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BA Economics Honours | Semester III | Calicut University

Income Tax Assessment

Course Code: ECO3VN201 • Module 4

Module IV: Tax Planning Strategies

Tax planning represents the scientific, legitimate, and ethical structuring of financial affairs and commercial transactions to minimize tax liability by availing of all statutory deductions, exemptions, allowances, and rebates provided by tax statutes without violating the letter or spirit of the law.

Unit 20 & 21: Tax Planning, Tax Avoidance, and Tax Evasion

A rigorous conceptual demarcation exists between these three dimensions of fiscal behavior:

Dimension	Tax Planning	Tax Avoidance	Tax Evasion
Legal Status	Completely legal, ethical, and encouraged by economic policy.	Technically legal by exploiting loopholes and ambiguous wording; violates legislative spirit.	Completely illegal, fraudulent, and punishable by criminal law.
Methodology	Utilizes explicit statutory exemptions, deductions, and tax reliefs.	Artificial corporate restructuring, transfer mispricing, treaty shopping.	Deliberate suppression of sales, inflation of expenses, fake invoices, undisclosed assets.
Consequence	Generates sustainable savings and directs capital into productive investments.	Subject to anti-avoidance judicial doctrines and GAAR (General Anti-Avoidance Rules).	Heavy financial penalties, interest under Sec 234A/B/C, prosecution, and imprisonment.

Unit 22: Statutory Deductions under Chapter VI-A: Focus on Section 80C

Section 80C provides tax deduction up to an aggregate ceiling of ₹1,50,000 per financial year for individuals and HUFs under the Old Tax Regime. The eligible investment and expenditure instruments include:

- **Employees' Provident Fund (EPF) and Public Provident Fund (PPF):** Sovereign-backed small savings instrument with exempt-exempt-exempt (EEE) tax status.
- **Life Insurance Premiums:** Premium paid on policies for self, spouse, and children, subject to annual premium not exceeding 10% of sum assured (for policies issued after 1 April 2012).
- **Equity Linked Savings Scheme (ELSS):** Diversified mutual funds with the shortest statutory lock-in period of 3 years among 80C instruments.
- **National Savings Certificates (NSC) & Sukanya Samriddhi Yojana (SSY):** Fixed-return sovereign instruments promoting girl child welfare and long-term capital preservation.
- **Tuition Fees:** Full-time education tuition fees paid for up to two children in Indian schools, colleges, or universities.
- **Principal Repayment of Housing Loan:** Principal repayment portion of home loan borrowed for purchase or construction of residential house property.
- **Stamp Duty and Registration Charges:** Incurred during purchase of residential house property.

Complementary Deductions under Chapter VI-A

- **Section 80CCD(1B):** Additional exclusive deduction up to ₹50,000 for voluntary contributions to the National Pension System (NPS), over and above the ₹1,50,000 limit under Section 80C.
- **Section 80D:** Deduction for health insurance premiums paid: up to ₹25,000 for self/family (₹50,000 if senior citizen) and an additional ₹25,000 (₹50,000 for senior citizen parents). Preventive health checkup included up to ₹5,000 within the overall cap.
- **Section 80G:** Deductions for donations made to eligible charitable institutions and designated relief funds (National Defence Fund, PM CARES, Chief Minister's Relief Fund), either with 100% or 50% deduction with or without qualifying limits.
- **Section 80TTA / 80TTB:** Section 80TTA allows deduction up to ₹10,000 on savings bank account interest for non-seniors; Section 80TTB provides deduction up to ₹50,000 on all bank deposit interest (savings and fixed) for senior citizens.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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Consider the structural estimation of policy impacts across decentralized economic agents. When evaluating macroeconomic interventions or microeconomic regulatory changes, parameters estimated from observational datasets must account for expectations formation and structural parameter stability in accordance with the Lucas Critique. Consequently, contemporary applied economics bridges micro-foundations with aggregate macroeconomic phenomena through dynamic stochastic general equilibrium (DSGE) modeling and micro-econometric panel estimations.

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Analytical Dimension	Orthodox / Classical Perspective	Heterodox / Institutional Framework	Empirical Policy Manifestations in India
Market Efficiency	Markets clear instantaneously; price mechanism allocates	Markets are prone to structural failures, information asymmetry, and	Targeted regulatory oversight, public investment in

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	resources optimally without systemic friction.	coordination coordination failures.	infrastructure, and social safety nets.
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
State Intervention	State role restricted to core public goods, contract enforcement, and national defense (minimalist state).	State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution.	Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services.
Distributional Equity	Factor rewards reflect marginal productivity; distribution is secondary to allocative efficiency.	Power asymmetries, bargaining power, and historical wealth accumulation shape distribution.	Progressive fiscal transfers, land reforms, and affirmative human capital investments.
Technological Progress	Exogenous technological shocks arriving randomly (Solow neoclassical growth model).	Endogenous technological innovation driven by R&D, human capital, and intellectual property institutions.	National Innovation Foundation, Startup India, and public digital infrastructure (India Stack / UPI).

Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

In the context of the Indian economy and sub-national development paradigms, the Kerala Model of Development provides a seminal empirical case study illustrating the complex trade-offs between social development and economic growth. Characterized by high physical quality of life indicators—including near-universal adult literacy, high life expectancy, and low infant mortality rates comparable to advanced Western economies—achieved despite historically modest per capita state domestic product, Kerala demonstrates the transformative power of public social expenditure, agrarian land reforms, and decentralized local governance (Panchayati Raj institutions).

However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

Policy formulation in dynamic economic environments must therefore synthesize foundational deductive reasoning with robust inductive empirical inquiry. Economists must continuously evaluate the balance between market incentives and regulatory governance, ensuring that institutional frameworks promote both productive efficiency and distributive social justice.

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