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Income Taxes and Financial Planning

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Introduction:

Tax is payment made by individuals and organisations to the Government. It is compulsory in short it is used as a tool to implement fiscal policies in order to achieve the economic objectives of the country concerned.

Every Person whose total income exceed the maximum amount which is not chargeable to the income tax at the rate or rates prescribed under the financial act for the relevant assessment year, shall be determined on basis of his residential status. Income tax is a tax payable, at the rate enacted by the union budget (Finance Act) for every Assessment Year, on the total Income earned in the Previous Year by every Person.

The changeability is based on nature of income, i.e., whether it is revenue or capital. The principles of taxation of income are : - Income Tax Rates / Slabs Rate (%) up to 1,60,000 = Nil Up to 1,90,000 (for women)= Nil Up to 2,40,000 (for resident individual of 65 years or above)= Nil for men 1,60,001 -5,00,000 = 10% 5,00,001 – 8,00,000 = 20% 8,00,001 upwards = 30%

Tax is broadly classified as also follows:

Types of Taxes

A] Direct tax :-

1) Income Tax 2) Wealth Tax 3) Gift Tax 4) Changes in Other Direct Taxes – Commodities Transactions, Banking Cash Transaction

B] Indirect tax

1) Service Taxes 2) VAT 3) Sales Tax

Income Tax Act – Definitions & Concepts

Definitions – Concepts of income, Assessment Year, Person, Assesses, Deemed Assesses & Assesses in default, Gross Total Income, Total Income, Agricultural, Income, Exempted Income

Features of Income Tax

1. Income Tax is changed on the income of previous year, at a rates which are prescribed by the Financial Act for the relevant assessment year.
2. The Finance Act is passed every year by the Parliament in the form popularly know "Budget''.
3. Income Tax is levied on a person in relation to his income of the previous year.
4. The tax payer's liability is determined with reference to his residential status in the previous year or accounting year.
5. Liability to income tax arises only where the total income in the accounting year exceeds the maximum tax free amount prescribed by the Finance Act to that relevant year.
6. The rates of income tax are progressive & incidence of the tax increases with the rise in income.
7. TDS-it is compulsory to deduct the tax at source and to pay it to the Government Treasury.
8. The income tax rules, 1962 are a set of rules which supplement the ACT.

1) Personal:

A personal or individual income tax is levied on the total income of the individual (with some deduction permitted). It is often collected on a pay-as-you-earn basis with small correction made soon after the end of the tax year. These corrections take one of two forms : payments to the government, for taxpayers who have not paid enough during the tax year; and tax refunds from the government for those who have overpaid. Income tax systems will often have deductions available that lessen the total tax liability by reducing total taxable income. They may allow losses from one type of income to be counted against another. For example, a loss on the stock market may be deducted against taxes paid on wages.

2) Corporate:

Corporate tax refers to a direct tax levied on the profits made by companies or associations and often includes capital gains of a company law. Earnings are generally considered gross revenue minus expenses. Corporate expenses related to capital expenditures are usually deducted in full (for example, trucks are fully deductible in the Canadian tax system, while a corporate sports car is only partly deductible) over their useful lives by using percentage rates based on the class of asset they belong to.

Accounting principles and tax rules about recognition of expenses and revenue will vary at times, giving rise to book-tax differences. If the book-tax difference is carried over more than a year, it is referred to as a deferred tax. Future assets and liabilities created by a deferred tax are reported on the balance sheet.

3) Payroll:

A payroll tax generally refers to kinds of taxes : employee and employer payroll taxes. Employee payroll taxes are taxes which employers are required to withhold from employees' wagepay, also known as withholding tax with holding, pay-as-you-earn paye or pay-as-you-go tax . These withholdings contribute to the payment of an employee's personal income tax obligation; if the payments exceed this obligation, the employee may be eligible for a tax refund or carryforward to future periods.

Employer payroll taxes are paid from the employer's own funds, either as a fixed charge per employee or as a percentage of each employee's pay. Payroll taxes often cover government social insurance programs, such as social security, Publicly- funded health care health care, unemployment and disability. These payments do not count toward the income taxes of employees and employers, but are normally deductible by the employer as a business expense.

4) Inheritance:

The Inheritance tax, estate tax and death duty are the names given to various taxes which arise on the death of an individual. In international tax law, there is a distinction between an estate tax and an inheritance tax: the former taxes the personal representatives of the deceased, while the latter taxes the beneficiaries of estate. However, this distinction is not universally recognized. For example, the "inheritance tax" in the UK is a tax on personal representatives, and is therefore, strictly speaking, an estate tax.

5) Capital gains tax

A capital gains tax is the tax levied on profits from the sale of capital assets. In many cases, the amount of a capital gain is treated as income and subject to the marginal rate of income tax. In an inflationary environment, capital gains may be, to some extent, illusory. If prices in general have doubled over five years, than selling an asset for twice the price it was purchased at five years earlier represents no gain at all. Partly to compensate for such changes in the value of money over time, some jurisdictions, such as the United States, give a favourable capital gains tax rate based on the length of holding. European jurisdictions have a similar rate reduction to nil on certain property transactions that qualify for the participation exemption. In Canada, 20% and; 50% of the gain is taxable income. In India, Short Team Capital Gains Tax (arising before one year) is 10% [15% from F.Y. 2008-09 as per Finance Act 2008] flat rate of the gains and Long Term Capital Gains Tax is nil for stocks and mutual fund units held one year or more, provided the sale of shares involved payment of the Securities Transaction Tax, and 20% for any other assets held three years or more.

6) Income from other Sources:

This is a residual head; under this head income which does not meet criteria to go to other heads is taxed. There are also some specific incomes which are to be taxed under this head.

1. Income by way of Dividends.
2. Income from horse races
3. Income from winning bull races
4. Any amount received from key man insurance policy an donation

5. Income from shares (dividend)

Scope of the Income Tax :-

The Income Tax Act, 1961 is applicable to whole of India.

1) Basis of charging income

2) Incomes exempt from income tax

3) Computation of income under various heads of income

4) Set off and carry forward of losses

5) Determination of tax uncertain special cases

6) Clubbing of income

7) Income Tax Authorities and their powers

8) Rebates and reliefs

9) Survey, search and seizure

10) Assessment Procedure

11) Collection and recovery of tax and Tax deduction at sources (TDS)

12) Payment of advance tax

13) Refund

14) Appeal and revisions

15) Acquilisitions of immovable Property

16) Penalty and prosecution

Conclusion:

1) To decrease the invisible income tax the people put their black money in foreign banks. E.g. Swiss Bank. So that quantity of paying the tax decrease.
2) The Income tax cannot be decrease
3) Government servant and others salary servants increasing salary increases the income tax
4) When the salary increases than income tax also increases
5) It is observed that income tax increases day by day for salary persons but there are many peoples they cannot pay income tax
6) The people who does not pay income tax for them policies should be apply and rule and regulations must be implemented.

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