8 TAX SAVING SECRETS

The Income Tax Act 1961 is a voluminous work of legislation. Taxmann Publications' latest edition of the Act runs into 1,125 pages. It's enough to intimidate even the most diligent law student and tax expert, leave alone ordinary taxpayers. But hidden away in the 300-odd sections and 14 schedules are clauses that can benefit ordinary taxpayers–provided they know how to claim those benefits. ***Vivek Kaul*** *and* ***Khyati Dharamsi*** *spoke to a range of tax experts to glean information on little-known tax benefits you may be entitled to. Here are eight deductions that can help you save tax over and above the tax-saving investments you make during the year.*

1. Turn stock losses into tax gains

Can you gain from the short-term losses you made on stocks? Yes, says the Income Tax Act. If you have made long-term capital gains from sale of property, gold or debt funds, you can set them off against short-term capital losses made on stocks and bring down your tax liability. "Short-term capital losses can be set off against both short-term capital gains as well as taxable long-term capital gains," says Sandeep Shanbhag, director of Wonderland Consultants, a Mumbai-based tax planning and financial consultancy. This can be especially useful for someone who has made profits on gold exchange-traded funds and physical gold this year. Suppose you have sold a property and made a long-term capital gain of ₹30 lakh after indexation. At 20%, the tax payable on this long-term capital gain is ₹6 lakh. However, if you have also sold some junk stocks during the year and made a short-term loss of ₹3 lakh, you can set this off against the gains from the property. Then the gain from the property will get reduced to only ₹27 lakh and tax payable will be ₹5.4 lakh. However, the law makes a distinction here. One cannot set off short-term gains from stocks against long-term capital losses from the other assets. "Long-term capital losses can only be set off against taxable long-term capital gains," says Shanbhag.

How much tax can you save: Setting off a short-term loss of ₹3 lakh against long-term gains can help you save ₹60,000.

Proof required: Records of your equity trading account statements with details of the transactions that resulted in losses.

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ILLUSTRATIONS: RAJ

2. No HRA? There is still deduction for rent

House rent can account 50% of the total househo expenses. That's why th house rent allowance is exempt from tax to a certain limit. But what if your salary does r include an HRA component or you are a self-employed profession or businessman? Under Section 80GG, you can claim deduction of the re paid even if you don't get HRA. "Not many people are aware of this deduction," says chartered accountant Mehul Sheth.

But there are stiff conditions. The least of the following can be claimed as deduction: Rent paid minus 10% of total income, or ₹2,000 a month, or 25% of total income. Also, a taxpayer should not be drawing HRA or housing benefits. Besides, a taxpayer and the spouse or minor child cannot own a house in the city where the family resides. A taxpayer should also not claim tax benefits for another self-occupied house. Whew.

Incidentally, if you are living in your parents' house, you can pay them rent. If your parents have no other income or pay a lower tax, this can bring down your tax liability significantly. However, the rent will be taxable as the income of the parent after a 30% standard deduction. This means, you can pay a senior citizen parent up to ₹3.43 lakh a year.

How much tax can you save: Given the stiff conditions, one can't claim more than ₹2,000 as deduction per month under Sec 80GG. But this can bring down your tax by ₹7,400 a year in the highest tax bracket.

Proof required: A taxpayer has to declare on Form 10-BA that rent is being paid and is not receiving house rent allowance.

3. Pay lower tax if dependent is ill

The treatment of a chronic illness can drain the finances of a taxpayer. That's why the Income tax Act allows a taxpayer to claim a deduction of ₹40,000 if there is a dependent who suffers from an ailment specified under Section 80DDB. "The deduction is higher at ₹60,000 if the patient is a senior citizen," says chartered accountant Paras Savla. The illnesses include neurological diseases such as dementia, dystonia musculorum deformans, motor neuron disease, ataxia, chorea, hemiballismus, aphasia and Parkinson's disease, malignant cancers, full-blown Aids, chronic kidney failure and haematological disorders (haemophilia and thalassaemia). Dependents can include spouses, children, parents and siblings.

However, there are a few conditions. The patient should be wholly or mainly dependent on a taxpayer and should not have separately claimed deduction for the disability. If the amount spent is reimbursed by an employer or an insurance company, there is no deduction. If a taxpayer gets a partial reimbursement of the expenses, the balance can be claimed as deduction.

How much tax can you save: If a dependent is a patient, a taxpayer's liability shrinks by ₹12,360 in the highest income bracket.

If the patient is a senior citizen, the tax is lowered by ₹18,540.

Proof required: A certificate of the illness from a specialist in a government hospital.

4. It's time you benefit from your political affinity

Can you lower your tax if you have political affiliations? Yes. Any amount contributed to a recognised political party can be claimed as a deduction under Section 80GGC (80GGB for corporates). "This is a deduction introduced in April 2010. The donation can also be made to an electoral trust that works to conduct elections," says Sheth. Interestingly, unlike other deductions, there is no ceiling on the amount that can be claimed as a deduction. Of course, the deduction is available only if the donation went into party coffers. Cash given to individuals doesn't make the cut.

Other donations also get you tax benefits. Under Section 80G, donations to charitable organisations get deduction ranging from 50% to 100%. It pays to know how much deduction would be available before you reach for the chequebook. But there is a ceiling on the deduction a taxpayer can claim in a year. "The quantum of deduction is limited to 10% of the gross total income of the donor," says Tapati Ghose, partner at Deloitte Haskins & Sells. Also, only cash donations count. Food, clothes and medicines do not qualify.

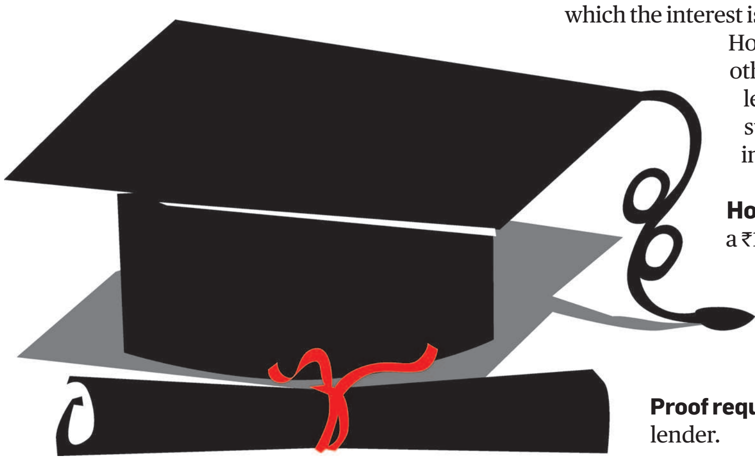
How much tax can you save: In the highest tax bracket, a donation of ₹1 lakh to a political party can bring down your tax by ₹30,900.

Proof required: A stamped receipt of the payment from a political party.

5. Put that education loan to work

The rising cost of higher education is forcing people to borrow money to pay the fees of their children's professional courses. The taxman is sympathetic and offers a deduction that can lower the cost of a loan. The interest paid on an education loan is fully deductible from taxable income under Section 80E. Till a few years ago, this deduction was available only to the borrower. Now, even a parent or a spouse can avail of it. What's more, this now includes loans taken for vocational courses. "If a parent or legal guardian takes the loan, he can claim deduction for the interest paid for up to eight successive years, starting from the year in which the interest is first paid," says Shanbhag.

However, loans taken for siblings and other relatives do not qualify. Also, the lender must be a recognised financial institution; loans from employers or individuals do not fit the bill.



How much tax can you save: If you take a ₹10-lakh education loan at 10% interest for 8 years, you can save ₹1.41 lakh in tax in the highest tax bracket. This will bring down the effective cost of the loan to 7% per annum.

Proof required: Loan statement from lender.

For a tax-planning ready reckoner, turn to **page 24**

6. Use disabilities to your advantage

There are other signs to suggest that the taxman is not the heartless Scrooge often made out to be. A taxpayer suffering from disability can claim a deduction of ₹75,000 under Section 80U. If there is a disabled dependent, deduction under Section80DD comes into play. Disability includes blindness, low v leprosy, hearing impairment, loco-motor disability, mental retard mental illness. Deduction is available only if the impairment is at le (the degree of disorder is certified by select government doctors). disability is severe (80% or above), the deduction is ₹1 lakh a year. dependant could include the taxpayer's spouse, children, parents siblings. Incidentally, the deduction is offered as a lump sum and c depend on the actual amount that a taxpayer may spend on self or disabled dependent. However, the disabled person should be who mainly dependent on a taxpayer for maintenance, and should not claimed deduction for the disability under Section 80U separately

How much tax can you save: A deduction of ₹75,000 can reduce ₹23,175 in the highest tax bracket. In the case of severe disability, ta lowered by ₹30,900.

Proof required: A certificate of disability from a civil surgeon or the chief medical officer of a government hospital.

7. A second home loan opens up unlimited deduction

Income tax laws encourage the growing trend of buying a second house. Under Section 24b, a taxpayer can claim a deduction of up to ₹1.5 lakh for interest paid on a home loan. But if a taxpayer buys a second house through a fresh home loan and gives it on rent, the entire interest paid on the home loan during a given year can be claimed as a deduction.

As Savla says, "If you have more than one house, any one is deemed to be rented out. So the interest income on the home loan for that house can be claimed entirely for deduction, provided the rental income or a deemed income is charged to tax."

How much tax can you save: If you have taken a home loan of ₹50 lakh at 9.5% for 20 years, your interest payment in the first year will be ₹4.7 lakh and you can save tax up to ₹1.09 lakh.

Proof required: Loan account statement from your lender.

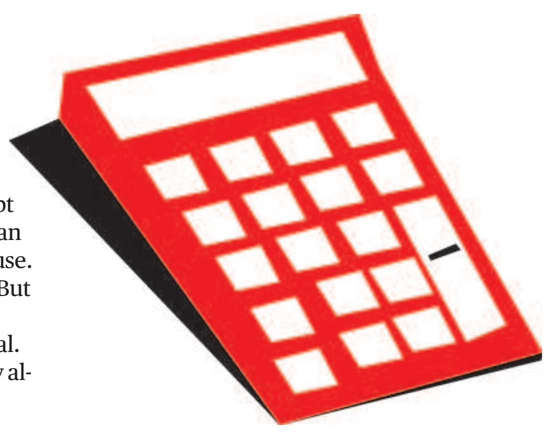
8. Claim HRA as well as home loan benefits

> *The Income Tax Act doesn't expressly disallow HRA exemption along with deduction of home loan interest. Silence signifies approval."*
>
> SANDEEP SHANBHAG
> DIRECTOR, WONDERLAND CONSULTANTS

This might surprise many people, but you can claim house rent allowance (HRA) exemption as well as the tax benefits on the interest paid on a home loan. Many organisations do not allow employees to claim both benefits. Their logic is that house rent allowance is exempt if an employee is paying rent and home loan benefits apply only for a self-occupied house. You can't be doing both at the same time. But this is a gray area in the Income Tax Act.

"In legal terms, silence signifies approval. In other words, the Act need not expressly allow something. The lack of express disallowance also signifies intention of approval," says Shanbhag. Given this, HRA and interest on home loan are two separate provisions and claiming one of them as a deduction does not influence the other.

As Shanbhag puts it, "The taxpayer may own any number of flats, either in the same city that he works in or elsewhere in India or abroad, but that in no way influences the HRA deduction that a taxpayer is entitled to."



There are many such examples in the tax laws. Let's take for instance, Section 80C and Section 80D (medical insurance). "Everyone will agree that both Section 80C and Section 80D can be separately claimed. But does it expressly say so anywhere?" asks Shanbhag.

How much tax can you save: In the highest tax bracket, a deduction for ₹1.5 lakh will bring down your tax by ₹46,350. If you pay rent and can claim HRA exemption of ₹1.2 lakh, your tax is lowered by ₹37,080. That's a total tax saving of ₹83,430 a year.

Proof required: Loan account statement from your lender.

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