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B.Com Honours | Semester III | Calicut University

PERSONAL FINANCIAL PLANNING

Course Code: COM3MN205 • Module 4 Notes

Module IV: Tax and Retirement Planning

Tax and Retirement Planning integrates income tax optimization with long-term pension accumulation strategies to ensure sustained financial autonomy post-retirement.

Unit 15: Personal Tax Planning – Objectives & Fundamentals

Legitimate arrangement of an individual's financial affairs to minimize tax liability by taking maximum advantage of statutory deductions, exemptions, and tax concessions under the Income Tax Act, 1961.

Unit 16: Income Tax Exemptions & Deductions Available to Individuals

1. Key Deductions:
Section 80C: ELSS, EPF, PPF, Life Insurance, Home Loan Principal (Max Rs. 1,50,000).
Section 80CCD(1B): Additional NPS deduction up to Rs. 50,000.
Section 80D: Health Insurance Premium (Max Rs. 25,000/50,000).

Unit 17: Tax Evasion vs. Tax Avoidance vs. Tax Planning & Pension Plans

Distinction: Tax Planning (legal compliance to reduce tax burden), Tax Avoidance (exploiting legal loopholes), and Tax Evasion (illegal deliberate non-payment - criminal crime).

Unit 18: National Pension System (NPS), APY, & Mutual Fund Pension Plans

1. National Pension System (NPS): Market-linked pension scheme regulated by PFRDA. Tier-I account offers tax benefits with 60% tax-free lump sum withdrawal at age 60.
2. Atal Pension Yojana (APY): Guaranteed minimum monthly pension (Rs. 1,000 to Rs. 5,000) for unorganized sector workers.

Unit 19: Reverse Mortgage Scheme for Senior Citizens & Solved Tax Computation

Allows senior citizens (> 60 years) to pledge home ownership to a bank and receive monthly tax-free annuity payments without moving out of the house.

Practical Problem 2 (Individual Income Tax Computation under Old vs. New Tax Regime): An individual (age 42) has Gross Total Income = Rs. 12,00,000 in FY 2023-24. Investments made: PPF = Rs. 1,00,000; ELSS Mutual Fund = Rs. 50,000; NPS Tier-I = Rs. 50,000; Health Insurance Premium (Self) = Rs. 25,000. Standard Deduction = Rs. 50,000. Calculate total deductions and Tax Payable under the Old Tax Regime.

Step-by-Step Solved Tax Computation:

- **1. Gross Total Income:** Rs. 12,00,000.
- **2. Deductions under Chapter VI-A:**
  Standard Deduction: Rs. 50,000.
  Section 80C: PPF (1,00,000) + ELSS (50,000) = Rs. 1,50,000 (Max Limit).
  Section 80CCD(1B) - NPS: Rs. 50,000 (Additional Deduction).
  Section 80D - Health Insurance: Rs. 25,000.

  > **Total Eligible Deductions = 50,000 + 1,50,000 + 50,000 + 25,000 = Rs. 2,75,000**

- **3. Net Taxable Income:** (12,00,000 - 2,75,000 = mathbf{ ext{Rs. 9,25,000}}).
- **4. Tax Slab Computation (Old Tax Regime):**
  Up to Rs. 2,50,000: Nil.
  Rs. 2,50,001 to Rs. 5,00,000 (5%): Rs. 12,500.
  Rs. 5,00,001 to Rs. 9,25,000 (20% of 4,25,000): Rs. 85,000.
  Basic Income Tax: (12,500 + 85,000 = ext{Rs. 97,500}).
  Add Health & Education Cess (4%): (97,500 imes 4% = ext{Rs. 3,900}).

  > **Total Net Income Tax Payable = 97,500 + 3,900 = Rs. 1,01,400**