



Methods for Reducing One's Tax Bill Through Strategic Planning

Upasana

Associate Professor

Department of Commerce. HKMV Jind

email : upasnamittal72@gmail.com

Abstract

Tax preparation is a key component of our overall financial strategy. We are able to pay as little in taxes as possible thanks to careful tax preparation. This is accomplished by lawfully making use of all available tax credits, deductions, refunds, and allowances while simultaneously making investments that are consistent with these aims. “The study's goals are to (1) identify the most common and effective means of reducing taxable income, and (2) quantify the magnitude of this reduction. Overall, our research shows that Life Insurance policies are the most often used tax-savings tools, with Provident Funds coming in at a close second. Budgeting for FunTax is a critical component of our overall financial strategy. We are able to pay as little in taxes as possible thanks to careful preparation of our tax returns. To do this, you must make investments that are consistent with your long-term goals while lawfully taking advantage of all available tax exemptions, deductions, refunds, and allowances. The study's goals are to (1) identify the most popular and effective means of reducing taxable income, and (2) quantify the magnitude of this reduction. Overall, the study's findings show that Life Insurance policies are the most often used tax-savings tool, followed by Provident Funds. We include FunTax preparation in all of our regular budgeting meetings. Through careful tax preparation, we are able to keep our tax burden to a bare minimum. To do this, you must make investments that are consistent with your long-term goals while lawfully taking advantage of all available tax exemptions, deductions, refunds, and allowances. The study's goals are to (1) identify the most common and effective means of reducing taxable income, and (2) quantify the magnitude of this reduction. As a whole, the results show that life insurance policies are the most popular form of tax savings, with provident funds coming in at a close second.

Keywords Tax, Tax saving Instruments, Tax Planning, Tax Management, Tax Evasion and Tax Avoidance

TAX PLANNING:



INTRODUCTION

In other words, tax planning encompasses any and all schemes devised to reduce a person's tax liability while still adhering to all applicable laws and regulations, and without resorting to deceptive or dishonest measures. All transactions engaged into by an assessed may be legally legitimate, however on the total, these transactions may be planned to deceive the revenue, which is why tax planning should never be done with the purpose to defraud the revenue. The phrase colourable device is used to describe any method of status verification that seems to be legal on paper but violates the spirit of the underlying legislation. All tax planning transactions must be lawful and proper in form and content, and must follow the letter of the law. Any tax avoidance strategy must pass the form and content test. It may be impossible to tell the difference between the outward appearance of a transaction and its true purpose. Ascertaining the true motivations of the parties involved in a transaction, or the substance of the transaction, involves looking past the formalities of the paperwork that was signed. In other words, this does not constitute tax avoidance. To minimise one's tax liability as far as is legally permissible is a prudent and farsighted move on the side of the taxpayer. Accrual of tax advantage within the bounds of the law is just half the battle; tax responsibilities must also be met in a timely manner without incurring penalties, and this is where careful tax planning comes in.

Tax Evasion And Tax Avoidance Tax Evasion:

When an individual engages in tax avoidance strategies like hiding income or inflating expenses in order to make it appear as though their taxable income is smaller than it actually is, they are engaging in tax fraud. A person found guilty of tax evasion faces the penalties specified by law. Among the many possible methods of tax evasion are the deliberate making of false statements, the submission of false or misleading documents, the concealment of material facts, the failure to keep accurate records of income earned (if required by law), and the failure to disclose relevant information when being assessed. A person who is assessed and who fraudulently claims a statutory benefit by providing incorrect information is committing tax evasion.

Tax avoidance: When it comes to taxes, the line between preparing and evading is narrow and often difficult to see. An appeased purpose may also contribute to tax evasion. Tax avoidance might be said to occur in any situation when a plan is enacted that, while technically compliant, yet manages to undermine the statute's original aim. This is often achieved by (a)



modifying the situation such that no violations of taxation regulations occur, and (b) making full use of any applicable loopholes in the tax code.

Tax Planning Excludes

- Planning to minimise your tax liability is not the same thing as avoiding paying your taxes. It requires careful preparation of your investments and other sources of income. Contrary to popular belief, this is not tax evasion, which is against the law in India.
- Putting money into any old 80C investment is not what tax planning is about.
- Doing some tax planning is simple. Tax preparation is a breeze. As long as one is disciplined in managing their money, it's a skill that anyone can pick up and put into practise with minimal effort.

Types of Tax Planning

The process of tax planning include both the creation of a model for a single transaction and the development of a comprehensive strategy for a whole business. Specifically, these are;
Various Tax Strategies The tax planning process might involve anything from developing a template for a single transaction to extensive strategic planning for a whole organisation. It includes;

Short and long range tax planning:

In contrast to long-term planning, which takes into account many variables, short-term planning focuses on the next year to accomplish a finite goal. He can save a lot of money on taxes without making any long-term commitments thanks to this strategy.

However, long-term planning entails undertaking actions that may not yield results right away. For instance, an assessee who gives his minor son his stock interests is aware that his son's income from the shares would be clubbed with his own, but that this clubbing will end once his son becomes 18.

Permissive tax planning: In the context of tax law, permissive refers to planning that is allowed under certain regulations. The tax regulations of our nation provide a number of deductions and credits.

Purposive Tax planning: Intentional tax planning presupposes doing actions that are illegal but have the desired effect. Permissive tax planning, such as that allowed under Sections 60–65 of the Income Tax Code, has the express sanction of the legislation, but purposive tax



planning does not. From 1961 on, the assessee's total income includes the money made by other people.

Tax management

The term tax management refers to the behind-the-scenes work that goes into preparing tax returns. Allowances, deductions, and exemptions from taxes may be made more manageable with the help of competent tax management that ensures they meet all applicable requirements. If an assessee uses the mercantile method of accounting, for instance, and fails to file a claim of expenditures on an accrual basis (as required by Section 43B), the assessee would not be able to deduct such expenses in any following years. To the same extent, the assessing officer cannot arbitrarily deny the deductions stated in sections 80IA, 80JJA, etc. By timely paying taxes owed, tax management also safeguards the assessed from criminal prosecution and penalties. Therefore, tax management is an essential component of tax planning. Planning taxes without understanding tax management is like being a doctor who doesn't research how to provide the medicine.

THE POPULAR INVESTMENT OPTIONS

- Post Office or Bank Provident Fund (PPF), Statutory Provident Fund (deducted and paid by the employees). Insurance premium for a life (with the LIC or other private insurers).
- Linked-unit insurance (UTI & mutual funds).
- Equity-linked savings plans.
- Certificates for National Savings.
- Investment in infrastructure using bonds.
- Housing financing

TAX SAVING INSTRUMENTS

Only individuals or HUFs are eligible for deductions under Section 80C, and only up to a maximum of Rs. 1,00,000 can be deducted from taxable income before interest and penalties are applied. The following are eligible for a deduction under section 80C:

- Contribution / subscription to PPF, NSC, NSS, ULIP, ELSS
- Fixed Deposit with any schedule bank for at least 5 years

Equity Linked Saving Schemes



To help its clients minimise their tax liability, mutual fund companies provide a product called an ELSS. Funds from ELSS are often invested in the stock market, allowing investors to profit from price increases in their holdings. Section 80C of the Income Tax Act 1961a allows for a tax deduction for ELSS investments.

Life and Medical Insurance Plans

In order to minimise their taxable income, many people turn to life insurance policies. In addition to providing financial protection in the case of a catastrophic occurrence like an accident, death, etc., insurance plans can provide tax deductions on premiums paid. Tax deductions of up to Rs.1 lakh can be claimed annually for premiums paid on life insurance contracts under section 80C. The majority of life insurance providers also provide medical insurance and retirement plans that qualify for a tax break under Internal Revenue Code section 80D.

A person or HUF can deduct the cost of their health insurance premium or contributions to their retirement or savings plans provided they meet certain requirements. Taxpayers have always found the best way to save money was via purchasing a life insurance policy. To protect the policyholder and his or her family from financial ruin in the case of a catastrophic event (accident, death, etc.), insurance plans not only provide tax breaks for premium payments but also provide insurance coverage. Under section 80C of the Income Tax Act of 1961, taxpayers can deduct up to Rs.1 lakh in annual premiums paid for life insurance. Typically, if a company offers life insurance, they also provide health insurance, dental insurance, and retirement plans that qualify for a tax deduction under Section 80D. Any premium paid by an individual or HUF for medical insurance, or any contribution to a medical savings account, is tax deductible.

- any non-monetary donation to the Central Government Health Scheme.
- Maximum of \$15,000 (for individual, spouse, and dependent children insurance) or \$20,000 (for senior citizen insurance) and Maximum of \$15,000 (for insurance of parents) or \$20,000 (for senior citizen insurance).

Housing Loan

Loans from the Federal Government, a State Government, a Bank, an Insurance Company, or a National Savings and Investment

Housing Bank or from an employer (if the employer is a statutory corporation, public enterprise, university, college, local government, or co-operative society) under section 80C.



Payments to the Public Provident Fund (PPF) or Employees Provident Fund (EPF) qualify for tax breaks under Section 80C, together with contributions to the EPF.

While workers can contribute up to Rs.1,000,000 to EPF and PPF under section 80C, the total amount they can contribute is capped at Rs.1,00,000.

National Savings Certificate: Across the country, you may purchase it at any post office. Investments are unlimited, however you may only deduct Rs.1 lakh in total from your taxes by using NSCs (under section 80C).

Term Deposits and Bonds: It is possible to deduct interest paid on fixed deposits at several different commercial banks. There is a five-year commitment term for these deposits. The annual limit for section 80C investments in such deposits is Rs. 1 lakh. Stamp duty and homebuyer registration fees are two examples of additional, more specific costs.” Tax breaks can be claimed for things like transportation subsidies, discounted meals, and more in other chapters. Senior citizens and those with disabilities can also take advantage of additional tax breaks and exemptions.

Review of literature

(Savita and Gautam 2013) studied “Income Tax Planning: A Study of Tax Saving Instruments” the results of which were Our financial strategy does not exclude tax planning. With careful tax preparation, we are able to pay as little in taxes as possible. To do this, you must make investments that are consistent with your long-term objectives while lawfully taking advantage of all available tax exemptions, deductions, refunds, and allowances. The study's goals are to identify the most common and effective tax-cutting strategies and to quantify the resulting savings. Overall, the results show that life insurance policies are the most popular kind of tax savings tool, followed closely by Provident Funds.

(Saravanan and MuthuLakshmi 2017) studied “Tax Saving Instruments of Income Tax in India: A Study on Tax Assessee in Trichy City” the results of which were Planning strategies and tools for minimising one's personal income tax are the subject of this research. This allows them to prepare in advance for their tax savings tool. Our financial strategy does not exclude tax planning. With careful tax preparation, we are able to pay as little in taxes as possible. To do this, you must make investments that are consistent with their long-term aims while lawfully taking advantage of all available tax breaks (such as those provided by Chapter VIA deductions, refunds, and allowances). The study's goals are to identify the most common and effective tax-cutting strategies and to quantify the resulting savings. Overall, the results show



that Provident Funds are the most widely used tax savings mechanism, with Life Insurance Policies coming in at a close second. First, it would be helpful to define tax. Taxes are governmental levies levied on goods, income, or actions. Direct taxes and indirect taxes are the two main categories (See Chart below this paragraph). Direct taxes, like income taxes, are collected on an individual's resources without going via any intermediary. Indirect taxes, such as excise duties, are those that are added to the final cost of a product rather than its production or distribution.

(Qadri 2020) studied “tax planning and tax saving instruments” the results of which were Income tax refers to a form of tax that governments apply on the profits made by firms and individuals operating inside their borders. It's how the government meets its financial obligations, funds essential services, and distributes things to the populace. A personal income tax, sometimes known as an individual income tax, is a tax levied on a person's earnings from employment, investments, and other sources of money. To pay the least amount of tax possible, it is important to do a thorough examination of your financial condition or goals, which is what tax planning is all about. The term tax efficiency refers to the extent to which a certain strategy reduces one's taxable income.

(Kumar et al. 2022) studied “Tax Planning Through Tax Saving Instrument: A Study On Tax Assessee In Jaipur City” the results of which were The research shows that the tax saving device can help an individual assessee prepare ahead for their tax due. The tax implications of our decisions have a major impact on our long-term budgeting. Assessee can lower their tax burden through careful tax preparation. Chapter vi A's tax breaks (exemption, refund, and deduction) let us achieve this while still keeping our eye on the big picture. The primary goal of this research is to identify the most effective tax-saving tool and quantify the tax benefits of that instrument. Based on the findings, home equity loans are the most popular tax savings tool, followed by individual retirement accounts and NSCs.

Conclusion

The term tax planning refers to the steps a taxpayer takes to ensure he or she complies with all applicable rules and regulations in a timely and organised fashion, making full use of any deductions or credits allowed by law and keeping track of any relevant notifications. Avoiding disputes and fines is the primary goal of any good tax plan, not minimising tax obligations. Effective tax administration involves timely filing of all required statutory returns, full compliance with all applicable legal requirements, and the avoidance of fines, interest, and



frivolous legal disputes. When it comes to taxes, tax management can be considered a subset of tax planning even if it doesn't result in a lower tax bill because it helps avoid fees and interest. Without tax management, tax planning would be insufficient.

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