

## **How to save tax efficiently for salaried Individuals**

Who doesn't want to save tax? So, in this article we are discussing about how a salaried Individual can save tax through tax planning. Salaried Individuals have comparatively limited options available when it comes to saving tax. Nevertheless, if we utilize what we have efficiently, a significant amount of tax saving can be achieved.

Tax saving measures can be broadly classified into two categories

A. Save tax by incorporating tax saving components in the salary structure

B. Save tax through Deductions

It is almost time to get started for filing ITR for FY 20-21. Another important decision to make while filing ITR would be to choose between the old & new regime of tax slabs. Important thing to understand here is even if you have already selected the regime & declared it to your employer (& they have deducted **TDS** on basis your selection), you can still change the regime selection while filing ITR, any excess TDS due to selection of unfavorable regime previously can be claimed as refund.

### **A. Save tax by incorporating tax saving components in the salary structure:**

This measure of tax saving is hugely underrated & thus used by pretty few taxpayers. It is also in less practice as this involves negotiation with the employers who essentially design our salary structure. So, let's see how incorporating tax saving components in our salary structure can reduce the tax outgo:

#### **I) Save tax on rent payment**

##### **1) House Rent Allowance**

If you are living in a rented house, it can help you save tax through HRA deduction.

Maximum HRA deduction one could claim would be lowest of

Actual HRA received

40%/50%\* of (Basic pay + DA)

Rent paid (minus) 10% of (Basic pay + DA)

\*For metro cities

Note: In order to claim the HRA deduction, one needs to have HRA as a component of salary

##### **2) Rent deduction u/s 80GG**

If you are paying rent but do not have HRA as a component of your salary, you can still save tax on rent paid by you. You can claim a deduction of up to Rs 5000 per month under section 80GG.

Note: In order to claim deduction u/s 80GG, you need to file form 10BA

## **II) Uniform allowance**

One can avail this allowance up to the amount of actual expenditure. This is available if uniform is required in the job and the amount of allowance should be reasonable with the actual uniform costs

## **III) Children education allowance**

Children education allowance is non-taxable up to Rs 100 per month per child (up to a max. of 2 children)

## **IV) Hostel Expenditure allowance**

Hostel expenditure allowance is non-taxable up to Rs 300 per month per child (up to a max. of 2 children)

## **V) Free food & beverages provided to the employee**

This is exempt up to Rs 50 per meal. This can also be given in form of meal coupons like Sodexo. Assuming 2 meals a day and 22 working days, this can make Rs 2200 per month tax free.

## **VI) Gift vouchers**

Gifts in kind or voucher or coupon on ceremonial occasions etc. up to Rs. 5000 per year provided by the employer is tax free

## **VII) Medical facilities in India**

Medical insurance premium paid or reimbursed by the employer is not chargeable to tax. So, including this in your salary structure to save tax.

## **VIII) Motor car running & maintenance expense**

For the car owned by employee which is partially used for official as well as personal purposes by the employee- Rs 1800/Rs 2400\* per month is tax free for car running & maintenance expense plus Rs 900 per month is also tax free for driver.

\*Rs 1800- for a car up to engine capacity of 1600 cc and Rs 2400- for a car having engine capacity of more than 1600cc

Note: This is available only on submission of bills of expenses incurred

## **X) Reimbursement of mobile & Internet bill**

Reimbursement of mobile & internet bill is tax free on actual basis.

Note: This is available only on submission of bills of expenses incurred

## **X) Leave travel allowance (LTA)**

This is tax-free when extended by an employer to an employee for going anywhere in India along with his family. Exemption is available for travelling expense and not for hotel & food bills.

This can be done twice in a block of 4 years.

There are certain limits on travel cost that can be claimed here. Though it's quite reasonable. One can avail a cost equivalent to first class rail fare or air fare of economy class.

Note: This is available only on submission of bills of expenses incurred

### **XI) Employer contributions to PF & NPS**

Employer contribution to NPS & EPF is tax free up to 12% of basic salary. So, this helps you save tax as well as induce saving habits.

## **B. Deductions from salary income**

### **I. Standard deduction**

A standard deduction of Rs 50000 is available to all salaried persons

### **II. Employment/Professional tax**

Amount actually paid during the year is deductible. However, if professional tax is paid by the employer on behalf of its employee than it is first included in the salary of the employee as a perquisite and then same amount is allowed as deduction.

### **III. Investment linked deductions**

#### **a. Deduction under Section 80C**

This is the most popular area used by taxpayers to save tax. It allows deduction up to Rs 1.5 lakhs. A taxpayer can invest in PF, ELSS, FD, NSC, NPS, Life insurance. Apart from that one can also claim principal repayment for home loan, tuition fees & payment of stamp duty etc. under this section

#### **b. Deduction under Section 80CCD (1B)**

This gives an additional deduction of Rs 50000 on investment in NPS

#### **c. Deduction under Section 80D**

This section provides deduction for medical Insurance premium paid for self, family & Parents.

Individuals below 60 years can claim Rs 25000 as deduction for self & family & Rs 25000 for Parents (if they are too below 60 years).

Further where parents are above 60 years- the deduction increases by another 25000 (for Parents), making a total of Rs 75000 And where both the individual & parents are above 60, a deduction of Rs 50000 (for self & family) plus Rs 50000 (for parents) can be claimed.

Preventive health checkup up to Rs 5000 can be claimed. But this doesn't increase the overall deduction limits under sec 80D

#### **d. Deduction for Interest on Education loan Section 80E**

Interest paid on loan taken for higher education of self, spouse or children can be claimed on actual basis. There is no upper limit for this deduction.

#### **e. Deduction for Donations 80G**

Eligible donations get a deduction of 50-100% subject to conditions.

#### **f. Deduction for Interest on home loan**

##### **Section 24**

This provides a deduction of interest paid on home loan of up to Rs 2 lakhs for self-occupied homes & for house which will be let out, there is no limit to claim the interest deduction.

##### **Section 80EEA- for first time home owners**

This also provides deduction of interest on home loan which would be over & above the deduction available under section 24. This section provides a deduction of Rs 1.5 lakhs, which means you can technically increase the upper limit to Rs 3.5 lakhs for self-occupied homes.

However, there are certain conditions that needs to be fulfilled to be eligible to claim deduction under sec 80EEA- you should not have any home in your name & stamp duty value of house should not exceed Rs 45 lakhs.

**Source : TaxGuru**