



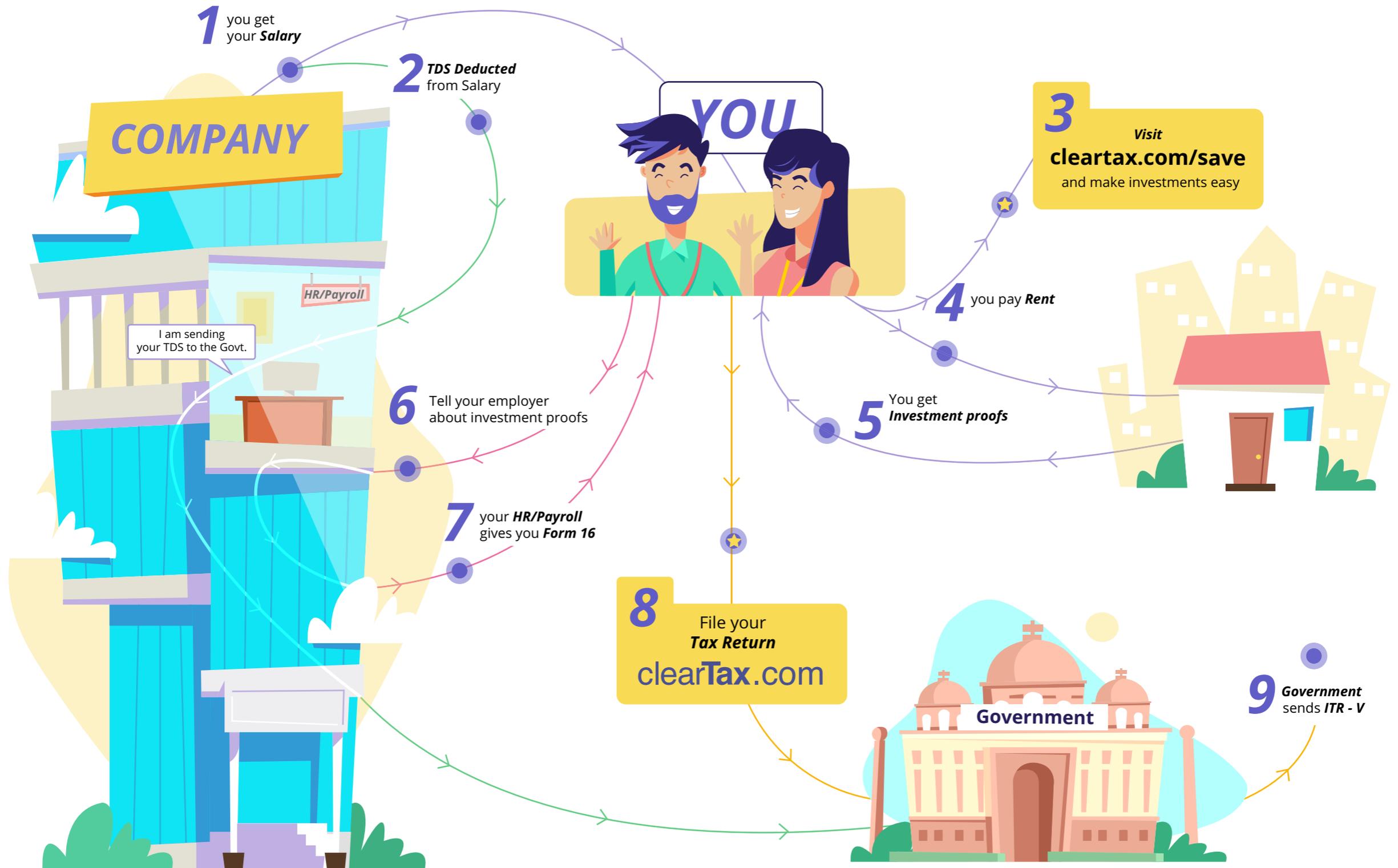
TAXES

FOR THE BUSY EMPLOYEE

The complete guide



How Taxes work



Content

1. Understanding **salary** and **allowances**
2. 12 smart ways to **lower taxes on salary**
3. All types of **Retiral**
4. How to **choose 80C Deductions** and whether you must invest money
5. Tax Saving declaration **Form 12BB**
6. **TDS** and **Income Tax Rates**
7. How to use **Form 26AS**
8. File **Tax Returns**
9. 6 tax smart things to do before **31st March'17**



1. Salary and allowances

clearTax.com					
Emp Code	23456	Emp Name			
Department	Managed Svcs COE	Cost Center	2367	PF No.	XXXXXXXXXX
Location	Bangalore	Designation	IN-Technical Consultant	ESI No.	
Date of Birth	.. .12/2/90	Bank A/c No	XXXXXXXXXX	Pan No.	XXXXXXXXXX
Date of Joining	14/2/90	Gender	M	EPS No.	
Earnings	Amount	YTD	Deductions	Amount	YTD
BASIC	17,460.00	171,108.00	Provident Fund	2,095.00	20,531.00
House Rent Allowance	6,984.00	68,443.00	Professional Tax	200.00	2,000.00
Conveyance	800.00	7,840.00	Lunch recovery	200.00	1,400.00
Medical Reimbursement	1,250.00	12,250.00	Transport recovery	0.00	3,000.00
Telephone Reimbursement	2,500.00	24,500.00	Income Tax	2,588.00	15,614.00
Night Shift Allowance	5,400.00	35,400.00			
Bonus	0.00	9,170.00			
Notice Pay Buyout	0.00	31,408.00			
Special Allowance	12,562.00	123,107.00			
Total Earnings	46,956.00	483,226.00	Total Deductions	5,083.00	42,545.00
Net Pay Rs. 41,873.00					
In Words Rupees Forty One Thousand Eight Hundred and Seventy Three Only.					

Basic Salary

House Rent Allowance

Transport allowance

Bonus: *100% Tax free

Special Allowance

Provident Fund

Professional Tax

Income Tax

Basic Salary

This is the base income. It forms the basis of other allowances of your salary and hence the name. HRA is sometimes defined a percentage of Basic Salary. PF is deducted at 12% of your Basic Salary.



Although basic salary is fully taxable, lowering your basic salary can have a direct impact on some of the retiral benefits such a EPF.

[USE OUR HRA CALCULATOR](#)

House Rent Allowance

HRA or house rent allowance, is the most common allowance received by the salaried. Those who pay rent can save tax on HRA.

The least of the following three will be exempt from tax:

- **HRA received from your employer**
- **Actual rent paid minus 10% of your salary**
- **50% of your Basic salary for those living in metro cities, or 40% for those living in non-metro cities**

HRA less exemption calculated above is becomes part of your taxable salary.

- ✓ **Make sure HRA is defined as a component of salary by the employer. Only those who receive HRA from employer can claim tax benefit on it.**
- ✓ **Paying rent is a must. Do remember to keep records of the rent receipts.**
- ✓ PAN of the landlord must be submitted to your employer where monthly rental exceeds Rs.8333.
- ✓ Don't worry if you could not submit rent receipts to your employer on time, you can claim HRA at the time of filing your income tax return.

LTA

LTA or Leave Travel Allowance can be used to save tax on fare expenses for a trip within India. Your pay structure, may or may not include LTA. It is not a mandatory benefit.

- **Exemption on LTA is the fare for the shortest distance between two places.**
- **In case of travel by air, exemption should not be more than economy fare of Air India by the shortest route to the destination. It does not apply for foreign travel.**
- **It can be claimed for the employee and his family. This allowance is limited to two children only.**
- **2 journeys can be claimed in a block of 4 years. We are currently on the 1st Jan 2014- 31 Dec 2017 block. You can claim two journeys within this period.**
- ✓ Exemption is only allowed for fare. This does not include expenses for conveyance from home to airport/railway station and back.
- ✓ Boarding and lodging is also not included, expenses during the trip are also not considered.
- ✓ **Your employer may have additional rules for compliance such as minimum leaves to avail this exemption.**
- ✓ This exemption can only be claimed via the employer. It cannot be claimed while filing your tax return. So remember to submit your bills on time.

Conveyance Allowance

Allowance which is given for cost of commute from home to office and back. Rs 1,600 per month is exempt from tax. No bills or receipts are allowed to be submitted to claim this.

- ✓ **Make sure this is a part of your salary. This way income of Rs 1,600 x 12 = Rs 19,200 will be exempt from tax.**

Sometimes, as part of your job, you may have to travel to client location from office or from home. In such cases you are paid conveyance allowance. If you submit your bills, you don't have to pay tax on this allowance. If you have received conveyance allowance and could not submit bills to your employer; you have to pay tax on such allowance. If you submitted bills but not for the full amount of allowance, tax is payable on the balance amount.

Conveyance allowance is different from transport allowance, since exemption is allowed on the basis of actual bills submitted to the employer.

Travelling Allowance

Those who travel out of town for work are paid a travelling allowance. This may be in the form of a per diem allowance, which an employee can use for travelling as well as meals. If bills are submitted for the amount received as allowance, there is no tax. If no bills are submitted such allowance is taxable as salary. If bills are not submitted for the full amount, the remaining allowance is taxed.

Medical Reimbursement

Your company can structure your pay to allow you reimbursement of medical bills up to Rs.15,000 These expenses may be for consultation with a doctor, medicines, medical tests etc. You can also claim medical expenses your dependents. Please check about this with your company. within this period.

- ✓ **This exemption can only be claimed via the employer. It cannot be claimed while filing your tax return. So remember to submit your bills on time.**

Leave Encashment

Employers usually have a Leave Encashment policy. Some may allow you to carry forward a certain type of leaves and allow you to encash them. While others may prefer you take your leaves as you go or else they lapse. Exempt for government employees, taxable to an extent for others.

Other Allowances

All other allowances such as special allowance, bonus, dearness allowance, overtime allowance, medical allowance are fully taxable.

[USE OUR HRA CALCULATOR](#)

2. 12 ways to lower taxes on salary

Do you want to increase your take home and lower your tax outgo? Here are some allowances and exemptions you can consider.

You can use these to reduce your taxable salary if these are a part of your agreed salary structure. So by restructuring your salary, and including these allowances, you can reduce your taxes in a big way. You will have to rework your salary structure with your Employer to take these benefits.



Check out below, an example of salary restructuring can help you reduce your taxable salary

OR

[READ MORE](#)

Allowance/Perks	Purpose of Allowance/Perks	Max Exemption
Medical reimbursement	Medical expenditure of employee or dependants	Rs 15,000 per year
Conveyance Allowance	Commute between office and place of residency	Rs 19,200 per year
Leave Travel Allowance	Commute between office and place of residency	
House Rental Allowance (HRA)	For rent of a house near the place of work	Minimum of the following : 1) Actual HRA(Given in CTC) 2) 50% of (basic + dearness allowance)if metro city otherwise 40% if non-metro 3) Total rent – 10% of Basic salary
Mobile reimbursement and residential telephone bill reimbursement	Telephone expenses for official use	Actual bill amount or amount provided in CTC whichever is lower
Uniform allowance	Expenses for purchase and maintenance of official uniform	Minimum of actual expenses and allowance received
Children Education Allowance	Education Expenses of children	Rs 100/month per child(up to two children)
Children Hostel Allowance	Hostel Expenses of children	Rs 300/month per child(up to two children)
Books & Periodicals	Expenses on books, newspaper & magazines.	Actual expenses.
Fuel reimbursement	Expenses of fuel, driver's salary	Rs 1800/month. in case cubic capacity of engine is 1.6 litres OR else 2400 /month along with Rs900/month for driver's salary NOTE: This exemption depends on whether car is owned by employee or employer
Club Facility	Expenses incurred towards payment of fees to acquire corporate membership.	Actual expenses

See how Salary structure has been revised to lower taxes.

	Existing Salary	Tweaked Salary
Basic Salary	2,22,000	2,22,000
HRA	1,80,000	1,50,000
Special Allowance	18,000	10,000
LTA		19,200
Conveyance Allowance		15,000
Medical Reimbursement		14,400
Mobile Reimbursement		13,200
Food Coupons (Taken for one meal)		13,200
Residential Phone Bills		12,000
Total	5,00,000	5,00,000
Tax Outgo	25,000	-
Cess 3%	750	-
Total Tax	25,750	-

3. Retirals

Retirals means the benefits payable at the time of Retirement or once a certain period of time has elapsed.
Retirals include:

Gratuity

Paid when an employee leaves after completing 5 years in service or on retirement. Exempt for government employees, taxable to an extent for others.

PF or Provident Fund

If the employee withdraws the EPF balance before completing 5 years of service, then EPF balance is taxable.

NPS or National Pension System

Contribution made by you and your employer are both eligible for tax benefits. Your contributions are eligible within the overall limit of Rs 1.5lakhs for Section 80C. Your deposits to NPS can also be claimed in Section 80CCD(1B). Amount contributed by your employer is also eligible for tax benefit in your income tax return under section 80CCD(2).

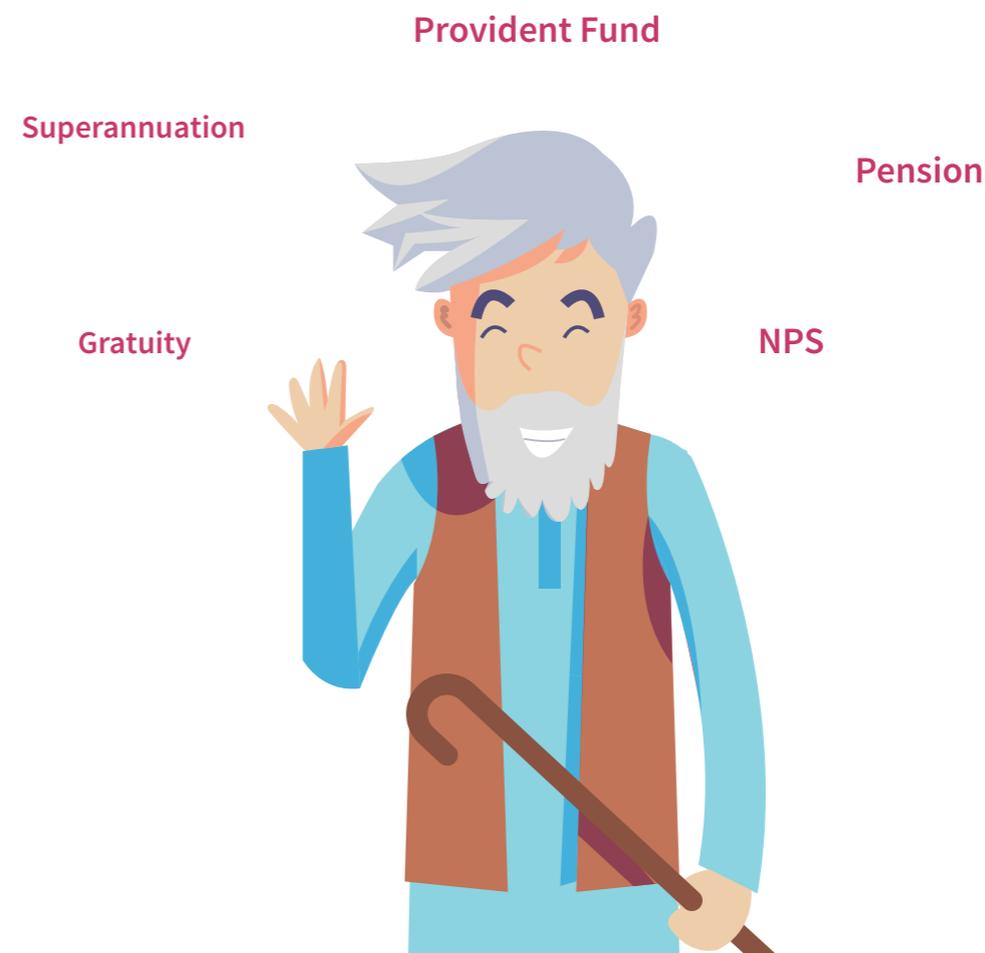
Pension

Monthly pension paid by to the retired or paid to their nominees.

Superannuation

If company have the superannuation policy, then monthly pensi- paid by company.

[GENERATE YOUR DECLARATION FORM](#)



4. How to choose 80C Deductions

ELSS Funds

- ELSS funds have the **lowest lock-in period**
- ELSS funds give you **growth of investments** unlike insurance
- The amount you receive as **interest is tax free**

FAQs	ELSS Mutual Funds 	Others PF, FD, NPS and more
How long is my money locked in for?	✔ Only 3 years	5-15 years
What annual growth can i expect?	✔ 15%*	7-9%
Tax on Interest	✔ Tax-free returns	Not tax free in all cases

1) ELSS

One of the smartest ways to maximise section 80C is to consider ELSS mutual fund. Investments in ELSS can be done via SIPs. Or if they have remaining balance in 80C to claim, they can even do a lump sum ELSS investment. Lock is 3 years (lowest amongst all the 80C options) and returns are usually 15%-18%

2) PPF

Conservative investors may invest in PPF as it offers guaranteed returns. The principal invested is secure. However, PPF returns will now be linked to G Sec returns and reset every quarter. Currently, PPF continues to offer inflation beating returns @ 8% (and also interest is tax free).

The drawback with PPF is that you cannot raise your investment as your income goes up. A maximum of Rs 1.5lakhs can be invested in PPF. Besides, so investors, must consider a SIP in mutual funds as a means to save and invest in line with rise in their disposable income.

START SAVING NOW !

4. How to choose 80C Deductions

3) 5 year fixed deposit

5 year fixed deposits are also eligible for 80C. And this is a good option for senior citizen who are looking for a secure and liquid means of investment. Since they enjoy a higher income exemption limit, they can opt for this option in 80C to minimise their tax outgo and still have easy access to funds.

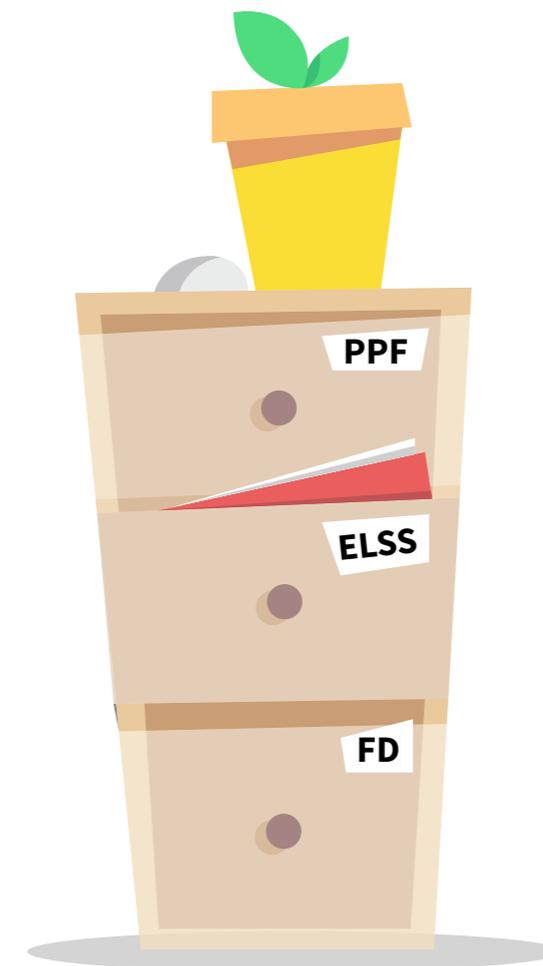
5) ULIPs

Taxpayers must exercise caution while investing in ULIPs or purchasing life insurance or investing in a pension product (approved for 80C) purely for tax benefits. Since these are heavily marketed as tax saving products some investors fall for them. Not many taxpayers are aware that the premiums must be paid regularly and the ULIP must be continued to avail tax benefits. In case you discontinue your ULIP before 5 years, you will not be allowed any tax benefits. Any deduction allowed in the previous years shall get added back to your income in the year in which ULIP is closed.

START SAVING NOW !

4) Sukanya Samridhi Account

Those with a girl child must opt for sukanya samridhi account. It works just like PPF but offers a higher rate of return. So if you have a daughter and are a conservative investor, consider SSA.



4. How to choose 80C Deductions

? Do you really need to invest your money to claim 80C deductions?

Maximum investment allowed under section 80C	150000
Check your contribution to EPF (usually 12% of basic)	9600
Did you pay any life insurance premium during the year?	12000
Do you have school or college going children? Include their fees, max upto 2 kids	60000
Did you buy a house this year? Include registration and stamp duty paid	10000
Are you repaying a home loan? Claim principal repaid	50000
Balance	8400
<i>(This is the amount you need to invest)</i>	

See the full list of section 80 Deductions here.

START SAVING NOW !

As can be seen, it's possible to make the most of 80C without an additional rupee invested. Once you have exhausted 80C, consider other exemptions such as -

Medical insurance: Mounting medical expenses can literally burn a hole in your pocket. Consider purchasing a medical insurance to secure your family.

Deduction allowed on premium paid for self, spouse and dependent children of maximum Rs 25,000.

An additional deduction can be claimed for insurance of parents (father or mother or both) of maximum Rs 30,000.

For uninsured super senior citizens (more than 80 years old) medical expenses up to Rs 30,000 can be claimed as a deduction under section 80D.

Within the existing limits a deduction of up to Rs. 5,000 is allowed for preventive health check-up.

5. Tax Saving declaration form 12BB

Q What is the purpose of Form 12BB?

A Employees have to submit a declaration of deductions and exemptions that they want to claim in the form 12BB. The employer will deduct TDS on the employee's salary on the basis of the declarations in form 12BB

Q When do I have to submit Form 12BB?

A Usually, employers ask for a declaration at the start of the financial year to estimate TDS calculations for the whole year. Employees are required to submit the Form 12BB at the beginning of the financial year or when they join a new job in the middle of the year.

Q Do I need to submit Form 12BB to the Income Tax Department?

A No, Form 12BB does not have to be submitted to the tax department. It has to be submitted to your employer

Q Is Form 12BB mandatory?

A It is mandatory for employers to collect Form 12BB from employees before allowing them to claim tax-saving deductions.

Q What do I do if my employer does not know about Form 12BB?

A You should inform your employer about the Form 12BB. Share this page with them or ask them to get in touch with us.

Q I could not submit Form 12BB on time and my employer has deducted excess TDS. What should I do?

A You can claim refund of excess TDS deducted by filing your income tax return.

[GENERATE YOUR DECLARATION FORM](#)

6. TDS(Tax Deduted at Source)

Those who pay have to deduct tax at source or TDS. This helps the government collect tax as you earn. You are paid salary after TDS is deducted by your employer. This is tax on income already paid by you. While filing your tax return, you have to report gross income and TDS already deducted by the employer is reduced from final tax payable by you.

TDS is deducted on salaries, interest payment by banks, payments made to consultants or freelancers. Employer deducts TDS at the income tax slab rates (see below). Banks deduct TDS @10%. Or they may deduct @ 20% if they do not have your PAN information. For most payments rates of TDS are mentioned in the income tax act. TDS is deducted by the payer according to these rates

If you submit investment proofs (for claiming deductions) to your employer and your total taxable income is below the taxable limit, you do not have to pay any tax. And therefore no TDS should be deducted on your income.

In case you have not been able to submit proofs to your employer or if your employer has already deducted TDS and your total income is below the taxable limit – you can file a Return and claim a refund of TDS.

[USE OUR TAX CALCULATOR](#)

HR/Payroll



7. Income Tax Slabs

 Up to Rs. 2,50,000 NIL	 Rs. 2,50,000 to Rs. 5,00,000 5%	 Rs. 5,00,000 to Rs. 10,00,000 20%	 Rs. 10,00,000 and more 30%
---	---	--	---

The Income Tax Department does not tax everyone at the same rate. How much you pay depends on how much you earn. Your income is taxed according to the income tax slabs.

[KNOW MORE](#)

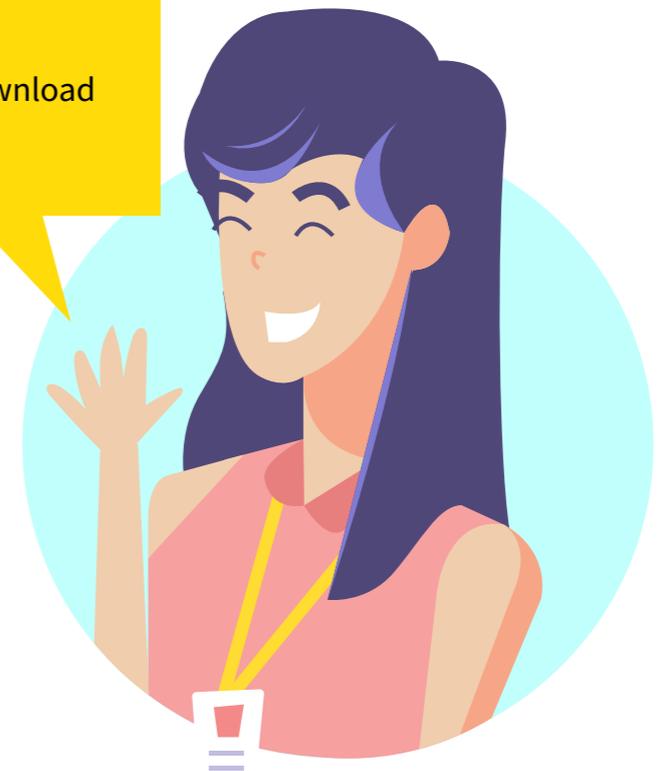
8. How to use form 26AS?

Form 26AS is a tax credit statement, a very important document containing information related to the income tax paid by you during the year. All taxes paid by you or taxes deducted on your income are included in Form 26AS.

Form 26AS contains details of tax deducted on your income including

- Salary Income
- Fixed Deposits
- Bank Accounts
- Sale of Property
- Gain of shares of any freelance work

Hey there,
Step by step guide on how to download
and use this form [here](#).



9. Filing tax returns

You must file an income tax return for FY 2016-17

- Your total income (before allowing any deductions under section 80C to 80U) is more than Rs.2,50,000 in the financial year.
- You have exempt long term capital gains from sale of equity shares in a company OR sale of unit of equity oriented mutual funds, OR sale of unit of business trust, of more than Rs 2,50,000 in a financial year. Even though these gains are exempt from tax, such persons have to mandatorily file an income tax return. [effective FY 2016-17, AY 2017-18]
- You want a tax refund.
- You are a resident individual and have an asset or financial interest in an entity located outside of India. (Not applicable to NRIs or RNORs).
- You are a Resident and a signing authority in a foreign account. (Not applicable to NRIs or RNORs).

[**START YOUR TAX RETURN**](#)

6 tax smart things to do before 31st March 2017

1. Last chance to file tax returns for FY2014-15
 2. File return for FY2015-16 and avoid penalty
 3. Pay taxes in full by 31st March 2017
 4. Deposit in PPF (min. deposit required Rs 500)
 5. Invest in ELSS, if required
6. Reach out to ClearTax to maximise deductions and lower tax outgo!

START YOUR TAX RETURNS NOW

START NOW



Visit

clearTax.com

The perfect tax filing tool for the busy employee.