



# RAMA UNIVERSITY

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**FACULTY OF COMMERCE AND MANAGEMENT**

**COURSE: B.COM VI SEM.**

**SUBJECT: Corporate Tax Planning**

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**LECTURE: 20**

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## LECTURE-20



## **TAX PLANNING**

Tax planning is the analysis of one's financial situation from a tax efficiency point of view so as to plan one's finances in the most optimized manner. Tax planning allows a taxpayer to make the best use of the various tax exemptions, deductions and benefits to minimize their tax liability over a financial year. This process varies from person to person and depends, among many factors, taxable income, time schedule for investments, risk bearing inclination, existing investment pattern, expected returns etc. Over the years, tax planning scenario has become more dynamic and complicated, due to constant changes in the tax laws and falling interest rates.

Further tax planning cannot be done in isolation; it should be a part of overall Financial Planning.

### **NEED AND SIGNIFICANCE OF TAX PLANNING**

Tax Planning is the honest and rightful activity to minimize tax burden of various persons. Needs and significances of tax planning were discussed below.

- (a) **Reduction of tax liability:** The basic need of tax planning is to reduce tax liability by arranging his affairs in accordance with the requirements of law, as contained in the fiscal statutes. In many a cases, a taxpayer may suffer heavy taxation not on account of the dosage of tax administered by the Act, but, because of his lack of awareness of the legal requirements
- (b) **Minimization of litigation:** There is always tug-of-war between taxpayers and tax administrators. Tax payers try to pay least tax and the tax administrators attempt to levy higher amount of tax. Where a proper tax planning is adopted by the tax payer in conformity with the provisions of the taxation laws, the incidence of litigation is minimized
- (c) **Productive investment:** Channelization, of taxable income to the various investment schemes is one of the prime purpose of tax planning as it is aimed to attain twin-objectives of: (i) harnessing the resources for socially productive projects, and, (ii) relieving the tax payer from the burden of taxation, converting the earnings into means of further earnings.
- (d) **Reduction in cost:** The reduction of tax by tax planning reduces the overall cost. It results in more sales, more profit and more tax revenue.
- (e) **Healthy growth of economy:** The growth of a nation's economy is synonymous with the growth and prosperity of its citizens. In this context, a saving of earnings by legally sanctioned devices fosters the growth of both. Tax-planning measures are aimed at generating white money having a free flow and generation without reservations for the overall progress of the nation. On

the other hand tax evasion results generation of black money, the evils of which are obvious. Tax planning thus assumes a great significance in this context.

- (a)** Economic stability: Tax planning results in economic stability by way of: (i) availing of avenues for productive investments by the tax payers and, (ii) harnessing of resources for national projects aimed at general prosperity of the national economy and (iii) reaping of benefits even by those not liable to pay tax on their incomes.
- (b)** Employment generation: Tax planning creates employment opportunities in different ways. Firstly, efficient tax planning requires some sort of expertise that creates job opportunities in the form of advisory services. Secondly, amount saved through tax planning is generally invested in commencement of new business or the expansion of existing business. This creates new employment opportunities.

### **PRECAUTIONS IN TAX PLANNING**

Successful tax planning techniques should have following attributes:

- (a)** It should be based on up to date knowledge of tax laws. Assessee must have an up to date knowledge of the statute he must also be aware of judgments of the courts, the circulars, notifications, clarifications and Administrative instructions issued by the CBDT from time to time.
- (b)** The disclosure of all material information and furnishing the same to the income-tax department is an absolute pre-requisite of tax planning the concealment in any form would attract the penalty often ranging from 100 to 300% of the amount of tax sought to be evaded. Section 271(1)(c) read together with explanations there to.
- (c)** Foresight is the essence of a business and the tax planning should also reflect this essence. Tax regime is flexible in nature and tax planning model must also be flexible so that it could be scrutinized in relative situations.
- (d)** Tax planning should not be based on tax avoidance.
- (e)** Tax planning cannot be attempted in isolation. While doing tax planning we have to consider the violation of other laws.