Eight tax saving secrets you should know

The Income Tax Act 1961 is a voluminous piece 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 benefit.

ET Wealth 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. Use losses in stocks to cut tax

Can you gain from the short-term losses you made on stocks? Yes, says the Income Tax Act. If you have made any 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 booked profits on gold ETFs and physical gold this year. Suppose you have sold a property and made a long-term capital gain of Rs 30 lakh after indexation.

At 20%, the tax payable on this long-term capital gain is Rs 6 lakh. However, if you have also sold some junk stocks during the year and made a short-term loss of Rs 3 lakh, you can set this off against the gains from the property. Then the gain from the property will get reduced to only Rs 27 lakh and the tax payable will be Rs 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 Rs 3 lakh against long term gains can help you save Rs 60,000.

Proof required: Keep record of your equity trading account statement with details of the transactions that resulted in losses.

2. Get deduction for rent even without HRA

House rent can account for as much as 40-50% of the total household expense. That's why the house rent allowance is exempt from tax to a certain limit. But what if your salary does not include an HRA component or you are a self-employed professional or businessman? Under Section 80GG, you can claim deduction of the rent 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 to be met. The least of the following three can be claimed as deduction: rent paid less 10% of total income; or Rs 2,000 a month; or 25% of total income. Also, the taxpayer should not be drawing any HRA or any housing benefit.

Besides, he or his spouse or minor child should not own a house in the city where he stays and he should not be claiming tax benefits for some other self-occupied house. Whew. Incidentally, if you are living in your parents' house, you can pay rent to them. If your parent has no other income or pays 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 Rs 3.43 lakh a year.

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

Proof required: Taxpayer has to submit a declaration on form 10-BA that he is paying rent and not receiving HRA.

3. Pay lower tax if someone is ill

The treatment of a chronic illness can be a drain on the finances of a taxpayer. That's why the Income tax Act allows a taxpayer to claim a deduction of Rs 40,000 if he has a dependent who suffers from any of the ailments specified under Section 80DDB. "The deduction is higher at Rs 60,000 if the patient is a senior citizen," says chartered accountant Paras Savla. The diseases include, neurological diseases (including 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 spouse, children, parents and siblings. However, there are a few conditions.

The patient should be wholly or mainly dependent on the taxpayer and should not have separately claimed deduction for the disability. If the amount spent is reimbursed by the employer or an insurance company, there is no deduction. If the 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, the taxpayer's liability comes down by 12,360 in the highest income bracket. If the patient is a senior citizen, the tax is lower by Rs 18,540.

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

4. Claim benefits for your political affiliations

Can you lower your tax if you have political connections? Apparently you can. Any amount contributed to a recognized political party can be claimed as a deduction under Section 80GGC (80GGB for corporates). "This is a new deduction and was introduced in April 2010. The donation can also be made to the electoral trust which works for the purpose of conducting 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 the party coffers.

Cash given to individuals doesn't count. Other donations also get you tax benefits. Under Section 80G, donations to charitable organizations get deduction ranging from 50% to 100%. It's a good idea to know how much deduction would be available before you write a cheque. However, There is a ceiling to 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 are taken into account. Food, clothes and medicines do not qualify.

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

Proof required: You must have a stamped receipt of the payment from the political party.

5. Use education loan to lower tax

The rising cost of higher education is forcing people to borrow money to pay the fee of their children's professional courses. The taxman is sympathetic and offers a deduction that can lower the cost of the loan. The interest paid on an education loan is fully deductible from taxable income under Section 80E. Till a few years back, 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 count.

How much tax can you save: If you take a Rs 10 lakh education loan at 10% interest for 8 years, you can save Rs 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.

6. Disabilities can be tax savers

There are other signs to suggest that the taxman is not the heartless Scrooge he is often made out to be. If a taxpayer suffers from a disability, he can claim deduction of Rs 75,000 under Sec 80U. If he has a disabled dependent, he can claim the deduction under Sec 80DD. Disability includes blindness, low vision, leprosy, hearing impairment, loco-motor disability, mental retardation and mental illness and deduction is available only if the impairment is at least 40%. If the disability is severe (80% or above), the deduction is Rs 1 lakh a year. The dependant could include the taxpayer's spouse, children, parents and even siblings.

Incidentally, the deduction is offered as a lump sum and does not depend on the actual amount that the taxpayer may spend on himself or on the disabled dependent. However, the disabled person should be wholly or mainly dependent on the taxpayer for maintenance, and should not have claimed deduction for the disability under Section 80U separately.

How much tax can you save: A deduction of Rs 75,000 can cut tax by Rs 23,175 in the highest tax bracket. In case of severe disability, the tax is lower by Rs 30,900.

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

7. Take unlimited deduction for your second home loan

When it comes to buying a second house, the taxman can be very encouraging. Under Section 24b, one can claim deduction of up to Rs 1.5 lakh a lakh for interest paid on a home loan. But if the taxpayer buys a second house through another 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 Rs 50 lakh at 9.5% for 20 years, your interest payment in the first year will be Rs 4.7 lakh and you can save tax up to Rs 1.09 lakh.

Proof required: Loan account statement from your lender

8. Claim HRA as well as home loan benefits

But you can claim both house rent allowance (HRA) exemption as well as the tax benefits on the interest paid on a home loan. Many organizations do not allow employees to claim both benefits. Their logic is that HRA is exempt if you are 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. So 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 anywhere else in the whole of India or for that matter abroad, but that in no way influences the HRA deduction that he is entitled to."

There are many such examples in the tax laws. Let's take for instance, Section 80C (PPF, NSC, ELSS etc.) and Section 80D (medical insurance premium). "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 Rs 1.5 lakh will bring down your tax by Rs 46,350.

Proof required: Loan account statement from your lender

Source: The economic times.