FINANCIAL PLANNING

TAXATION AND EDERLY

Special Income Tax Exemption

- Every senior citizen is exempted from paying income-tax, normally up to the net taxable income of Rs. 1,85,000, because of the provisions contained in the Financial Act, 2005 for the accounting year 2006-07 and onwards. There is no tax rebate allowed.
- However, a straight deduction under the new section (80-C) is allowed in computing the net taxable income up to Rs. 1,00,000 (regarding investment in NSCs, PPF, etc).

NO TDS IN SOME CASES

- For a senior citizen who is not liable to pay income-tax because of the above mentioned special provision, a new provision has been made in section 197A(IC) from June 1, 2003 stating that in such cases, the senior citizen can file Form No. 15H in duplicate with the bank or any other person, responsible for deducting tax at source on the interest under section 194A.
- However, this facility is not extended to the receipts by a senior citizens in the form of professional receipts or rent receipts where the TDS i.e. deduction of tax at source would be made by the person making the payment as per the normal provisions of the Income-tax Act.

TIMELY FILING OF INCOME-TAX RETURN

- It is absolutely necessary for a senior citizen to know as to when it is compulsory for him to file an income-tax return.
- Different income-tax return forms have been prescribed for different types of individuals. However, for senior citizens and other individuals, the general income-tax return form is known as Form No. 2 or Form No. 2D (Saral).
- If the senior citizens does not have any business income, then he can choose Form No. 3 or Form No. 2D (Saral).
- For salaried tax-payers (persons who are pensioners and who do not have any business or professional income or income by way of capital gains or agricultural income) a new form of income-tax return has been introduced and it is known as Form No. 2E (Naya Saral).
- A senior citizen having any business income or professional income and/or capital gains, howsoever small the amount may be, has to compulsorily file returns either in Form No. 2 or Form No. 2D (Saral), when the total income for the financial year exceeds Rs.1,85,000.
- For a senior citizen subjected to tax audit, the last date for filing the tax return for the assessment year would be October 31st of the said year. It should be remembered by every senior citizen that when he/she is required to file return of income compulsorily, he/she would be liable to a penalty of Rs.5000 for not filing the return by the end of the assessment year concerned.

- It should also be remembered that there are certain papers which should be enclosed with the income-tax return, even though the 'New Saral' form does not mention the various papers to be so enclosed. For example, a senior citizen should file copies of the proof of payment for claiming deduction under section 80C like, Life Insurance premium, Public Provident Fund contribution or NSC or for deduction in respect of charitable donation, etc.
- Similarly, the certificate of tax deduction at source and copies of the tax challan, for making advance payment of income-tax or any other tax, should also be enclosed.
- If there is any taxable capital gain shown in form No. 2D (Saral) or form No. 2, then the computation sheet for capital gains and the copy of the document concerning the sale of the capital assets should also be enclosed.

1/6 CRITERIA

- Under the provisions of Section 139 of the Income-tax Act, every senior citizen has to compulsorily file income-tax returns even if there is no taxable income exceeding Rs. 1,85,000 for the accounting year.
- This is so, if he/she fulfils one or more of the following six criteria and is residing in an urban area:
    - Occupation of immovable property either as the owner or the tenant, exceeding a specified floor area.
    - Ownership of a motor vehicle.
    - Expenditure of Rs.50,000 or more towards the consumption of electricity.
    - Expenditure on travel to any foreign country.
    - Holder of a credit card.
    - Membership of a club wherein the entrance fee is Rs.25,000 or more.

WILL FOR HARMONY AND TAX SAVING

- Every senior citizen must get his/her will prepared by a knowledgeable lawyer or an Income-tax expert.
- The will can be typed out or be hand written.
- No stamp paper is necessary for writing a will. However, the will should be attested by at least 2 witnesses.
- The author/testator of the will must sign every page of the document prepared.
- Registration of the will is not compulsory. However, it is advisable to do so to avoid inconvenience, in case the original will is lost.
- The will should be clearly worded and provide for certain important matters including the name of the executor, description of total assets bequeathed by the testator and the description of the beneficiaries.
- It is not necessary to distribute the assets among the spouse and/ or children in equal proportion, because the testator is free to give his self-acquired property to any one, in any manner as he likes.
- A will can be changed as many times as the senior citizen likes.

- The advantage of the will is the provision of harmony in the family and avoidance of legal disputes. Further, income-tax saving by the successors is also possible through the proper drafting of the will.
- The senior citizen can prepare a trust under the will, to give a part of the property to unborn beneficiaries in unspecific portion to be distributable, at the sole discretion of the trustees for their education, marriage, medical welfare, etc. This would enable the beneficiaries to enjoy the benefit of one more unit of assessment liable to assessment like AOP i.e. individual rates under section 164 of the Income-tax Act.

HINDU UNDIVIDED FAMILY

- For Hindu senior citizens (including Jains and Sikhs), one special privilege is available under the Income-tax Law, and that comprises of having a separate unit of assessment in the status of the Hindu undivided family.
- If such a unit is not already in existence, it can be developed with gifts from friends and relatives (and not from the members of the senior citizen's family.

OTHER TRUSTS

- A senior citizen can keep more funds under his control and still not be liable to pay income-tax.
- He/she could plan to have some money gifted or settled on trust for the benefit of specific relatives like a physically handicapped child or a widowed sister's child or a mentally retarded relative and so on. This would ensure a separate income-tax assessment under the control of the senior citizen.
- A trust could also be created by the senior citizen for the benefit of the would-be wife or husband of any of his relatives in a manner that funds could be under his control as a trustee with the benefit of a separate unit of assessment.
- Investment Planning:
- A senior citizen avoids dabbling in shares.
- He/she should avoid risky investment while at the same time, make very long-term investments.
- Most of the investments of the senior citizens should be in 9% Senior Citizens Saving Scheme (upto Rs. 15,00,000 only), Reserve Bank (Taxable) 8% Bonds, Monthly Income Scheme, National Saving Certificates, Bank Fixed Deposits and deposits with Public Sector Undertakings.
- A senior citizen should plan his/her investment policy in such a way that there is no tension or worry for him/her in managing the investment and to ensure a regular, reasonable flow of income throughout his/her lifetime.
- Broadly speaking, a senior citizen must so plan his/her investments, so that he/she does not have to depend on his/her children and family for maintenance and so that he/she is assured of a steady and regular income.