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TIPS TO SAVE INCOME TAX IN INDIA

For Salaried and Business Persons
Update – 2018-19



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Everyone wants to increase the income but don't want to pay taxes. There are many ways to save income tax. You might know few of these but I am sure you will find at least one new way from this article that can save more tax this year.

There is a long list, so I will keep the descriptions short to save your time.

#1. Interest Income on Saving Account- Section 80TTA

You might not be aware that interest income on saving accounts is not taxable up to 10,000 Rupees. If you earned 15,000 as interest from all your savings accounts (sum up interest from all your bank saving accounts), then you have to pay tax only on 5000 rupees. From A.Y. 2019-20 deduction u/s 80TTA is not available to resident senior citizen who is eligible to claim deduction under section 80TTB. According to Sec 80TTB , resident senior citizen can claim a deduction on interest to the extent of Rs 50,000. So, the amount of deduction will be Rs 50,000 or the amount of interest ,whichever is lower. Here interest includes interest on FD, savings or any other interest.

#2. Interest Income on NRE Account

Indian Government is very friendly to NRIs. Someone with NRE account doesn't have to pay tax on interest income on saving or fixed deposits.

Some smart Indians residing abroad, take a loan from the foreign country at 3-4% and invest their income in India through NRE account and earn tax-free income at 7-9%. Point to note that their income from NRE account is tax-free in India, but it may be taxed in their residing country (as per country law).

#3. Maturity or Claim amount by Life Insurance

As per amendments introduced in the Finance Act, 2003, any proceeds received on account of maturity/surrender of an insurance policy were exempt from tax only if the premium paid did not exceed 20% (10% if the policy is taken on or after 01.04.2012) of the sum assured. As an example, if the annual premium is Rs 10,000, to qualify for the exemption, the minimum sum assured under the policy was required to be Rs. 50,000.

If the sum assured was less than the said value, the entire maturity proceeds would be taxable.

#4. Educational Scholarship

Any amount received as scholarship for education is not taxable. It does not matter if scholarship is granted by government or private trust.

#5. Profit from Selling Shares or Equity Mutual Funds

Only after 1 year holding (Long Term Capital Gains)

If you invest in stocks or mutual funds then you can make your profits 100% non-taxable. Do not sell your equity before holding for one year, whether shares or mutual funds (equity). However wef A.Y 2019-20, if the amount of long term capital exceeds Rs 1,00,000, then the amount in excess of Rs 1,00,000 shall be chargeable to tax @10%

For example, you invested 100,000 in some stock and in 11 months it becomes worth 1,20,000. If you sell all of them then you have to pay tax on 20,000 profit. If you hold it for another month, then you are not liable to pay any tax on the profits.

However wef A.Y 2019-20 if the amount of profit exceeds Rs 1,00,000 even if the period of holding is more than 12 months, the amount in excess of Rs 1,00,000 shall be chargeable to tax @10%

Same is applicable to equity mutual funds.

#6.Dividends received from Shares or Equity Mutual Funds

Stocks and Mutual Funds (Equity focused) distribute dividends to shareholders. All of the dividends are tax-free in the hands of the receiver if the same do not exceed Rs. 10 Lakh.

Any income by way of dividend in excess of Rs. 10 lakh shall be chargeable to tax in the case of an individual, Hindu undivided family (HUF) or a firm who is resident in India, at the rate of ten percent. The taxation of dividend income in excess of ten lakh rupees shall be on gross basis.

#7. Amount received as Gifts on marriage

Do you know that the gifts received (cash/cheque/gifts) on marriage are totally tax-free?

You can receive gifts from your relatives, friends and family on the occasion of your marriage and you don't have to pay any taxes.

#8. Agriculture Income

Any income derived from Agriculture land is tax-free in India.

- Any rent derived from land
- Income from agriculture products
- Income from farm building

#9. HUF account for secondary income

You can take benefit of tax saving under HUF account if you have any additional income to your salary. You can pay tax on your salary under your name and deposit secondary income into HUF account.

Hindu Undivided Family (HUF) status is available to Hindu, Sikh and Jain families in India. You have to get separate PAN and bank account number. Income Tax Department considers HUF as a separate entity for taxation purpose.

For example you have 500,000 income from your salary and 3,50,000 income from blogging and consulting. You will pay tax on 2,50,000 on your salaried income and 1,00,000 on your secondary income as per latest income tax slabs.

You can save tax on both of your entities by investing in tax saving options like under section 80C. You will virtually pay no taxes on your secondary income if you invest 1,00,000 in tax saving instruments.

#10. Inherited Amount through Will

There is no inheritance tax in India. So anything you get from your parents or uncles through WILL is not taxable in your hands. It becomes your non-taxable income.

#11. Well Known Tax Saving Options under section 80C

Everyone knows that Section 80C offers a maximum deduction of up to Rs. 1,50,000 (revised). A few of the options are as follows:

- Public Provident Fund
- Life Insurance Premium
- National Savings Certificate
- Equity Linked Savings Scheme
- Principal Amount Repaid on Home Loan
- 5 year fixed deposits with banks and post office
- Tuition fees paid for children's education, up to a maximum of 2 children

#12. Money Received from Provident Funds (after 5 years)

You will save tax on investments in Provident Account in the year of investment. The good news is that you don't have to pay taxes on interest received from EPF/PF investments (note that Interest received on Fixed Deposit is taxable).

You have to keep your Provident Fund active for at least five years before you start withdrawing money (however not recommended unless an emergency)

#13. Tax Saving from Home Loan

Use your home loan efficiently to save more tax. There are three ways to get income tax deduction on your home loan(s).

- The principal amount re-paid in the current financial year is included under Section 80C, offering a deduction up to Rs. 1,50,000.
- The interest portion offers a deduction up to Rs. 2,00,000 separately under Section 24.
- If you are living in the home on which you took first home loan, you can get another loan for the second house. There is no limit on income tax deduction on the interest payment of second home loan. Very few people are aware of this benefit of tax saving on second home loan.

#14. Tax Saving on Education Loan

Section 80E - Interest paid on education loan is also non-taxable, there is no upper limit on the amount. The education loan for higher studies is applicable for the deduction if taken for self, spouse or children.

#15. Medical Insurance

Section 80D - Deduction of Rs. 25,000 for medical insurance of self, spouse and dependent children and Rs.30,000 (wef A.Y 2019-20 this amount has been increased to Rs 50,000) for medical insurance of parents above 60 years.

A medical insurance policy allows you to avail tax deduction under Section 80D of Income Tax Act for any expenses incurred for preventive health check-ups. You can avail Rs. 5,000 for the cost incurred for preventive health check-ups for self, spouse, children or parents. The tax deduction for preventive health check-ups is subject to maximum amount of deduction under section 80D specified above.

#16. Donations

Section 80G - Donations to specified funds or charitable institutions. You need to retain the stamped receipts of the donations and make sure the charitable organization is registered.

Business Persons - Tax Savings Tips and Tricks

#17. Distributed Profit to Partners in Partnership Firms

There is no tax in the hand on partners if their partnership firm is making profits and partners decide to distribute profits among themselves. Partners get tax benefit because their partnership firm has already paid taxes on the profits.

#18. Travel/Hotel Expenses in Business

Business owners have to travel to grow their business. They can file travel and hotel expenses as business expenses to save tax. They never pay for travel from their salary but from company account. Smart people always show expenses before taxation. Look what a salaried person do - assume he has taxable income of 10,00,000 (after all deductions) and pay his taxes as per slab. Then he spends 2,00,000 on travel vacation on leftover income. And what a business person do - He shows his travel as a business expense and take the rest of profits as salary. He will pay tax on 8,00,000 only.

#19. Food Expenses in Business

Similarly, business owners need to meet so many people like customers, vendors, and potential hires. Often he spends money on paying bills of food. They save tax by showing all food expenses as the business expense.

Tax Savings Tips and Tricks only for Salaried Persons

and some extra tips for financial management if you got your first job.

#20. Leave Travel Allowance

Employees can utilize Leave Travel Allowance for the expenses on domestic vacations. This policy covers the expense of travel tickets for yourself and your family. You will not be taxed on the travel expenses of your spouse, two children if they are part of your journey. Parent, Brother or Sister are covered only if they are solely dependent on you.

You can avail this facility twice in the block of four years. If you were unable to claim the benefits in four year block then you can carry over one vacation in next block, provided you avail in the first year of the block itself.

#21. House Rent Allowance

You can claim HRA to save tax on your house rent. This is applicable only if you are not owning any house near to your office. You must be living in rented space and should receive rent receipts from the house owner. You have to submit PAN card copy of your landlord if you are paying more than 100,000 annual rent.

If HRA forms part of your salary, then the minimum of the following three is available as exemption:

- The actual HRA received from your employer
- The actual rent paid by you for the house, minus 10 per cent of your salary (including your allowances)
- 50 per cent of your basic salary (for a metro) or 40 per cent of your basic salary (for non-metro).

#22. Income from Gratuity

Gratuity received on retirement or on becoming incapacitated or on termination or any gratuity received by his widow, children or dependents on his death is exempt subject to certain conditions. The maximum amount of exemption is increased to Rs 20,00,000 from earlier limit of Rs 10,00,000 wef 29.03.2018 for employees covered by Gratuity Act 1972

#23. Meal Coupons

You can ask your employer to issue you meal coupons (like Sodexo) those are not taxable up to 2600 per month.

#24. Medical Bills

Keep the receipts of your medical expenses which can be used to save tax at year end. You must know that up to 15,000 amount is non-taxable on medical expenses for yourself and your dependents. However this has been withdrawn wef A.Y 2019-20 and in lieu of it a deduction of Rs 40000 shall be allowed u/s 16

#25. Daily Travel Allowance

You can avail tax benefits on conveyance up to 1600 rupees (Revised) per month from your company. You can save tax on 19,200 per annum on conveyance allowance. You don't have to submit any bills or proof to avail this tax benefit. However this has been withdrawn wef A.Y 2019-20 and in lieu of it a deduction of Rs 40,000 shall be allowed u/s 16

Some companies have the policy of daily travel allowance if an employee is commuting by car or bike. You have to submit original fuel bills to get the tax benefit. Limit of non-taxable amount varies with your vehicle type and capacity, you have to check with your employer for more details.

#26. Company Leased Car

Check with your employer if they have car lease policy. In that case, you will not be allowed to take advantage of Daily Travel Allowance, and you can drive company leased car to save tax on car EMI & fuel.

#27. Telephone/Internet Expenses

You company may not be reimbursing your telephone or internet expenses but may have any policy to make these expenses tax free. You can either get telephone expenses reimbursed or claim tax benefits.

#28 Money under VRS

Voluntarily Retirement Scheme - Upto 5 lacs

Only applicable for employees of public sector company or authority established under Center or State Govt.

If any employee takes voluntarily retirement then the amount received is non-taxable with the upper limit of 5 lacs.

