need to file an ITR?**

The purpose of filing an ITR is to show that you have fulfilled your tax liability and paid all the taxes. It is mandatory for everyone with a total income of more than ₹ 2,50,000 to file ITR. Additionally, you can claim exemptions and deductions only if you file an ITR.

6) **Do I need to pay tax on gifts received?**

Any gift received in cash, kind or property without exceeding an aggregate value of over ₹ 50,000 are taxable, except in the following conditions:

- Gift received from parents (and their siblings), siblings, spouse (and his or her parents) and lineal relations of self and spouse.
- Gifts received from anyone on the occasion of getting married.
- Gifts received as inheritance.
- Gifts received from specific local bodies, institutions and trusts.
- Matters pertaining to receiving property as gifts are more calculated and a financial advisor must be consulted for it .

7) **Do taxpayers need to file their own ITR?**

No, you can nominate a Chartered Accountant or a tax practitioner to file an ITR on your behalf. You can also take help from designated professionals under the Tax Preparer Scheme.

8) **Can I correct mistakes on my ITR after submitting it?**

Yes, you can edit ITR submitted through e-Filing anytime during the assessment year or till the time of its assessment. This is known as filing a revised return of income.

9) **Is it mandatory to verify an ITR?**

Yes, the Income Tax Department does not process unverified ITRs. There are two ways to verify your return – one, you may send signed copy of the ITR-V by post to designated address within 120 days of the ITR filing or you may do an e-Verification from the comfort of your home without the risk of delay or non-delivery of your ITR-V. e-filing portal of income tax department gives many options to e-verify your return online.

10) **Where to find more information on tax related matters?**

www.incometaxindia.gov.in is the official website of Income Tax Department. You may find lot of useful information, FAQs therein.

News Section

Training Programmes for Participants

NISM certification programme for Participant

To facilitate officials of Participants to prepare and appear for NISM - Series VI - Depository Operations Certification Examination (DOCE), NSDL conducted a training programme at Mumbai in January 2019.

CPE Training Programme for Participants

NSDL, a NISM accredited Continuing Professional Education (CPE) Provider offers CPE training programmes in different modules for eligible associated persons. In January and February 2019, NSDL conducted 15 such training programmes at Ahmedabad, Chennai, Coimbatore, Hyderabad, Kolkata, Lucknow, Mumbai and New Delhi.

Training Programme for Issuers and Registrar & Transfer Agents

NSDL conducted two training programmes for Issuers and Registrar & Transfer Agents at Mumbai in January and February 2019.

Investor Education initiatives undertaken by NSDL

NSDL conducts Investor Awareness Programmes (IAPs) throughout the country to ensure investors are aware of different aspects of investing. Till date, NSDL has conducted over 3,300 programmes which have been attended by more than 3.30 Lakh investors. Feedback received from investors during these IAPs is extremely encouraging. While schedule of these programs is published online at **https://nsdl.co.in/Investor-Awareness-Programmes.php**, we shall be happy to conduct IAPs for your organization / institute / society. Help us in driving the investor education initiative further by writing to us at **info@nsdl.co.in** about such programmes to be conducted.

More the education, more the prudence. Admission to these programmes is free for all investors.

What is the last date for filing my ITR?

Send your replies providing your name, address and contact no. with the subject 'Knowledge Wins Contest - January 2019' to info@nsdl.co.in

Terms and Conditions

- NSDL shall be solely responsible for the execution and administration of this Contest.
- This Contest is only open to Indian Citizens. (NSDL employees are not allowed to participate in this contest.)
- All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
- NSDL reserves the right, at any time, to verify the validity of entries and entrants and to dispqalify any entry not submitted in accordance with these Terms or which tampers with the entry process.
- NSDL reserves the right to discontinue the contest at any given point of time without prior intimation.
- All prize drawings will made on a strictly random basis and the decision made by NSDL will be final

Your suggestions for newsletter are valuable to us.
Send in your suggestions mentioning your name, address and contact number with the subject "Suggestions for the newsletter" to info@nsdl.co.in

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