



CANARA BANK

PERSONAL TAX PLANNING

We are happy to bring out the revised edition of booklet on Personal Tax planning updated with Finance Act 2003.

Tax Planning, as you are aware, is the process of proper usage of beneficial provisions of exemptions, deductions, rebates and reliefs, while fulfilling the tax obligations. This process varies from individual to individual and depends, among many factors, taxable income, time schedule for investments, risk bearing inclination, existing investment pattern, expected returns etc. Over the years, tax planning scenario has become more dynamic and complicated, due to constant changes in the tax laws and falling interest rates. Further tax planning cannot be done in isolation, it should be a part of overall Financial Planning of an individual.

This brochure will afford a bird's eye view of the various provisions of Income Tax [including Capital Gains Tax] and Wealth Tax and taxation aspects of selected financial investments. By knowing and utilizing these provisions, we trust that one should be able to plan his tax obligations better, within the ambit of the laws. This publication is intended primarily for resident non-corporate tax payers. Tax planning should commence right at the beginning of the financial year and last minute rush is best avoided, so start your tax planning endeavour right away!

The brochure is organized in the following manner. Firstly, we have explained basic concepts of Income Tax such as how Income Tax is arrived at, Current Income Tax rates etc. Then we have discussed on how income is arrived at under the five major heads of Income Tax such as Salary Income, Income from House Property, Profits and gains from Business/profession, Capital Gains Income and Income from other sources. This is followed by a description of major Deductions under Chapter VIA and rebate under Section 88. Subsequently, we have elaborated on important IT aspects such as Advance Tax, PAN, TDS, IT returns. A few useful tips on Income Tax Planning are also given, followed by a brief description of Wealth Tax and important features of popular Tax Saving Investments. Lastly, a small write up is given on how Canara Bank can help you in your tax planning exercise.

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INCOME TAX - BASICS**Current Income Tax Rates: (Financial year 2003 - 2004)**

Income Range	Tax Rate
FIRST Rs. 50,000 /-	NIL
Rs. 50,001/- TO Rs. 60,000/-	10 % of the amount exceeding Rs. 50,000/-.
Rs. 60,001/- TO Rs. 1,50,000/-	Rs.1,000/- + 20 % of the amount exceeding Rs. 60,000/-
Rs. 1,50,001/- and higher	Rs.19,000/- + 30 % of the amount exceeding Rs. 1,50,000/-

Surcharge @ 10 % has to be added to the total tax if the total income is more than Rs. 8,50,000/-. Surcharge is Nil, if total income does not exceed Rs. 8,50,000/-.

Receipts Exempt from Income Tax :

Any maturity proceeds/survival and death benefits [including bonus] from Life Insurance Policy. There are some exceptions, such as Keyman Insurance Policy, any sum-received u/s 80CCC(2) or 80DDA(3) or 80DD(3). The exemption is also not applicable where the premium payable for any of the years during the term of the policy exceeds 20% of the actual capital sum assured.

Amounts received from Provident Fund and PPF are totally exempt from Income Tax for all assesses. Interest received from PPF, Co-PF, EPF, RBI Savings bonds, Dividends from Companies, Income from units of Mutual Funds, Tax free bonds of Govt/PSUs and Post Office Savings Bank (POSB) Account are exempt from income tax.

Income Heads as per Income Tax Act :

According to Income Tax Act, the taxable income can be categorised, under the following heads:heads:-

- A. Salary Income
- B. Income from House Property
- C. Profits and gains from Business/profession
- D. Capital Gains Income
- E. Income from other sources [i.e. any other income, which does not fall under any of the preceding heads].

Steps in arriving at Income Tax:

- Step 1 : Under each of the above heads of income, the taxable income is arrived at after deducting permissible exemptions and deductions from income under that head (described in pages 2 to 8).
- Step 2 : By aggregating the taxable income under the above heads, Gross Total Income is arrived at.
- Step 3 : From such **Gross Total Income**, deductions under Chapter VI A of [Income Tax Act] deductions are allowed to arrive at **total Income** (page 9).
- Step 4 : Income tax is calculated on the total **Income** at applicable rate. From the total income tax so calculated, eligible **Tax Rebate u/ s 88, 88B and 88C** is deducted. On the balance of the tax amount, Surcharge is applied and added to get total tax liability (page 10).
- Step 5 : From the total tax liability so arrived at, relief u/s 89 (1) can be claimed, where eligible. Then from the balance tax amount, **Tax Deducted at**

Source and advance tax paid, if any, are deducted. Balance tax amount payable, if any, should be paid as **Self-Assessment Tax** before filing the Income Tax Return.

DEFINITION/ DETAILS OF DIFFERENT INCOME HEADS

A. SALARY INCOME

Amount received by an employee from an employer, **due to their employee and employer relationship**, is taxable as "Salary". Salary includes Basic Pay, Bonus, Pension, Taxable gratuity, Leave encashment, advance salary, salary arrears, Incentives, ex gratia, allowances such as Overtime allowance, Dearness allowance, Taxable House Rent allowance, City Compensatory allowance, Children's Education allowance, Perquisites, etc. Traveling allowance, Uniform allowance, certain special allowances such as Border Area Allowance, Disturbed area allowance, Transportation Allowance (subject to limits) etc are not taxable. From the Gross Salary income, by reducing **Exemptions under Section 10 and deductions under Section 16**, **Net Salary Income** [i.e. Taxable income under Salary] is arrived at.

Exemptions in respect of salary income under Section 10:

1. Leave Travel reimbursement - actual amount spent (subject to specified limits) in respect of 2 journeys in a Block of 4 calendar years (2002-2005) [Section 10(5)]
2. Gratuity received under the Payment of Gratuity Act, 1972 from all employers [Upto Rs 3.5 lakhs] [Section 10 (10) ii]
3. 33.33% of the Commuted Value of Pension where the employee receives any gratuity otherwise 50% of the commuted value of the pension [Section 10(10A)(ii)]
4. Voluntary Retirement Benefits Max. limit Rs.5 Lakhs, from all employers, received/receivable [i.e., even if received in instalments] [Section 10 (10C)]

Deductions under Section 16 are allowed from salary :

- a. Standard Deduction [section 16(i)]

Income from salary	Deduction
Gross Salary income is Rs. 5 lakhs or less	40% of Gross salary or Rs 30,000/- whichever is

- b. Actual Professional Tax paid by the employee is totally deductible from salary [Section 16(iii)]. Relief is also available under Section 89(1) read with Rule 21A, subject to the conditions mentioned therein, where a person is in receipt of a sum in the nature of Salary being paid in arrears or in advance or is in receipt of salary of more than 12 months

- b. Actual Professional Tax paid by the employee is totally deductible from salary [Section 16(iii)]. Relief is also available under Section 89(1) read with Rule 21A, subject to the conditions mentioned therein, where a person is in receipt of a sum in the nature of Salary being paid in arrears or in advance or is in receipt of salary of more than 12 months

B. INCOME FROM HOUSE PROPERTY

The Annual value of a house property is taxable as income in the hands of the owner of the property. For tax purpose, properties may be classified as “Self Occupied Property” and “Let out Property”.

Self occupied property:

For one self occupied house property, which has not been let out, the Annual Value is taken as Nil. (Where the owner holds more than one house and both are in the occupation of the owner for residential purposes, then only in respect of one residence at **owner’s choice, annual value will be taken as Nil. For the other house, the tax shall be computed by treating the property as let out**)

Where the house is self-occupied, the interest on capital borrowed after 01.04.1999 for acquisition/construction is allowed as deduction subject to a maximum of Rs. 1.5 lakhs, provided the construction/acquisition is completed within 3 years from the end of the financial year in which the loan was borrowed. On all loans taken prior to the above date and also on loans taken for repairing, renewing or reconstructing the property, the ceiling is Rs. 30,000. However, in the case of self occupied property, taxes levied by the local authority (i.e. municipal tax) cannot be claimed as deduction.

Let out property:

Taxable value of the property shall be the higher of the following:-

- A. Amount for which property might reasonably expected to let; or
- B. Actual annual rent received / Receivable.

However, where the property was let out but vacant during the whole or part of the year, then taxable value will be the amount actually received.

The municipal taxes actually paid during the financial year [irrespective of the period to which it pertains] will be deducted from the taxable value to arrive at the Annual value of house property. From this, standard deduction @30% of Annual value of the property and Interest on borrowed capital for the purpose of acquisition, construction, reconstruction, repairs, renovation etc are allowed as deductions, to arrive at the taxable income.

Common to both Self occupied and Let out:

If there is a “Loss from House Property”, the same can be set off against income from any other head in the same assessment year. If the loss cannot be set off against income from any other head in the same assessment year, the loss is allowed to be carried forward and set off in 8 subsequent years against income from house property only. Further, loss under the head house property can be notionally set off against salary income. **at the time of deduction of tax from salary.**

Pre-construction interest [i.e. **interest paid/ payable**, on fund borrowed for acquisition or construction, pertaining to the period, **prior to the financial year** in which the property was acquired or construction completed] can be claimed only as **deduction in five equal instalments commencing from the financial year in which the house property is acquired or construction completed**, in the Income Tax return submitted by the borrower.

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C. PROFITS AND GAINS FROM BUSINESS OR PROFESSION

Business is any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. **Profession** is defined to include any profession or vocation, which calls for intellectual or manual skill. It covers doctors, lawyers, singers, musicians etc.

Profits and Gains from Business or profession, income received from providing services etc will be treated as Business or Professional income under this head. The following are some of the important expenses, those can be claimed as **deductible expenses** :

1. Rent, rates, Taxes, Repairs and Insurance of Premises/Buildings (Taxes only on actual payment basis)
2. Repairs and Insurance of Plant &Furniture, machinery
3. Depreciation on Building, Plant &Furniture, machinery
4. Insurance premium paid for Stocks/Stores/Health Insurance of Employees
5. Interest paid on borrowed capital - from Public financial institution on actual payment
6. PF/Gratuity/Superannuation Fund contribution etc, on actual payment
7. Bad Debts written off
8. Salary, bonus, commission etc to employees
9. Expenditure incurred on Entertainment, Traveling, Presentation articles, Advertisement, Maintenance of Guest House etc

Every business has to follow either cash or mercantile system of accounting.

Requirements for maintenance of books by Professionals/ Business

- A. The following PROFESSIONALS whose Gross Receipts from their profession exceeds Rs. 1,50,000/- p.a. (In any of the 3 immediately preceding previous years) have to maintain Books of Accounts:
- B. Every **Businessman** whose income from business exceeds Rs.1,20,000/- p.a. Or Gross Receipt/turnover exceeds Rs.10,00,000/- p.a. in any of the 3 immediately preceding previous years will have to maintain Books of Accounts as per the

p.a. Or Gross

Receipt/turnover exceeds Rs.10,00,000/- p.a. in any of the 3 immediately preceding previous years will have to maintain Books of Accounts as per the Act.

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D. CAPITAL GAINS INCOME

Capital gains tax

Capital gains tax means income tax payable under Income Tax Act, in respect of **capital gains** made during a financial year. Capital gains include any **profit or gain** arising from the **transfer** of a **capital asset**.

Capital asset means property of any kind held by a person, whether or not connected with his business. However, it does not include:

- a. Stock-in-trade, raw materials and stores held for business purposes.
- b. Personal effects such as clothes, furniture, motor car, air conditioner etc but excluding jewellery
- c. Rural agricultural land
- d. Gold bonds/Gold Deposit Bonds, Special Bearer Bonds etc.

For the purpose of capital gains, **transfer** (with some exceptions provided in the act) includes;

- i. the sale, exchange or relinquishment of the asset; or
- ii. the extinguishment of any rights therein; or
- iii. the compulsory acquisition thereof under any law; or
- iv. Conversion or treating an asset as stock in trade; etc.

Short- and long-term Capital assets

The nature of asset and the period of holding of an asset determine whether an asset is a long term or a short term one.

Nature of asset	Long Term Capital Asset	Short Term Capital Asset
Shares of a Company/Units of UTI/Mutual Fund/any other security listed in a recognised stock exchange	When held for more than 12 months	When held for 12 months or less
All assets other than above	When held more than 36 months	When held for 36 months or less

How to compute the capital gains:

Capital Gains is calculated by subtracting **Cost of acquisition, Cost of improvement** of the asset and **Expenses incurred in connection with the transfer** (brokerage, legal expenses etc) from **Transfer/ Sale consideration** of the capital asset. The balance is the capital gain/loss. Cost of acquisition and cost of improvement can be **indexed, only in case of long term capital assets**.

Indexation is the process of converting the cost of acquisition and cost of improvement from historical cost into inflation adjusted cost, utilizing the Cost Inflation index, being advised by Central Govt. every year from 1981-82. Indexation benefit is not available to short term capital gains.

Indexed cost of acquisition is arrived at from cost of acquisition as follows:

If the asset is acquired after 01/ 04/ 1981,

Cost of acquisition	X	CII for the financial year in which asset is transferred
<u>Cost inflation index (CII) for the first year in which asset was first held</u>		

page 6 - *Capital Gains Income (Continued)*

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If the Asset is acquired on or before 01.04.1981,

Cost of acquisition or fair market value as on 01.04.1981 (if opted by the assessee)	X	CII for the financial year in which asset is transferred
<u>Cost inflation index (CII) for 1981-82</u>		

Similarly, indexed cost of improvement will be arrived at on the basis of Cost inflation index for the year in which improvement took place.

Capital Gains Income (Continued)

Following example will explain the concept of Indexation.

Say Mr. A purchased one acre of urban land at Rs. 1,50,000/- during August 1981 and sold the same at Rs. 6,80,000/- during December 2002.

Indexed Cost of acquisition will be: $1,50,000 \times 447$ [being Cost Inflation index for 2002-03]/100[Cost Inflation index for 1981-82] = Rs. 6,70,500/-

Long term Capital Gains = Rs. 6,80,000/ - Rs. 6,70,500/- = Rs. 9,500/-

Cost Inflation index table is given below :

Financial Year	Cost Inflation Index	Financial Year	Cost Inflation Index	Financial Year	Cost Inflation Index
1981 - 82	100	1989 - 90	172	1997 - 98	331
1982 - 83	109	1990 - 91	182	1998 - 99	351
1983 - 84	116	1991 - 92	199	1999 - 00	389
1984 - 85	125	1992 - 93	223	2000 - 01	406
1985 - 86	133	1993 - 94	244	2001 - 02	426
1986 - 87	140	1994 - 95	250	2002 - 03	447
1987 - 88	150	1995 - 96	281	2003 - 04	463
1988 - 89	161	1996 - 97	305		

How Capital Gains tax is determined:

The rate of Capital Gains tax that applies on the sale of an asset depends on:

- The type of asset being sold, whether it is long term or short term;
- Tax bracket, you are in.

Short-term gains arise on the sale of a short-term asset and **are taxed at the normal Income Tax rates.**

A long-term capital gain enjoys lower level of tax of 20 per cent plus surcharge. Only that amount of long term capital gains which is included in the total income would be subject to tax at the above flat rate.

Concession for securities and units : Additional benefit is available in the case of long-term capital gains arising from the transfer of listed securities or units of the Unit Trust of India (UTI) [except transfer of US64 units after 01/04/2003] and other mutual funds. If the tax payable at the rate of 20 per cent after claiming the benefits of indexation is more than the tax payable at 10 per cent without indexation, **the tax payable is to be restricted to 10 per cent without indexation.**

New exemption of long term capital gains on transfer of listed equity shares with effect from the assessment year 2004-2005:

Capital gains is not chargeable to Income Tax, if the following conditions are satisfied:

1. The asset which is transferred is a long-term capital asset being an eligible equity share in a company.
2. Such shares are purchased on or after March 1, 2003 but before March 1, 2004.
3. Such shares are held by the taxpayer for a period of 12 months or more.
4. Eligible equity share for this purpose means,
 - a) Any equity share in a company being a constituent of BSE-500 index of the Stock Exchange, Mumbai as on 01/03/2003 and the transactions of purchase and sale of equity share are entered into on a recognized stock exchange in India; or
 - b) Any equity share in a company allotted through a public issue on or after 01/03/2003 and listed in a recognized stock exchange in India before 01/03/2004 and the transaction of sale of such share is entered into on a recognized stock exchange in India. Conversely, long term capital loss arising on transfer cannot be adjusted against any income, if the aforesaid conditions are satisfied.

Long-term capital gains are more beneficial than a short-term capital gains because

1. Indexation benefit is available, only on long term capital transfer.
2. Tax on long-term capital gain is chargeable at the lower rate @10% without indexation or 20% with indexation, as the case may be.
3. For long term capital gains specific exemptions have been provided under sections 54, 54EC, 54ED &54F.

page 7- Capital Gains Income (Continued)

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DEDUCTIONS AND EXEMPTIONS AVAILABLE IN RESPECT OF CAPITAL GAINS

Following are the important deductions and exemptions, if capital gains/ Net consideration are **invested** :

Section	Type of assessee	Kind of asset sold	Nature of capital Asset sold	New asset to be acquired	Amount to be invested in new asset	Time limit for acquisition
Sec. 54	Individual and HUF	Residential house property held for more than 3 years	Long term	Residential house property	Capital Gains	1 year before the date of transfer or within 2 years after the date of transfer purchased the house property
Sec. 54EC	Any person	Any asset transferred after 01/04/2000	Long term	Any bond redeemable after 3 years issued by NABARD, NHB, SIDBI, NHAI or	Capital Gains	within 6 months from the date of transfer

54EC	person	transferred after 01/04/2000	term	redeemable after 3 years issued by NABARD, NHB, SIDBI NHA1 or REC		from the date of transfer
Sec. 54ED	Any person	Sale of any listed security or units after 01/04/2001	Long term	Eligible issue of initial public offer	Capital Gains	within 6 months from the date of transfer
Sec. 54F	Individual and HUF having not more than one residential house anywhere in India	Any asset other than Residential house	Long term	Residential house property	Net consideration = full consideration reduced by expenditure incurred wholly and exclusively in connection with such transfer	1 year before the date of transfer or within 2 years after the date of transfer purchased the house property or within 3 years after the date constructed a residential house

In case the new assets purchased are sold within a period of three years of purchase, except in under section 54ED where the lock in period is 1 year, the exemption will be reverted. In all the above cases, if only part of the amount is invested, then the proportionate amount of capital gains will be exempt and balance is taxable. Deductions under Chapter VIA [80D, 80CCC etc] and rebate u/s 88 are not available on long term capital gains. But a resident senior citizen above 65 years of age can claim rebate u/s 88B against long-term capital gains. Woman assessee less than 65 years can claim rebate under Section 88C against long term capital gains.

Where the liability to tax arises in the case of individuals or HUFs only because of the inclusion of long-term capital gains in the total income, tax will be levied at the corresponding flat rates on the excess over the minimum taxable limit.

Provisions for setting off the Capital loss

Where the net result for any year in respect of any source falling under any head of income is a loss, the assessee can set it off against his income from any other source under the same head. Then, Sec. 71 allows the balance loss to be setoff against income from any other head, subject to some exceptions. Loss under capital gains is one such exception. Sec. 74 provides that a loss under the head Capital Gains can be carried forward and setoff against capital gains in the following 8 years.

A loss from long-term capital asset **can be set off only against the profit from**

the long-term capital asset during the same year or in subsequent 8 assessment years. Loss from the long-term asset can not be set off against the short-term profits.

Investing in Capital Gains Accounts Scheme 1988 :

If the assessee is not able to invest the amount of capital gain or net consideration under Sections 54, 54B, 54D, 54F and 54G, he can deposit the same in **Capital Gains Accounts Scheme 1988 account with any specified bank or institution**. However this deposit has to be made on or **before the due date for filing I. T.** return or actual date of filing the return, whichever is earlier , of the previous year in which transfer of asset took place.

The amount deposited has to be utilised within the time specified for the acquisition of new asset under respective sections i.e. 54, 54B, 54D, 54F & 54G. If the whole or part of the amount deposited is not utilized for the purpose, the proportional amount of capital gain related with the unutilized amount deposited in the account will be brought to tax in the year in which the specified period expires.

E. INCOME FROM OTHER SOURCES

Residuary Income of every kind, which is not chargeable under other heads such as Salary, Capital Gains etc, shall be charged under this head. Interest income from securities, Interest from Bank Deposits, Family pension received by legal heirs etc are reported under this head.

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IMPORTANT PERMISSIBLE DEDUCTIONS FROM GROSS TOTAL INCOME [UNDER CHAPTER VI A]

The following deductions are allowed on satisfaction of the conditions stipulated under the relevant sections of Income Tax Act.

IT Section	Details	Amount of Exemption
80CCC	Premium paid to approved PENSION FUNDS	Upto Rs. 10,000/-
80D	Payment of premium to a MEDICLAIM policy or HEALTH RIDERS of any LIFE POLICY to GIC/other insurers approved by IRDA. Such premium can be paid for health insurance of spouse, dependent parents and children.	Up to a maximum of Rs. 10,000/- for individuals and Rs. 15,000/- for Senior Citizens
80DD	Any expenditure for medical treatment for HANDICAPPED DEPENDANTS or deposits under LIC, UTI or IRDA approved Insurer's	Rs 50000/- ,higher deduction of Rs. 75000/- if dependent is

80E	Repayment of EDUCATIONAL LOAN, including interest thereon, taken from Financial/Charitable institution for SELF FULL TIME HIGHER EDUCATION for a maximum period of 8 years	up to Rs. 40,000/- for any graduate/PG course in Engineering/ Medicine/ Management or for PG course in Applied or pure science
80G & 80 GGA	Donation to Specified Institutions subject to the limit prescribed, depending on the donee institution	100% or 50% of donation, in some cases restricted to 10% of gross income
80 GG	Deduction in respect of Rent paid when there is no HRA subject to prescribed ceiling	25% of income or rent paid in excess of 10% of income or ceiling of Rs. 24,000/- p.a, whichever is less
80L	Interest on Bank deposits, interest accrued on NSC, NSS, interest on deposits with HFIs etc interest on specified government securities, etc.	Rs. 12000/- and additional limit of Rs. 3,000/- is and available only for interest on government securities.
80U	Deduction for handicapped tax payer [subject to conditions]	Rs 50000/- ,higher deduction of Rs. 75000/- if dependent is a person with severe disability.

TAX REBATES AVAIL ABLE UNDER SECTION 88

Tax Rebate is a deduction directly from the tax payable. It depends on the Gross Total Income [GTI].

SI No.	Gross Total Income [GTI] Range	% of amount invested	Maximum rebate account
1	GTI upto Rs. 1 lakh *	30%	Rs. 30,000/-
2	Rs. 1.5 lakhs and less	20%	Rs. 20,000/-
3	Rs. 1,50,001/- to Rs. 5 lakhs	15%	Rs. 15,000/-
4	More than Rs. 5 lakhs	Nil	Not Applicable

* and also salary income before standard deduction and professional tax should not be less than 90% of GTI.

Gross total income refers to income arrived at before allowing any deductions under

Chapter VI A.

Senior Citizens [residents in India] aged 65 years and above, are entitled for 100% tax rebate from the tax payable on the total income subject to a maximum of Rs. 20,000/-, apart from Section 88 benefits. Under Section 88C, Women tax payers [residents in India] below the age of 65 years are eligible for a additional rebate of Rs. 5,000/- , apart from Section 88 benefits.

In the next page, we have given the details of investment eligible for Tax Rebate U/S 88. Some of these investments have also been discussed in detail between pages 16 and 21.

Tax rebate allowed u/s 88 in an assessment year, can be withdrawn in subsequent assessment year under the following circumstances:-

1. If the taxpayer fails to pay any life Insurance Premium or terminates the contract of insurance before premia been paid for 2 years.
2. If the taxpayer fails to pay premium for ULIP before contributions have been paid for 5 years.
3. If the taxpayer transfers his house property (in respect of which tax rebate has been availed) before the expiry of 5 years from the end financial year in which possession of such property was obtained or receives back the amount.

Assessment Year and Previous year

Income Tax is calculated on the income received/accrued during a financial year. The Assessment Year is the year next to the financial year [which is also referred as previous year] in which the income is charged to tax. For example, for assessment year 2004-2005, the financial year (previous year) is 2003-2004 (i.e. from 1.4.2003 to 31.3.2004).

INVESTMENTS ELIGIBLE FOR TAX-REBATE U / S. 88*

Name of Schemes / Funds	Investment can be in the name of	Features
1) Life Insurance Premium	Spouse, self & Children	Tailor made schemes, Longer lock in period, Tax free return, Life Risk cover [Payment of premium in excess of 20% of sum assured, cannot be included.]
2) Statutory & Recognised Provident Fund	Self	tax free return,- Voluntary contribution also permissible
3) Public provident	Spouse, self &	tax free return of 8.0%- Term of

fund	minor Children	15 years. Loans and Partial withdrawals subject to conditions, Rs. 500/- to Rs. 70,000/- per annum can be invested in lump sum or instalments.
4) National Savings Certificates [NSC]	Self	8.0%, Term of 6 years, interest for first 5 years is also eligible for rebate. Interest is taxable and deductible under Section 80L.
5) Unit Linked Insurance Plan [ULIP] of Unit Trust of India or Dhanraksha Plan of LIC	Spouse, self & Children	Units with insurance cover, Term of 10/15 years, Return is taxable and deductible under Section 80L.
6) Home Loan Account scheme of NHB	self	Return is fully taxable and not deductible under Section 80L.
7) Subscription not Exceeding Rs. 10,000/- to Equity Linked Savings Scheme of any mutual fund	Self	Lock in period 3 years- returns subject to capital market performance, Return is taxable and deductible under Sec 80L.
8) Housing Loan Principal repayment	Self (maximum of Rs. 20,000/-)	Instalment or part payment of Housing loan taken for purchase or construction of new residential property.
9) Tuition Fees paid to a university, college or school or other educational institution situated in India.	Up to two children of the taxpayer (maximum of Rs 12,000/- per child)	Should be paid for full time education. Can not be claimed for any development fees or donation or payment of similar nature.
10) Infrastructure Bonds	Self	Lock in period 3 years, Return is taxable and deductible under Sec 80L

* You can invest a maximum of Rs. 70,000/- in items 1 to 9, whereas maximum of Rs. 1 lakh can be invested in items 1 to 10 i.e. Additional Rebate on Rs. 30,000/- is available for item 10

OTHER INCOME TAX RELATED MATTERS

(i) Provisions for payment of Advance Tax other than companies

Advance Tax is payable in the following instalments:

Installment	Percentage to advance tax	Due date
First	upto 30%	15th September
Second	upto 60%	15th December
Final	upto 100%	15th March

No Advance Tax be paid, if total tax payable for the previous year is less than Rs. 5,000/-. Non-payment or short payment of Advance Tax will attract interest @1% per month or part of a month.

(ii) Permanent Account Number (PAN)

Permanent Account Number (PAN) is an alphanumeric combination of 10 characters allotted by the Income Tax Department and issued in the form of a laminated card. It can be obtained by making an application in prescribed Form 49A to the assessing officer. PAN is required for

1. Filing of I.T. Returns and correspondence with the department,
2. Filling of challans for payment of taxes,
3. Opening of a Bank Account,
4. Making a fixed Deposit of more than Rs. 50,000/- with any Bank.
5. Making any cash deposit for more than Rs. 50,000/- in a day with any bank,
6. Acquiring a telephone or cell-phone connection,
7. Buying or selling a motor vehicle other than a two wheeler,
8. Making a deposit of more than Rs. 50,000/- in post office accounts.
9. Buying or selling shares or debentures valued more than Rs.1,00,000/-
10. Buying or selling immovable property valued Rs. 5,00,000/- or more,
11. Making payment to hotels and restaurants against bills exceeding Rs. 25000/- at a time
12. Making cash payment for foreign travel of more than Rs. 25,000/- at one time

For the transactions 3 to 12, if any person is not allotted PAN/GIR No, he can carry out the transaction by filing a simple declaration in **Form No 60**, giving particulars of the transaction. Those who quote wrong PAN, will have to pay a **penalty of Rs. 10,000/-**. IT Dept has made arrangement with UTI Information Services Ltd for quick issue of the PAN cards.

(iii) Filing of Income Tax Return

Every individual, whose total income exceeds the maximum amount, which is not chargeable to tax, is required to file a return (i.e. where taxable income exceeds Rs. 50,000/-, in case of individual or HUF). Further, if the person fulfils any of the conditions mentioned below, he is **obligated to file a return under one by six scheme.**

1. Ownership/ lease of a motor vehicle
2. Occupation of certain specified categories of immovable properties (ownership, tenancy or otherwise)
3. Foreign travel to a country (with exceptions)
4. Subscription of a cellular telephone not being Wireless in local loop telephone.
5. Holder of a credit card (not being as "add-on" card) issued by a bank or an institution
6. Member of a club where the entrance fee charged is Rs. 25,000/- or more

(However, if an individual is 65 years old or more, and not engaged in any business or profession, he is not subject to immovable property and telephone conditions.)

Salaried employees should file their return before 31st July and Persons covered under one by six economic criteria shall submit before 31st October. Penalty for not filing the return before the end of relevant assessment year is -Rs. 5,000/- [sec 271F]. Remember, IT return is a legal document, it should be filled with care and caution. IT department has also made arrangements for filling returns through identified intermediaries.

(iv) Tax Deduction at Source (TDS)

Tax Deduction at source [TDS] is a compulsory and convenient method of tax collection, during the generation of income itself. All sums of tax deducted from the income is treated as, and added to the income of the payee. Payee can claim the TDS amount against the tax payable, by enclosing the original TDS certificate to his IT return. If a person is liable to pay less tax amount than the tax deducted at source, he can claim refund by filing his IT returns. If the assessee has not received TDS certificate, he can submit it within two years from the end of the year in which such income was assessable. In any case, he has to disclose the related income in his return for that year.

Some important TDS rates **in case of a resident other than company**

1.	Int. on debentures & Bonds	10% over Rs. 2,500/-
2.	Int.on fixed deposits in Banking/Hsg. Finance Cos.	10% over Rs. 5,000/-
3.	Int.other than int.on securities (w.e.f 1.6.2000)	10% over Rs. 5,000/-

Note:- A Surcharge of 10% shall be calculated on all the above, if the amount paid /payable is more than Rs 8,50,000/- in a financial year . Where eligible, you can declare in Forms 15 H or 15 G and request for non-deduction of tax at source.

TIPS ON INCOME TAX PLANNING

1. First take care of your Insurance, both life and health. Riders, options, mix and matches are quite popular now. Term insurance has the lowest cost with highest cover. Minimum of term insurance is required for everyone.
2. Avail fully the provisions of 80CCC [Pension Plan] and 80 D [Medi-claim] , as they reduce your Gross Taxable income. 80CCC provide for retirement planning also.
3. Avail Housing Loan. Loss on House Property may bring down your gross total income below the cut off limit, say Rs 1.5 lakhs or 5 lakhs. Through this, you may enjoy higher rebate u/s 88.
4. Plan your tax planning investments from the beginning of the year. By June, you should have planned your tax planning investments up to next March.
5. Pay advance tax in time and file Income tax return promptly to avoid payment of interest. Please note that interest paid to Income Tax department is not a deductible expenditure.
6. Fund higher studies for your adult children with educational loan, even if you have funds to meet the same. However, note that it is the child who has to take a loan and the deduction is available on his income; not yours, even if you take the loan. Invest the money you have earmarked for their education in other attractive avenues. It will also make your child more responsible, when he starts earning.
7. Preserve TDS Certificates in respect of Interest/dividend received carefully. You have to attach the original TDS certificates to your IT return. Keep full records for all your capital purchases such as House, Shares etc.
8. Maintain a separate file for taxation and file your copies of your IT returns and other related correspondence. This will help you in answering the queries, if any of IT dept.
9. Keep yourself informed on Taxation matters. Income Tax Department has got excellent websites. Financial Newspapers also give tax information in their websites. Also, go through booklets, "Tax Payers Information Series" being brought out by Directorate of Income Tax.
10. To enjoy peace of mind, pay your tax fully and promptly. Never evade your tax obligation. Be a honest tax payer and hold your head high as a honorable citizen.

WEALTH TAX

Wealth tax is an annual levy payable on the net wealth as on March 31 each year. Net wealth is arrived at by deducting the liabilities incurred to acquire the assets from value of the assets [there are rules to arrive at the value of the assets] Where the net wealth does not exceed Rs. 15 lakhs, the wealth tax is Nil. Where the net wealth exceeds Rs. 15 lakhs, Wealth tax is 1% of the amount by which the net wealth exceeds Rs. 15 lakhs.

Assets on which Wealth tax is chargeable

There are six types of assets which are to be taken into account at the time of computing wealth tax. Wealth tax is chargeable only on the following assets:

1. Any guesthouse, residential houses [one house exempted], commercial property, urban farmhouse, with exceptions.
2. Motor car for personal use.
3. Jewellery
4. Yachts, boats, and aircraft used for non-business purposes.
5. Urban land, subject to the conditions specified.
6. Cash in hand exceeding Rs. 50,000/-.

All other assets, including shares, securities, loans, deposits, Gold Deposit bonds, fixed deposits, office premises and godowns are not subject to wealth tax, irrespective of their value. If you have more than one residential house, the one with the higher valuation can be claimed as exempt, leaving the one with the lower valuation subject to wealth tax.

Cutoff date for determining Wealth Tax liability

March 31st is the cut off date to determine whether an asset is chargeable to wealth tax. If an asset is purchased on March 31st, it will be taxable. Likewise, if an asset held through the year is sold just before March 31st, it will not be liable to tax.

GIFT TAX

Gift Tax Act has been repealed with effect from 01/10/1998. Hence gifts received by donee after 01.10.1998 will not be charged to gift tax. These will not be treated as income in the hands of the donee.

TAX SAVING INVESTMENTS

Every tax saving investment scheme has inherent advantages and disadvantages. Each individual has to decide his investment strategy based on :

- Lock in period and Safety of the investment
- Return before tax/Return after tax/Tax free returns
- Whether interest will be treated as fresh investment under Section 88
- 80L exemptions
- Age and risk perception
- Liquidity

Again certain aspects such as Life Insurance, Health Insurance or a roof over our head should be immediate priorities for any investor. We have given hereunder a bird's eye view of the some important Tax saving investments and their features.

LIFE INSURANCE

Life Insurance Products provides

- * Protection against risk for the family of the insured
- * Painless saving Premium is less, being long term saving
- * Liquidity - generally policies accepted as collateral for loans from banks and financial institutions, after stipulated period
- * Tax Relief
 - Under Section 88 -for premium paid under the general category up to Rs. 70,000/
 - Under Section 10(10D) all sums received under life insurance policy is exempted from Income tax, with (some exceptions). This benefit is not available in respect of policies issued after 31/03/2003, where the premium paid in any of the years during the term of the policy exceeds 20% of the actual capital sum assured
 - U/s 80CCC(I)- Contribution to the extent of upto Rs. 10,000/- is deducted from Gross Taxable Income
 - All Life Insurance Policies are exempt from Wealth Tax

Various types of policies are available. Common ones are

- **Term Insurance** : Pays death insurance to the legal heirs of the person insured, if he/she dies during the term of the policy. There may not be survival benefits to the insured. Inexpensive policy.
- **Whole life Insurance** : guarantees death benefit to legal heirs of the insured, throughout the course of life. Premiums are payable for 35 years or till the age of 80, whichever is more.
- **Endowment Assurance** : Pays out either on the death of assured, whenever it occurs or after a fixed number of years.
- **Annuities** : a form of pension, in which an Insurance Company makes a series of periodic payments to a person or his legal heirs over a number of years
- **Unit linked policies** : is a life assurance policy, in which the benefits depend upon the performance of a portfolio of shares/units.
- **Money Back Policies** : provides payment of certain percentage of sum

assured on survival for fixed period, during the tenure of the policy.

Combination of the benefits of the above policies is possible. Riders [Double Accident benefit, Health Insurance etc] are also permitted. There are also special products for Women and Children.

Varishtha Pension Bima Yojana of LIC:

This scheme launched on 14/07/2003, guarantees a life long pension at 9% interest for Senior Citizens above 55 years. This is a government subsidized scheme and LIC has been given the sole privilege to operate the scheme. In the event of unfortunate death of the pensioner, purchase price will be returned to the nominee. Minimum Pension Rs 250/- per month [ie Rs 750/- per quarter, Rs 1500/- per half year, Rs 3000/- per year], Maximum pension Rs 2000/- per month.

page 17 - *Tax Saving Investments (Continued)*

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MUTUAL FUNDS

A Mutual Fund is a trust that pools the savings of a number of investors and invests the funds in securities in accordance with the objectives as disclosed in the offer document. The income earned through these investments and the capital appreciation realized by the scheme are shared by its unit holders in proportion to the number of units owned by them. Each Mutual Fund scheme has a defined investment objective and strategy.

Types of Mutual Fund Schemes

Mutual fund schemes may be classified on the basis of its structure and its investment objective.

1] By Structure **Open-end Funds**

An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices

Closed-end Funds

A closed-end fund has a stipulated maturity period, which generally ranges from 3 to 15 years. The fund is open for subscription only during a specified period.

Interval Funds

Interval funds combine the features of open-ended and close-ended schemes. They are open for sale or redemption during pre-determined intervals at NAV-related prices

2] By Investment Objective

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures and Government securities.

Balanced Funds

The aim of balanced funds is to provide both growth and regular income. Such schemes periodically distribute a part of their earning and invest both in equities and fixed income securities in the proportion indicated in their offer documents.

Money Market Funds

The aim of money market funds is to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money.

page 18 - *Tax Saving Investments, Mutual Funds*
(Continued)

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3] Special Schemes

Industry Specific Schemes

Industry Specific Schemes invest only in the industries specified in the offer document.

The investment of these funds is limited to specific industries like Infotech, FMCG, Pharmaceuticals, etc.

Index Schemes

Index Funds attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE50

Sectoral Schemes

Sectoral Funds are those which invest exclusively in a specified sector. This could be an industry or a group of industries or various segments such as 'A' Group shares or initial public offerings.

Tax Benefits in investment in Mutual Funds:

- Income received in respect of units of UTI/mutual fund specified u/s 10(23D) are exempt from Income Tax.
- Amount invested is exempt from Wealth Tax without limit
- Long term capital gains are eligible for exemption u/s 54F, 54EC and 54ED.
- Any income arising from transfer of US 64 units will be exempt from Capital gains tax-Consequently, loss arising on transfer of units of US64 cannot be set off against any income in the same year in which it is incurred and the same can not be carried forward.

Investment in following Mutual Fund Schemes are entitled to rebate in tax

under Section 88:

1] Unit Linked Insurance Plan, 1971 (ULIP) of UTI

- A] Can be invested singly/jointly
- B] At maturity, Bonus + cash equivalent of units will be paid.
- C] Duration: 10 or 15 years A member can continue beyond the 10/15 year period, subject to conditions
- D] ULIP can be taken in the name of Spouse, children major/minor
- E] Provides life insurance cover upto the target amount and Personal Accident cover upto Rs. 50,000/-
- F] Reinvestment of dividend in units
- G] Target amount: Minimum Rs. 15,000/-
Maximum Rs. 2,00,000/-
- H] Investment upto Rs. 70,000/- is eligible for tax rebate u/s 88.
- I] Premature termination of membership is possible
- J] No medical examination is necessary to join the plan

LIC Mutual fund offers scheme, similar to ULIP called **LIC- Dhanraksha 89.**

2] Equity Linked Savings Scheme [ELSS]

From December '98, the government has permitted MFs to have open-ended ELSS subject to the condition that an MF will have only one such scheme. Investment up to maximum of Rs. 10000/- eligible for rebate u/s Section 88

3] Retirement Funds:

UTI's retirement benefit plan (RBP) and Franklin Templeton's Pension plan's (FTPP) are structured as retirement plans. Investor can choose between life long pension or lump sum payment, minimum investment is Rs. 10,000/-. Entire Rs. 70,000/- limit under Section 88 can be invested in these funds

PUBLIC PROVIDENT FUND (PPF)

- A] Any individual can open only one Account besides his GPF Account
- B] Option to pay each contribution in one lump sum p.a., or in 12 instalments, not necessarily monthly.
- C] Period: 15 years (Minimum 16 Annual contributions)- Option to continue after maturity in blocks of 5 years for any number of blocks.
- D] No withdrawal can be made till end of 6th financial year. Only one withdrawal per year is permissible thereafter.
- E] Investment: min. 500, Max. 70,000 p.a.
- F] After 15 years, entire balance can be withdrawn.
- G] Int. 8% compounded annually.
- H] Limited loan facility available up to 6 years
- I] Account can be opened in Post Office, any branch of SBI or it's subsidiaries or in specified Nationalised Banks
- J] Tax rebate: Interest earned is totally exempt u/s 10 (11)
Investment up to Rs. 70,000/- is eligible for rebate u/s 88
No tax liability at the time of withdrawal
Any change in interest rates impacts the entire outstanding balance

NATIONAL SAVINGS CERTIFICATES (NSC VIII ISSUE)

1. Can be bought Singly/Jointly/HUF
2. Minimum Rs. 100/- No maximum limit
3. Duration 6 years
4. Interest rate from 1.3.2003 is 8% p.a. (compounded half yearly).
5. Interest accrued between 1st and 5th year is deemed to have been reinvested and therefore, is available for rebate.
6. Can be offered as security to loans.
7. Tax Benefits: Interest accrued eligible for deduction u/s 80L (max. Rs. 12,000/-). Investment & deemed reinvestment upto Rs. 70,000/- is eligible for rebate u/s 88, Investment exempted from Wealth Tax, No TDS at the time of encashment.

Interest on NSC of Rs.1000/ - NSC accrues interest as shown below :

Year	I	II	III	IV	V	VI	Total Interest
INT.@12% (Upto 31.12.98)	124.0	139.0	156.0	175.0	197.0	224.0	1015.0
Int.@11.5% (from 1.1.99 to 14.1.2000)	118.3	132.3	148.0	165.4	185.1	206.9	956
Int. @ 11% (from 15.1.2000 to 28.2.2001)	113.0	125.8	140.0	155.8	173.5	193.1	901.2
Int. @ 9.5% (from 1.3.2001 to 28.2.2002)	97.2	106.7	117.1	128.5	141.0	154.7	745.2
Int. @ 9% (1.3.2002 to 28.2.2002)	92.0	100.5	109.7	119.8	130.9	142.9	695.9
Int. @ 8% (on or after 1.3.2003)	81.6	88.3	95.5	103.2	111.6	120.8	601.0

BONDS

Bonds are securities issued by a company, financial institution or government. They offer regular payment of interest in return for borrowed money for a certain period. There are various types of Bonds. Fixed rate Bonds carry fixed rate of interest throughout the tenure of the bond. Floating rate Bonds carry interest rate which is linked to independent reference rates and may vary with of movement of such independent rates. Deep Discount Bonds are issued at a discount to the face value.

The face value is paid at the maturity. These bonds are also known as Zero coupon bonds.

Coupon Rate is the rate of interest which the issuer pays on the principal/paid up value of the Bond. Maturity Date is the date on which the Bond matures. Generally Bonds mature in a bullet form with a single repayment of principal amount on maturity date. But some bonds have split or part redemptions with varying repayment dates. Interest payment dates are the dates on which the issuer pays out interest on the paid up value of the Bonds. Interest payment frequency is the frequency of payment of interest on the bonds, which could be monthly, quarterly, semi annually, annual or cumulative at redemption. Yield to maturity is average rate of return on bond if it is held to its maturity date and if all cash flows are reinvested at the same rate of interest.

Gilts are fixed interest securities issued by the Government to raise money. Corporate debentures are issued by Indian companies, secured or unsecured, having maturity of 18 months and above. These are issued in certificate form and are transferable instruments. Public Sector Bonds are medium and long-term obligations issued by public sector companies where the Government shareholding is 51% and more. Tax saving bonds offer tax incentive either under section 88 or against Capital Gains Tax.

Investing in Bonds for saving Tax :

Infrastructure Bond

Infrastructure bonds are floated typically by financial Institutions like ICICI, IDBI. They offer a 15% to 20% tax rebate on investments up to Rs 1,00,000/- as per provisions of section 88 in a given financial year. These bonds are normally fixed rate bonds and there is no interest rate risk during bond tenure.

Capital Gains Bonds

In any particular year, capital gains arising out of the transfer of a long-term capital asset, if invested in Capital Gains bonds issued under Section 54EC by REC, SIDBI, NABARD, NHAI and NHB will not be subject to tax to the extent of capital gains invested in these bonds. These bonds normally have a minimum lock in period of three years.

Tax Free Bonds :

These bonds, where interest earned on the bonds is tax free, are beneficial for investors in high tax bracket. Few of such bonds available are

- 1] **RBI 6.5% Tax Free Bonds:**
Beneficial for investors in high tax bracket

- 1] **RBI 6.5% Tax Free Bonds (continued) :**

- The minimum investment amount is Rs. 1,000 and thereafter in multiples of Rs 1,000/- No maximum limit for investments
- The date of realization of cheque is date of issue of bond
- Interest is payable either half-yearly or cumulatively at maturity.
- Bonds are not tradable in secondary market- cannot be given as collateral for loans
- Investment in Relief Bonds is exempt from Wealth tax also
- Premature Encashment available after 3 years lock in period, subject to conditions
- The bonds shall be repayable on the expiry of 5 years from the date of issue.

2] 8% Savings [Taxable] Bonds

- Only resident individuals, HUFs, charitable institutions and universities are eligible.
- The interest earned will be taxable under the Income Tax Act 1961.
- The bonds will be exempt from Wealth-tax under the Wealth Tax Act 1957.
- The Bonds shall not be tradable in the secondary market
- The Bonds shall not be eligible as collateral for loans.
- The Bonds shall be repayable on the expiration of 6 (six years) from the date of issue.
- The bonds will be issued at par and there is no maximum limit.
- The bonds will be issued for a minimum amount of Rs.1,000/- (face value) and in multiples thereof.

What is Self Assessment Tax

If there is income-tax payable (after adjusting TDS and advance tax) on the basis of Income Tax Return, the same should be paid as Self Assessment Tax, before filing IT return. Any penal interest payable either for short payment of Advance Tax or late filing of IT return, must also be paid as part of Self Assessment Tax.

SCHEMES AND SERVICES AVAILABLE AT CANARA BANK AND ITS SUBSIDIARIES FOR YOUR INCOME TAX PLANNING

You can -

- Avail Housing Loan from branches of the Bank and CanFin Homes.
- Enjoy 80L benefits in respect of interest on deposit with Bank and CanFin Homes.
- Avail Educational Loan from any branch of the bank.
- Buy Govt of India securities from selected branches and enjoy additional exclusive Rs. 3000/-benefit under Section 80L.

- Buy Govt of India securities from selected branches and enjoy additional exclusive Rs. 3000/-benefit under Section 80L.
- Invest in GOI- Tax free Relief bonds, available at designated branches.
- Invest in PPF account at designated branches.
- Buy insurance products from identified branches
- Invest in Capital Gains account with our branches.
- Invest in Equity Linked Savings Scheme of CanBank Mutual Fund.
- Income Tax remittance can be made at designated branches

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This brochure is not for sale. The provisions given above are as on 29/02/2004, for the financial year 2003-04 and they are only indicative and not exhaustive. For better understanding, various provisions have been simplified in this brochure and the brochure does not claim to be the exact act. For full details, we advise the customers to refer the relevant portions as contained in the acts, rules, notifications or regulations issued by Income Tax Department or consult their Tax advisors/consultants While every effort has been made to ensure the accuracy of the information, Canara Bank assumes no liability for any errors or omission of information in this brochure.

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For further suggestions / clarifications, please contact us at
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