THE HINDU BusinessLine

GUIDE TO TAXATION

24 PAGES | THURSDAY, MARCH 29, 2018

A Business Initiative

Be a Smart taxpayer

Strategies to max your tax savings and navigate the compliance maze

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INTERVIEW: SHIV PRATAP SHUKLA, Minister of State for Finance

'The salaried are not the taxman's favourite whipping boys'

RICHA MISHRA

One of the challenges faced by the Finance Ministry has been to expand the income tax base as it goes about cleaning the system. As the NDA government enters its last year before the general election, *BusinessLine* caught up with Shiv Pratap Shukla, Minister of State in the Finance Ministry, looking after Revenue and Financial Services. Shukla, who took office following a reshuffle last year, says the perception that the salaried are the taxman's favourite whipping boys is flawed. Excerpts:

What is the government's philosophy when it comes to personal taxation? There is a perception that the salaried are the taxman's favourite whipping boys.

The perception… is incorrect. The rates of tax applicable to salaried and non-salaried taxpayers are the same. The government has endeavoured to give relief to salaried taxpayers, even when there was extremely limited fiscal space. Accordingly, Finance Bill, 2018 has proposed a standard deduction of ₹40,000 for salaried taxpayers.

Has the Income Tax Department prepared a strategy to widen the tax base, in line with the government's position?

There is a comprehensive strategy in place to increase the tax base, and the government has taken legislative as well as administrative measures. The legislative measures include**:** 1 per cent TCS on sale of minerals - coal, lignite and iron ore — for trading; 1 per cent TCS on sale of motor vehicle with value exceeding ₹10 lakh; 1 per cent TDS on payment for acquisition of immovable property (other than rural agricultural land) with value of ₹50 lakh or more. Also, interest on recurring deposits has been brought within the ambit of TDS. Banks with core banking solution to aggregate the interest customer-wise at the bank level to check splitting of term deposits among various branches of a bank.

Additionally, presumptive taxation has been extended to professionals. And the tax rate for those in the ₹2.5-5 lakh income slab has been reduced from 10 per cent to 5 per cent to encourage compliance and to encourage people to file tax returns.

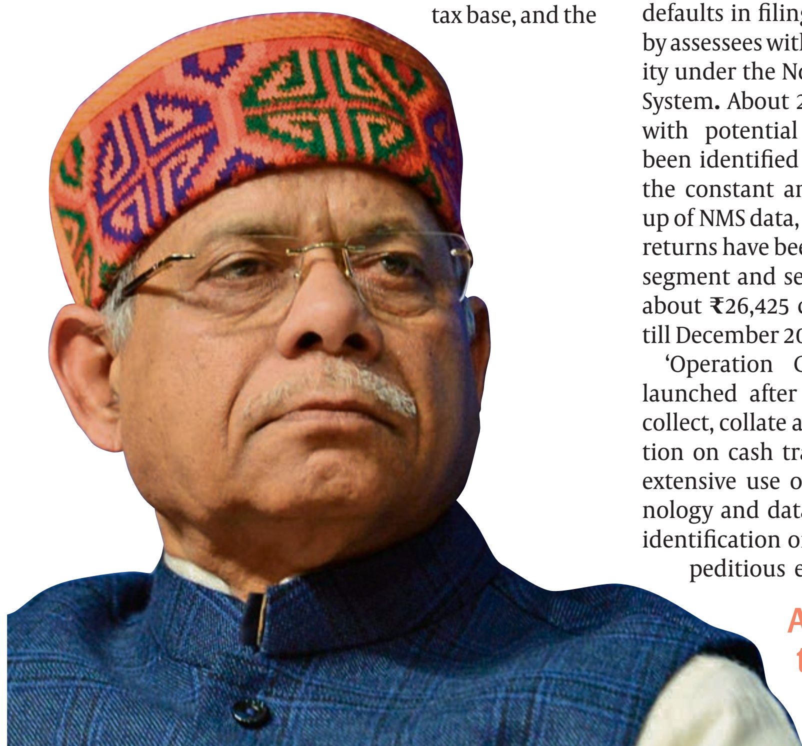
The government also widened the scope of the Statement of Financial Transactions (SFT). Quoting of Permanent Account Number (PAN) has been made mandatory for all transactions above ₹2 lakh and for specified transactions in respect of property, shares, bonds, insurance, foreign travel, demat accounts and so on.

Likewise, with administrative measures: data mining and data analytics are being used to monitor defaults in filing income-tax return by assessees with potential tax liability under the Non-filers Monitoring System**.** About 2.40 crore non-filers with potential tax liability have been identified under NMS. Due to the constant and intensive follow-up of NMS data, more than 1.72 crore returns have been filed by the target segment and self-assessment tax of about ₹26,425 crore has been paid till December 2017.

'Operation Clean Money' was launched after demonetisation to collect, collate and analyse information on cash transactions. There is extensive use of information technology and data analytics tools for identification of high-risk cases, expeditious e-verification of suspect cases and enforcement actions in appropriate cases.

More than 20,500 income tax returns were selected for scrutiny in 2017 on the basis of cash deposits in bank accounts during demonetisation. More than 1.9 lakh notices were issued to such persons in whose bank accounts cash exceeding ₹15 lakh was deposited during demonetisation but who have not filed any return of income.

Project Insight has strengthened the non–intrusive information-driven approach to improve tax compliance and effective utilisation of information in tax administration. It will not only promote voluntary compliance but will also enable taxpayers to resolve simple compliance-related issues online without visiting the income tax office.



What are the personal taxation implications of the proposed direct tax code?

The task force for drafting new direct tax legislation will keep in view international best practices, direct tax systems prevalent in other countries and India's economic needs. The task force report is awaited.

Why have not tax exemptions and deduction for individuals kept pace with inflation?

Since 2014, various measures have been taken to provide relief to individual taxpayers in line with inflation. For instance, personal income tax exemption limit was increased from ₹2 lakh to ₹2.5 lakh and from ₹2.5 lakh to ₹3 lakh for senior citizens. Further, for taxpayers with total income of ₹2.5-5 lakh (and ₹3-5 lakh in the case of senior citizens), the tax rate was reduced form 10 per cent to 5 per cent. Combined with the tax rebate of ₹2,500 available to individual taxpayers, this means there is zero tax liability for those with total income up to ₹3 lakh a year.

The limit of deduction available under Section 80C was also increased from ₹1 lakh to ₹1.5 lakh. The deduction limit on account of interest on loan in respect of self-occupied property was increased from ₹1.5 lakh to ₹2 lakh. The limit on deduction on account of contribution to a Pension Fund and the New Pension Scheme was increased from ₹1 lakh to ₹1.5 lakh, with an additional deduction of ₹50,000 for contribution to the New Pension Scheme.

For senior citizens, the limit of deduction for health insurance and medical expenditure was increased from ₹20,000 to ₹30,000. Budget 2018 has further proposed to increase this to ₹50,000 and to raise the limit of deduction for medical expenditure in respect of certain critical illnesses from ₹60,000 in the case of senior citizens and ₹80,000 in the case of very senior citizens to ₹1 lakh in the case of all senior citizens. The deduction allowed to senior citizens on interest income from deposits with banks, co-operative societies and post offices is also being increased from ₹10,000 to ₹50,000; the threshold for TDS on senior citizens' interest income is to be increased from ₹10,000 to ₹50,000.

What is the rationale for tax on LTCG on equity investments? Why was not STT discontinued, and why was indexation benefit not offered?

The tax exemption on long-term capital gains arising from transfer of listed equity shares, units of equity-oriented fund and units of a business trust have created a bias against manufacturing, leading to more business surpluses being invested in financial assets... There is therefore a strong case for bringing long-term capital gains from listed equities in the tax net. Even so, it is proposed in Budget 2018 that only such long-term capital gains which exceed ₹1 lakh shall be liable to be taxed.

The proposed rate of LTCG tax at 10 per cent is quite low compared to the 20 per cent on gains arising out of other assets.

Is the government considering a proposal to ensure that money deposited in banks by retired persons is not taxed?

No such measures are being considered. In any case, after the provisions in the Finance Bill, 2018, interest income earned by senior citizens on deposits up to ₹7 lakh will not be liable to tax (assuming 7 per cent per annum interest).

A strategy is in place to widen the tax base; the government has taken legislative and administrative measures

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A Budget of belied expectations

It had little for individual taxpayers, although it did deliver some goodies for senior citizens

ISTOCK.COM/GRADTS

ANAND KALYANARAMAN

Individual taxpayers who had high expectations from Budget 2018 were left largely disappointed. The Finance Minister did not make any change in the structure of income tax for individuals. And although he did provide some relief, he effectively nullified most of it with other provisions.

Conceding a widely articulated demand, the Budget allowed standard deduction on salary income up to ₹40,000. But then, out goes the tax exemption on medical expense reimbursement (₹15,000) and transport allowance (₹19,200) — totalling ₹34,200. In effect, the taxable income has come down by just ₹5,800 a year for salary earners who draw medical and transport allowance.

This group is generally made up of those below age 60. On the reduced tax income of ₹5,800, the tax benefit, excluding cess, is in the range of ₹290 (for those in the lowest 5 per cent slab) to ₹1,740 (for those in the 30 per cent slab). And this little benefit too is chipped away by the increase in cess on the total tax. Education cess, currently 3 per cent of tax, has been replaced with a Health and Education cess of 4 per cent of tax.

The outgo due to the higher cess could, in fact, be more than the tax saved in the case of high salary earners, resulting in a net tax outgo. For instance, for a salaried individual less than 60 years old earning ₹18 lakh a year, investing ₹1.5 lakh in Section 80C tax-saving instruments and paying health insurance premium of ₹25,000 eligible for tax break under Section 80D, the tax outgo will increase by ₹1,190 after Budget 2018.

The tax benefit, though, is better for salaried taxpayers who do not get medical and transport allowance. This group is generally made up of those aged 60 or more and earning a pension income. Given that they are not affected by the removal of the tax exemption on medical and transport allowance, the entire benefit of standard deduction of ₹40,000 will be available to such taxpayers. This works out to a tax-saving of ₹2,000 (for those in the 5 per cent slab) to ₹12,000 (for those in the 30 per cent slab) excluding cess. But here, too, the benefit is pegged back by the higher cess on the total tax.

More for senior citizens

For those aged 60 and more, the Budget has provided other tangible sops — in the form of higher tax breaks on interest incomes and health insurance, among other benefits.

Other sweeteners include the introduction of standard deduction for pensioners and doubling of investment limits under the Pradhan Mantri Vaya Vandana Yojana (PMVVY) pension scheme. This will translate into greater savings for senior citizens.

The deductions under these heads total up to nearly ₹1.4-1.5 lakh a year. Therefore, a senior citizen (60 years and over) in the 30 per cent bracket will save up to ₹45,000 (excluding cess) more in 2018-19, if s/he were to draw all these benefits.

The old favourites among senior citizens - bank and post-office deposits – have got a lot more attractive, thanks to the ₹50,000 deduction on interest that will now be allowed under a new section 80TTB. Currently, only ₹10,000 was allowed as deductions, and that too only on savings bank interest. Senior citizens can use this enhanced deduction, which is applicable for all fixed and recurring deposits. Additionally, the threshold for deducting TDS by the banks will be increased from ₹10,000 to ₹50,000. But the ₹10,000 that was available as savings bank interest deduction (under Section 80TTA) will now not be allowed.

Senior citizens will get higher tax breaks on interest incomes and health insurance

Given the inflation in medical costs, the Minister has provided some relief for senior citizens in securing medical insurance. The allowable deduction on medical insurance premiums under Section 80D for senior citizens has been increased from ₹30,000 to ₹50,000. Also, for the treatment of certain specified illnesses, the deductions have been increased from ₹60,000 to ₹1 lakh. Together, these increased concessions could result in potential savings of ₹60,000.

As with the younger population, senior citizens with salary incomes too will qualify for the ₹40,000 standard deduction from their income. This will be in addition to their regular investment allowances and deductions.

This move is expected to benefit pensioners who do not have the benefit of deductions that normal salaried people do.

The investment limit on the PMVVY pension scheme for senior citizens has been increased to ₹15 lakh from ₹7.5 lakh. This scheme has an assured 8 per cent return (8.3 per cent for the annual payout option) and will now be available till March 2020. The maximum monthly pension that a senior citizen can currently get is ₹5,000. With the increased limit, s/he will now get up to ₹10,000 monthly.

NOT MUCH TAX RELIEF

Individual (up to 60 years)

Net income	₹6,00,000	₹12,00,000	₹18,00,000
Current tax	₹9,013	₹1,23,600	₹3,09,000
BUDGET 2018 PROPOSAL	₹8,798	₹1,22,990	₹3,10,190
Benefit	₹214	₹610	(₹1,190)

Senior Citizen (60-80 years)

Net income	₹6,00,000	₹12,00,000	₹18,00,000
Current tax	₹6,180	₹1,19,480	₹3,04,880
BUDGET 2018 PROPOSAL	₹3,120	₹1,06,080	₹2,89,120
Benefit	₹3,060	₹13,400	₹15,760

Super Senior Citizen (above 80 years)

Net income	₹6,00,000	₹12,00,000	₹18,00,000
Current tax	-	₹1,09,180	₹2,94,580
BUDGET 2018 PROPOSAL	-	₹95,680	₹2,78,720
Benefit	-	₹13,500	₹15,860

Individuals under 60 Current slab rate		*Budget 2018 proposed slab rate*	
up to ₹2,50,00	Nil	up to ₹2,50,00	Nil
₹2,50,000-5,00,000	5%	₹2,50,000-5,00,000	5%
₹5,00,000-10,00,000	20%	₹5,00,000-10,00,000	20%
10,00,000 and above	30%	10,00,000 and above	30%

Current education cess is 3% of total tax and Budget 2018 has replaced this with Health and Education Cess of 4% of total tax

		Current limit of tax deductions	*Budget 2018 proposed limit*
80C		₹1,50,000	₹1,50,000
80D:	Individual	₹25,000	₹25,000
	Senior Citizen	₹30,000	₹50,000
	Super Senior Citizen	₹30,000	₹50,000

The calculation considers 80C deduction of ₹1.5 lakh and 80D deduction. Proposed 80D deduction for individual is ₹25,000 and for senior & super senior Citizens it is ₹50,000 (₹30,000 currently).

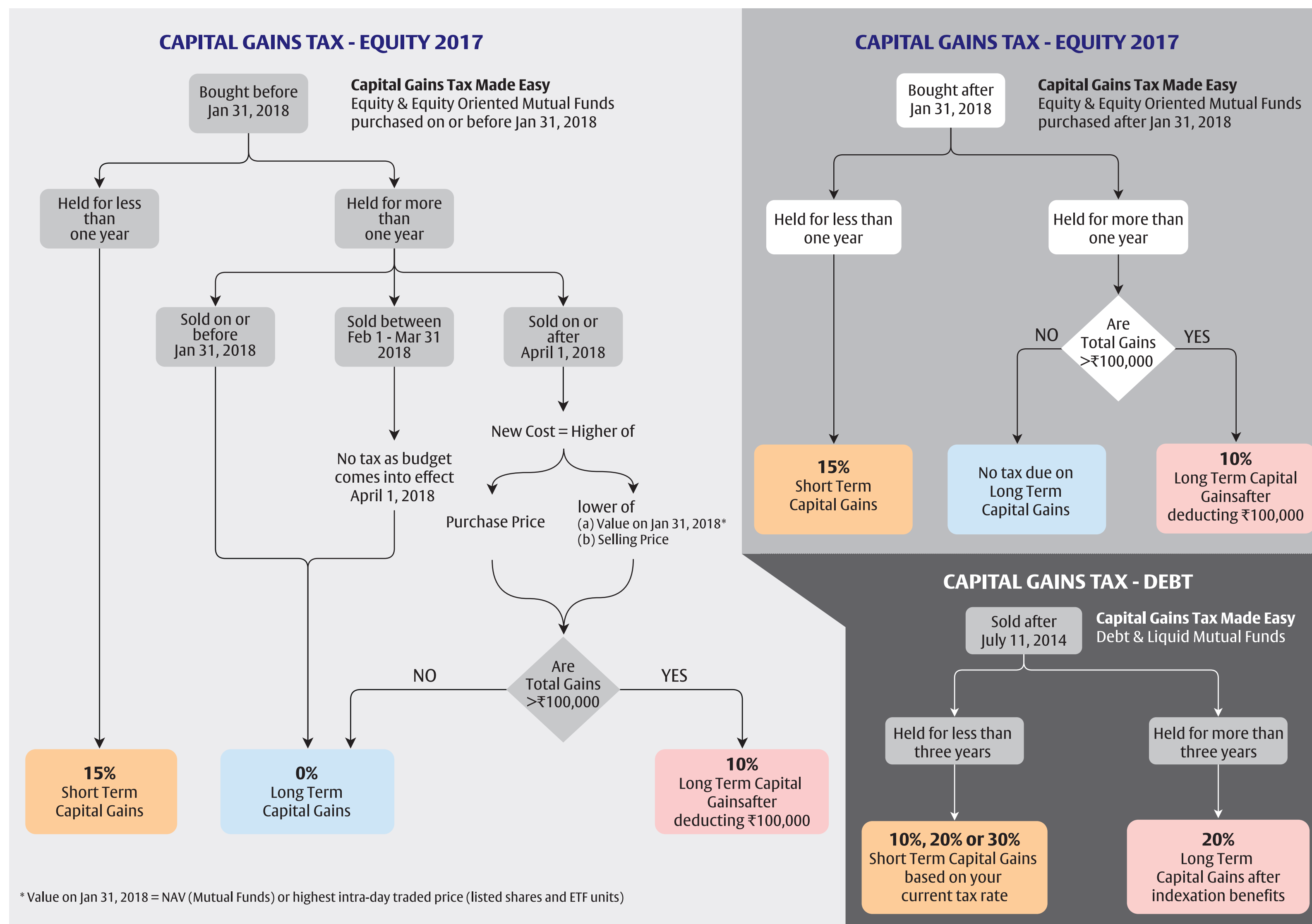
Standard deduction of ₹40,000 given to salaried class taxpayers. However, transport allowance (₹19,200) and medical allowance (₹15,000) withdrawn; this will likely impact those working and not those retired.

Basic exemption limit for senior citizens (60 yrs to 80 yrs) is ₹3 lakh and ₹5 lakh for super senior citizens (80 yrs or more).

COURTESY: NANGIA & CO

Capital gains on one hand, and a calculator on the other

Demystifying the new tax provision on long-term capital gains on equity holdings



SOURCE: CLEARFUNDS.COM

ANAND KALYANARAMAN

Our taxmen sure have a sense of humour. With Budget 2018, they have made sure that equity investors will remember their grandfathers - fondly and for long - by slipping in a 'grandfathering' clause along with a key change. That change is in the form of a 10 per cent tax on long-term capital gains (LTCG) above ₹1 lakh on listed equity shares and equity mutual funds. The 'grandfathering' provision (under which the old no-tax rule continues in certain situations) softened the tax blow.

Currently, long-term capital gains on listed equity shares and equity mutual funds are tax-exempt. If you sell shares and equity mutual fund units after holding them for more than 12 months, the gains are considered 'long term' and no tax is levied on them.

However, gains on equity and equity mutual funds held for 12 months or less (short-term gains) are taxed at a concessional rate of 15 per cent.

This preferential tax treatment has been around since 2004, when the securities transaction tax (STT) was introduced in tandem with the concessional tax treatment on equity investments.

But Budget 2018 has proposed that LTCG arising from the transfer of such equity shares and equity mutual funds exceeding ₹1 lakh will be taxed at 10 per cent.

The tax exemption on gains up to ₹1 lakh is intended to shield small investors.

The tax kicks in from fiscal 2018-19. That is, it will be levied on LTCG arising from transfer of equity investments on or after April 1, 2018.

The mechanics

The first step to determine the tax liability is to compute the LTCG. Deduct the cost of acquisition from the full value of consideration on transfer of the long-term capital asset. That is, the gain on an investment is its selling price minus the cost.

Here's where 'grandfathering' becomes important. All LTCG up to January 31, 2018 will be grandfathered, that is, they will continue to be tax-exempt; only LTCG made after that date will be taxed.

This concession is thanks to the formula for determining the cost of acquisition: the higher of:

a) the actual cost

b) the lower of

i) fair market value on January 31, 2018

ii) selling price.

The value on January 31, 2018 is the highest intra-day traded price for listed equity shares, and the net asset value (NAV) of mutual funds on that day.

The formula does two things. It allows the benefit of exempting from tax the LTCG made up to January 31, 2018. And it does not allow long-term capital loss and (consequently lower tax) in cases where the selling price is lower than the value as on January 31, 2018 but higher than the original cost price.

Once the LTCG is determined, gains in excess of ₹1 lakh will be taxed at 10 per cent plus surcharge and cess as applicable. Indexation of cost of acquisition, which factors inflation over the holding period of the investment, is not allowed in the case of LTCG tax on equity.

There will be no tax deduction at source on such LTCG; the investor is responsible for paying the tax. Also, since there is no tax on LTCG until March 31, 2018, there is also no provision for set-off of long term capital loss on equity incurred until March 31, 2018. Long-term capital loss arising from sale made after April 1, 2018 can be set off and carried forward as per the tax rules.

The accompanying charts, from **Clearfunds.com,** *explain the LTCG rules.*

Max your tax savings under Section 80C

ISTOCK.COM/DIGITALSTORM

These investments also help you put together a healthy portfolio

ANAND KALYANARAMAN

Oil magnate J Paul Getty famously said that the formula for success was to rise early, work hard — and strike oil. Those of us who aren't sitting on oil wells need not abandon all hope: we can still achieve a modicum of success by working hard and investing harder — and smarter — to build a healthy investment portfolio to secure our financial future.

A good starting point is to put money in instruments listed under Section 80C of the Income Tax Act.

These instruments serve two purposes: the many savings and investment options can plug the gaps in your portfolio; and the tax breaks they offer give you an added incentive to save.

The amounts deployed in 80C instruments are deducted from the income on which you have to pay tax. If you are in the 10 per cent tax slab, this can save ₹15,450 a year in tax.

In the 20 per cent and 30 per cent slabs, the savings are ₹30,900 and ₹46,350 a year respectively. The benefits get a tad better from April 2018, considering the hike in cess on tax from 3 per cent to 4 per cent in the recent Budget.

There is a plethora of investment choices, but it's best to invest wisely through the year: a last-minute dash could mean making sub-optimal choices. If you still haven't exhausted your 80C limit this year (FY 2017-18), make haste: the financial year ends March 31.

Don't invest just to save tax; that's a sweetener. Choose the investment based on your age, objectives, risk profile, return and liquidity expectations.

Section 80C instruments are of three broad kinds: expenditure-based, insurance-based and investment-based. Spend-related instruments include home loan principal repayments/prepayments and tuition fee payments for your children.

Insurance-based instruments include pure term insurance plans, traditional insurance plans, and unit-linked life insurance plans. Finally, the chunk of 80C instruments is investment-based.

These include employees' provident fund (EPF), voluntary provident fund (VPF), public provident fund (PPF), long-term bank and post office deposits, pension plans, national savings certificates, senior citizen savings schemes (SCSS), and equity-linked savings schemes (ELSS).

While ELSS mutual funds invest in equity, and pension plans such as the National Pension System (NPS) too allow equity investments, the other investment-based instruments deploy money in debt avenues.

How much?

If a part of your salary is going towards the Employee Provident Fund (EPF) or Voluntary Provident Fund (VPF), these can be claimed for tax breaks under Section 80C. The principal portion of your home loan repayments, and the tuition fees you pay for your kids also qualify for the tax benefit. So, you have to invest only the balance to reach the Rs 1.5 lakh limit. The NPS allows tax benefits on an additional ₹50,000 under Section 80CCD.

Get insured

First, get yourself covered. If you have dependants but are not insured yet, go for term life insurance plans. The thumb-rule is to have life cover equal to about 10 times your annual income. Avoid insurance-cum-investment products: they are expensive and yield low returns. Even if you have exhausted your 80C limit in other instruments, get yourself sufficient insurance nevertheless; this is a non-negotiable ingredient of any financial plan.

Equity choice

As for investments, there is no one-size-fits-all. If you are young and are game for risk, ELSS can be a good choice. These special mutual fund schemes invest in equities and have a three-year lock-in.

You could go for systematic investment plans (SIPs) in ELSS plans to benefit from volatility in the market, but note that each SIP investment will have a lock-in period of three years.

Equities, though riskier, can give much higher returns than safer debt instruments in the long run. Exposure to equities is important, especially if you are young with decades go before retirement. The long-time horizon will help you ride out speed bumps in the interim. But if you already have equity exposure, ELSS may not be necessary.

Debt options

If you are older and cannot afford risks, stick to debt investments that give steady returns and are not volatile. When choosing debt investment options, assess how soon you will need the money (investment tenure), and whether you require regular payouts (liquidity needs).

If you don't have early liquidity needs, the Public Provident Fund (PPF) is among the best debt options under 80C, especially for non-salaried persons.

The interest rate is 7.6 per cent tax-free return for January to March 2018 period (it may change every quarter) and returns are compounded annually. The PPF is highly tax-efficient: the investment gets a tax break, the interest is tax-exempt and so is the maturity amount. That is, it is the exempt-exempt-exempt (EEE) category. With a 15-year tenure that can be extended in blocks of five years, the PPF is one of the best ways to build a long-term corpus. This makes it a good option even for young investors.

The five-year NSC, which also gives 7.6 per cent currently (fixed through the tenure) is a good option too, even if a tad less tax-efficient than the PPF.

Similar to the PPF, your contribution to the EPF and VPF also gets you compounded annual returns (the rate for 2017-18 is 8.55 per cent) and tax-efficient (EEE) returns. If you are a salaried employee, increase your contributions to the VPF to build a long-term corpus. The rates on the EPF and VPF are usually higher than comparable options.

If you have a daughter less than 10 years old, you can invest in the Sukanya Samriddhi Scheme, which is even better than the PPF. It offers 8.1 per cent currently (this can change each quarter) and, similar to the PPF, it is highly tax-efficient.

All these debt investments though are cumulative schemes. The interest keeps compounding until maturity.

This can be a problem for those who seek regular income; for instance, many retired people. The Senior Citizen Savings Scheme is a good choice for such elderly investors.

This five-year investment, extendable by three years, offers 8.3 per cent currently (fixed throughout the tenure) and the interest is paid out quarterly. But these payouts are taxable.

Another choice open to all investors is the long-term tax-saving deposits (five years and above) offered by banks and post offices. The interest on these deposits, about 7 per cent currently, can be accumulated or paid out at the choice of the investor. The post office gives 7.4 per cent currently, among the best in this category. The interest is fixed throughout the tenure but is taxable.

Pension scheme

It's never too early to start planning for retirement. The NPS, among the most cost-effective pension schemes, lets you choose the allocation between debt options and equity. But note that the annuity income under pension plans including NPS is taxable. Make the most of Section 80C to build a diversified portfolio. This is a good starting point, but it may not be enough to reach your target corpus.

So, don't restrict yourself to 80C limits. As and when possible, invest more, even if you don't get tax breaks.

SECTION 80C STRATEGIES

Young and raring to go

- Buy adequate term insurance: start early, get it cheap
- Invest a chunk in ELSS
- Go for PPF and VPF
- Subscribe to NPS

Married and settling down

- Top up your term insurance
- Take benefit of home loan principal repayments
- Claim children's tuition fees
- Invest in ELSS
- Go for PPF and VPF
- Subscribe to NPS

Middle-aged, preparing to retire

- Buy adequate term insurance
- Take benefit of home loan principal repayments
- Reduce investment in ELSS
- Subscribe to NPS
- Increase investment in PPF and VPF

Retired

- Reduce equity exposure
- Go for SCSS and bank deposits for regular income
- Invest in PPF, NSC if your liquidity needs are low

...but think outside the 80C box

ISTOCK.COM/URBANCOW

ANAND KALYANARAMAN

When it comes to tax-saving instruments, many of us stop with the Rs1.5 lakh deduction under Section 80C. But there is a lot more you can do to lower your taxes . You get tax breaks when you donate, pay health insurance premiums, incur medical expenses and repay education loans. Ditto when you service a home loan. There's also tax to be saved on interest from banks and post office. Here's how you do it.

Charity pays

Donate to institutions and funds approved by the Government: this gets you deduction under Section 80G of the Income Tax Act. You won't get the benefit if you give in kind (clothes or utensils). Also, cash donations are eligible only up to ₹2,000 a year from FY 2017-18 (from the ₹10,000 limit earlier). If you plan to give a bigger sum, do so by cheque or online transfer.

What you donate to many Government-run entities is entirely tax deductible, but the deduction is limited to 50 per cent of the donation to most non-Government entities. This tax break may be further limited to 10 per cent of your gross total income.

Deductions beyond Sec 80C

Section	What it pertains to
80G	Donations to approved institutions and funds
80D	Health insurance and preventive check-ups
80DD	Medical expenditure for disabled dependent
80DDB	Medical expenditure on specified illnesses
80E	Interest payable on education loans
24	Interest payable on home loans
80TTA	Interest on savings deposits
80TTB	Interest on deposits for senior citizens
80GGC	Contribution to political parties

Cover your health

A medical emergency can arise any time; so, get health insurance. Under Section 80D, you get a deduction of up to ₹25,000 a year for the premium you pay to get health insurance for yourself, your spouse and your dependent children. This goes up to ₹30,000 if any of you is a senior citizen (further increased to ₹50,000 from FY 2018-19).

Besides, if you pay the health insurance premium to cover your parents, you get an additional deduction of ₹25,000 a year (₹30,000 if either of your parents is a senior citizen; this has been further increased to Rs 50,000 from FY 2018-19).

But only premium payments in non-cash modes qualify for tax breaks. Expenses on preventive health check-ups, too, get you a deduction up to ₹5,000 a year. This is part of the overall limit and this can be paid even in cash.

Claim medical expenses

If you incur expenditure for the medical treatment, training and rehabilitation of a dependent spouse, children, parents or siblings who are disabled, you get deduction under Section 80DD. You also get the benefit if you buy an annuity or lumpsum payment policy for the benefit of such dependents.

The tax deduction is a fixed ₹75,000 a year, which goes up to ₹1.25 lakh if the disability is severe.

You can also get deduction on medical expenditure incurred on specified illnesses such as neurological diseases, cancer, AIDS, chronic kidney failure and haematological disorders.

This deduction under Section 80DDB is available if you incur the medical expense for yourself or a dependent spouse, children or siblings.

The tax break you get is the higher of the actual expense incurred or ₹40,000 (₹60,000 if the person undergoing treatment is a senior citizen and ₹80,000 in the case of a very senior citizen; from FY 2018-19, the amount has been enhanced to ₹1 lakh for both senior and very senior citizens). The deduction will be reduced by the expense reimbursed by your insurer or employer.

Claim interest on loans

Interest paid on education loans and home loans can save you a tidy sum in tax. Section 80E allows deduction of the entire interest paid on loans to fund your education or that of your spouse, children or someone you take care of as a legal guardian. The loans must fund a Government-recognised course of study.

Also, the deduction is allowed only if the loan is taken from an approved financial institution or an approved charitable institution. You can claim the tax break for eight years, starting from the year you start paying the interest on the loan.

Repaying your home loan gets you two tax benefits. Principal repayment, whether as part of the monthly instalment or prepayment, is eligible for tax deduction, up to ₹1.5 lakh a year under Section 80C.

Besides, the interest payable on the loan taken to buy, construct, repair, renew or reconstruct your house is allowed as deduction under Section 24. The interest deduction for self-occupied homes is restricted to ₹2 lakh a year while for let-out and deemed let-out properties, the loss from house property cannot exceed ₹2 lakh a year; the balance loss can be carried forward for set-off for up to eight assessment years.

Besides, you get deduction on the interest payable on the loan till the house is acquired or constructed. This can be claimed in equal instalments for five years from the year in which the property is acquired or constructed. This deduction though is subject to the ₹2 lakh limits mentioned above.

Interest income

If you are earning interest on your savings deposits with banks, post office or co-operative societies, you need to declare it as income. But the taxman allows you deduction of such interest up to ₹10,000 under Section 80TTA. This benefit though is not available on interest from other deposits such as fixed deposits, recurring deposits and corporate bonds.

From FY 2018-19, senior citizens have been given an enhanced benefit. Their interest income on deposits (including fixed deposits and savings account deposits) shall be eligible for deduction up to ₹50,000 under Section 80TTB. But with this, the ₹10,000 deduction benefit under Section 80TTA will not be allowed.

Political contributions

If you give contributions to political parties, the amount is allowed as deduction under Section 80GGC. But such contribution should be made in non-cash modes.

Bread-and-butter tax breaks

A guide to making the most of the exemptions and concessions on a variety of incomes and expenses

ANAND KALYANARAMAN

On HRA / rent paid

The house rent allowance (HRA) amount you get from your employer is exempt from tax, fully or partially, under Section 10(13A). To claim exemption, you must live in a rented residential accommodation. Rent paid to a spouse does not qualify.

Exemption is limited to the lower of the following: a) HRA amount received b) Rent paid in excess of 10 per cent of salary c) 50 per cent of salary if you live in Mumbai/Delhi/Kolkata/Chennai or 40 per cent of salary if you reside in other cities. Salary here means sum of Basic Pay and Dearness Allowance.

What if you don't get HRA but still pay rent? This could be the case with self-employed professionals, businessmen or even some salaried folk whose salaries do not include the HRA component. The Income-Tax Act provides relief to this category of rent-payers too, under Section 80GG.

To claim this benefit, you must pay rent for the house you live in, and not get HRA for even a part of the year. Also, you should not own and occupy a house anywhere and your spouse or minor child should also not own a house in your place of stay. You must file a declaration in Form No. 10BA.

If you satisfy these conditions, you can claim tax deduction restricted to the least of the following: ₹5,000 a month, rent paid in excess of 10 per cent of your total income or 25 per cent of your total income.

Leave encashment

Government employees get full tax exemption on the leave encashment they get at the end of their service period. The taxman is kind to non-government employees too, but to a lesser degree. Here, the tax break, under Section 10 (10AA), is limited to the least of the following four sums: a) Amount actually received as leave encashment b) Amount prescribed by the government: ₹3 lakh c) 10 months' average salary based on Basic and Dearness Allowance in the 10 months before leaving the job d) Cash equivalent of the employee's leave balance, subject to a maximum of 30 days for each completed year of service.

The tax exemption is also applicable when an employee resigns from service. The exemption limit of ₹3 lakh for non-government employees is an aggregate sum applicable across employers.

If you encash the whole or a part of your leave balance while continuing in the job, say, at the end of each year, the amount is fully taxable. On the other hand, if the leave encashment amount is given to nominees or legal heirs on the death of the employee while in service, the amount is fully exempt.

Tax break on holidays, too

The taxman encourages you to go on holidays by giving a tax break on the leave travel allowance (LTA) you get from your employer. But this benefit under Section 10(5) of the Income Tax Act comes with strings attached.

First, the LTA exempted from tax is limited to the travel expense for yourself and your family. Family is defined as spouse, children (maximum two except twins, triplets, and so on), parents, brothers and sisters dependent on you. Also, the tax break is available only on travel expenses incurred within India.

You may be getting LTA from your employer annually and also be going on holiday every year. But the tax break can be claimed only twice in a block of four calendar years. Also, only one LTA tax break can be claimed in a calendar year.

The tax exemption is limited to the cost of economy air fare or train travel in classes up to first class AC, or rented passenger vehicle or bus. Also, the exemption is limited to the cost of travel via the shortest distance from the starting point to the farthest point in the journey, and back. You don't get any break on the cost of food, stay and other expenses incurred on the trip.

A smart way to holiday more and make the most of the LTA tax benefit is to claim your tax break in two years in a block and your spouse's in the other two years.

Gratuity benefits

Last week, Parliament passed the Payment of Gratuity (Amendment) Bill. This is good news for employees in the private sector. With this, the maximum limit on gratuity payment for private sector employees has been doubled from ₹10 lakh to ₹20 lakh - in line with the benefit provided to government employees in 2016. This will apply after the Bill receives the President's assent.

Stay with your employer for five years or more, and you are entitled to gratuity when you retire, resign or are retrenched. This reward to be paid by your employer in recognition of your service is mandated by the Payment of Gratuity Act, 1972. Most establishments employing 10 or more workers come under the Act.

Roughly, you get half a month's Basic and Dearness Allowance (DA) for every completed year of service as gratuity. Here's how it is calculated: (Number of years of service) * (Last drawn monthly Basic and DA) *15/26. So, if you have served 30 years and draw monthly Basic and DA of ₹20,000 when you leave the job, you get gratuity of ₹3,46,154, calculated as (30 * 20,000 *15/26). If you serve more than six months in the last year of employment, it is considered as a full year of service.

The gratuity you get enjoys favourable tax treatment. If you are a government employee, the entire amount you get is tax-exempt. If you are not, but are covered under the Act, you get tax exemption for an amount that is the lower of the following: a) Actual gratuity received; b) 15 days Basic and DA for each completed year of service or part thereof in excess of six months; c) ₹20 lakh (₹10 lakh earlier).

Say, in the example above, your employer paid you gratuity of ₹5 lakh, which is more than the ₹3,46,154 actually payable under the law. You will enjoy tax exemption on ₹3,46,154; the surplus ₹1,53,846 will be subject to tax.

The total tax exemption on gratuity amounts received, including those from previous employers in earlier years, cannot exceed ₹20 lakh (₹10 lakh earlier.)

VRS tax break

If you opt for the Voluntary Retirement Scheme (VRS) offered by your employer, the taxman gives you a tax break under Section 10 (10C). Up to ₹5 lakh of the compensation that you get is exempt from tax if you are at least 40 years old or have completed 10 years of service. This exemption is allowed once in a lifetime.

Say your VRS compensation is ₹30 lakh. Of this, ₹5 lakh is exempt and tax at 30.9 per cent (including cess) is applicable on ₹25 lakh; that's ₹7.7 lakh. So, what you will actually get in hand is about ₹22.3 lakh. Even if you are in a lower tax bracket, a big VRS lumpsum could put you in the highest tax slab of 30 per cent for that year.

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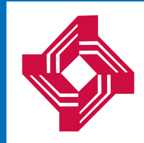

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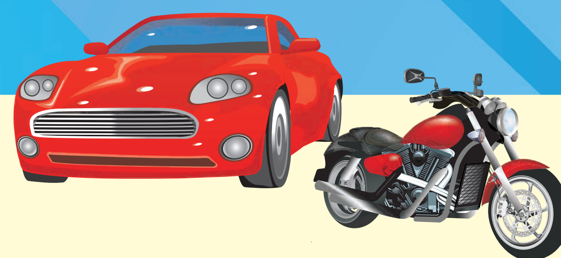

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How to home in on a tax shield

You're buying your biggest material asset, but make sure you milk all these tax breaks on your home loan

ARCHIT GUPTA

Buying or building a home is everyone's dream. A majority of buyers avail themselves of home loans to fund their requirements, and a result they pay huge amounts, month on month, by way of EMIs. But only a few are aware of the various tax breaks they qualify for on a housing loan. We'll discuss some of the significant tax benefits for home buyers.

Deduction of interest

A deduction of up to ₹2 lakh a year can be claimed on home loan interest if the owner or his family either reside in the house property or leave the house vacant. If, however, the property has been let out on rent, the entire interest on the home loan can be claimed as a deduction from the income from such house property however restricting the overall loss from house property to Rs 2 lakh. This has been introduced by way of an amendment in Budget 2017, which we'll discuss in detail a bit later.

There are certain conditions attached to claiming the ₹2 lakh deduction:

>> The home loan must be for purchase and construction of a house property

>> The loan must have been taken on or after April 1, 1999

The purchase or construction must be completed within five years (the period was three years prior to Assessment Year 2017-18) from the end of the financial year in which the loan was taken. If these conditions are not met, the deduction is restricted to ₹30,000.

Pre-construction interest

Deduction of home loan interest can be claimed only upon property acquisition or completion of construction. But that does not mean the interest paid during the period falling between the borrowing of loan and acquiring of the property/completion of property construction does not qualify for any tax benefit.

The tax law provides for claim of such interest - also called the pre-construction interest - as deduction in five equal installments starting from the year in which the property is acquired or construction is completed.

Deduction of principal component

Section 80C provides for a deduction (from the total income) of the principal component of home loan repaid. This deduction is available for up to ₹1.5 lakh within the overall limit of Section 80C. The component of principal repayment can be obtained from the bank issuing the loan. The home loan must necessarily be for purchase or construction of a house property in order to claim such deduction.

Stamp duty/registration

Stamp duty, registration and other expenses related directly to the purchase of the house property can also be claimed as a deduction under Section 80C in the year in which they are incurred, subject to the ₹1.5 lakh limit.

Budget 2017 amendments

However, Budget 2017 has provided a bit of a setback for those claiming tax benefits on housing loan interest inasmuch as it restricts the loss from house property to ₹2 lakh. This is harsh on investors who have let out their properties. They can no doubt claim the entire interest as a deduction but the overall loss under the head 'house property' is limited to ₹2 lakh. These individuals can, however, carry forward the losses not claimed for up to eight subsequent assessment years.

The author is founder and CEO, ClearTax

Home truths

For FY 2017-18, Mr Gupta has a salary income of ₹10 lakh. He owns a flat, which he has let out on rent for ₹15,000 per month. For this flat, he has availed of a loan and repays ₹1 lakh and ₹3.5 lakh by way of principal and interest respectively. What will his taxable income be during the year?

Particulars	Amount (₹)	Amount (₹)
Salary Income		**10,00,000**
House Property Income		
Rental Income	1,80,000	
(-) Standard deduction	54000	
(-) Interest on home loan	3,50,000	
Net income	**-2,24,000**	
House Property Income restricted to (as per Budget 2017)		-2,00,000*
Gross Total Income		**8,00,000**
(-) Deduction under 80C of principal component of loan repaid		1,00,000
Taxable Income		**7,00,000**

*Balance of ₹24,000 can be carried forward for the next 8 assessment years for set off.

If the house were self-occupied, the loss from house property would have eventually been ₹2 lakh only, resulting in an equal treatment being meted out to taxpayers who let out their property and those who did not. The only additional benefit in the former scenario is that taxpayers can carry forward the losses not set off, to the subsequent 8 assessment years

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While buying or renting property, add TDS to your checklist

The onus is on the buyer or the tenant to deduct tax at source in certain situations

NAVEEN WADHWA

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When we buy a new property, we know it's wise to prepare a checklist so that our dream investment doesn't turn into a nightmare. Likewise when we take any property on rent, we want to be sure that it fulfils all our requirements. We care about the location of the property, the quality of the construction material, the aesthetics — and the *vaastu* — of the property, and so on. But there are other things that need to be on your checklist.

In the past couple of years, the income tax department has introduced various tax measures to check the generation of black money in transactions involving immovable properties. One such measure relates to the provision for collection of tax at source at the time of the transaction. The government has placed the obligation to deduct and deposit the TDS on the payer (the buyer/tenant).

TDS, or Tax Deducted at Source, is based on the principle of 'pay as you earn'. There are various provisions in the Income-tax Act, which require the payer to withhold a portion of the amount to be paid to the counter-party and deposit it with the government. Generally, TDS is required to be deducted from payments of rents, royalty, commission, salary. Two new TDS provisions have been introduced in recent years; these require the buyer or the tenant to withhold the TDS amount from the amount payable to the seller or the landlord of a property, respectively. These two provisions are Section 194-IA and Section 194-IB.

While buying property

If a person buys an immovable property and the consideration to be paid for the transactions exceeds ₹50 lakh, the buyer is required to deduct tax at the rate of 1 per cent on the sale consideration. The amount so deducted must be deposited with the government within 30 days from the end of the month in which tax is deducted.

Illustratively, Mr. Gupta buys a house for his own residence for ₹80 lakh. He makes the payment to the seller in four equal monthly instalments of ₹20 lakh each at the end of each such month. He is required to withhold ₹20,000 from each payment and deposit the same with the government by the 30th of the succeeding month (30 days after the end of the month in which payment is made).

The tax department insists on tracing the footprints of the payee in a transaction and that is possible only through his PAN number. If the seller does not provide his PAN or furnishes the wrong PAN, the buyer is required to deduct the tax at a whopping 20 per cent.

To make it convenient for the buyer to comply with the requirement, the government has relaxed the provision for obtaining a TAN (Tax Deduction Account Number), which is otherwise a mandatory requirement in other provisions of TDS.

The tax so deducted is to be deposited and recorded in an online TDS Form 26QB. This form requires the buyer to provide his PAN, the seller's details, transaction details, details of property, and so on. The form is to be submitted along the tax withheld within 30 days from the end of the month in which the deduction is made. In case of any failure, the buyer is liable to pay interest at the rate of 1-1.5 per cent for every month or part of the month of delay. Further, a late fees of ₹200 per day is charged from the buyer if he does not file the TDS statement in Form 26QB on time.

If the buyer does not furnish the TDS statement in Form 26QB at all or furnishes the wrong particulars, a penalty — of between ₹10,000 and ₹1 lakh — may be levied on him.

While renting property

There are two provisions in the Income-tax Act, which require deduction of tax from payment of rent: Section 194-I and Section 194-IA. The first section is applicable when the payer is engaged in a business and is also liable to get its accounts audited under the Income-tax Act. A third section, 194-IB, is applicable to salaried taxpayers, small and medium enterprises, and so on.

Section 194-IB requires an individual or an HUF to deduct tax from the rental payments if it exceeds ₹50,000 per month or part of the month. The tax is required to be deducted if the landlord is resident in India. Tax is to be deducted at the rate of 5 per cent of such rental income. However, in the absence of the landlord's PAN, TDS must be deducted at 20 per cent.

The TDS has to be deducted at the time of credit of rent to the account of the landlord in the tenant's books of account, for the last month of the financial year or the last month of tenancy (if the property is vacated during the year), or at the time of payment thereof, whichever happens earlier.

Similar to Section 194-IA, the TDS under Section 194-IB has to be paid within 30 days from the end of the month in which deduction is made in Form No. 26QC.

All other provisions of interest and penalties are the same in case of default on the part of the tenant.

The buyer or the tenant is also required to generate a TDS certificate from the department website, which must then be given to the seller or the landlord, respectively, to claim the credit of such TDS deposited with the government.

Complying with the TDS provisions while buying or renting property is important, and given the complexity, it makes eminent sense to take the assistance of tax professionals or Chartered Accountants.

The author is DGM, Taxmann

Buying a home should not be taxing

Here's the ultimate guide to help you save tax while buying a home.

Buying a Ready-to-move-in home

- If you are going to take a home loan, you will be eligible to claim deduction of up to ₹ 1.5 Lakh per year on principal component of loan, under Section 80C
- Under the same section 80C, you can also avail deduction on stamp duty, registration charges and other expenses related to transfer of home in your name – even if no loan has been taken
- If you are going to occupy the property yourself, a benefit of ₹ 2 Lakh can be availed under Section 24(b) for interest on the home loan
- However, if you let out the property, the deduction of the interest shall be allowed up to the interest payment, without any upper limit

Buying an under-construction home

- The first thing to note in this case is that tax-benefits for under-construction properties begin only after they are completed
- This means you cannot claim deductions under Section 80C on principal repayments made during the construction period
- The same applies to Section 24(b) on the interest payments made during the construction period. However, deductions on these interest payments can be claimed after the construction is completed
- The interest paid from the date of borrowing to 31st March before the year of construction is allowed as deduction from the year the construction is complete
- That is, you can claim deductions on such interest payments in 5 equal instalments after construction is completed. If you fail to claim the pre-construction interest instalment in any of the five years from the year the construction was complete, the amount shall not be carried forward to the next year
- These deductions will form part of Section 24(b) and will be included within the ₹ 2 Lakh annual limit
- It is important to remember that the construction should be complete within five years from the end of the financial year in which the loan is taken in order to get a deduction of ₹ 2 Lakh. Otherwise, you will be eligible for a deduction of only ₹ 30,000

First Time Home Buyers: Over and above the ₹ 2 Lakh deduction under Section 24(b), first time home buyers can avail a deduction of ₹ 50,000 per year on the home loan interest, provided:

- Value of house is less than ₹ 50 Lakh
- Loan amount is less than ₹ 35 Lakh
- Loan sanctioned by Financial institution or a Housing Finance Company

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Should you deduct tax at source?

There are several withholding tax provisions that may apply to you without your knowing it. Be informed

CHIRAG NANGIA

The concept of Tax Deducted at Source (TDS) or withholding tax was introduced to frontload the process of tax collection and to curb tax evasion. This is done by collecting the tax at the very source of the income. This 'pay as you earn' measure of tax collection also has the potential to widen the tax base.

Any person making certain specified payments is liable to withhold tax at source and remit it to the government treasury. The payee, from whose income the tax has been withheld at source, is entitled to get credit for the amount deducted from his final tax liability, on the basis of the Form 26AS or a TDS certificate issued by the payer.

All companies and individuals/HUFs liable to tax audit for the previous financial year must deduct tax at source. In certain cases like payment of rent over ₹50,000 a month, even an Individual/HUF not liable to tax audit must deduct tax at source.

Every person who makes a TDS is required to obtain a Tax Deduction Account Number (TAN), and deduct the tax as appropriate at the time of payment, file quarterly returns and issue TDS certificates to the person from whom tax has been deducted at source. Further, at the time of purchase of immovable property worth more than ₹50 lakh, even an individual is required to deduct TDS but need not obtain a TAN.

TDS is applicable to specified categories of incomes — salary, interest by banks, commission, rent, fee for professional and technical services, and so on. The rate of TDS and thresholds prescribed in the regard under the Income-tax Act, for payees other than companies, are listed in the accompanying table.

It is mandatory for the payee to furnish his correct Permanent Account Number (PAN) to the payer. If the PAN is not available, the payer is liable to deduct TDS at a higher rate of 20 per cent or the prevailing rate.

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If a person who is liable to deduct TDS does not do so, or after deducting fails to deposit the whole/part of the tax deducted to the government, he is liable to pay a penalty as well as interest at the rate of 1 per cent or 1.5 per cent per month for non-deduction/short-deduction or for failing to pay to the government, respectively.

Further, the payment of TDS should not be construed as payment of tax. The income on which tax has been deducted at source is a part of the gross total income of the taxpayer. The taxpayer has to ascertain the final tax liability, including all the sources of income, and is entitled to adjust the TDS paid against this final tax liability. Moreover, if the tax has been deducted at a lower rate than what the taxpayer is assessable to, it is the duty of the taxpayer to pay the remainder of the tax after setting off the TDS.

The author is Director, Nangia & Co

WIDENING THE TAX NET WITH TDS

Section	Nature of Income	Amount beyond which tax is to be deducted (₹)	TDS rate (%)
192	Payment of salary	Slab rate	Slab rate
192A	Payment of accumulated balance of provident fund, which is taxable in employee's hands	Accumulated balance is above 50,000	10
193	Interest on securities	10,000	10
194	Dividend (other than dividend which is liable to dividend distribution tax under section 115-O)	2,500	10
194A	Interest other than interest on securities Interest received from Bank Interest received from others	10,000	10
194B	Income by way of winnings from lotteries, puzzles, etc.	10,000	30
194BB	Income by way of winnings horse race	10,000	30
194C	Payment to contractors/subcontractors	30,000 one time 1,00,000 in the entire year	Individuals/ HUF: 1% Others:-2%
194D	Insurance Commission	15,000	5
194DA	Payment in respect of Life Insurance Policy [which is not exempt under section 10(10D)]	1,00,000	1
194EE	Payment from National Savings Scheme	2,500	10
194F	Payments on account of repurchase of units by Mutual Fund/ Unit Trust of India	No limit	20
194G	Commission on sale of lottery tickets	15,000	5
194H	Payment of Commission or Brokerage	15,000	5
194I	Payment of Rent For Land, Building or furniture For Plant & Machinery/ Equipment	1,80,000	10 2
194IA	Payment on transfer of certain immovable property other than agricultural land	50,00,000	1
194IB	Payment of rent by individual/HUF other than those covered under 44AB	50,000 p.m.	5
194IC	Payment of Consideration (not being in kind) under Joint Development Agreement	No limit	10
194J	Fees for professional or technical services, royalty, remuneration to director, for not carrying out activity in relation to any business, for not sharing know-how/patent/ copyright	30,000	10
194LA	Payment of compensation on acquisition of certain immovable property	2,50,000	10
194LBA	Certain income from units of a business trust	No limit	10 (resident) 5 (non-resident)
194LBB	Income in respect of units of investment fund	No limit	10 (resident) 30 (non-resident)
194LBC	Income in respect of investment in securitisation trust		25 in case of Individual or HUF 30 in case of other person
	Any other income		10

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How the gig economy is taxed

Professional income is taxed in a way that spares freelancers below an income threshold severe tax hassles

ANAND DHELIA

ISTOCK.COM/BOJAN89

In today's world, the 'gig economy' is flourishing: individuals prefer to work as self-employed professionals, and companies too are looking for professionals based on specific projects rather than full-time employees. The general perception is that self-employed professionals need to maintain books of accounts and comply with various compliance requirements, and that failure to abide could result in fines and penalties.

Let's say Aman is a mobile app developer and works as a freelancer for multiple clients. Should he worry about such compliances? From a tax compliance standpoint, would it be easier for him to be an employee rather than a freelancer? Not if his gross receipts do not exceed ₹50 lakh a year.

The tax regulators have relaxed compliances for small taxpayers and have taken various measures to simplify tax administration and ease of doing business. One such measure is the introduction of 'presumptive taxation' in the case of professionals, applicable from FY 2016-17.

Presumptive taxation encourages self-employment and lowers the administrative burden; for the tax authorities, it reduces processing time on such filings.

The accompanying box summarises the provisions of the presumptive tax regime.

Established professionals / bigger professional firms may be better able to undertake the additional compliance requirements if gross receipts exceed ₹50 lakh a year.

However, some categories of self-employed professionals are not eligible for or are not covered under the presumptive taxation regime. In general, they may need to comply with some broad provisions:

Books of Accounts as prescribed need to be maintained and have to be kept for a period of up to seven years from the end of the financial year (FY).

Compliance with **Tax Deduction at Source** (TDS) provisions may be required. Typically, these cover:

>> Deduction of taxes on expenses that are subject to TDS

>> Remittance of taxes deducted during the month in the immediately following month

>> Filing of quarterly TDS returns at the end of each quarter

>> Issuance of statement of TDS

Failure to comply with TDS provisions will result in additional interest / penal consequences and may also result in disallowance of underlying expenses.

Payment of **Advance Tax.** Tax due on income earned during the year needs to be discharged by way of advance tax in four quarterly instalments starting June 15 of the Financial Year.

Auditing of accounts and filing of the **tax return** and the audit report by September 30 of each year following the FY. In case **scrutiny** assessments are initiated, they require time and effort in providing the required information and clarifications to the tax authorities.

In conclusion, self-employed professionals will need to assess their estimated income and choose the option that is tax-efficient in their circumstance. As a thumb rule, in case the individual believes that his taxable income under the normal provisions is likely to be substantially lower than 50 per cent of gross receipts, he may opt for the regular provisions.

While deciding, be mindful of compliance costs and the administrative burden under the regular provisions. Further, given the requirement in respect of maintaining books of accounts / audit, the decision must be taken at the beginning of the year to avoid any last-minute surprises.

While there are relaxations for professionals with gross receipts up to ₹50 lakh, such professionals will need to evaluate the applicability of the Goods and Services Tax (GST) compliances that may be triggered depending on the nature of the professional services provided.

The author is Partner Personal Tax, PwC India. Views expressed are personal.
(With contributions from Nishant Kumar, Associate Director–Personal Tax, PwC)

Can you opt for presumptive taxation?

What are the professions covered under presumptive taxation?
Resident taxpayers in the legal, medical, engineering or architectural, accountancy, technical consultancy, interior decoration, or other notified professions are covered under presumptive taxation.

What is the threshold for applying presumptive taxation?
Presumptive taxation will apply only if the gross receipts from a profession do not exceed ₹50 lakh.

How much is the presumptive income?
50 per cent of the gross receipts.

Are depreciation and business expenses eligible for deduction?
No. Deductions (including depreciation) allowable in connection with the profession are deemed to have been allowed. The restriction on deductibility only relates to expenses incurred on the professional income. Deductions which are otherwise allowable, such as deductions on life insurance premium, Public Provident Fund investments, medical insurance, home loan interest, and so on, will continue to be available.

What is the tax rate?
The tax due will be based on the rates applicable to the taxpayer. For example, in the case of an individual with gross receipts of ₹40 lakh from a profession, the tax liability would work out to about ₹4.25 lakh for FY 2017-18.

Other points to consider.
Taxpayers only need to maintain a record of receipts from the profession and are not required to maintain details of expenses incurred. Under presumptive taxation, there is no need to make quarterly payment of advance taxes. The advance tax is to be discharged in one instalment in the last quarter of the Financial Year, that is, by March 15.

CH-X_A

The Explainer: 'Other Income'

Everything you need to know about taxation of 'Income from Other Sources'

ISTOCK.COM/LEOWOLFERT

SURESH SURANA

Any income that is not chargeable to tax under the other four heads of income (Salary Income; Income from House Property; Profit and Gains from Business and Profession; or Capital Gains) and which is not to be excluded from the total income (that is, which is not exempted from income tax), is chargeable to tax under the head 'Income from Other Sources'. It is the last and residuary head of charge of income.

Certain passive incomes are taxed under this head.

These include dividends, interest on deposits, winnings from lotteries, crossword puzzles, races (including horse races), card games and other games, gambling or betting.

Gifts received by an individual or an HUF (which are chargeable to tax) are also taxed under this head. These are the various incomes chargeable to tax under this head.

Dividends

Earlier, dividend distributed by a domestic company [on which dividend distribution tax (DDT) is paid by such company] was exempt in the hands of shareholders under Section 10 (34) of the Income-tax Act.

However, from Financial Year 2016-17, in the case of a resident person (other than companies/public trusts), aggregate dividend income from domestic companies in excess of ₹10 lakh is chargeable to tax at 10 per cent (plus surcharge and cess). At present, deemed dividend u/s 2(22)(e) of the Income-tax Act is taxable in the hands of shareholders at normal slab rates as it is not subject to DDT.

Therefore, for Financial Year (FY) 2017-18, the following dividends are taxable in the hands of individual shareholders:

>> Dividend received from a domestic company where aggregate dividend income exceeds ₹10 lakh

>> Dividend received from a foreign company

>> Deemed dividend received u/s 2(22)(e) by the shareholder.

However, Budget 2018 has proposed that with effect from FY 2018-19, even dividends received u/s 2(22)(e) be chargeable to DDT at 30 per cent (without grossing up) in the hands of the company.

As such, deemed dividend u/s 2(22)(e) subjected to DDT at 30 per cent will be exempt in the hands of the shareholders u/s 10(34).

Currently, any income distributed by a mutual fund (other than an equity-oriented mutual fund) to unitholders is chargeable to DDT; the fund is liable to pay DDT on such distributed income at the rate specified.

Budget 2018 proposes to provide that where any income is distributed by an equity-oriented mutual fund, the fund is liable to pay DDT at 10 per cent (plus surcharge and cess) on such income.

However, dividends received from units of equity mutual funds continue to remain exempt from tax in the hands of unitholders.

Monetary gifts

Money received without consideration (that is, monetary gifts) by an individual/HUF will be charged to tax if the aggregate value of such sum received during the previous year exceeds ₹50,000.

Specified movable property

Any movable property (being shares, securities, jewellery, archaeological collection, drawings, paintings, sculptures, any work of art or bullion and so on) received without consideration by an individual/HUF is charged to tax if the aggregate fair market value (FMV) of such properties received by the assessee during the previous year exceeds ₹50,000. In such cases, the FMV of the movable property will be treated as income of the recipient.

Any movable property acquired for a consideration that is less than its FMV is charged to tax if the FMV of such properties received by the assessee during the previous year exceeds the consideration of these properties in aggregate by ₹50,000. In such cases the aggregate FMV in excess of aggregate consideration of such properties will be charged to tax.

Gift of immovable property

If an immovable property is received without consideration and the stamp duty value (SDV) exceeds ₹50,000, the SDV of such property is chargeable to tax.

If an immovable property is received for a consideration that is less than the SDV of property by an amount exceeding ₹50,000, the difference between the SDV and the consideration is chargeable to tax in the hands of the recipient. There are, however, exceptions carved out with respect to any sum of money, or any property received from specified relatives, on marriage, by way of inheritance/will and so on.

Winnings from lotteries

Gross winnings from lotteries, crossword puzzles, races (including horse races), card games and other game of any sort, gambling or betting of any form are taxed under this head. Such incomes are chargeable to tax at a flat rate of 30 per cent (plus surcharge and cess).

The following are chargeable under this head if they are not charged under 'Profits and Gains from Business or Profession'

>> Income from machinery, plant or furniture belonging to taxpayer and let on hire

>> Composite rental income from letting of plant, machinery or furniture with buildings, where such letting is inseparable

>> Interest on securities, etc

Other incomes

Interest income from deposits with banks, post office, debentures, bonds are chargeable to tax under this head. Any income received by an individual/HUF by way of interest on deposits in a savings account from specified entities will be eligible for deduction u/s 80TTA to the extent of ₹10,000.

With effect from FY 2018-19, any income received by an individual being a senior citizen, by way of interest on deposits (time deposits or savings account deposits) will be eligible for deduction u/s 80TTB to the extent of ₹50,000. There will be no TDS deduction for senior citizens having interest income of up to ₹50,000.

Deductions allowable

While computing 'Income from Other Sources', direct expenses (expended wholly and exclusively for earning such income) qualify for deductions.

The author is Founder, RSM Astute Consulting

Park here and save taxes

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When your capital gains cannot be immediately reinvested, use the Capital Gains Account Scheme to buy time

PARVATHA VARDHINI C

As Benjamin Franklin said, there is nothing that can be said with certainty — except for death and taxes. It's fair to say that down the ages, human minds have been endeavouring to dodge both of those certainties, without much success.

Particularly when you make gains from the sale of assets, including land and residential property, the taxman wants to make sure you get to share a part of the proceeds with him by way of capital gains tax.

However, tax laws provide some respite if you invest the gains in certain assets within a specified period of time.

For instance, if you invest the capital gains made from the sale proceeds of a property into buying another property, the gains are not liable for tax.

But what if the deadline for filing your tax return is near at hand, and the paperwork for the new investment has not yet been completed?

Besides, the chances that you may not be able to zero in on a new investment before filing your return are high.

In such eventualities, will your gains be liable to tax? To reduce your tax burden in such cases, you can park the amount in a 'capital gains account'.

If you leave your gains parked beyond the specified time, they will invite tax

Deposit rules

A capital gains account can either be a savings account or a term deposit. Under the latter, both cumulative and non-cumulative options are available.

Several public and private sector banks offer savings/deposit account under the 'Capital Gains Account Scheme' (CAGS). However, the terms and conditions may vary from one bank to another.

SBI, for instance, stipulates a minimum amount of ₹1,000 in case of term deposits; there is no upper limit. IDBI Bank, on the other hand, has a higher minimum deposit: ₹10,000, and a ₹100 crore ceiling on investments.

Tax laws require capital gains parked in CAGS accounts to be invested in other eligible assets within the specified time period (two or three years).

Some banks, however, offer to hold the investments for longer periods; many banks, in fact, don't explicitly specify a maximum holding period.

However, as an investor, you must bear in mind that you can use the CAGS for parking your gains only until you zero in on a specified asset to invest the gains/sales proceeds. If you don't invest the gains in eligible assets within the specified time, it will become taxable.

Account specifications

The rules allow for opening both a term deposit account and a savings account simultaneously and also for the conversion of one into another.

The account can be opened by filling up a straightforward application form with bare, elemental KYC supporting documents. Typically, these accounts offer nomination facility.

The interest rate on the capital gains savings account is similar to what the regular savings accounts offer. Interest will be credited at the end of each half-year. For term deposits too, the rates are broadly in the same range as regular deposits of a similar tenure. For deposits under the non-cumulative scheme, interest will be paid out every quarter.

In normal term deposits, senior citizens tend to get slightly higher rates. For CAGS deposits, most banks don't offer special rates for senior citizens — except for IDBI Bank and a few others. Note that the interest income from CAGS accounts is taxable. Also, unlike normal fixed deposits, no loan can be taken against a CAGS deposit.

Withdrawal, utilisation

The primary purpose of parking money in capital gains accounts is to fund a new asset, and so, a savings account, rather than a term deposit account, may prove to be more convenient in many cases.

For instance, if you want to construct a new house with the gains/sale proceeds of the old house, it will involve periodic withdrawals towards expenses.

In case you have a term deposit account, the amount needs to be transferred to a savings account before any withdrawal can be made.

This could involve premature withdrawal/conversion of the term deposit, which may attract penalties.

Additionally, there are other rules to be complied with for withdrawals. To prevent misuse, from the second withdrawal onwards, details regarding the manner and extent of utilisation of the amount of the immediately preceding withdrawal must be submitted.

This apart, the amount withdrawn must be utilised within 60 days of the date of withdrawal; the amount or any part thereof which has not been so utilised must be re-deposited immediately.

If some sums lie unused and you want to close the account, an application has to be made to the bank with the approval of the Assessing Officer in your tax jurisdiction. The bank will then credit the balance with interest to your regular bank account.

Should you pay Advance Tax?

The concept of 'pay as you earn' places certain obligations on you. Know your tax calendar

ISTOCK.COM/LUXIZENG

PARVATHA VARDHINI C

Your responsibility to pay your taxes arises not just once a year. If you earn an income above a certain threshold, you will have to pay advance tax every quarter, failing which you will be charged an interest/penalty for late payment or non-payment.

Who should pay?

Advance tax simply means paying tax as you earn the money. Tax deducted at source (TDS) is a form of advance tax. According to the Income Tax Act, if you expect your tax liability over and above TDS to exceed ₹10,000 during a year, you must pay advance tax.

If salary is your only source of income, you will most likely not be required to pay advance tax as THE monthly TDS cuts that your employer makes may take care of your entire tax dues. But if you have other sources of income along with your salary, you may fall in the advance tax net. Here's how.

While your office may promptly cut taxes every month based on salary income alone, you may have other income such as rent from a house that you have let out, interest income from savings bank account/fixed deposit, capital gains, and so on, some of which may not be subject to TDS. If you have not declared all of these at your workplace, your employer could be deducting TDS at a lower rate than is merited in your case.

Such an eventuality may result in a liability to pay advance tax on your part. If TDS was deducted at 10 per cent, but you fall in the 20 per cent or 30 per cent tax bracket, you may have to pay advance tax if the additional tax liability exceeds ₹10,000.

This can happen to salaried employees as well as professionals or those running proprietary businesses. Individuals over age 60 who do not have business or professional income are exempt from advance tax payments.

The calculation

To determine your likely tax liability for a year and check if you need to pay advance tax, you can take the help of your auditor who normally helps file your returns.

Even if you are using e-filing intermediary websites to prepare your returns, you can seek their guidance online. Many have year-round advisory services that you can sign up for.

If you are a bit tax savvy, you can also use online calculators. One such calculator is available at https://www.incometaxindia.gov.in/Pages/tools/advance-tax-calculator.aspx

Assessees, including individuals, must pay advance tax in four instalments during the year, as and when the income is earned.

The tax payment schedule is fairly straightforward: not less than 15 per cent of such advance tax must be paid on or before June 15; not less than 45 per cent of the amount due must be paid by September 15; up to 75 per cent must be paid by December 15 and up to 100 per cent, by March 15 of the financial year for which the income relates.

What if you fail to pay any advance tax at all?

Say, your tax liability after all the TDS cuts is ₹30,000. You must pay at least ₹4,500 by June 15. If not, 1 per cent interest per month will be charged on the shortfall until the next instalment, that is, for three months.

In this case, the interest amount works out to ₹4,500*1/100*3 = ₹135. If you don't pay ₹13,500 (45 per cent of ₹30,000) by September 15, again 1 per cent per month interest will be charged on the shortfall until September 15.

The interest due now comes to 13,500*1/100*3 = ₹405. If you don't pay the third instalment, interest on ₹22,500 (that is, 75 per cent of ₹30,000) will amount to ₹22,500*1/100*3 = ₹675.

In case you miss the fourth instalments too, interest on ₹30,000 will be calculated for a month — ₹30,000 *1/100*1 = ₹300. In all, interest payable totals ₹1,515.

This is calculated under Section 234C of the Income Tax Act.

In addition, if the total advance tax paid (including TDS) is less than 90 per cent of the tax liability at the end of the financial year, interest under Section 234B is payable.

So if you have not paid advance tax at all when you are liable to, you will be charged interest under both Sec 234B and Sec 234C.

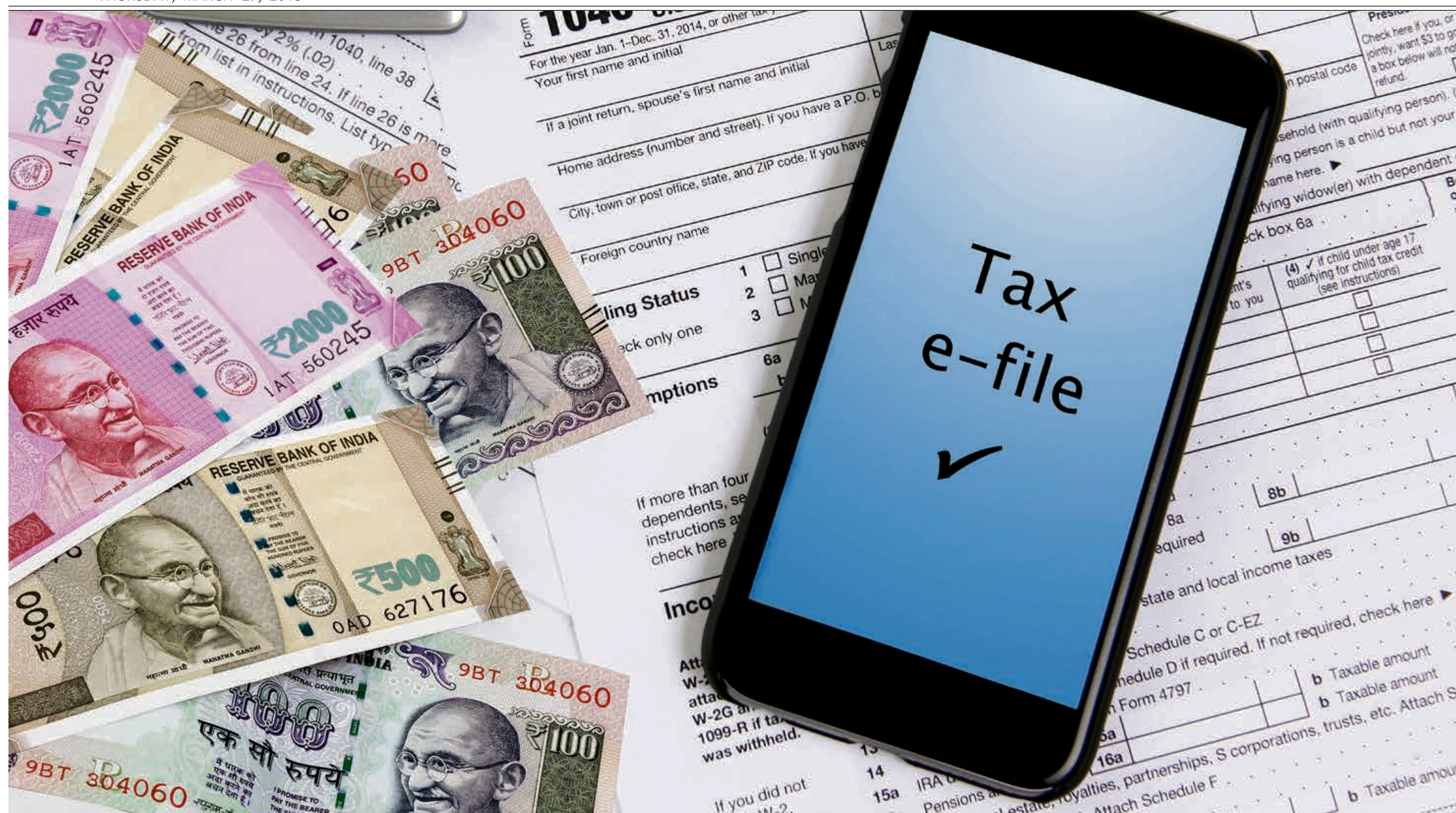
Even if you have paid some portion of it, if the amount falls short of 90 per cent, you will be charged interest under Sec 234B.

Interest under Sec 234B is calculated at the rate of 1 per cent per month and is payable on the shortfall from April 1 of the assessment year till the month in which you file returns and make the payment.

In the above example, assuming you file your return for Assessment Year 2018-19 in July 2018, you will have to pay ₹30,000*1/100*4 = ₹1,200 in addition to ₹1,515.

These amounts need to be paid along with the self-assessment tax while filing your return next year.

On the other hand, if you pay advance tax in excess of what is due from you, you can claim a refund when you file your return.



How to e-file your tax returns

It's a breeze, and you can DIY. But if you're not feeling on top of it, there's also help at hand

PARVATHA VARDHINI C

In line with the broader societal trend towards digitalisation, the tax department too has caught on to the digital wave. Today, only an individual aged 80 years or more or an individual or an HUF whose income does not exceed ₹5 lakh and who claims no refund in the return of income can file returns manually. All other assessees have compulsorily to e-file their returns. Here's how it is done.

Do It Yourself

If you know a bit about tax laws and are internet-savvy, you can easily file your returns on your own on the tax department's website (**incometaxindiaefiling.gov.in**), free of cost. You need to register yourself and obtain a user ID (which is your PAN) and generate a password and upload your return.

If you have your income details ready, it's all a breeze. The website scores well on convenience as it provides access to all the other information you will need to file your returns, in one place. Links to access your Form 26AS, which has details of the tax deducted at source (TDS) and tax collected at source (TCS) from your income and e-pay self-assessment tax are available.

You can also view your earlier returns, their processing status, outstanding tax demand if any, refund status, ITR V (Acknowledgement) receipt status and details about your assessing officer.

In recent times, the department has also added a few features to render the website more user-friendly. It has provided a 'quick file' option for simpler returns such as ITR 1 and ITR 4. Choosing this option enables pre-filling of all possible fields in the ITR form, from the PAN database or previous returns filed. This helps you save time while filing the return.

To increase security, a second-level authentication for your login has been introduced through a feature called the 'e-filing vault'. This feature can be enabled under the 'profile settings' tab when you log into your e-filing account. Once you do this, you can choose to log into your e-filing account through options such as net banking and Aadhaar-based OTP, instead of just the user ID and password.

To make the e-filing process completely online and save the hassle of posting the ITR V Acknowledgement form through snail mail, electronic verification has also been introduced. Once your return is filed online, the electronic verification code or EVC, which is a 10-digit alpha-numeric code, can be generated.

You can use your net banking account, debit/credit card at an ATM, bank account number and IFSC code, Aadhaar number, demat account number or registered mobile number and email ID (under certain conditions) to generate the EVC. A list of participating banks for the first three options is available on the e-filing website.

Assisted filing

If you need assistance to file your returns, you can approach your neighbourhood Chartered Accountant. Besides, Tax Return Preparers or TRPs (**trpscheme.com**) can also do the job for you. TRPs are graduates in commerce/ economics/ statistics/ law, who have been chosen, trained and appointed by the government to help assessees prepare their tax returns.

The website helps you locate the TRP closest to you in your State, city and pin code. You can also fill up an online form to request a TRP to visit your place at a scheduled time to help you file your return.

For new assessees, the remuneration payable to the TRP is 3 per cent of the tax paid on the returns prepared and filed in the first year (subject to a maximum of ₹1,000), 2 per cent in the second year and 1 per cent in the third year. For old assessees, it is ₹250.

You can also use the services of e-filing intermediary websites such as ClearTax, Taxsmile, TaxSpanner, and myITreturn. Some portals offer the facility to file your return through a mobile app too.

While some of these service-providers offer basic self-filing of returns for free, many have different packages that not only assist you in filing returns but additionally provide other value-added services for a fee. The prices of these packages range anywhere from ₹250 to over ₹5,000 depending on the nature of the services provided.

For instance, many websites offer expert follow-up assistance to customers in case they are faced with issues such as rectification, demand notice, and so on., after they e-file their returns.

Most portals offer a chat facility with Chartered Accountants to clarify your queries. They also provide tax planning services. Websites such as Taxsmile provide an online documentary vault for safekeeping of your tax/income-related documents.

Since these tax portals have invested adequately in security, it's safe to use them. TaxSpanner, for example, boasts 256-bit SSL encryption.

CH-X_A

You've got mail – from the taxman!

If the numbers in your tax return don't match his assessment, your return may return to haunt you

PARVATHA VARDHINI C

You may have filed your tax returns in time and paid your tax dues, but you cannot write off your obligation to the taxman from your to-do list for the year. For many, that is only a temporary reprieve: the real relief comes only when the tax department agrees with and validates your tax calculations.

Intimation u/s 143(1)

Usually, the department sends out 'intimations' through e-mail to assessees regarding their returns, within a few months of their filing them. The mail, called 'Intimation under Section 143(1) of the Income Tax Act', signifies that the department has processed your return.

The mail comes with an attachment, which can be opened using your PAN (in lower case) and date of birth as the password. The document is a statement listing out the income details, deductions and tax calculations as worked out by you in your return, and as worked out by the department. A 143(1) notice will specify if any tax or interest is payable or refundable as per the department's calculations.

In case of a refund, and if it is in excess of Rs100, it will typically be credited to your bank account in some time. If you sense a delay, details regarding the status of your refund can be obtained from https://tin.tin.nsdl.com/oltas/refundstatuslogin.htm.

You can also call the State Bank of India call centre number 18004259760 to know the status of your refund.

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But what if there is a nasty surprise in the form of more demand for taxes?

When the numbers don't add up

Income under Sec 143(1) is computed after making certain adjustments to the total income. For instance, there may be arithmetical errors or incorrect claims in the return you have filed. Mistakes can also arise when you are paying advance tax or self-assessment tax — you may, for instance, have entered the wrong PAN or tax amount in the challan, if you are making the payment manually. Banks may also sometimes incorrectly furnish details of the tax you deposited to the department.

But one of the most common reasons for the difference between your calculations and the tax department's is the discrepancy in the section related to 'Pre-paid taxes'.

For instance, while you may have claimed a certain amount as tax deducted at source (TDS) after doing the math, the department may have recognised a lower amount, leading to the demand. Differences arise because while you claim TDS based on your Form 16 and/or Form 16A, your statement of tax credit, which is Form 26AS (accessible through your net banking account or your e-filing account) picks up the TDS details based on details uploaded by the deductor.

So, if the deductor fails to file the TDS return on time, makes mistakes while filing, omits your details by oversight or gets your PAN wrong in his TDS return, the numbers may not match.

The sooner you correct the discrepancies, the better for you

Considering that often the assessee is being pulled up for perhaps no fault of his, Budget 2018 has done away with this provision. Thus, from assessment year 2018-19 onwards (that is, from April 1, 2018), no adjustment can be made with respect to mismatch of income claimed by the assessee and income appearing in Form 26AS, Form 16 and Form 16A.

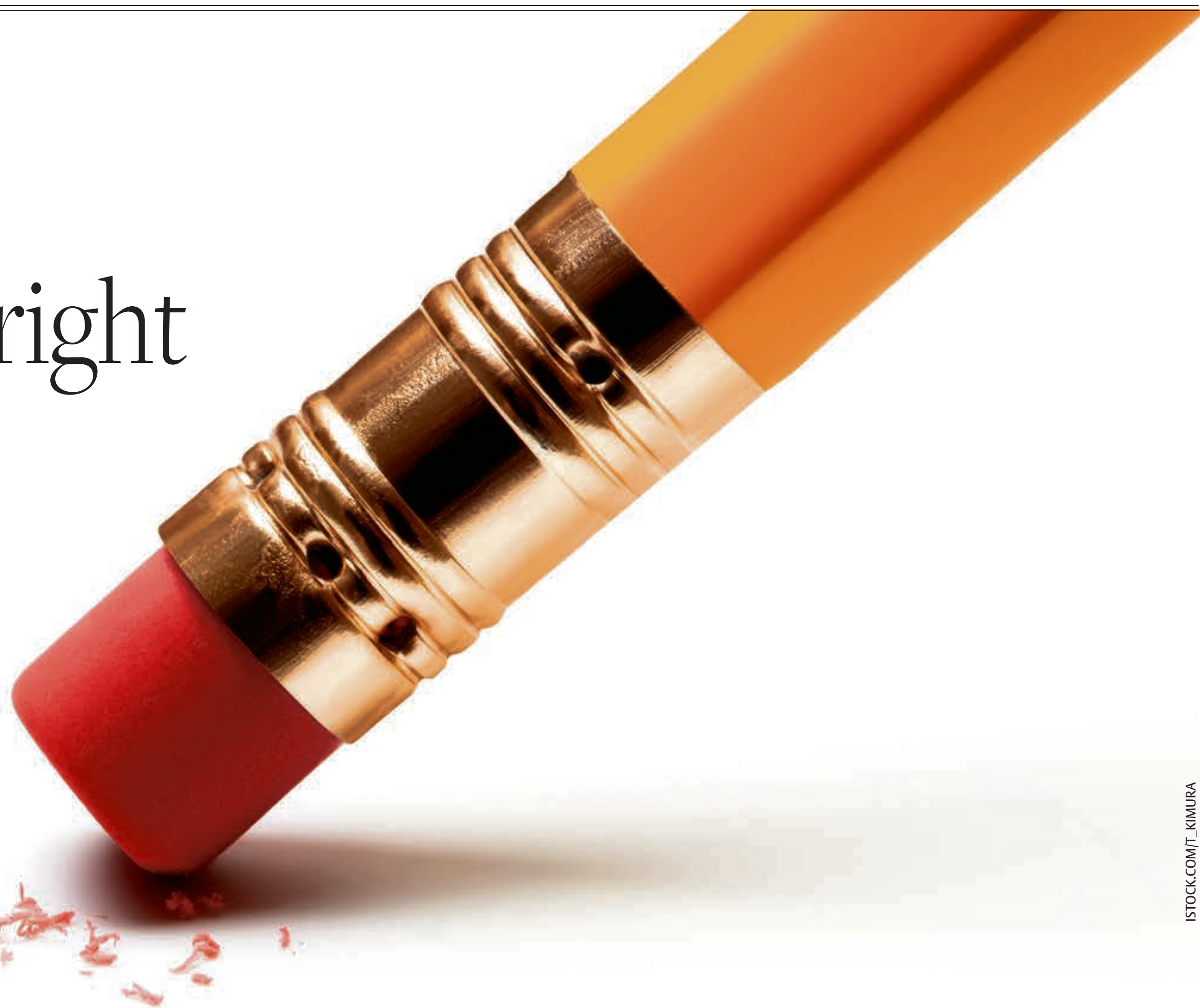
Making corrections

To correct the errors pointed out in the Sec 143(1) intimation, you can get the help of your auditor or your e-return filing intermediary to take necessary action. Most e-filing websites provide year-round advisory services for a fee. Also, use their help to write to the department and respond to the intimation by explaining the reason for the error.

Typically, if clerical errors were made when you paid the advance tax/self-assessment tax, you need to correct the challan at the bank where you made the payment. If the error cropped up while making an entry in the return, you might then have to file a rectification request for your return.

Remember that the department treats this intimation under Section 143(1) as a notice of demand and expects you to pay the entire demand within 30 days of receipt of this intimation. A printed challan is also enclosed with the intimation for all cases where the tax payable exceeds ₹100 according to the department's calculations. So, the sooner you take action on noticing and correcting the discrepancy, the better for you.

How to right a wrong return



The taxman acknowledges that to err is human, and gives you a chance to fix it

PARVATHA VARDHINI C

You may well let out a whoop of exhilaration after filing your tax return: it's a well-merited response, considering the consequences of missing your paperwork deadline – and the relief of filing it in time. But what if that relief is short-lived, and you then find that you have committed some errors or made some omissions while filing your return? Or what if the department finds a mistake in your return or demands more taxes? Your obligation to the taxman is not fully over until the department processes your return and agrees with your numbers. Here's what you need to be vigilant about *after* filing your returns, and here's how you can rectify any errors you may have made.

Revision of returns

It is possible that you may have committed some errors in the rush to file your tax return on time. For instance, you may have forgotten to add interest income from some of the fixed deposits you hold. On the other hand, you may have forgotten to claim deductions for certain donations you may have made. Alternatively, you may have entered the details of self-assessment tax paid wrongly. Tax laws provide for a way to set these mistakes right by allowing you to revise your returns.

Until last year, you were allowed to revise your return for one year from the end of the assessment year. But from FY 2017-18 onwards, you can revise your return only until the end of that assessment year. Thus for FY2017-18, you have time to revise your return only until March 31, 2019. There is no specific return form or a separate procedure to file a revised return. You just have to refile your return with the corrected data through the department's website (incometaxindiaefiling.gov.in).

You have to mention in the first page that the return is a revised one. The e-filing acknowledgement number of the original return and the date of filing of the original return also need to be mentioned alongside. There is no ceiling on the number of times a return can be revised. The latest one will be considered by the department for processing. But while revising the return, you must keep in mind that returns are open for revision only until the department processes it.

You have 15 days from the date of intimation to rectify the defect

Typically, as and when the return is processed, you will receive an intimation from the tax department under Section 143(1). The Centralised Processing Centre in Bengaluru sends out this intimation to your e-mail address a few months after filing — usually by October/November of the assessment year. So even though on paper you may have plenty of time to revise your return, you must act quickly if you feel your return warrants a revision, as you actually have a window of only a few months. Also, keep in mind that the chances of your return being picked up for closer scrutiny may be higher if the revisions lead to big changes in taxes.

Those who file their return later than the original deadline for filing returns (otherwise known as 'late filing') can also revise their returns if they find some errors later on.

Keeping fingers crossed

You may be confident about the accuracy and completeness of your return. But the chapter isn't closed until the department agrees with your tax assessment. For one thing, you may get a notice drawing attention to a defective return under Section 139 (9). Earlier, returns were considered defective if assesses missed out on attachments such as calculation of the total income, the tax computation and proof of self-assessment tax payment or if the form was not filled completely.

Your obligation is not over until the taxman agrees with your numbers

Now, since returns are annexure-free and are filed in electronic format, the chances of such errors are minimised. Nevertheless, if you do get a notice under 139(9), you have 15 days' time from the date of intimation to rectify the defect and refile your return.

In addition, the department may find that you have missed declaring an income or that you have claimed certain deductions for which you may not be eligible, or that there is a tax credit mismatch. It may point these out in the notice under section 143(1), which it sends out after you file your return, and raise a demand. If you agree with it, you need to pay the additional dues within 30 days of receipt of the intimation. Otherwise, if you find any mistakes in the department's assessment, you can request for 'rectification' on the IT department's website.

A request for rectification can be filed within four years from the end of the financial year in which the order sought to be rectified is received. If you have filed your return using an e-return intermediary website or taken the services of a Chartered Accountant, they can help you with the correction/rectification process.

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- Fertility and Assisted Reproduction
- Oncology - Medical, Radiation, Surgical Oncology, Hemato-Oncology and Community Oncology - Palliative Care Centre
- Orthopaedics and Trauma Care
- Health Screening Programs and Master Health Checkup
- General Medicine & Allied Specialities
- General Surgery, Laparoscopic Surgery and Allied Specialities
- Nuclear Medicine • Anaesthesia
- Geriatrics • Critical Care Services • Pain Services
- Radiology • Neurology • Neurosurgery

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