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Tax Planning Strategies and its Impact on an Individual For F.Y. 2023-24

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Abstract:-

Taxes can reduce our annual savings. To overcome this, tax planning is a legitimate way of reducing our tax liabilities in any given financial year. It helps us to utilize the tax exemptions, deductions, & benefits offered by the authorities in the best possible way to minimize our liability.

The definition of tax planning is quite simple. It is the analysis of one's financial situation from the tax efficiency point-of-view.

This paper will increase the understanding of individual about tax planning for the F.Y.2023-24.

Key Words:- Tax, Advantage of Tax Planning, Tax Strategies, Long Term Short term Capital Gain.

Objectives of Tax Planning

Tax planning is a focal part of financial planning. It ensures savings on taxes while simultaneously conforming to the legal obligations and requirements of the Income Tax Act, 1961. The primary concept of tax planning is to save money and mitigate one's tax burden.

Scope of the study: - The scope of study is getting familiar with various tax planning strategies and making wealth through various investment avenues available in market. The scope of planning will include the Risk Management, Insurance Planning Investment Planning Retirement Planning etc.

Advantages of tax planning:

1. To minimize litigation: To litigate is to resolve tax disputes with local, federal, state, or foreign tax authorities. There is often friction between tax collectors and taxpayers as the former attempts to extract the maximum amount possible while the latter desires to keep their tax liability to a minimum. Minimizing litigation saves the taxpayer from legal liabilities.
2. To reduce tax liabilities: Every taxpayer wishes to reduce their tax burden and save money for their future. We can reduce our payable tax by arranging our investments within the various benefits offered under the Income Tax Act, 1961. The Act offers many tax planning investment schemes that can significantly reduce our tax liability.
3. To ensure economic stability: Taxpayers' money is devoted to the betterment of the country. Effective tax planning and management provide a healthy inflow of white money that results in the sound progress of the economy. This benefits both the citizens and the economy.

- To leverage productivity: One of the core tax planning objectives is channelizing funds from taxable sources to different income-generating plans. This ensures optimal utilization of funds for productive causes.

Types of Tax Planning

Most people merely perceive tax planning as a process that helps them reduce their tax liabilities. However, it is also about investing in the right securities at the right time to achieve our financial goals.

Following are some of the various methods of tax planning:

- Short-range tax planning:**-Under this method, tax planning is thought of and executed at the end of the fiscal year. Investors resort to this planning in an attempt to search for ways to limit their tax liability legally when the financial year comes to an end. This method does not partake long-term commitments. However, it can still promote substantial tax savings.
- Long-term tax planning:**-This plan is chalked out at the beginning of the fiscal and the taxpayer follows this plan throughout the year. Unlike short-range tax planning, we might not be offered with immediate tax benefits but it can prove useful in the long run.
- Permissive tax planning:**-This method involves planning under various provisions of the Indian taxation laws. Tax planning in India offers several provisions such as deductions, exemptions, contributions, and incentives. For instance, Section 80C of the Income Tax Act, 1961, offers several types of deductions on various tax-saving instruments.
- Purposive tax planning:**-Purposive tax planning involves using tax-saver instruments with a specific purpose in mind. This ensures that we obtain optimal benefits from our investments. This includes accurately selecting the appropriate investments, creating an apt agenda to replace assets (if needed), and diversification of business and income assets based on our residential status.

Income Tax Slab:-

In India, the Income Tax applies to individuals based on a slab system, where different tax rates are assigned to different income slabs. As the person's income increases, the tax rates also increase. This type of taxation allows for a fair and progressive tax system in the country. The income tax slabs are revised periodically, typically during each budget. These slab rates vary for different groups of taxpayers.

Let us take a look at all the slab rates applicable for FY 2023-24(AY 2024-25) :-

Income tax slab rates for FY 2023-24/ AY 2024-25			
Old Regime			
Slabs	Individuals (Age < 60 years)	Resident Senior Citizens (≥60 but <80 years)	Resident Super Senior Citizens (80 years and above)
Up to Rs 2,50,000	Nil	Nil	Nil
Rs 2,50,001 to Rs 3,00,000	5%	Nil	Nil
Rs 3,00,001 to Rs 5,00,000	5%	5%	Nil
Rs 5,00,001 to Rs 10,00,000	20%	20%	20%
Above Rs 10,00,000	30%	30%	30%
New Regime			
Slabs	Income Tax Rates		
Up to Rs 3,00,000	Nil		
Rs 3,00,001 to Rs 6,00,000	5% (Tax rebate u/s 87A)		
Rs 6,00,001 to Rs 9,00,000	10% (Tax rebate u/s 87A up to Rs 7 lakh)		
Rs 9,00,001 to Rs 12,00,000	15%		
Rs 12,00,001 to Rs 15,00,000	20%		
Above Rs 15,00,000	30%		

For Old Regime, a tax rebate up to Rs.12,500 is applicable if the total income does not exceed Rs 5,00,000 (not applicable for NRIs)

Surcharges and the applicable rates :-

In case the income exceeds a certain threshold, the additional taxes are to be paid over and above existing tax rates. This is an additional tax on the High Income Earners.

Surcharge rates are as below:

10% of Income tax if total income > Rs.50 lakh and < Rs.1 crore,

15% of Income tax if total income > Rs.1 crore and < Rs.2 crore,

25% of Income tax if total income > Rs.2 crore and < Rs.5 crore,

37% of Income tax if total income > Rs.5 crore

**In Budget 2023, the highest surcharge rate of 37% has been reduced to 25% under the new tax regime. (Applicable from 1st April 2023)*

- Surcharge rates of 25% or 37% will not apply to the income from dividends and capital gains taxable under sections 111A (Short Term Capital Gain on Shares), 112A (Long Term Capital Gain on Shares), and 115AD (Tax on the income of Foreign Institutional Investors). Therefore, the highest surcharge rate on the tax payable for such incomes will be 15%.
- The surcharge rate for an Association of Persons (AOP) consisting entirely of companies will also be limited to 15%.

Additional Health and Education cess at the rate of 4% will be added to the income tax liability.

How to save taxes?

Taxpayers are provided with several options to reduce their tax liabilities. Various sections of the Indian income tax law offer tax deductions and exemptions, of which, Section 80C is the most popular tax-saving avenue. For e.g., Deposits in Public Provident Fund, Five Year Bank Deposits, National Savings Certificate and Investment in ELSS schemes.

A practical approach to saving taxes is to create a well-rounded financial plan that aligns with fluctuations in our income. We may use an SIP calculator for financial planning. Also, it is a good habit to make tax-saving investments at the beginning of the year rather than making hasty and often incorrect investment decisions at the last moment. To do this, it is crucial to be aware of all the exemptions and deductions available to us.

Tax saving options under Section 80C

Section 80C, one of the most prevalent sections in the Income Tax Act, 1961, provides provisions to save up to Rs46,800 (assuming the highest slab of income tax i.e. @30% plus education cess 4%) on tax liabilities each year. One of the best tax-saving avenues under Section 80C is investing in an equity-linked savings scheme, more commonly known as ELSS. Such tax planning mutual funds offer the dual benefit of potential capital appreciation and tax-saving. Apart from ELSS funds, we can choose to invest in government schemes such as National Savings Certificate (NSC), Public Provident Funds (PPF), tax-saving FDs, etc. Cumulative investments under these securities can offer deductions up to Rs1.5 lakh.

Tax saving options under Section 80D

Under this section, taxpayers are offered deductions on the premium paid towards health insurance policies. Under Section 80D, a taxpayer can claim the following amounts as deductions:

1. Avail up to Rs25,000 on the premium paid towards health insurance for self, children, or spouse
2. Avail up to Rs50,000 if our parents are also covered under our health insurance plan
3. If either of our parents belongs to the senior citizen bracket, then a maximum deduction of Rs75,000 is allowed

Tax saving options under Section 80E

Section 80E offers tax deductions on the interest paid for an education loan. These deductions can be claimed for eight years starting from the date of repayment. There is no upper limit on the deductible amount. This means that an assessee can claim the entire amount paid as interest from the taxable income.

Claiming HRA Exemption

Under HRA, taxpayers can avail exemption on the cost incurred to stay in a rented accommodation. The taxpayer is mandated to furnish the rent receipts provided by the landlord. The deduction available is the least of the following amounts:

1. Actual HRA received; or
2. 50% of basic salary + DA (dearness allowance) for taxpayers living in metro cities; & 40% of (basic salary + DA) for taxpayers residing in non-metro cities; or
3. Total rent paid less 10% of basic salary + DA

Tax Planning: Exploring Strategies and Impacts on Personal Wealth

Tax planning is an essential aspect of financial management that aims to minimize tax liabilities and maximize after-tax income. By strategically analyzing a financial situation or plan, individuals can ensure that all elements work together to pay the lowest taxes possible.

Key Takeaways:

- Tax planning involves analyzing a financial situation or plan to minimize tax liabilities.
- Considerations for tax planning include the timing of income, size, timing of purchases, and planning for expenditures.
- Tax planning strategies can include saving for retirement in an IRA, engaging in tax gain-loss harvesting, and structuring assets efficiently.

Importance of Tax Planning

Tax planning plays a crucial role in managing personal wealth. By implementing effective tax planning strategies, individuals can:

- **Reduce tax liability:** By taking advantage of available deductions, credits, and exemptions, individuals can lower their overall tax burden.
- **Maximize retirement savings:** Tax-efficient retirement planning strategies, such as contributing to retirement accounts like IRAs and 401(k)s, can help individuals save for the future while enjoying potential tax benefits.
- **Optimize investment returns:** Tax planning can help individuals structure their investments in a way that minimizes taxes on capital gains, dividends, and interest income.
- **Preserve wealth for future generations:** Estate planning and wealth transfer strategies can help individuals minimize estate taxes and ensure the smooth transfer of assets to heirs.

Tax Planning Strategies

There are various tax planning strategies that individuals can consider to optimize their personal wealth. Some common strategies include:

1. **Retirement Contributions:** Contributing to retirement accounts, such as IRAs and 401(k)s, can provide tax advantages. Contributions to traditional IRAs and 401(k)s are typically tax-deductible, reducing taxable income in the year of contribution. Roth IRAs and Roth 401(k)s, on the other hand, offer tax-free withdrawals in retirement.
2. **Tax Gain-Loss Harvesting:** Tax gain-loss harvesting involves strategically selling investments to offset capital gains with capital losses. By realizing losses, individuals can reduce their taxable income and potentially lower their overall tax liability.
3. **Charitable Giving:** Charitable donations can provide both philanthropic and tax benefits. By donating to qualified charitable organizations, individuals may be eligible for tax deductions, reducing their taxable income.
4. **Estate Planning:** Effective estate planning can help individuals minimize estate taxes and ensure the smooth transfer of assets to heirs. Strategies such as establishing trusts, gifting assets, and utilizing estate tax exemptions can be employed to preserve wealth for future generations.
5. **Business Structure Optimization:** For business owners, choosing the right business structure can have significant tax implications. Entities like S corporations and limited liability companies (LLCs) offer potential tax advantages, such as pass-through taxation and limited liability protection.
6. **Tax-Efficient Investing:** Structuring investments in a tax-efficient manner can help minimize taxes on capital gains, dividends, and interest income. Strategies like asset location, tax-efficient fund selection, and tax-efficient withdrawal strategies can be employed to optimize investment returns.

7. **Income and Expense Timing:** Timing the receipt of income and the payment of expenses can impact tax liabilities. By deferring income to a lower tax year or accelerating deductible expenses, individuals can potentially reduce their taxable income.

8. Capital Gain Tax Planning :-

Long term Capital Gains (LTCG) tax @10% (plus surcharge, if applicable and cess) without indexation if units held for more than 12 months.

Short term capital gains (STCG) tax @ 15% (plus surcharge, if applicable and cess) if units are held for less than 12 months. Income distribution cum capital withdrawal (IDCW) shall be taxable in the hands of investors and the mutual fund will deduct TDS @10% for resident investors and @20% (plus applicable surcharge and cess) for non-resident investors before re-investment. However, investors can claim tax-credit of TDS deducted at the time of filing their annual return.

Capital gain accrued up to January 31, 2018 is exempt from LTCG tax in respect of units acquired before January 31, 2018 & redeemed on or after April 1, 2018.

What are common mistakes to avoid?

When it comes to tax planning, there are several common mistakes that individuals should avoid. Here are a few of them:

1. Not seeking professional advice:

One common mistake is not seeking professional advice from a tax advisor or accountant. Tax laws can be complex and subject to change, so it's important to have expert guidance to ensure we are maximizing our tax savings and complying with all regulations.

2. Failing to keep proper records:

Keeping accurate and organized records is crucial for effective tax planning. Failing to maintain proper documentation can lead to missed deductions or credits, and may even result in penalties if we are audited by tax authorities.

3. Overlooking tax credits and deductions:

Another mistake is overlooking available tax credits and deductions. There are various tax credits and deductions that individuals may be eligible for, such as education credits, home office deductions, or medical expense deductions. It's important to research and understand the tax benefits that apply to our specific situation.

4. Not considering long-term tax implications:

Tax planning should not be limited to the current year only. Failing to consider the long-term tax implications of financial decisions, such as investments or retirement planning, can result in missed opportunities for tax savings. It's important to take a holistic approach and consider the impact of our financial decisions on future tax liabilities.

5. Ignoring changes in tax laws:

Tax laws can change frequently, and it's important to stay informed about any updates or revisions that may affect our tax planning strategies. Ignoring changes in tax laws can lead to missed opportunities or non-compliance with new regulations.

These are just a few common mistakes to avoid when it comes to tax planning. Remember, seeking professional advice, maintaining proper records, and staying informed about tax laws are key to effective tax planning and optimizing our personal wealth.

Examples of mistakes to avoid?

Certainly! Here are some examples of mistakes to avoid when it comes to tax planning:-

1. **Not keeping proper records:** Failing to maintain accurate and organized records can lead to missed deductions or credits, and may result in penalties if we are audited by tax authorities.
2. **Overlooking tax credits and deductions:** It's important to research and understand the tax benefits that apply to our specific situation. Overlooking available tax credits and deductions can result in missed opportunities for tax savings.
3. **Ignoring changes in tax laws:** Tax laws can change frequently, and it's important to stay informed about any updates or revisions that may affect our tax planning strategies. Ignoring changes in tax laws can lead to missed opportunities or non-compliance with new regulations.
4. **Not considering long-term tax implications:** Tax planning should not be limited to the current year only. Failing to consider the long-term tax implications of financial decisions, such as investments or retirement planning, can result in missed opportunities for tax savings.
5. **Not seeking professional advice:** Tax laws can be complex and subject to change. Not seeking professional advice from a tax advisor or accountant can lead to missed opportunities for tax savings and non-compliance with regulations.

These are just a few examples of mistakes to avoid when it comes to tax planning. Remember, maintaining proper records, staying informed about tax laws, and seeking professional advice are key to effective tax planning and optimizing our personal wealth.

It's important to note that tax planning strategies should be tailored to individual circumstances and goals. Consulting with a qualified tax professional or financial advisor is recommended to ensure compliance with tax laws and to develop a personalized tax plan.

It is to remember that tax laws and regulations can change over time, so staying informed and seeking professional advice is crucial for effective tax planning.

Conclusion: -In conclusion, tax planning is a crucial aspect of managing personal wealth. By implementing effective strategies, individuals can minimize tax liabilities, maximize after-tax income, and preserve wealth for future generations. It's important to note that tax planning strategies should be tailored to individual circumstances and goals. Consulting with a tax professional or financial advisor can provide personalized guidance based on specific needs and objective

So, tax planning is a crucial aspect of managing our finances in today's ever-changing economic landscape. By taking advantage of deductions, credits, and exemptions, individuals and businesses can lower their taxable income and optimize their tax obligations. Maximizing the benefits of long-term capital gains,

exploring long-term care insurance and services, and maximizing retirement plan contributions are just a few strategies to consider. It's important to consult with a trusted advisor to make informed tax and financial decisions.

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