

Family Tax Planning - Best way to Lower your Tax

Taxpayers can legally lower the incidence of income tax by transferring their sources of income among family members. Each member of the family can avail the basic personal income tax exemption limit. For F/Y 2010-11 the basic income tax exemption limit for male individuals and HUEs is Rs 1,60,000; for resident women tax payers Rs 1,90,000 and for resident senior citizens Rs 2,40,000

To legally become an independent tax payer under the provisions of the income tax law, each family member must have independent source of income. The first step to save tax through family tax planning is to divide the income.

For example, if a taxpayer's parents! other members who are majors are not paying income tax today but by receiving some gift from friends or relatives or from anyone, the income so generated from such funds would belong to them. This way, independent income tax files can be started for different family members.

Once the income is divided and spread among more people, chances are that some of them would attract no taxes at all or lower rates of tax. Also, each one is entitled to independently claim exemptions, deductions, rebates, etc.

No income tax is payable on gifts received from relatives - and from parties other than relatives upto a sum of Rs. 50,000 and any amount at the time of marriage. Such gifts received is not considered as your income but a capital receipt.

However care should be taken to ensure that any gift received should be a genuine gift. Donor i.e., the person making the gift, should have proof for having source for making the gift.

Since gifts made between spouses and to their minor children attract the provision of Section 64. Thus a husband should not make any gift to his wife; likewise wife should not make a gift to her husband. This leads to clubbing of the incomes of the Spouses.

Clubbing provisions **do not apply when a** gift is made to your **major children**, who are your great tax savers, to whom you can make liberal gifts without attracting the payment of gift tax. For example, if you have fixed deposits let us say of Rs 10 lakh and you have a major son as well as a major daughter then it makes sense to gift away Rs 5,00,000 to each of them. The gift amount so received by the children can be invested let's say in bank fixed deposit. Each of them will get yearly interest of say, Rs. 45,000. Since this amount is below the exemption limit of Rs 1,60,000 and Rs. 1,90,000 respectively, **no income tax need be paid.**

To avoid clubbing of the incomes, you may receive gift from any relative other than your spouse and in the case of a daughter-in-law from her father-in-law.

To eliminate clubbing of income of the minor **child with the income of the parents, a trust for the welfare of the** minor child with a specific condition that no part of income be spent on the minor child during the period of minority, can be created.

Your parents and in-laws too can save you taxes. By just giving away a portion of your funds either as gift or a loan to your parents! in-laws, your income tax burden become light as the income on funds transferred by you to them would be taxed in their hands, only if the same exceeds the basic exemption limit.

The simple methodology of tax planning for a nuclear family is to have separate income tax file for self, spouse and each children as well as the Hindu Undivided Family