Includes the Latest Tax Law Changes

TAX GUIDE

2013-14

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3. Things to keep in mind when you file tax returns.
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What is Tax Planning ?

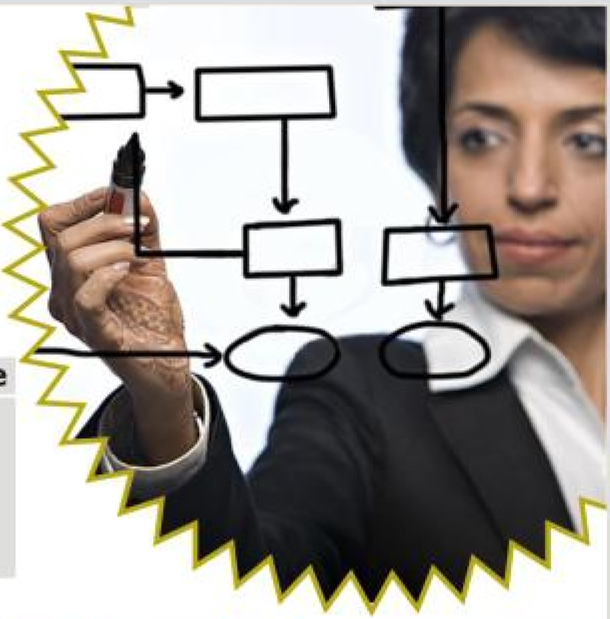
Tax planning is an essential part of your financial planning. Efficient tax planning enables you to reduce your tax liability to the minimum. This is done by legitimately taking advantage of all tax exemptions, deductions rebates and allowances while ensuring that your investments are in line with your long term goals.

What tax planning is not...

- Tax Planning is NOT tax evasion. It involves sensible planning of your income sources and investments. It is not tax evasion which is illegal under Indian laws.
- Tax Planning is NOT just putting your money blindly into any 80C investments.
- Tax Planning is NOT difficult. Tax Planning is easy. It can be practiced by everyone and with a very little time commitment as long as one is organized with their finances.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

1. Income Tax Slab Rates for the year 2013-2014



Income tax slabs 2013-2014 for General tax payers and Women

S. No.	Income tax slab (in Rs.)	Tax percentage
1	0 to 2,00,000	No tax
2	2,00,001 to 5,00,000	10%
3	5,00,001 to 10,00,000	20%
4	Above 10,00,000	30%

Income tax slabs 2013-2014 - for Senior citizen (Aged 60 years but less than 80 years)

S. No.	Income tax slab (in Rs.)	Tax percentage
1	0 to 2,50,000	No tax
2	2,50,001 to 5,00,000	10%
3	5,00,001 to 10,00,000	20%
4	Above 10,00,000	30%

Income tax slabs 2013-2014 - for Very Senior citizen (Above 80 years)

S. No.	Income tax slab (in Rs.)	Tax percentage
1	0 to 5,00,000	No tax
2	5,00,001 to 10,00,000	20%
3	Above 10,00,000	30%

***In addition an rebate of Rs 2000 will be available for income less than Rs 5 lakhs.**

***Income above 1 crore to attract 10% tax surcharge.**

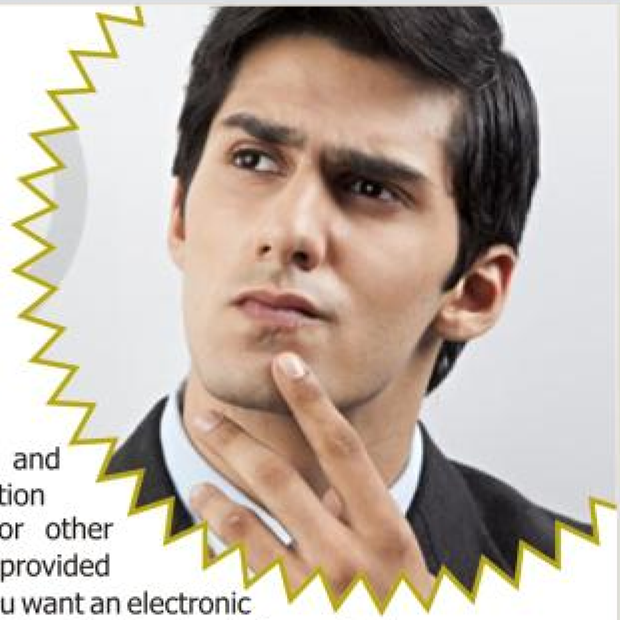
2. New tax rules for Insurance

If you plan to buy an insurance policy to save tax this year, keep in mind the changes in the tax rules relating to life insurance. An insurance plan will be eligible for tax deduction and the income will be tax-free only if it covers the policyholder for 10 times the annual premium.

The clause introduced in Budget 2012 will further bring down the returns from traditional policies. As it is, these policies gave very low returns of around 5-6 %. Now, this is likely to fall to roughly 4-5 %. This is because a larger life cover would require a bigger sum going into mortality charges every year. Also, the service tax rate has been enhanced.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

3. Things to keep in mind when you file tax returns



In a haste to meet the deadline, make sure you do not miss key elements that can cause trouble later.

Critical information should be cross verified

No income tax return will be accepted without the PAN and incorrect PAN can result in a fine being levied. Communication address should be correctly stated as all notices or other communication from the IT department will be sent to the provided address. Also make sure that the MICR code is correct if you want an electronic refund and also ensure that bank account details are correctly stated for hassle free refunds.

Safe keep all relevant documents for future use

The IT department has done away with enclosing documents while filing returns i.e. proof of tax, statement showing computation of taxable income etc. Not having to produce it at the time of filing returns doesn't meet that you can put away the documents carelessly. In case of scrutiny, the tax authorities may need supporting documents for verifying the claims made in the return.

Disclose exempt income and investments made

Income such as dividends from mutual funds and long-term capital gains on listed securities, are exempt from tax. Even though the tax laws do not require you to pay tax on the same, the law requires you to report these in your tax return.

Investments above a prescribed limit have also to be disclosed as per IT laws. They include

*** Mutual fund investment in excess of Rs. 2 lakh***

*** Cash deposits in excess of Rs. 10 lakh***

*** Credit card payment in excess of Rs. 2 lakh***

*** Bond investment in excess of Rs. 5 lakh***

*** Property bought or sold in excess of Rs. 30 lakh***

*** Report income from a previous employer***

Employers deduct TDS from the employee's salary. While computing the TDS, employers generally provide the basic exemption deduction to the employee. If at the time of changing the job, the employee has not informed the new employer, it could lead to a situation where the TDS cut by the new employee would be low, as he may be taking in to consideration the full deduction amount while calculating tax. Thus you may have tax liability at the time of filing returns. Not disclosing income from the previous employer may result in an income tax notice as it will be spotted when the TDS data is being reconciled.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

Revision of Income

If the IT return has been filed before the due date i.e. 31st July, tax payers are entitled to submit a revised return in case of any error or omission therein. However, revision is not permitted if the return is filed beyond the due date.

Precautions taken at the time of filing returns will prevent hassles later.

4. A few tips to reduce your Tax Liability

It's best to implement tax savings measures well in advance to reduce your tax liability at the end of the year. The longer you delay your tax planning, you would boost your income accordingly and end the year paying a higher tax.

Following are a few tips to reduce tax liability for FY 2013-14,

Reduce interest income by splitting income

If you are already having your salary income taxed, then you should reduce your liability further, if you have income from interest. This can be done by placing fixed deposits and other interest bearing securities in the name of your spouse.

Invest in parents name

If your parents do not have sizeable income, it's best to ask them to invest and receive your income. Remember that the basic tax exemption limit for senior citizens is higher at Rs 2.5 lakhs and they also receive higher interest on most fixed savings instruments like fixed deposits. Pay parents rent if you stay in their house If you stay in your parents house which is registered in their name, you can pay them rent and claim house rent allowance.

Look at tax free bonds

If you are in the 33 per cent tax, look at some listed tax free bonds. Interest from these bonds are tax free, which means they would not form part of your total income. The bonds listed on the National and Bombay Stock Exchange include those from National Highways Authority of India, REC, Indian Railways Finance Corporation.

Reduce tax liability by talking to employer

Certain perks are exempt from tax. You could avail of meal coupons and also travel allowance upto Rs 800 per month. This could reduce your tax liability. You would need to talk to your employer to see, how a break-up in your salary could help you.

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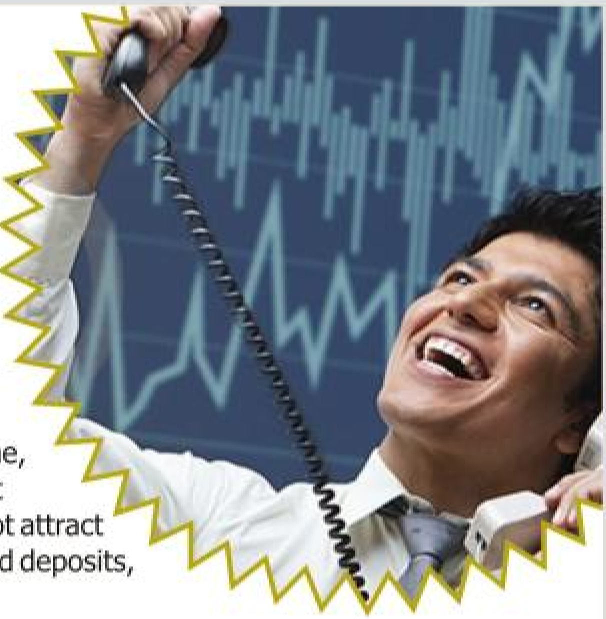


Sell shares after holding for one year

If you are making a handsome profit on shares, it's better to sell the shares after one year. Remember selling shares before one year will increase your tax liability as you have to pay capital gains on profit, if you sell shares before one year.

Diversify your portfolio

You can reduce your tax liability by diversifying your portfolio. For example, if you have rental and interest income, you can put money into stocks. Dividend from shares do not attract tax and you can sell shares after a year, as they do not attract capital gains tax after one year. But, if you put money in fixed deposits, the interest income will attract tax.

5. Tax planning : Quick look at available options

Here's a quick look at the available options and their suitability for you.

Public Provident Fund

The PPF interest rate is benchmarked to the 10-year government bond yield. The rate will change every year and could be around 8.5% for 2013-14.

Returns: 8.8% ***Tenure: 15 years***

Liquidity: Moderate ***Income: Tax-free***

Suitable for: Risk-averse investors, self-employed professionals and those not covered by the EPF.

NSC's and Bank Fd's

The interest on NSCs is also linked to the gilt yields, but once you invest, it remains fixed till maturity. Banks offer higher rates, but don't have sovereign guarantee.

Returns: 8.6-8.9% for NSCs; 8.5-9% for FDs

Tenure: 5 & 10 years (NSCs); 5 years (FDs)

Liquidity: Moderate

Income: Fully taxable at normal rates

Suitable for: Risk-averse investors looking for short-term options, senior citizens and those in low tax bracket.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

Senior citizens' savings scheme

Good option for those with a higher risk profile, but not a good idea to put a large sum at one go. Go for SIPs.

Returns: Market-linked. (4% in past three years)

Tenure: 3 years

Income: Dividends and capital gains are tax-free

Suitable for: Investors willing to take calculated risks.

Unit-linked insurance plans

Returns: Market-linked ***Tenure: At least 5 years***

Liquidity: High ***Income: Tax-free***

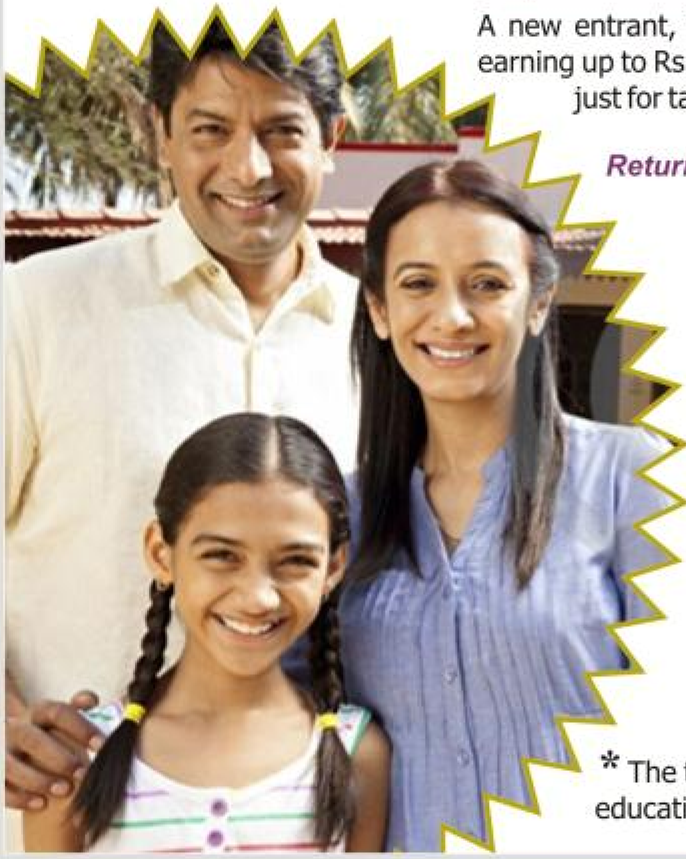
Suitable for: Savvy investors who understand the policy features.

Life insurance policies

Returns: Market-linked ***Tenure: Till vesting age***

Liquidity: Premature withdrawals not allowed ***Income: Annuities currently taxable***

Suitable for: Investors who don't have other retirement benefits.



Rajiv Gandhi Equity Savings Scheme

A new entrant, it offers tax benefits to first-time equity investors earning up to Rs 10 lakh a year. Not a good idea to invest a lump sum just for tax gains. Do it systematically next year.

Returns: Market-linked ***Tenure: 3 years***

Liquidity: High ***Income: Dividends and capital gains are tax-free***

Suitable for: First-time investors who want to save more tax.

Other options

* The principal portion of a **home loan EMI** gets tax benefits under Section 80C. If it is a joint loan, both owners get deduction.

* Contributions to the **PF account**, including the **VPF**, are eligible for deduction under Section 80C.

* The tuition fee paid for up to two children in a recognised educational institute, playschool or creche is deductible.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

6. Steps to file tax returns online!

Despite the innumerable advantages of filing tax returns online, many people still take the tedious route of filing returns on paper. This is primarily due to ignorance of the simple processes involved in filing online. Most people are yet to develop confidence in the online system and try to avoid it year after year. However one has to appreciate the fact that filing online is a simple and hassles free practice that can be done anywhere and anytime even from the comfort of home itself.

Advantages of Filing Tax Returns Online

The biggest advantage of filing returns online is that one doesn't have to run around income tax offices unnecessarily which consumes time and effort. The whole process takes just about 15 minutes if one knows the details of filling the forms. Moreover the copy of the return is available to you instantly and it has been proven over the years that refunds are more readily disbursed by the income tax department in cases of online filing as compared to traditional paper returns. Several problems caused by wrong addresses is virtually eliminated in case of online tax returns.

Step by Step Guide to Online Filing

All that one needs for online tax filing is access to an internet connection and all relevant data ready at hand.

1st Step: One will have to access the website for online tax filing which is http://www.incometax-india.gov.in/ and then go to "file returns online" tab followed by "income tax returns" to start off the process.

2nd Step: There are different kinds of forms for various types of returns. One needs to download the relevant form and save the zipped file. The required return file can then be extracted from the zipped file.

3rd Step: The details and particulars required will have to be filled in the form and finally validated by clicking the"validate" button on the last page. One has to then access the 'Generate XML' link and then subsequently save the XML file.

4th Step: The details will have to be now entered in the income tax website mentioned above. For this an existing user can log in with the PAN number and secret password. For new users an account has to be created. In order to register first time on the IT website the following steps need to be taken:

Fill in the PAN, name, father's name, date of birth, e-mail address and contact number.You will be forwarded an automated activation link on the mail ID provided by you, which has to be clicked from that ID and activated.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

The PAN number is the user ID in this link. Follow the steps to choose a secret password which has to meet the laid down specifications in the website.
If the secret password is lost or forgotten one can reset the same using the PAN number and the secret question that has been previously entered.

5th Step: Now you have to log into the website and look for the 'submit return' tab. Here the relevant year i.e. 2012-2013 has to be selected. The XML file that was generated in 3rd step will have to be uploaded here.

6th Step: The acknowledgement of the return having filed will be generated now under the heading ITR-V. The file can be opened with a password which your PAN followed by the date of birth in DDMMYYYY format. This file will have to be saved for future reference.

7th Step: In case of an electronic signature on the tax return the procedure is over at this stage. Otherwise a print out of the ITR-V will have to be taken and physically signed before sending it to the nearest IT office within 120 days. One has to keep a track for the acknowledgement of the receipt of ITR-V on the website itself.

8th Step: When the ITR-V acknowledgement is received you will have to log in to your account and acknowledge the completion of the process.

People who have been using the online tax return filing facility have been quite satisfied with the results. The system has proven to be stable after a few initial amendments and is a sure way to file returns without extra effort or time being consumed in the process.

7. Little-known tax deductions you might have missed while filing returns

Paying more tax than is due is bad enough. It's worse if you don't even know you have overpaid and are eligible for a refund. Many youngsters are not conversant with tax rules and fail to fully utilise the deductions available to them.

Tax filing portal Taxspanner.com studied last year's returns and found that nearly 51 per cent of salaried taxpayers had not fully used the tax-saving limit under Section 80C. Only one of the four taxpayers had claimed the full deduction for health insurance under Section 80D.

Here are some little-known deductions available to taxpayers. Make sure you claim them when you file your returns this year. If you have already done so, you can file a revised one to claim the deduction you missed.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

1. Home loan repayment under Section 80C

If you are paying a hefty home loan EMI, chances are that you will find it difficult to put money in tax-saving options. Take heart. While the interest paid on the home loan is deductible under Section 24b, even the principal portion gets you tax benefits under Section 80C.

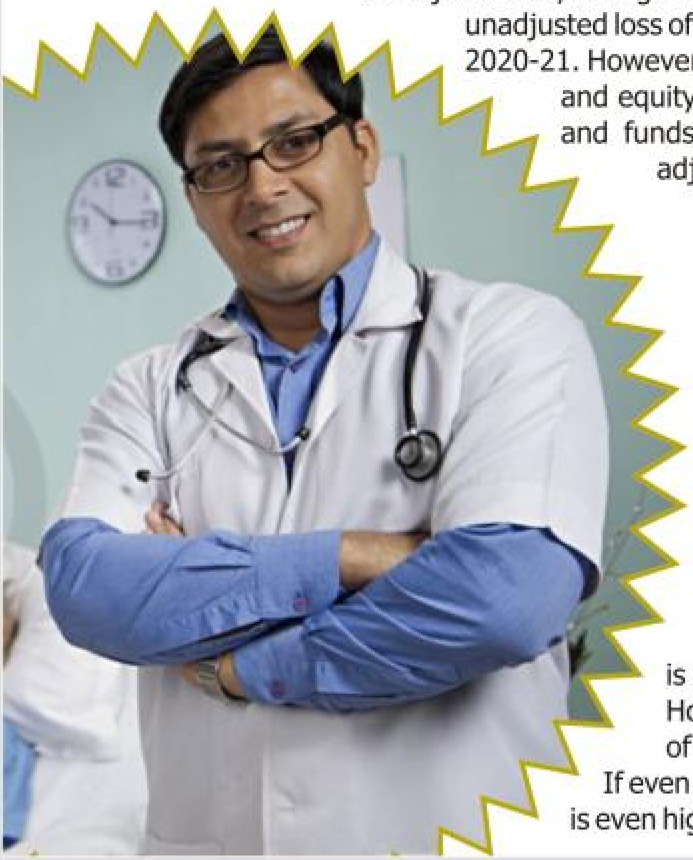
This is a godsend for taxpayers, who have not been able to exhaust their Rs 1 lakh saving limit under Section 80C because of the home loan EMI. The deduction for the interest paid on a home loan is capped at Rs 1.5 lakh only in case of a self-occupied house. If you have bought a second house for investment and have rented it out, the entire interest during a given year can be claimed as a deduction. This brings down the effective rate of borrowing for the buyer.

2. 30 per cent standard deduction of rental

If you let out your house, the rent is added to your income and taxed at the normal rate applicable to you. However, there is a 30 per cent standard deduction from this income. So, if you receive a rent of Rs 10,000 per month, the total rent for the year would be Rs 1.2 lakh. Of this, Rs 36,000 would be the standard deduction and you will have to pay tax only on Rs 84,000.

3. Carry forward and adjust capital losses

Certain short-term or long-term capital losses you made during the year can be adjusted against other gains. If you lost money in stocks, equity funds or gold last year, you can set off the loss against short-term capital gains or taxable long-term capital gains from the sale of property, gold or debt funds. If you are unable to adjust the entire loss, you can carry it forward for up to eight financial years.



Suppose you lost Rs 80,000 in stocks and gold funds in 2012-13 and managed to adjust Rs 30,000 against gains from debt funds. You can carry forward the unadjusted loss of Rs 50,000 and keep doing so against other gains till 2020-21. However, you can adjust only short-term losses from stocks and equity funds in this manner. If you have held the stocks and funds for more than one year, the losses cannot be adjusted.

Also, one cannot set off short-term gains from stocks against long-term capital losses from other assets. However, both short-term and long-term losses from other assets, such as gold, property and debt funds, can be adjusted. The taxpayers who earned capital gains from fixed maturity plans (FMPs) and debt funds will find this particularly useful.

4. Medical insurance of parents

The premium of your health insurance policy is deductible up to Rs 15,000 under Section 80D. However, you are eligible for an additional deduction of Rs 15,000 if you have insured your parents as well. If even one of them is a senior citizen, the limit of deduction is even higher at Rs 20,000.

With inputs from GoodReturns.in, The Economics Times, BankBazaar

5. Use indexation for long-term gains

Do you know you can use inflation to bring down your tax? The indexation benefit can be used to adjust the buying price of an asset to the inflation during the period of holding. If this sounds Greek to you, here's an example.

Suppose you invested Rs 2 lakh in an FMP, in March 2010 and got Rs 2.8 lakh when the plan matured in March 2013. You will have to pay 10 per cent tax on the Rs 80,000 earned as capital gain. However, if you take the indexation route, the 35 per cent inflation during the holding period will adjust your buying price upwards to Rs 2.7 lakh. Even though the gain of Rs 10,000 will be taxed at a higher rate of 20 per cent, the overall tax will be only Rs 2,000, compared with the Rs 8,000 payable, if you were to take the flat 10 per cent option.

Calculating the tax according to the indexation option requires a bit of math, but can be very rewarding.

6. Illness and disability

If you have a dependant, who suffers from any of the diseases specified under Section 80DDB, you can claim a deduction of Rs 40,000. The deduction is higher at Rs 60,000 if the patient is a senior citizen. The diseases include, neurological ones (dementia, dystonia musculorum deformans, motor neuron disease, ataxia, chorea, hemiballismus, aphasia and Parkinson's disease), malignant cancers, full-blown AIDS, chronic kidney failure and haematological disorders (haemophilia and thalassaemia). Dependants can include spouse, children, parents and siblings.

However, the patient should be wholly or mainly dependent on the taxpayer and should not have separately claimed any sum from an insurance company for the illness. Similarly, if a taxpayer suffers from a disability, he can claim deduction of Rs 75,000 under Section 80U. If he has a disabled dependant, he can claim the deduction under Section 80DD.

Disability includes blindness, low vision, leprosy, hearing impairment, loco-motor disability, mental retardation and mental illness. A minor disability won't get any tax benefits; the disability should be at least 40 per cent. If the disability is over 80 per cent, the deduction is Rs 1 lakh.

With inputs from GoodReturns.in, The Economics Times, BankBazaar