

Eight tax saving secrets you should know

1. Use losses in stocks to cut tax

Can you gain from the short-term losses you made on stocks? Yes, says the Income Tax Act. If you have made any long-term capital gains from sale of property, gold or debt funds, you can set them off against short-term capital losses made on stocks and bring down your tax liability. One cannot set off short-term gains from stocks against long-term capital losses from the other assets. "Long term capital losses can only be set off against taxable long-term capital gains

How much tax can you save: Setting off a short-term loss of Rs 3 lakh against long term gains can help you save Rs 60,000.

Proof required: Keep record of your equity trading account statement with details of the transactions that resulted in losses.

2. Get deduction for rent even without HRA

House rent can account for as much as 40-50% of the total household expense. That's why the house rent allowance is exempt from tax to a certain limit. But what if your salary does not include an HRA component or you are a self-employed professional or businessman? Under Section 80GG, you can claim deduction of the rent paid even if you don't get HRA. But one or spouse or minor child should not own a house in the city where he stays and he should not be claiming tax benefits for some other self-occupied house. If your parent has no other income or pays a lower tax, this can bring down your tax liability significantly. However, the rent will be taxable as the income of the parent after a 30% standard deduction. This means, you can pay a senior citizen parent up to Rs 3.43 lakh a year

How much tax can you save: Given the stiff conditions, one can't claim more than Rs 2,000 as deduction per month under Sec 80GG. But this can bring down your tax by Rs 7,400 a year in the highest tax bracket.

Proof required: Taxpayer has to submit a declaration on form 10-BA that he is paying rent and not receiving HRA.

3. Pay lower tax if someone is ill

The treatment of a chronic illness can be a drain on the finances of a taxpayer. That's why the Income tax Act allows a taxpayer to claim a deduction of Rs 40,000 if he has a dependent who suffers from any of the ailments specified under Section 80DDB. "The deduction is higher at Rs 60,000 if the patient is a senior citizen,"

The diseases include, neurological diseases (including dementia, dystonia musculorum deformans, motor neuron disease, ataxia, chorea, hemiballismus, aphasia and Parkinson's disease), malignant cancers, full-blown AIDS, chronic kidney failure and haematological disorders (haemophilia and thalassaemia). Dependents can include spouse, children, parents and siblings

The patient should be wholly or mainly dependent on the taxpayer and should not have separately claimed deduction for the disability. If the amount spent is reimbursed by the employer or an insurance company, there is no deduction. If the taxpayer gets a partial reimbursement of the expenses, the balance can be claimed as deduction.

How much tax can you save: If a dependent is a patient, the taxpayer's liability comes down by 12,360 in the highest income bracket. If the patient is a senior citizen, the tax is lower by Rs 18,540.

Proof required: One needs a certificate of the illness from a specialist in a government hospital.

4. Claim benefits for your political affiliations

Can you lower your tax if you have political connections? Apparently you can. Any amount contributed to a recognized political party can be claimed as a deduction under Section 80GGC (80GGB for corporates). "This is a new deduction and was introduced in April 2010. The donation can also be made to the electoral trust which works for the purpose of conducting elections,"

Cash given to individuals doesn't count. Other donations also get you tax benefits. Under Section 80G, donations to charitable organizations get deduction ranging from 50% to 100%. It's a good idea to know how much deduction would be available before you write a cheque

How much tax can you save: In the highest tax bracket, a donation of Rs 1 lakh to a political party can bring down your tax by Rs 30,900.

Proof required: You must have a stamped receipt of the payment from the political party.

5. Use education loan to lower tax

The taxman is sympathetic and offers a deduction that can lower the cost of the loan. The interest paid on an education loan is fully deductible from taxable income under Section 80E. Till a few years back, this deduction was available only to the borrower. Now, even a parent or a spouse can avail of it. What's more, this now includes loans taken for vocational courses. "If a parent or legal guardian takes the loan, he can claim deduction for the interest paid for up to eight successive years, starting from the year in which the interest is first paid,"

How much tax can you save: If you take a Rs 10 lakh education loan at 10% interest for 8 years, you can save Rs 1.41 lakh in tax in the highest tax bracket. This will bring down the effective cost of the loan to 7% per annum.

Proof required: Loan statement from lender.

6. Disabilities can be tax savers

If a taxpayer suffers from a disability, he can claim deduction of Rs 75,000 under Sec 80U. If he has a disabled dependent, he can claim the deduction under Sec 80DD. Disability includes blindness, low vision, leprosy, hearing impairment, loco-motor disability, mental retardation and mental illness and deduction is available only if the impairment is at least 40%. If the disability is severe (80% or above), the deduction is Rs 1 lakh a year. The dependant could include the taxpayer's spouse, children, parents and even siblings. However, the disabled person should be wholly or mainly dependent on the taxpayer for maintenance, and should not have claimed deduction for the disability under Section 80U separately.

How much tax can you save: A deduction of Rs 75,000 can cut tax by Rs 23,175 in the highest tax bracket. In case of severe disability, the tax is lower by Rs 30,900.

Proof required: A certificate of disability from a civil surgeon or the chief medical officer of a government hospital.

7. Take unlimited deduction for your second home loan

When it comes to buying a second house, the taxman can be very encouraging. Under Section 24b, one can claim deduction of up to Rs 1.5 lakh for interest paid on a home loan. But if the taxpayer buys a second house through another home loan and gives it on rent, the entire interest paid on the home loan during a given year can be claimed as a deduction. "If you have more than one house, any one is deemed to be rented out. So the interest income on the home loan for that house can be claimed entirely for deduction, provided the rental income or a deemed income is charged to tax."

How much tax can you save: If you have taken a home loan of Rs 50 lakh at 9.5% for 20 years, your interest payment in the first year will be Rs 4.7 lakh and you can save tax up to Rs 1.09 lakh.

Proof required: Loan account statement from your lender

8. Claim HRA as well as home loan benefits

But you can claim both house rent allowance (HRA) exemption as well as the tax benefits on the interest paid on a home loan. Many organizations do not allow employees to claim both benefits. Their logic is that HRA is exempt if you are paying rent and home loan benefits apply

only for a self-occupied house. You can't be doing both at the same time. But this is a gray area in the Income Tax Act. "In legal terms, silence signifies approval

In other words, the Act need not expressly allow something. The lack of express disallowance also signifies intention of approval,". So given this, HRA and interest on home loan are two separate provisions and claiming one of them as a deduction does not influence the other. "The taxpayer may own any number of flats, either in the same city that he works in or anywhere else in the whole of India or for that matter abroad, but that in no way influences the HRA deduction that he is entitled to."

How much tax can you save: In the highest tax bracket, a deduction for Rs 1.5 lakh will bring down your tax by Rs 46,350.

Proof required: Loan account statement from your lender