Department of Applied Economics and Commerce

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Class:- M.Com semester(IV) Subject:- Corporate Tax Planning and Management

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Tax Planning:-

The following points kept in mind to take advantages of taxation.

1. In certain cases deduction is allowed for certain number of assessment years, in that case the business should start in the **beginning of the assessment year**, so that the full advantages of tax deduction can be availed.
2. For availing following deduction the condition must be fulfilled. **Section 80-IA, 80-IB, 80-IC, 80-IE, or 80-JJA etc.**
3. The rate of tax applicable to **H.U.F** is the same as applicable to an Individual. Therefore proper analysis is needed to get tax benefit in both cases.
4. Keeping in view the exemption limit **(nil)** in the case of a firm it is better to dissolve the **firm** and start the business as of an **individual.**
   (a) If the persons and capital are required, the erstwhile partners may be appointed as employees of the concern and their capital may be taken as loans. On such loans the interest would be deductible. Thus, the firm and the partners can save a lot of tax.
   (b) Where more owner's capital is required (rather than loans) for obtaining loans from banks, the owner of the business can borrow personally from erstwhile partners and show this amount as his capital in the books of the business.
5. The firm should pay interest and remuneration to partners to the extent deductible **u/s 40(b)** to reduce the incidence of tax.
6. Where from the business income of the firm deduction is allowed at certain percentage of such income **(e.g; u/s 80-IA or u/s 80-IB or u/s 80-IC etc.)** the firm should pay interest on the capital/loan of partners and remuneration to them. Keeping in view the provisions of Alternative Minimum Tax. This will reduce the tax incidence to a great extent.
7. A firm can pay interest to its partners on their capital contribution or loan subject to a maximum **of 12%** p.a. If the rate of interest is more than 12%, it is treated as a disallowed expense. To avoid this ceiling the partners may may follow inter-deposit of funds scheme.

   Accordingly partners of firm XYZ may deposit their fund in firm ABC and vice-versa. By this process the tax liability of the firm and its partners can be reduced.
8. The rate of tax applicable to a firm and a domestic company is almost the same i.e; **30%**, **surcharge 12%** if total income of a firm exceeds ₹one crore. But the tax liability of the firm and its partners on the other hand must be compared for tax planning decision.

Further it is to be noted that when a part of remuneration or benefit or perquisite allowed by a firm to partners is disallowed in computing its income the tax liability of the firm and its partners will be more than the tax liability of the company and its shareholders. Hence, each case requires a careful analysis to avail the maximum tax benefit.

9. Where a firm pays nominal salary to its partners and if the firm decides to change the form of organization from a partnership firm to a private or public company and the remuneration payable to directors remains the same as of partners, there is no tax advantage. It may further increase the tax liability because the company is liable to pay tax on the dividend **distributed u/s 115-O.**

Thanks