

Income Tax Deduction Under Section 80C: A Differential Treatment

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Abstract

Income tax is a direct tax payable by an individual or business on its income earned during a specific period. In India base of income tax assesses is narrow. Hardly 6% people are taxpayers. However the income shown and earned has a huge gap which cannot be filled even after strict regulations. Similarly income tax law in india is very complicated as compared to other countries. Tax evasion is illegal but tax avoidance is legal. As a result, tax payers have keen interest in saving tax using legal way outs. Government has provided lot of deductions and exemptions for taxpayers. Such deductions are provided under various sections depending upon the type of person (assessee) Deductions under section 80C are available for individuals and Hindu Undivided Family(HUF) with certain limits. This paper is related with differentiated tax saving treatment for individuals and HUF. A person gets differentiated benefits for their investment which is eligible for income tax benefits. Same amount and same nature of investment provides different effective rate of return to assesses. Similarly tax saved under section 80C is a huge amount sacrificed by government due to differentiated treatment. Unfortunately this situation proves the popular quotation “all are equal but some are more equal.”

Introduction:

An **income tax** is a **tax** that governments impose on financial **income** generated by all entities within their jurisdiction. It is payable as per the finance bill passed in last year budget session by parliament of India.

By law, businesses and individuals must file an **income tax** return every year to determine whether they owe any **taxes** or are eligible for a **tax** refund. The government uses the money it

gets from taxes to pay for things. For example, taxes are used to pay for people who work for the government, such as the military and police, provide services such as education and health care, and to maintain or build things like roads, bridges and other infrastructure facilities.

Taxes are of **two** distinct types, direct and indirect taxes. The difference comes in the way these taxes are implemented. Some are paid directly by the person, such as the income tax, wealth tax, corporate tax etc. while others are indirect taxes, such as the value added tax, service tax, sales tax and Goods and Service Tax.

Deductions

Tax deduction is a reduction of **income** that is able to be taxed and is commonly a result of expenses, particularly those incurred to produce additional **income**. The difference between **deductions**, exemptions and credit is that **deductions** and exemptions both reduce taxable **income**, while credits reduce **tax**.

Under section **80C**, a **deduction** of Rs 1,50,000 can be claimed from your total income. In simple terms, you can reduce up to Rs 1,50,000 from your total taxable income through section **80C**. This **deduction** is allowed to an Individual or a HUF.

Objectives:-

Objectives of this paper are

- a. To calculate the probable tax benefit opted under section 80C by taxpayers in 2017-18
- b. Calculating the tax amount uncollected by government due to differentiated tax benefits system
- c. To compare existing tax benefit amount with level tax benefit (uniform tax benefit)
- d. To suggest alternatives for tax benefits under section 80C on uniform basis.

Research methodology:

This paper is based on secondary data collected from the website of income tax department regarding number of taxpayers under individual and Hindu Undivided Family category for assessment year 2018-19.

Data is collected from the statistics published by Income Tax Department on their official website. Different ranges of income are disclosed by income tax department like upto Rs.500000, upto Rs.1000000 etc. This range wise number of income tax returns filed by Individual and HUF is used to calculate total amount of tax saved considering the benefit of section 80C at Rs.150000.

This data is used for calculating approximate tax benefit opted by the taxpayers under section 80C. This volume of income tax benefit is compared with the level tax benefit i.e. uniform tax benefit under section 80C.

Further the effective return on investment for the savings/investments under section 80C is calculated to find out the difference between the actual returns earned by taxpayers from different tax slabs.

Limitations:-

This paper is based on data of income tax payers for assessment year 2018-19 only.

Similarly this paper compares the benefits opted under section 80C only.

It is assumed that all assesses in 20% and 30% income tax slab have fully utilised their tax saving limit under section 80C.

Contents

Deductions available under section 80C for individuals and Hindu Undivided Family.

Life insurance premium for policy :

- in case of individual, on life of assessee, assessee's spouse and any child of assessee
- in case of HUF, on life of any member of the HUF
- Sum paid under a contract for a deferred annuity :
 - in case of individual, on life of the individual, individual's spouse and any child of the individual (however, contract should not contain an option to receive cash payment in lieu of annuity)
 - in case of HUF, on life of any member of the HUF
- Sum deducted from salary payable to Government servant for securing deferred annuity or making provision for his wife/children [qualifying amount limited to 20% of salary]
- Contributions by an individual made under Employees' Provident Fund Scheme
- Contribution to Public Provident Fund Account in the name of:
 - in case of individual, such individual or his spouse or any child of such individual
 - in case of HUF, any member of HUF

- Contribution by an employee to a recognised provident fund
- Contribution by an employee to an approved superannuation fund
- Subscription to any notified security or notified deposit scheme of the Central Government. For this purpose, SukanyaSamriddhi Account Scheme has been notified vide Notification No. 9/2015, dated 21.01.2015. Any sum deposited during the year in SukanyaSamriddhi Account by an individual would be eligible for deduction.
 - Amount can be deposited by an individual or in the name of girl child of an individual or in the name of the girl child for whom such an individual is the legal guardian.
 - Subscription to notified savings certificates [National Savings Certificates (VIII Issue)]
 - Contribution for participation in unit-linked Insurance Plan of UTI :
 - in case of an individual, in the name of the individual, his spouse or any child of such individual
 - in case of a HUF, in the name of any member thereof
 - Contribution to notified unit-linked insurance plan of LIC Mutual Fund [Dhanaraksha 1989]
 - in the case of an individual, in the name of the individual, his spouse or any child of such individual
 - in the case of a HUF, in the name of any member thereof
 - Subscription to notified deposit scheme or notified pension fund set up by National Housing Bank [Home Loan Account Scheme/National Housing Banks (Tax Saving) Term Deposit Scheme, 2008]

Tuition fees (excluding development fees, donations, etc.) paid by an individual to any university, college, school or other educational institution situated in India, for full time education of any 2 of his/her children

 - Certain payments for purchase/construction of residential house property
 - Subscription to notified schemes of (a) public sector companies engaged in providing long-term finance for purchase/construction of houses in India for residential purposes/(b) authority constituted under any law for satisfying need for housing accommodation or for planning, development or improvement of cities, towns and villages, or for both

- Sum paid towards notified annuity plan of LIC (New JeevanDhara/New JeevanDhara-I/New JeevanAkshay/New JeevanAkshay-I/New JeevanAkshay-II/JeewanAkshay-III plan of LIC) or other insurer
- Subscription to any units of any notified [u/s] Mutual Fund or the UTI (Equity Linked Saving Scheme, 2005)
- Contribution by an individual to any pension fund set up by any mutual fund which is referred to in or by the UTI (UTI Retirement Benefit Pension Fund)
- Subscription to equity shares or debentures forming part of any approved eligible issue of capital made by a public company or public financial institutions
- Subscription to any units of any approved mutual fund referred to in , provided amount of subscription to such units is subscribed only in 'eligible issue of capital' referred to above.
- Term deposits for a fixed period of not less than 5 years with a scheduled bank, and which is in accordance with a scheme framed and notified.
- Subscription to notified bonds issued by the NABARD.
- Deposit in an account under the Senior Citizen Savings Scheme Rules, 2004 (subject to certain conditions)
- 5-year term deposit in an account under the Post Office Time Deposit Rules, 1981 (subject to certain conditions)

Section 80CCC: Contributions to certain pension funds of LIC or any other insurer (up to Rs. 1,50,000) (subject to certain conditions)

Section 80CCD: Contribution to pension scheme notified by Central Government up to 10% of salary (subject to certain conditions and limits Contribution made by employer shall also be allowed as deduction under section 80CCD(2) while computing total income of the employee. However, amount of deduction could not exceed 10% of salary of the employee

Details of tax saved by Individuals and HUF (AY 2018-19)

Category	INCOME RANGE	No. of Income Tax returns	Highest Applicable Tax slab	Tax saved @ Rs.150000 Deduction	Total Tax saved	Tax exemption on uniform basis @ 10%	Extra tax saving
				Rs.	Rs. In crores	Rs. In crores	Rs. In crores
Individuals	Less than 500000	23475774	10%	15,000	35,213.66	35,213.66	0
	Rs.5 Lakh to Rs.10 lakh	6562332	20%	30,000	19,687.00	9,843.50	9,843.50
	Rs.10 lakh or more	2563911	30%	45,000	11,537.60	3,845.87	7,691.73
HUF	Less than 500000	572397	10%	15,000	858.60	858.60	0
	Rs.5 Lakh to Rs.10 lakh	86928	20%	30,000	260.78	130.39	130.39
	Rs.10 lakh or more	30650	30%	45,000	137.93	45.98	91.95
					67,695.56	49,937.99	17,757.57

Effective rate of return on investment eligible for 80C deduction

Tax slab	Tax saved on Rs.1,50,000	Maturity amount after 5 years of Rs.150000	Actual return (Interest Amount)	Effective return (Tax saved + Interest earned)	Effective return % on Rs.150000
		eg. @8%p.a.			
10%	15000	222892	72892	87892	9.30%
20%	30000	222892	72892	102892	10.60%
30%	45000	222892	72892	117892	11.60%

Findings:

Individuals and HUF assessee gets income tax deduction benefits on differential basis.

Higher the income, higher the income tax deduction benefit and vice versa.

Approximately Rs.18,000crores tax amount is saved by individuals and HUF due to differential tax treatment in deductions under section 80C

Conclusions

Same investment amount provides lower effective returns to lower income group and higher effective returns to higher income group.

For example Rs.150000 saved by an 10 tax bracket assessee gets tax benefit of Rs.15000 whereas same amount saved by a 30% tax bracket assessee gets tax benefit of Rs.45000.

Differential tax benefit indirectly provides huge variation in return on investment on the basis of income range.

Tax collection reduces by Rs.18000 crores due to differential tax treatment in deductions under 80C

Benefits of Uniform tax benefit under section 80C:-

- a. Increased saving from public
- b. Control over black money due to increase in saving from higher income group.
- c. Availability of additional funds for government schemes.
- d. Increase in direct tax collection.

Uniform tax benefit can be beneficial for public due to increase in compulsory saving amount on the basis of level of income. Government can get benefit by way of higher tax collection on one side as well as increase in saving % by public due to increased saving limit under section 80C.

Suggestions:-

1. Government can raise section 80C limit from Rs.150000 on the basis of income range or tax slab
eg. Rs.150000 upto income less than Rs.5,00,000
Rs.3,00,000 for income range of Rs.5 lakh to Rs.10 lakh
Rs.4,50,000 for income range of Rs.10 lakh or more
2. instead of raising 80C limit, maximum tax benefit under section 80C can be maintained at Rs.15,000 only without reference to income tax slab.

References

<https://www.incometaxindia.gov.in>

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