IMPORTANT PROVISIONS OF THE INCOME TAX ACT

(This Book was Published in year 2006. For latest position on any matter please write to us and we shall be pleased to update you.)

Incidence of Income Tax is based on Residential Status.

1. For 'Resident and Ordinarily Resident' Indians, their global income is taxable in India. All army officers including those on foreign posting will come under this category.

2. If an individual is "Resident but Not Ordinarily Resident", his following income is taxable in India :-

(a) Any income received or deemed to have been received in India.

(b) Any income accrued or arisen or deemed to have been accrued or arisen in India.

(c) Any income accrued or arisen or deemed to have been accrued or arisen outside in India from a business controlled in or profession set up in India.

3. If an individual is "Non Resident", his following income is taxable in India :-

(a) Any income received or deemed to have been received in India.

(b) Any income accrued or arisen or deemed to have been accrued or arisen in India.

4. Basic Condition For Determination of Residential Status. An individual is said to be "Resident in India" in any previous year, if he—

(a) Was in India in that year for total period of 182 or more days. OR

(b) Was in India in that year for total period of 60 or more days (182 or more days in case of crew of Indian Ship or in case of NRI coming on a visit to India) and has been in India for a total period of less than 365 days during the four previous years preceding that year.

5. Additional Conditions. An individual is said to be "Resident but Not Ordinarily Resident in India" in any previous year, if one of the two basic conditions are met but :-

(a) He has been a non-resident in India in nine out of the ten previous years preceding that year, OR

(b) Has been in India for a total period of less than 730 days during the seven previous years preceding that year.

Tax Free Income

1. Income From Agriculture. Union of India is not empowered by the Constitution to levy tax on income from agriculture. Agriculture is a subject on which only the states can make laws. Accordingly, some states like Tamil Nadu and Kerala do levy tax on income from agriculture, but as far as income tax act is concerned, income from agriculture is fully non-taxable. A different method of computation is required to be adopted while computing income purely from agricultural activities, income from partially agriculture and partially business income connected with agriculture and for income from manufacture of tea / coffee / rubber etc..

2. Income Received from HUF / Impartible Estate of the Family (under certain conditions.)

3. Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India.

4. Death-cum-Retirement Gratuity (subject to limits imposed by the Central Government.)

5. Commuted Pension – Entire amount in case of Government Employees, commuted value of 1/3rd amount of pension in case of others receiving gratuity, commuted value of half amount of pension in case of others not receiving gratuity and entire amount of commuted pension received from a fund of LIC.

6. Encashment of Earned Leave. Subject to the limits imposed by the Central Government in case of Government Employees and up to ten months salary in case of others.

7. Any sum received (including Bonus) under Life Insurance Policy other than Key man Insurance Policy.

8. Any payments received from notified Provident Fund.

9. Payments Received from approved Superannuation Fund.

10. TA / DA while on Temporary Duty.

11. House Rent Allowance under certain conditions and computed in certain manner.

12. Income from specified Government Securities as per conditions prescribed.

13. Scholarships granted to meet the cost of education.

14. Income from Pension received by Gallantry Award Winners. The awards include Param Vir Chakra, Maha Vir Chakra, Vir Chakra, Ashok Chakra, Kirti Chakra, Shaurya Chakra, Sena Medal, Vayu Sena Medal, Nau Sena Medal, Sarvottam Jeevan Raksha Padak, Uttam Jeevan Raksha Padak, President's Police Medal for Gallantry, Police Medal for Gallantry, President's Police and Fire Services Medal for Gallantry, Police and Fire Services Medal for Gallantry, President's Home Guards and Civil Defence Medal for Gallantry AND Home Guards and Civil Defence Medal for Gallantry.

15. Income from Family Pension to the families of above gallantry award winners and of all members of Armed Forces (including Para military Forces) killed in the course of following operational duties provided a certificate to that effect is given by the Head of the Department (where last served) / Service HQ.

(a) Acts of violence or kidnapping or attacks by terrorists or anti-social elements.

(b) Action against extremists or anti-social elements.

(c) Enemy action in international war.

(d) Action during deployment with a peace keeping mission abroad.

(e) Border skirmishes.

(f) Laying or clearing of mines including enemy mines as also mine sweeping operations.

(g) Explosions of mines while laying operationally oriented minefields or lifting or negotiating minefields laid by the enemy or own forces in operation areas near international borders or LOC.

(h) In the aid of civil power in dealing with natural calamities and rescue operations.

(j) In the aid of civil power in quelling agitation or riots or revolts by demonstrators.

16. Transfer and Packing Allowance.

17. Conveyance Allowance in performance of Office duties.

18. Expenditure for Helper for office duties.

19. Allowance given for Purchase and Maintenance of Uniforms.

20. Allowance Granted for Encouraging Academic Research and Training in case of Educational and Research Institutes.

21. Income from Minor Children up to the Limit of Rs. 1500 /-. (Entire amount in case of disabled child)

22. Income Received from Any Person (Other than specified relatives [includes all first and second degree relatives except cousins] and their spouses) otherwise than by way of consideration for goods or services above Rs. 25,000 /- (Rs. 1,00,000 /- on the occasion of own marriage). However, income received from specified relatives out of natural love and affection, inheritance, in recognition of services by the employer (as per the other rules), sum received in contemplation of death of an individual, and sum received on account of transactions not regarded as transfer will continue to be exempt.

23. Other Prescribed Tax Exempt Allowances as given in the table below.

Ser No	Type of Allowance	Place of Duty	Max Limit (Rs. P.M.)
(a)	(b)	(c)	(d)
1	High Altitude A Allowance or, Hill Compensatory Allowance or Snowbound Area Allowance or Avalanche Allowance	Certain areas of Manipur, Arunachal, Sikkim, U.P., H.P. and J & K. Siachen Other places having height More than 1000 Mtrs.	800 7000 300
2	Border Area Allowance or Difficult Area Allowance	Certain area in all border States including Assam Jog falls in Karnataka	200 to 1300 300
3	Tribal Area Allowance	M.P., T.N., U.P., Bengal, Karnataka, Tripura, Assam, Bihar & Orissa	200
4	Children Education Allowance	Whole of India	100 per child for 2 children
5	Hostel Allowance	Whole of India	300 per

			child for 2 children
6*	Compensatory Field Area Allowance	Certain areas of Arunachal, H.P., U.P., J & K, and entire Manipur / Nagaland	2600
7*	Modified Field Area Allowance	Certain areas of Punjab, Rajasthan, U.P., Himachal, Arunachal, Assam, Sikkim, Bengal, J & K and entire Mizoram / Tripura	1000
8*	Counter Insurgency Allowance in Peace	Whole of India	3900
9	Transport Allowance Office ↔ Residence	For all For Blind / Disabled in legs	800 1600
10	High Altitude Allowance (Army)	9000 to 15000 ft Above 15000 ft	1060 1600
11	Highly Active Field Area Allowance	Whole India (Army)	4200
12	Island Allowance (Army)	Andaman, Nicobar, Lakshdweep	3250
13	70% of Allowance granted to employees in Transport System for running transport	Whole India	6000

* If one claims allowances at serial 6,7 & 8 as exempt, Border Area allowance cannot be claimed.

Income From Salary

1. Definition of Salary. "Salary" includes (i) wages. (ii) Annuity or Pension. (iii) Gratuity. (iv) Fees, Commissions, Perquisites or Profits in lieu of or in addition to any salary or wages. (v) Advance of salary. (v) Leave Encashment. (vi) Annual accretion to Recognised Provident Fund as chargeable to tax. This definition of salary is an inclusive definition; meaning thereby, additions can be made to the definition as per requirement. For income tax purpose, any salary due (whether paid or not), also any salary paid (whether due or not) and any arrears of salary (if not charged to tax in previous years) will be considered. Thus, if an irregular credit is made, tax is deducted on it and later the irregularity is found out, there will be no relief for the deducted tax. Also, if in any given year, salary is received from more than one employer, separate Forms 16 are required from both the employers. In case of pension, banker's certificate is required.

2. Deductions From Salary. - Entertainment allowance specifically granted to a Government Employee up to Rs. 5000 /-.

Income From House Property

1. What is a House Property? The expression House Property has not been defined in the Act. As per various court decisions, the existence of a building is an essential prerequisite. Thus, income from a Plot of land is NOT income from house property and NO deduction is available for repayment of loan taken to purchase a plot.

2. The Concept of Ownership. Owner is one who has dominion over the house property. Thus, following persons have been held to be owners :-

(a) An individual who has transferred his house to a spouse or to a minor child for inadequate or no consideration.

(b) Holder of an impartible estate.

(c) Person having possession of a disputed property.

(d) Person having a long-term lease of more than 12 years.

(e) Member of a Co-operative Housing Society holding a flat.

(f) Person who has purchased a flat under power of attorney from somebody else.

(g) In case of co-owners, each one of them will be considered as owner in respect of his / her share in the property.

3. The Annual value (less authorised deductions) of a house property is subject to income tax, provided the house property is not used for business / profession purpose. For computation purpose, the house property is divided in to five categories as given in succeeding paragraphs.

4. Category I. Property that is Let Out. In this case, rent that can reasonably expected to be received (i.e. higher of the [municipal valuation and fair market] limited to standard rent) or rent actually received (i.e. rent receivable less rent not received due to bonafide reasons) whichever is higher (as reduced by municipal taxes paid) is taken as annual value. This is reduced by 30% standard deduction and by interest paid on housing loan and the balance amount will be subject to income tax. Thus, if rent received (being reasonably expected) was Rs. 5,500 /- per month, the municipal tax paid during the year was Rs. 1,200 /- and the interest paid on loan was Rs. 60,000 /- the amount chargeable to tax will be (-) Rs. 14,640 /- as against total receipts (from rent) of Rs. 66,000 /-. The loss of Rs. 14,640 /- can be adjusted against any other income.

5. Any arrears of rent received in subsequent year will be treated as income from house property (with 30% deduction) of that year, irrespective of the fact, whether the ownership of the house is changed or property does not exist.

6. Category II. Property that is Self-occupied (Including property meant for self occupation but could not be occupied). In this case, the annual value is taken to be NIL and deduction of only the interest paid on housing loan is granted. In this case, the loss is restricted to Rs. 1,50,000 /- for property acquired after 1.4.1999 (within three years of taking loan) and for loan taken after 1.4.1999. In case any of these conditions is not met, the loss is restricted to Rs. 30,000 /-.

7. Category III. Property that is Neither Let out Nor Self-occupied Throughout the Year. In this case, the computation is done as if the property is given on rent throughout the year.

8. Category IV. Property which is Partly Let and Partly Self-occupied. If a house is partly let and partly self-occupied, both units are considered as if they are separate houses and expenses are apportioned. Deductions as per apportioned expenses are permitted.

9. Category V. Two Houses Meant for Self-occupation. In this case annual value of any one house (at the option of the assessee) is taken to be NIL and a deduction for interest paid on loan is to be taken. A sum for which the second property might reasonably be expected to let is considered as income for that house (even though no rent is actually received) and regular deductions are permitted.

10. Permissible Deductions for Interest paid Prior to Year of Possession. When interest is paid in financial years prior to the financial year during which possession was taken; in such a case, deduction will be available in deferred manner. 1/5th of interest paid during the financial years prior to the financial year of possession will be granted for the year of possession and the same amount will be granted for four consecutive years thereafter.

11. Treatment of Principal Amount Repaid. The interest paid on house loan is deductible under the head 'Income From House Property'. For the Financial Year 2005-06, the principal amount paid back is eligible for deduction under Section 80C up to the limit of Rs. 1,00,000 /- (as part of overall limit of Rs. 1,00,000 /- of Section 80CCE). Also, if no loan is taken but instalment for house construction is paid to development authority / Group Housing Society, the deduction is available. Also, registration fees, stamp duty etc. are eligible for deduction in the year of purchase within the limits given above. However, if the house is sold off within five years of purchase, the deduction granted earlier is withdrawn and the arrears of tax become payable immediately.

11. Other Important Points.

(a) Income from subletting is not taxable under the head 'Income from House Property'. It will however, be taxable under the head 'Profits and Gains from Business / Profession' or 'Income from Other Sources' as per the facts of each case.

(b) In case of disputed ownership, the income tax assessment will not be stopped merely because of the court case and ownership is not determined by the court concerned. Generally, the person who has received the income or the person who has the current possession will be considered as owner for income tax purpose.

(c) When composite rent received consists of rent for building and charges for other services, only rent for building will be considered under the head 'Income from House Property'. Balance amount will be taxable under the head 'Profits and Gains from Business / Profession' or 'Income from Other Sources'.

(d) When composite amount received consists of rent for building and charges for other assets that are inseparable, the entire amount received will be considered under the head 'Profits and Gains from Business / Profession' or 'Income from Other Sources' as per the facts of the case.

Capital Gains.

1. You are requested to read my article on the subject – "Tax Planning For Capital Gains" being published in the Army Group Insurance (AGI) Journal, 2006. Only the 'Tax Planning Measures' are repeated here. They are as follows:-

* Assessees having income below Rs. 1,50,000 /- should go for short term capital gain (STCG) instead of long-term capital gain (LTCG) as income below Rs. 1,50,000 /- is taxable @ 10 % whereas long-term capital gain is taxed @ 20%.

* Other assesses should always wait and go for LTCG because of many advantages.

* One should take full advantage of exemptions available. It is better to follow the conditions meticulously and plan the time of investment / sale.

* An assessee should go for STCG in the year when there is short-term capital loss so that the same can be set off.

* Avoid claiming short-term capital loss against LTCG, try and defer the LTCG to the next year.

* Avoid sale of securities for at least one year after purchase. Also, ensure that all sale / purchase transactions are through the Stock Exchange through Registered Broker. This will save a lot of complications and there will be miniscule tax liability in terms of Securities Transaction Tax (which will be deducted at source in any case.)

* Lastly, it is important to preserve all bills, vouchers, receipts, agreements, sale deeds and other documents relating to purchase of or improvement in capital assets. It is better to make a separate file for each immovable asset and one file for jewellery and other movable assets. This will be helpful not only for computation of capital gains when need arises, but also in case of theft or insurance claim.

Income From Other Sources

1. This is a residuary head of income. Income not chargeable under any other head falls under the head, 'Income From Other Sources'. The incomes given below will always fall under this head :-

2. Dividend. Dividend [including deemed dividend except loan by closely held companies to its shareholders having substantial interest] received from domestic companies [i.e. companies whose dividend is paid in India] is non taxable in the hands of shareholders. Dividend from other companies and deemed dividend which is not non taxable is taxed under this head of income. Date of declaration of dividend is considered in case of final dividend and date of posting of dividend warrants is considered in case of interim dividend. However, deduction is available for collection charges and interest on loan taken for purchasing shares. Deduction of interest on loan is available [only in case of non domestic companies] even if no dividend is declared. {CIT Vs. Rajendra Prasad Moody [1978] 115 ITR 519.

3. Winnings from lotteries, crossword puzzles, races including horse races, card games, and other games of any sort or from gambling / betting of any sort and form. These are taxed at the maximum rate of income tax as applicable to an individual irrespective of the slab he is in. In case net amount is given after deduction of tax, it is to be grossed up for computation purpose.

4. Interest on securities if not taxable under the head 'Profits and gains from business or profession'. The computation is done as per the accounting practices followed by the assessee. In case net amount is given after deduction of tax, it is to be grossed up for computation purpose.

5. Any sum exceeding Rs. 25,000 /- without consideration by an individual / HUF after 31 Aug 2004. The limit is Rs. 1,00,000 /- in case of gift during marriage of assessee. Also, sum received from near relatives as prescribed is exempt.

6. Apart from the above, incomes given below will generally fall under this head :-

(a) Rent received from subletting.

(b) Interest on bank deposits and loans.

(c) Withdrawal under NSS. 1987.

(d) Ground rent and rent from plot of land.

(e) Agricultural Income outside India.

(f) Interest from Indira Vikas Patra, Deep discount bonds and NSCs.

(g) Examination and tuition Fees received by a teacher [not included in income from salary]

(h) Insurance commission.

(i) Casual income above exemption limit.

(j) Annuity payable under will, contract and trust [but excluding one chargeable to tax under the head 'Salary'.]

(k) Interest on securities of a foreign government.

(l) Family pension. Standard deduction of 1/3 rd amount subject to maximum of Rs. 15,000 /- is available.

(m) Interest received on unrecognised provident fund.

(n) Undisclosed income.

(o) Monthly Alimony received for separate maintenance. However, if one time alimony is received, it is a capital receipt. {Princess Maheshwari Devi Vs. CIT [1984] 147 ITR 258[Bombay]}

(p) Interest or premium on redemption of debentures.

(q) Income of a beneficiary of a trust.

(r) Interest received on refund of income tax.

Clubbing Provisions

1. Transfer of income without transfer of assets to any person is taxed in the hands of transferor.

2. Income arising from revocable transfer is taxed in the hands of transferor.

3. Income from assets transferred without adequate consideration. However, in case of partition of joint HUF there is no transfer. Also, in case of loan, there is no transfer. Thirdly, income from accretion of asset after transfer is not to be clubbed. Income from conversion of transferred asset is to be clubbed. Since income includes loss, loss will also be clubbed [and set off against income.]

4. Income Arising to Child Under Age of 18. Income amounting to greater than Rs. 1500 /- arising or accruing to a minor child shall be included in the total income of parent whose income is greater than other parent or in the total income of a parent who maintains the child in case the marriage does not subsist. However, income of a handicapped child is totally exempt. Secondly, income from manual work or activity involving application of his skill or manual work or talent or specialised knowledge and experience shall be assessable in the hands of minor child only. Since income includes loss, loss will also be clubbed [and set off against income.] If the child attains majority anytime during the previous year, the income will not be clubbed.

Deductions From Gross Income

1. Deductions from gross income are covered under sections 80C to 80U of the Income tax Act.

2. Section 80C. Section 80C covers the following investments [which were earlier covered under section 88]

(a) Premium paid for insurance on life.

(b) Subscription to deferred annuity plan for family.

(c) Subscription to recognised provident fund.

(d) Subscription to approved superannuation fund.

(e) Deposits with post office savings bank.

(f) National Savings Certificates including accrued interest.

(g) Contribution to participation in any Unit Linked Insurance Plan.

(h) LIC Mutual Fund.

(i) Equity linked savings scheme.

(j) Notified pension plan set up by any mutual fund.

(k) Subscription to Home loan account scheme of Nation Housing Bank.

(l) Repayment of loan taken for house or payment of instalment for a flat in group housing society [including registration charges, legal expenses etc. in the year of taking possession]

(m) Expenses on children education tuition fee for any two children for full time education in any education institute in India.

(n) Notified Infrastructure Bonds.

(o) Notified Mutual Fund.

3. Section 80 CCC. Deduction [maximum up to Rs. 10,000 /- in any financial year] in respect of contribution to pension fund of LIC or of other insurance company. However, the limit of Rs. 10,000 /- stands removed from financial year 2006-07 as per Finance Act 2006.

4. Section 80 CCE. The aggregate deduction provided under this section is Rs. 1,00,000 /- inclusive of deductions under sections 80C, 80CCC and 80CCD.

6. Deductions under sections 80D, 80DD, 80 DDB and 80 U are concerning deductions under medical grounds and are covered later.

7. Deduction of interest paid on education loan taken for self for pursuing higher education is available without limit. The deduction is available for eight successive years from the year in which payment of interest begins. Higher education means full time studies for any graduate or post graduate course in engineering, architecture, medicine, management or post graduate course in applied sciences or pure sciences including mathematics and statistics. Loan taken by parents for their children is NOT eligible.

8. Donations Where 100 percent Deduction is Given without Limit. Donations given to Nation Defence Fund, Prime Minister's National Relief Fund, Africa (Public Contributions India) Fund, Armenia Earthquake Fund, National Foundation for Communal Harmony, Approved University / Educational Institution of National Eminence, Chief Minister's Earthquake Relief Fund – Maharashtra, Fund Setup by Government of Gujarat for Earthquake Relief, Zila Sakshrata Samiti (for education and literacy in villages and towns), National / State Blood Transfusion Council, State Government Funds For Medical Relief to Poor, Army Central Welfare Fund, Indian Naval Benevolent Fund, Air Force Central Welfare Fund, Andhra CM's Cyclone Relief Fund-1996, CM's Relief Fund or Lt Governor's Relief Fund for any State / UT, National Sports Fund, National Cultural Fund, Fund for Technology Development and Application, National Trust for Welfare of Persons with Autism / Cerebral Palsy / Mental Retardation / Multiple Disabilities are deductible in full and there is no limit of donations.

9. Donations Where 100 percent Deduction is Given with Limit of 10 percent Taxable Income. The donations given to The Government or any approved Local Authority /Institution / Association for Promotion of Family Planning is deductible in full with limit of ten percent of taxable income.

10. Donations Where 50 percent Deduction is Given without Limit. Donations given to Jawarlal Nehru Memorial Fund, PM's Draught Relief Fund, National Children's Fund, Indira Gandhi Memorial Trust, and Rajiv Gandhi Foundation are deductible to the extent of fifty percent of donation and there is no limit of donations.

11. Donations Where 50 percent Deduction is Given with Limit of 10 percent Taxable Income. The donations given to Any Notified Fund or Institution Established in India for Charitable and (maximum of 5 percent for) Religious Purpose, Government / Local Body for Charitable Purpose, Authority for Town Planning and Housing, Corporation Established by Government / Local Body for Promoting Interests of Minority Community, Temple / Mosque / Gurdwara / Church / Other Place of Worship which is of Archaeological or Historic or Artistic Importance, Donations given to any Trust / Institution / Fund established for Gujarat Earthquake Relief are deductible to the extent of fifty percent of donation with limit of ten percent of taxable income.

12. Deduction in Respect of Rent Paid. A deduction of minimum of three amounts (rent paid minus 10 percent of total income, Rs. 2000 /- per month, 25 percent of total income) is available to an employee who does not get HRA provided he does not own a house at the place of employment and does not own a house at any other place that is self occupied.

13. Donation for Scientific Research or Rural Development. Donations made to the following institutions / associations are deductible :-

(a) Approved scientific research association or university / college / any other institution.

(b) Approved university / college / any other institution for social science or statistical research.

scientific association or institution for rural development or for training of persons for rural development programme.

(c) A public sector company or a local authority or association or institution for carrying out eligible project or scheme.

(d) Notified rural development fund.

(e) Notified urban poverty eradication fund.

14. Donation to Registered Political Parties.

Income From Agriculture

1. "agricultural income" means: -

(a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes;

(b) Any income derived from such land by agriculture or performance of any process to render the produce raised or received by him fit to be taken to market or the sale in respect of which no process has been performed other than a process described above.

(c) Any income derived from any building owned and occupied by the receiver of the rent where any process mentioned above is carried on.

2. The following have been held as income from agriculture:-

(a) Sale of replanted trees on parts of forest that was earlier denuded and later replanted.

(b) Fees collected from cattle owners for grazing.

(c) Profit on sale of standing crop or of produce after harvest by the cultivator.

(d) Insurance claim for damage to green tea leaves on tea plants.

(e) Rent for agricultural land received from subtenants.

(f) Income from nursery.

3. The following have been held to be income NOT from agriculture:-

(a) Annuity received in consideration of transfer of agricultural land.

(b) Interest on arrears on rent from agricultural land / building.

(c) Remuneration received as percentage of profit / dividend received from a company earning agricultural income.

(d) Income from land let out for storing crop.

(e) Commission received by a landlord for selling produce of the tenants.

Important Procedures

1. PAN. PAN means a unique Permanent Account Number given by the income tax department to each assessee. On appropriate application in Form 49A, PAN is given and PAN Card is issued by the UTI Investor Services Limited on behalf of the Income Tax Department. **NO TAX RETURN IS ACCEPTED WITHOUT PAN. FOR ARMY OFFICERS, IT IS ALWAYS BETTER TO OBTAIN PAN FROM PUNE BECAUSE LINKING OF PAN FROM OTHER CITIES TAKES A LOT OF TIME (THEREBY DELAYING THE ASSESSMENT AND REFUND). FOR THE SAME REASON, IT IS ALWAYS BETTER TO ATTACH A XEROX COPY OF PAN CARD WITH THE INCOME TAX RETURN.** If one has obtained two PANs, he has to surrender one of them while filing return; else, penalty of Rs. 10,000 /- can be imposed. Penalty may also be imposed for quoting wrong PAN in any of the following transactions where quoting PAN is compulsory:-

(a) Sale / Purchase of immovable property worth Rs. 5 Lakh or more.

(b) Sale / Purchase of motor vehicles (excluding two wheelers).

(c) Deposit exceeding Rs. 50,000 /- in bank / finance institution / post office.

(d) Contract of sale / purchase of securities exceeding Rs. One lakh.

(e) Opening of Account in a bank.

(f) Application for telephone connection.

(g) Payment to hotels exceeding Rs. 25,000 /- at any one time.

(h) Payment in cash exceeding Rs. 50,000 /- for making a draft / pay order / bankers cheque.

(i) Payment exceeding Rs. 25,000 /-in connection with foreign travel.

(j) Application for credit card.

(k) Payment of RS. 50,000 /- or more for obtaining shares / debentures / MF units / RBI Bonds.

2. Due Date For Filing Tax Returns. The due date of filing of return each year is 31 July. However, this date can be postponed by the Government by notification for any area for a particular year. Return can be filed up to the end of the Assessment Year, however, interest @ 1% per month may be charged on unpaid tax. If the Return is delayed beyond the end of the Assessment Year, the assessing officer can levy penalty of Rs. 5,000 /- in addition to the interest on unpaid tax. **In case of wilful default in filing of income tax return in order to avoid paying tax over Rs. 3,000 /-, imprisonment from three months to seven years can be imposed after due inquiry.**

3. Revised Return. In case of any mistake / defect / omission in the original return a revised return can be filed. Revised Return can be filed only if the original return is filed prior to the due date. Also, Revised Return can not be filed if assessment of original return is completed. Revised Return should be filed, preferably within two weeks of receipt of notice, if informed by the income tax officer.

4. Assessment. Assessment order is made only if there is either refund or tax payable. In case there is no refund or tax payable, the acknowledgement of return will be considered as assessment. Scrutiny assessment can be carried out within one year from the end of month of filing of return. **Assessments are always carried out strictly in the order of filing of return unless there is a specific reason for pending any assessment. Thus, any claim by any person to get early assessment and refund is wrong.** However, the refunds may be delayed if the PAN is from a different city. This situation may change after 2008 when computerisation will be fully operational throughout the country

Documents Required For Filing of Income Tax Return

General

1. Original Copy of Form 16. This is a basic and most important document. Please note that Xerox copy of Form 16 is NOT acceptable for filing of Returns. Young Officers are requested to obtain, apart from Form 16 from the CDA (O), separate Form 16 from the PAO of the Academy for each financial year (or part thereof) separately for the duration of their stay in the Academy. The Accounts Sheet given by the Academy does NOT serve the purpose of Form 16. If Form 16 is not given by virtue of no tax deduction at source, at least a Salary Certificate indicating total amount of money paid, any tax free allowances that formed part of that amount and details of investments made including subscription to AGIF is required.

2. Naya Saral Form duly signed at the bottom of the Form. Do not fill anything on the Form except your name, date of birth, unit address, bank account details, PAN and father's name. Father's name is required even in case of married Lady Officers. We shall fill your financial details and details of income tax through computerised processing. **However, as per the Finance Act 2006, with effect from 01 Jun 2006, a return signed by the tax practitioner on behalf of the assessee will be accepted as if the same was filed by the assessee.**

3. An authority letter for me for filing Return and for dealing with the Income Tax Department on your behalf.

4. Copy of PAN card or Xerox copy of acknowledgement of PAN application submitted to UTI.

House Property Income (Loss)

1.Original copy of the Loan repayment certificate for the Financial Year for which Return is to be filed. The certificate should give the amount paid as interest and as principal separately. Please keep one Xerox copy with you.

2. Copies of All Loan Repayment Certificates (for which full deduction is not claimed as yet.)

3. Please note that if the house is on joint name, only 50% share of deduction is given unless shares in the house are identified and registered with the sub registrar as such. In case the co-owner is wife, the shares are not identified and you are being given 100% deduction in earlier years or you are claiming the deduction for the first time and your wife does not have objection to your claiming 100% deduction; a **certificate is required from her stating that she does not have any income, that she is fully dependent on you, that her income is to be clubbed with your income, that the loan is being repaid entirely from your income and that though the house is registered on her name also, you are the De-Facto owner.** All the conditions given above are required to be mentioned.

4. Details of Rent received and details of municipal taxes paid during the financial year. (Required only if the House is on rent)

5. Proof of possession of the house in the form of possession letter (NOT allotment letter) from the builder or from municipal authority. If you have shown income from the same house in the past, the copy of Assessment Order of the previous year will do.

6. In case of interest paid on private loan, copy of Loan Agreement on stamp paper, loan repayment receipts duly revenue stamped and PAN / Bank details of the person who gave you private loan will be required.

7**.** The Property details **(**duly attested by you) are required to be given when you obtain the property for the first time or when any change takes place. The details required are (a) Exact complete address of the property, (b) Details of builder / seller, (c) Details of sources of funds. (d) Date of construction completion and of possession. (e) In case of joint property, share of each joint owner as registered (f) Present status of the property i.e. Rented Out or Self Occupied and date from which change in status has taken place. (g) Details of second property (if any)

Arrears of Pay / Stipend / DA / CCA etc

1. Copies of Form 16 / Salary Certificates for the financial years for which the arrears are received as per current Form 16 and Assessment Orders / Acknowledgement of Income Tax Returns for the relevant years.

House Rent Allowance

1. Rent agreement and revenue stamped rent paid receipts for the period for which the HRA is received as per current Form 16.
2. Copies of Payslips that give credit of HRA.
3. All available Copies of Payslips for the months for which HRA is given.

House Rent Reimbursement (Only if the same is given for the House Owned by you)

1. Clear proof of ownership of the house.
2. Proof that the HRR is given for the house owned by you.
3. Copies of payslips that give credit of HRR.

Deduction on Medical Grounds (Disability to Self, Dependent Parents, Dependent Brothers / Sisters, spouse and Children)

1. Latest Certificate (along with the photograph of patient fixed on it) from the relevant specialist Medical Board giving percentage and type of disability in clear terms.

2. Proof of Dependency (copy of Part II order etc.)

Deduction on Medical Grounds – Treatment for Specified Chronic Diseases

1. Certificate in Form 10-I from a Government doctor having post graduate medical degree.

2. Proof of Dependency and Proof of Date of Birth / Age of dependent person.

3. Proof of Expenditure on treatment (as deduction is available only for actual expenditure incurred).

Investments (Proof is required only if the same is not included in the Form 16)

1. Life Insurance Premium paid receipts for self / wife / children.

2. Copies of NSCs purchased during current year as well as in last six years.

3. Original copies of Tuition Fee receipts for the children of any age doing full time study in school / college / institution in India.

4. Xerox copies of relevant pages of PPF Account pass book for self / children.

5. Copy of Payment receipts for infrastructure bonds.

6. Proof of any other eligible investment during the relevant financial year.

Capital Gains From Securities (including Units of Equity Oriented Mutual Funds) / Shares.

1. Complete details of securities / shares sold between 1.4.2005 to 31.3.2006.

2. Complete details of purchase by you of the securities / shares mentioned in 1. above.

3. Proof of dates of sale / purchase, quantities sold / purchased, amount paid / received and additional amount paid are required.

Capital Gains From Sale of Property.

1. Complete details of property sold between 1.4.2005 to 31.3.2006. Details of investments made out of amount received.

2. Complete details of purchase by you of the property mentioned in 1. above.

3. Proof of dates of sale / purchase, amount paid / received and additional amount paid are required.

4. Similar details of improvements (with proof of expenditure) made by you in between date of purchase and of sale are required.

Income From Other Sources

1. Details of Fixed Deposit interest received.

2. Details of interest on Income Tax Refund received. Please note that any interest received on Income Tax Refund is fully taxable.

3. Any interest from infrastructure bonds received.

4. Any other income including dividends received.

TAX PLANNING FOR MEDICAL EXPENSES

An article written by me and published in the AGI Journal 2005

1. There have been many changes in the Income Tax Act over the period of last two years as far as deductions available on medical grounds are concerned. The amount of deduction was increased, the percentage of required disability was reduced, more disabilities were added, the definition of dependent was drastically changed and the provisions regarding disability / treatment certificate were made more stringent. If

one is aware of the provisions of income tax act, one can do better planning of the income receivable, expenditure required for medical purposes, deductions available and tax payable. This article gives an insight to the same.

Value of Perquisites – Reimbursed Medical Expenses.

2. As per the definition of "Salary" given in the Income Tax Act, Salary includes perquisites (benefits given by the employer in addition to salary which may or may not be in terms of cash) All fringe benefits or amenities have been made taxable (for person having income above Rs. 1,00,000 /-) but medical facilities provided by any hospital maintained by the employer and in certain other hospitals are exempted. Earlier, between 1955 and 1987, the Central Board had issued various circulars qualifying and limiting the exemption in respect of free medical facilities and reimbursement of medical expenses. Presently, the position is as under: -

{A} Medical Facilities in India. In the following cases, medical facilities / reimbursement of medical expenses are treated as tax-free perquisites: -

1. The value of any medical treatment provided to an employee or any member of his family in any hospital, dispensary or nursing home maintained by the employer.

2. Any sum paid by the employer in respect of: --

(a) Any amount actually spent by the employee for obtaining his or his family member's medical treatment subject to maximum of Rs. 15,000 /-. However, in the following cases this limit of Rs. 15,000 /- is not applicable: --

(i) Medical treatment as mentioned above is done in any hospital maintained by the Government or by any local authority or in a hospital approved by the Government.

(ii) Expenditure in respect of following prescribed diseases in any hospital approved by the Chief Commissioner of the Income Tax. : -

(aa) Cancer.

(ab) TB.

(ac) AIDS.

(ad) Diseases of heart, blood, lymph gland, bone marrow, respiratory system, CNS, urinary system, liver, gall bladder, digestive system, endocrine glands or skin requiring surgical operation or continuous medical treatment in hospital for three days or more.

(ae) Diseases of eyes or ENT requiring surgical operation.

(af) Fracture in skeletal system / vertebrae requiring surgical operation / orthopaedic treatment.

(ag) Gynaecological or obstetric ailment requiring surgical / caesarean / laparoscopic operation or continuous medical treatment in hospital for three days or more.

(ah) Burn injuries requiring continuous medical treatment in hospital for three days or more.

(ai) Mental disorder (either neurotic or psychotic) requiring continuous medical treatment in hospital for three days or more.

(aj) Drug addiction requiring continuous medical treatment in hospital for seven days or more.

(ak) Anaphylactic shocks including insulin shocks, drug reactions and other allergic manifestations requiring continuous medical treatment in hospital for three days or more.

(b) Any portion of insurance premium paid by the employer for insurance of the health of the employees under a scheme approved by the Government of India / Insurance Regulatory and Development Authority (IRDA).

(c) Any reimbursement by the employer of any insurance premium paid by the employer for an insurance for his health or for the health of his / her spouse, dependant parents and dependant children under any scheme approved by the Government of India / IRDA for the purpose under section 80D.

{B} Medical Treatment Outside India. The following expenditure incurred by employer on treatment of the employee or his family members outside India is also a tax-free perquisite:

1. Expenses (to the extent permitted by the Reserve Bank of India) on medical treatment of the employee or any member of his family outside India.

2. Expenses (to the extent permitted by the Reserve Bank of India) on stay abroad of the employee or any member of his family for medical treatment with one attendant who accompanies the patient in connection with such treatment.

Deduction in Respect of Medical Insurance Premium.

3. As per the provisions of section 80D of the Income Tax Act, deduction up to Rs. 10,000 /- spent (by way of cheque) for premium paid for any medical policy (approved by the Central Government / IRDA) taken in the name of self or spouse or dependant children and dependant parents is permitted. In case the policyholder is a 'Senior Citizen', the deduction up to Rs. 15,000 /- is permitted.

Deduction in respect of Maintenance including Medical Treatment of a Disabled Dependant.

4. As per the provisions of section 80DD of the Income Tax Act, An assessee shall be permitted deduction of sum of Rs. 50,000 /- (for disability) and of Rs. 75,000 /- (for severe disability) if he, during the previous year has

(a) incurred any expenditure for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability; or

(b) paid or deposited any amount under a scheme framed in this behalf by the LIC or by any other insurer or the Administrator or a specified company (subject to specified conditions and approved by the Board) for the maintenance of a disabled dependant. The conditions are as under: -

(i) The scheme provides for payment of annuity or lump sum amount for the benefit of a disabled dependant in event of the death of the individual in whose name subscription to the scheme has been made.

(ii) The assessee nominates either the disabled dependant or any other person or trust to receive the payment on behalf of disabled dependant.

(iii) In case the disabled dependant predeceases the assessee, the amount paid will be deemed to be the income of the assessee.

Definition of Dependant, Person with Disability, Person with Severe Disability and Medical Certificates.

5. Dependant. Dependant means the spouse, children, parents, brothers and sisters of the assessee who are dependant wholly or mainly on the assessee.

6. Person with Disability. 'Person with disability' means persons having condition of autism, cerebral palsy and multiple disability and minimum 40% disability as specified by the medical authority in any of the following aspects:-

(a) Blindness.
(b) Low Vision.
(c) Leprosy Cured.
(d) Hearing Impairment.
(e) Locomotor Disability.
(f) Mental Retardation.
(g) Mental Illness.

7. Person with Severe Disability: 'Person with severe disability' means persons having minimum 80% disability as specified by the medical authority in any of the aspects mentioned in paragraph 6 above. In addition 80% disability in the following diseases will also qualify:-

(a) Multiple disability.(Combination of two or more disabilities mentioned above)
(b) Condition of autism.
(c) Cerebral palsy.

8. Blindness. "Blindness" refers to a condition where a person suffers from any of the following conditions:--

(a) Total absence of sight.

(b) Visual acuity not exceeding 6/60 or 20/200 (snellen) in the better eye with correcting lenses.

(c) Limitation of the field of vision subtending an angle of 20% or more.

9. Low Vision**.** "Person with Low Vision" means a person with impairment of visual functioning even after treatment or standard refractive correction but who uses or is potentially capable of using vision for planning or execution with appropriate assistive device.

10. Leprosy Cured. "Leprosy Cured Person" means any person who has been cured of leprosy but is suffering from:-

(a) Loss of sensation in hands or feet as ell as loss of sensation and paresis in the eye and eyelid but with no manifest deformity.

(b) Manifest deformity and paresis but having sufficient mobility in their hands and feet to enable them to engage in normal economic activity.

(c) Extreme physical deformity as well as advanced age, which prevents him from undergoing any gainful occupation.

11. Hearing Impairment. "Hearing Impairment" means loss of sixty decibels or more in the better ear in the conversational range of frequencies.

12. Locomotor Disability. “Locomotor Disability” means disability of bones, joints or muscles leading to substantial restriction of the movement of limbs or any form of cerebral palsy.

13. Mental Retardation. “Mental Retardation” means a condition of arrested or incomplete development of mind of a person, which is specially characterized by sub normality of intelligence.

14. Mental Illness. “Mental Illness” means any mental disorder other than mental retardation.

15. Autism. “Autism” means a condition of uneven skill development primarily affecting the communication and social abilities of a person, marked by repetitive and ritualistic behaviour.

16. Cerebral Palsy. “Cerebral Palsy” means a group of non-progressive conditions of a person characterised by abnormal motor control posture resulting from brain insult or injuries occurring in pre-natal, perinatal or infant period of development.

17. Required Medical Certificates. As per the provisions of rule 11A, the assessee are required to furnish along with the return of income, a copy of the certificate issued by the medical authority in the form prescribed vide notifications that give clarifications about issuing disability certificates as per the provisions of Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. Further, where the condition of disability is temporary and requires reassessment after a specified period the certificate shall be valid only for the period given (both starting and ending assessment years relevant to the previous years during which the date of commencement of the disability and the date of expiry of the certificate fall are included). As per these notifications disability certificate will be issued by a Medical Board of three members (of which one member shall be a specialist doctor in the field of respective disability) duly constituted by the Central / State Governments. Also, the notifications have given detailed clarifications on types and grades of disability. Following types of certificates have been specified.

STANDARD FORMATS OF CERTIFICATES

Name & Address of the Institute / Hospital issuing the certificate
Certificate No………………. Date…………………

CERTIFICATE FOR THE PERSONS WITH DISABILITIES

This is to certify that Shri / Smt / Kum ……………..son / wife / daughter of Shri. …………… Age ………… old male / female, Registration No. ……………… is a case of ……………….. He / She is physically disabled / visual disabled / speech & hearing disabled and has ……………% (……………..percent) permanent (physical impairment/visual impairment/speech & hearing impairment) in relation to his / her ………………..

Note :--
1. This condition is progressive / non-progressive / likely to improve / not likely to improve.*
2. Re-assessment is not recommended / is recommended after a period of …………………….. months / years.*

* strike out which is not applicable.

Sd/-	Sd/-	Sd/-
(Doctor)	(Doctor)	(Doctor)
Seal	Seal	Seal

Signature / thumb impression
Of the patient.

Countersigned by the
Medical Superintendent/CMO/Head of the
Hospital with seal

Recent Attested Photograph showing the disability affixed here.

Name & Address of the Institute / Hospital issuing the certificate
Certificate No………………. Date…………………

CERTIFICATE OF MENTAL RETARDATION FOR GOVERNMENT BENEFITS

This is to certify that Shri / Smt / Kum ……………..son / wife / daughter of Shri. …………… of ……………………. Village/Town/City ………………… with particulars given below :-

(a) Age

(b) Sex

(c) Signature / Thumb impression

Categorisation of mental retardation
Mild / Moderate / Severe / Profound

Validity of Certificate : Permanent

Signature of the Government
Doctor / Hospital with seal
Chairperson Mental Retardation
Certification Board

Recent Attested Photograph showing the disability affixed here.

Dated :

Place:

Deduction in case of a Person with Disability.

18. As per the provisions of section 80U of the Income Tax Act, in computing the total income of an individual, being a resident, who, at any time during the previous year, is certified by the medical authority to be a person with disability, there shall be allowed a deduction of Rs. 50,000/-. In case of severe disability, the deduction will be of Rs. 75,000 /-. All other provisions (except proof of dependency) will remain same as for section 80DD.

19. For claiming the deduction, a certificate issued by the medical authority under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995, is to be filed along with the return of income.

20. Under the old section (prior to Finance Act 2003) it was held that such certificate could be produced at any stage of assessment proceedings. Also, under the old section, it was also held that even if the physical disability did not reduce the capacity to engage in gainful employment, the assessee was entitled to benefit under this section. Also, it was not a condition precedent for allowing the deduction that the assessee must have been unemployed or earning nothing.

Deduction in Respect of Medical Treatment for Chronic Diseases.

21. As per the provisions of Section 80 DDB, where an assessee has actually paid any amount for the medical treatment of such disease or ailment (as may be specified in the rules) for himself or a dependent, the assessee shall be allowed a deduction of the amount actually paid or a sum of forty thousand rupees, whichever is less, in respect of the previous year in which such amount was actually paid. This deduction

shall be further reduced by any amount reimbursed by the employer or paid by the insurer. A certificate is required in the prescribed form (Form 10-I) from a specialist doctor working in a Government Hospital. In case of the patient being a senior citizen, 'forty thousand rupees' be substituted by 'sixty thousand rupees'. 'Dependant' means the spouse, children, parents, brothers and sisters of the assessee who are dependant wholly or mainly on the assessee.

22. The following diseases have been specified in Rule 11D:-

(a) Below mentioned Neurological diseases where disability level has been certified to be 40% and above :-

(i) Dementia

(ii) Dystonia Musculorum Deformans

(iii) Motor Neuron Disease

(iv) Ataxia

(v) Chorea

(vi) Hemiballismus

(vii) Aphasia

(viii) Parkinsons Disease

(b) Malignant Cancers

(c) Full Blown Acquired Immuno Deficiency Syndrome (AIDS)

(d) Chronic Renal Failure

(e) Hematological disorders :-

(i) Hemophilia

(ii) Thalassaemia

23. The specialist doctor as mentioned above means, in case of Neurological diseases a Neurologist having a Doctorate of Medicine degree in Neurology or equivalent degree recognised by the Medical Council of India, in case of Cancer an Oncologist having a Doctorate of Medicine degree in Oncology or equivalent degree recognised by the Medical Council of India, in case of Chronic Renal Failure a Nephrologist having a Doctorate of Medicine degree in Nephrology or a Urologist having a Doctorate of Chirurgiae degree in Urology or equivalent degree recognised by the Medical Council of India and in case of Hematological disorders a specialist having a Doctorate of Medicine degree in Hematology or equivalent degree recognised by the Medical Council of India.

24. Where no specialist doctor has been specified or where appropriate specialist doctor is not posted in the Government Hospital where treatment is being taken, such certificate, with prior approval of the Head of the Hospital, can be issued by any other specialist working full time in the hospital and having a post graduate degree in General or Internal Medicine recognised by the Medical Council of India.

FORM NO. 10-I

[See rule 11DD]

Certificate of prescribed authority for the
Purposes of section 80DDB

1. Name of Patient

2. Address

3. Father's name

4. Name and address of the person on whom the patient
is dependent and his relationship with the patient.

5. Name of the disease or ailment (please see rule 11DD)

6. For diseases or ailments mentioned in item (i) of clause
(a) of sub-rule (1), whether the disability is 40% or more
(Please specify the extent)

7. Name, address, registration number and qualification
of the specialist issuing the certificate, along with the

name and address of the Government Hospital [see rule 11DD(2)]

Verification

This is to verify that I, Dr. ………………………s/o (w/o) Shri. ………………………., in the case of Shri. / Smt / Ms. ………………………, after considering the entire history of illness, careful examination and appropriate investigations, am of the opinion that the patient is suffering from ……………………….. disease / ailment during the previous year ending 31st March ……….

I also certify (only in case of neurological diseases) that the extent of disability is more than 40% (strike off, if not applicable).

I certify that the information furnished above is true to the best of my knowledge.

…………………………
Date. …………………….. Signature
Place …………………….. (Name and address)

Important Points to Note

25. Reimbursement of Medical Expenses. The plain meaning of the provisions of the Income Tax Act is that deduction of expenditure reimbursed by the employer for the diseases that are not eligible will be disallowed (in excess of Rs. 15,000/-) if the treatment is taken at hospitals not approved.

26. Medical Insurance Premium. The words 'payment by cheque' are important. Since the statute does not refer to any other mode of payment, payment made by any mode other than cheque will be disallowed.

27. Definition of Dependent. This definition is important in the sense that grand parents / uncles / grandchildren etc. are NOT covered under this section. Earlier grand parents / grand children were also covered. Second important point to note is that earlier the requirement was that the person must have been fully dependent on the assessee. Now the requirement is that the person concerned must be mainly dependent on the assessee.

28. Deductions for Disability to Self / to Dependents.

(a) Under the old sections (prior to Finance Act 2003) it was held that Disability Certificate could be produced at any stage of assessment proceedings. Now, the certificate is required to be attached along with the Return of Income.

(b) The following have been held by various courts of law :-

(i) It was not a condition precedent for allowing the deduction that the assessee must have been unemployed or earning nothing. [Sardar Harpreet Singh Vs CIT (1991) 187 ITR 679(All)]

(ii) Earning of income / Quantum of income can not be a ground for denying deduction. [CIT Vs Bhagwat Prasad Parikh (1999) 239 ITR 645 (Guj)] [CIT Vs K. Santhanakrishnan (2000) 241 ITR 582 (Mad).

(iii) However, in the case of KS Srinivasan Vs. CIT (1999) 102 Taxman 342 (Mad.) it was held that 'assessee must not only be suffering from one of the prescribed disabilities but also satisfy the second requirement of inability to get engaged in gainful employment'.

(c) This dispute is now put to rest by the legislature itself by amending the Act. The second requirement given in the earlier Section 80U regarding gainful employment now stands removed.

(d) As per the Act, Disability Certificate is to be given by the 'Boards formed by the Central / State Governments.' Practically, the respective governments have delegated the authority to issue the Disability Certificates to various Government Hospitals and also to some Non Government Hospitals.

(e) The definition of disability is slightly ambiguous as far as Autism and Cerebral Palsy are concerned. Percentage of disability is not given in the relevant Act i.e 'National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999'. In the same Act, percentage of disability for multiple disabilities is not given, but in one of the other notifications it is given to be 40%.

29. Deduction in respect of Treatment for Specified Diseases.

(a) Earlier there was an ambiguity about the amount of deduction available. Some people interpreted the language of the section to mean deduction of Rs. 40,000 /- (or Rs. 60,000 /- as the case may be) irrespective of the expenditure. Others interpreted it as actual expenditure limited to Rs. 40,000 /- (or Rs. 60,000 /- as the case may be). This controversy has now been put to rest by clearly mentioning the "deduction will be actual amount expended limited to Rs. 40,000 /- (or Rs. 60,000 /- as the case may be)". Since the deduction is based on actual expenditure, the proof of expenditure in terms of hospital bills, medicine purchase bills, nursing bills, investigation bills etc. will be required.

(b) Earlier certificate from any specialist doctor was sufficient. Now, the certificate is required only from a specialist doctor employed by a Government Hospital.

(c) The term Government Hospital for this section includes :

(i) A departmental dispensary run by a Department of the Government for the medical attendance and treatment of a class or classes of Government servants and members of their families. (Thus, Military Hospital is included in the term Government Hospital)

(ii) A hospital maintained by a local authority.

(iii) Any other hospital with which arrangements have been made by the Government for the treatment of Government servants.

Conclusion

Army does care for all her jawans / officers and their families as far as medical problems are concerned. The hospitalisation, medication and treatment is either free or is heavily subsidized. Still, one has to spend some amount (specially for ailing parents) for the medical treatment. As per the tradition of our Indian culture, one has to look after one's age old parents. Also, it is possible that free medical treatment is not available at each place. Otherwise also, sometimes one incurs heavy expenditure on medication. I hope that the provisions given in this article will help such jawans and officers.

WHERE TO INVEST TO SAVE TAX AND EARN INCOME

Investment Options.

1. Investment in Residential Property. The biggest advantage of the investment in residential property is that a lifetime asset is created and also considerable amount of tax is saved. The interest (up to Rs. 1,50,000 /-) paid on housing loan in case of self occupied house is deductible from taxable income. This limit is separately available to all individuals in case of joint property. Thus, in case of joint property between husband and wife where both are earning, a total deduction of Rs. 3 lakh can be claimed (provided that much interest is paid). Please note that being a co-borrower without being owner of the property will not make the concerned person eligible for deduction. Also, the principal amount paid back is eligible for deduction within the overall limit of Rs. 1 lakh in section 80CCE. **The point is that one should take maximum housing loan even if one has adequate savings in DSOP fund or otherwise. The savings can be used to repay the loan.**

2. Investment in Shares. Investments in shares per se are not eligible for tax deduction. However, any income from investments in shares invites very low tax if not tax free altogether. Long term capital gains from sale of shares carried out through stock exchange is exempt from income tax. The dividends received from a domestic company is tax free in the hands of the shareholders but the company shall pay dividend distribution tax (which is ordinarily much lower than the income tax). However, I shall recommend investment in different equity oriented mutual funds (minimum four to five) rather than direct investment in shares unless you are an expert in the field.

3. Investment in Mutual Funds. Mutual Fund means a common pool of money received from the members (who hold units in proportion to their investment). This fund is invested by the asset management company in various tradable securities and the income (after deduction of administrative charges) from such investment is distributed by the fund managers to the unit holders in proportion to their investment. Depending on the type of investment by the asset management company, the fund is termed as equity oriented (more risk more return), debt oriented (less risk less return) or balanced fund. A new concept called 'Fund of Funds" has started in India wherein the fund is invested in various other mutual funds; thus the risk becomes minimal and the returns are only marginally reduced. Where the money is accepted for a particular duration and no transfer of units is permissible, such fund is called closed fund. Otherwise, the fund is called open fund. The value of the fund per unit on any given day is called Net Asset Value (NAV). As per SEBI guidelines, it is mandatory for each fund to declare its NAV on its website on each day. The units are transferable at the NAV of that day. **The investment in Mutual Funds should be done where the fund is big and is being managed well. A glimpse at any financial / investment periodical or one hour per week in front of any business channel on TV will make you fairly aware of some good funds. The basic advantage of mutual fund is that the investment of the fund is done by the competent experts of asset management company in appropriate numerous securities thereby reducing the risk and enhancing the returns.** The tax benefits available to mutual funds include concession of tax on long term capital gain, deduction of certain specific funds like LIC Dhan Raksha, specified pension funds and Equity Linked Savings Scheme (ELSS) are available under section 80C (within overall limit of Rs. One lakh). Also, income from mutual funds is fully tax exempt. Earlier, dividend distribution tax was applicable for close ended funds (most of which are ELSS); however, the Finance Act, 2006 has removed that restriction also.

4. Investment in Gold. The value of gold has been appreciating. Hence, investment in gold is an option available to individuals having disposable income. However, one should purchase gold only after checking the hallmark or better still from the scheduled banks that sell gold bars / biscuits.

5. Provident Funds. There are various types of provident funds getting governed by various laws and regulations. Army officers are concerned with DSOP and PPF only. The most important aspect about these funds is that the subscription is eligible for deduction under section 80C (within overall limit of Rs. One lakh), the interest received is tax free and the final withdrawal is tax free. This is likely to continue for a while. PPF is a 15 year scheme where maximum of Rs. 70,000 /- per year can be subscribed. The withdrawal are permitted from the end of seventh year onwards to the extent of 50% of amount existing at the end of three years prior to withdrawal. The rate of interest is 8%.

6. NSCs. NSCs can be purchased for any amount in multiple of Rs. 100 /-. The rate of interest is 8% compounded half yearly and paid at the end of six years. The amount invested is deductible from the taxable income under section 80C (within overall limit of Rs. One lakh); but the accrued interest is taxable in the year in which it is accrued.

7. Post Office Monthly Income Scheme (MIS). An amount of maximum Rs. 3 lakh /- (Rs. 6 Lakh /- in case of joint account) can be deposited in post office MIS. The interest is paid monthly @ 8% per year. Earlier, 10% bonus used to be paid on maturity, however, the bonus has since been stopped.

8. Post Office Time Deposit Account. The account can be opened for one year (rate of interest 6.25%) or for two years (rate of interest 6.5%) or for three years (rate of interest 7.25%) or for five years (rate of interest 7.5%). More than one account can be opened without any limit. Presently interest is taxable. However, as per Finance Bill 2006, the fixed deposits in scheduled banks will henceforth be eligible for tax deduction under section 80C; hence, it is expected that the post office time deposit account will also enjoy the same treatment. Alternatively, if the bank interests are more, one can put the money in banks.

9. 9% Senior Citizen Savings Scheme, 2004. Any individual above the age of 60 years or a retired person above age of 55 years (within one month of receipt of retirement benefits) can join the scheme. The age limit is not applicable to retired defence persons. Maximum of Rs. 15 lakh can be invested in any post office having savings bank facility. 9% interest is payable every quarter. If half yearly or yearly interest is taken, additional interest to the extent of savings bank interest rate on interest is payable. The deposit is for five years but premature closure after one year is permitted (at cost).

10. 8% Savings Bonds (Taxable). 8% taxable savings bonds can be purchased for any amount in the multiple of Rs. 1000 /- in designated branches of any nationalised bank, ICICI Bank, HDFC Bank, IDBI Bank & UTI Bank. Interest is payable half yearly and is taxable.

11. Insurance Policies. There are various types of insurance policies like whole life policy or endowment policy or Unit Linked Insurance policies. The premiums paid on all these policies are deductible under section 80C (within overall limit of Rs. One lakh). In my opinion, since Army Officers are covered by AGIF, there is no requirement of taking any insurance policy. The returns are limited and premium is heavy. If at all a policy is to be taken, one should take whole life policy where the premium is least and coverage is most. If you are looking for returns, there are other options like mutual funds.

Investment Planning

12. Investment Planning For Young Officers. Officers up to five years of service are unmarried. They have a lot of disposable income. However, their tax liability is also minimal. Accordingly, they should invest in the options that do not necessarily give tax benefit on investment, but the income when received after a few years is non taxable. Thus, systematic investment plans of a good mutual fund would be the best option for these officers after the mandatory investment of Rs. 1 lakh in eligible deductions is exhausted through AGIF / DSOP.

13. Investment Planning For Middle Rung Officers. Officers between the ages 25 to 40 years have family responsibilities. Also, the income tax is ever increasing. Thus, the investment options should cater for both the needs. If one has invested properly in initial years, there is little to worry. The best option for investment remains DSOP fund and mutual funds. If one can afford to invest in residential house with loan, it will bring an added benefit.

14. Investment Planning For Senior Officers. Officers above the age of 40-45 years fall in this category. The best option is to invest in house property with loan if not invested earlier. Do not worry about the loan repayment, retirement benefits should take care of that. Other options are also available. If you have invested properly in the DSOP or in the mutual funds, you will not face any hardship. One must also open a PPF account so that one can invest or withdraw as per the requirement on reaching the retirement age.

15. Investment Planning for Retiring Persons. The investment planning is very important for retiring persons. Assuming that all liabilities like children education and marriage are over, one receives about 15-20 lakh rupees on retirement. The entire amount received is available as tax free capital. One must invest appropriate amount in the 9% Senior Citizen Scheme and in Post Office MIS. The money received from MIS can further be put in fixed deposits. If you have been investing in the mutual funds SIP, the capital should have appreciated. With this much capital available, one can live in the same style as one did while in service. Please note that if you give any capital to your children, it must be given as loan with proper execution of loan agreement duly registered. This will save a lot of hassles in tax planning of yourself as well as of your children. Your children will be bound to refund the loan amount, which will be available as deduction to them.

Conclusion.

To conclude, I shall repeat the age-old adage – "A rupee saves is a rupee earned." We must ensure that our tax incidence is minimum by making proper tax and investment planning. I hope that this booklet will be useful to that extent.

…………………………………………………….

++++++++++++++++++

|||||||||||||||||||||||||||

****