

## 7. Financial Planning

1. Bank is a place where we can keep our money in safe custody. At any point of time, we can take (withdraw) the required amount from the money kept by us with the bank.

### 2. Types of Bank Accounts:

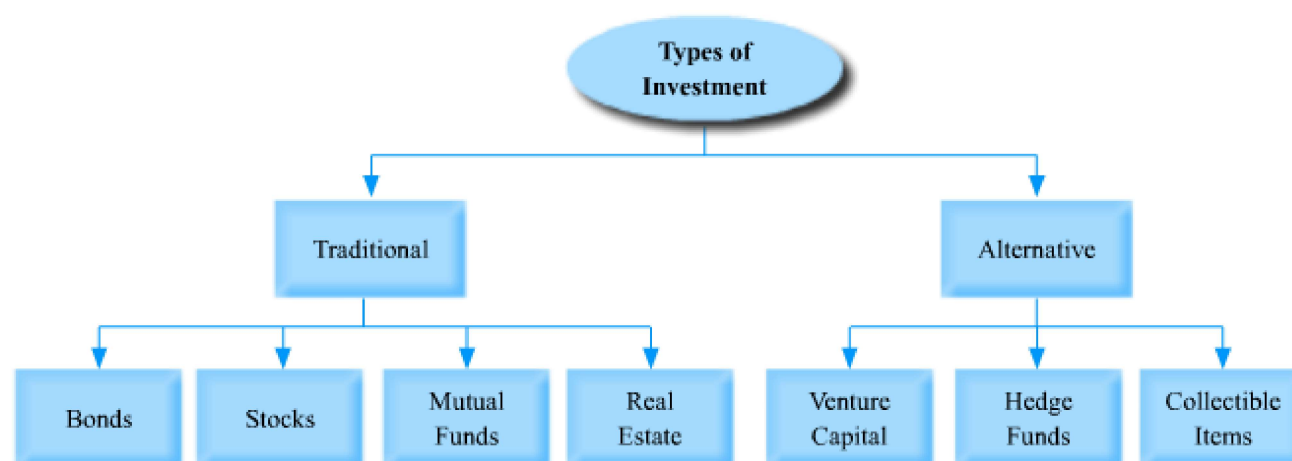
The different types of bank accounts are:

- (i) Savings Bank Account
- (ii) Current Account
- (iii) Term Deposit or Fixed Deposit Account
- (iv) Recurring Deposit Account
- (v) No Frills Account

### Savings and Investment

In the financial industry, there are two concepts that form the basis of most transactional activities. One is savings and the other is investments. A lot of times people confuse savings with investments. But savings and investment are different from each other in their approach of utilizing the money involved.

Savings refers to the part of the income which remains in the hands of a person, after paying all the expenses. On the other end, investment is the act of investing the saved money into assets, with a view to earning profit.



- **Tax** is the amount of money charged by the government from the common people and other various entities to meet the expenditure required for public welfare such as street lightning, building of roads etc.

There are two types of taxes viz., direct and indirect tax.

The tax which is paid directly to the government by an individual or by an entity upon whom the tax is imposed is called **direct tax**. The burden of direct taxes can not be shifted to another individual or entity.

The tax which is not paid directly to the government is called **indirect tax**. It actually increases the price of a commodity, so the consumer pays the tax indirectly to the government by paying more for the commodity. Indirect taxes can be shifted to other individuals.



- Some direct and indirect taxes are as follows:
  - **Excise tax:** This is an indirect tax which is charged by the government from the producers of the goods manufactured for sale within the country. It is actually an interstate tax. For example, tax imposed on tobacco, alcohol etc.
  - **Service tax:** This is an indirect tax which is charged by a service provider from the users. The tax charged in hotels, restaurants etc., for the services provided are service tax.
  - **Income tax:** This is a direct tax paid by every individual who earns more than a minimum fixed amount set by the government of a country.
  - **Sales tax:** This is an indirect tax which is charged by the government on the sales made by the seller while selling the commodities.
  - **Value added tax (VAT):** This is an indirect tax which is basically a type of consumption tax. For a buyer, VAT is the tax on the item he/ she is purchasing. For the seller, on the other hand, it is the tax on value addition to a commodity or service while manufacturing or delivering the service.
- Sales tax and VAT differs as sales tax is paid by the end consumer at the point of purchase while VAT is paid each time a purchase in the supply chain occurs.

Income tax is a direct tax. It is paid by every individual who earns more than a minimum fixed amount set by the government of a country. This is the biggest and the most important source of income for the government of India. The Constitution of India has given the power to the central government to levy a tax on any income other than agricultural income.

The Government imposes a tax on taxable income of an individual, institute or authorised industry, according to Income Tax Act 1961. Every year finance Minister of India has proposals for the income tax rates in the budget. After parliament passes the budget the proposed rates are applicable for the upcoming financial year.

### Computation of Income Tax:

As income tax rates are not fixed and changed every year. So, it is important to check the latest rates when calculating the income tax.

There is no tax up to a certain limit of income. This is called the basic exemption limit. Apart from basic exemption there are some other exemptions as well

- Agricultural income is exempted from income tax.
- Under section 80G of Income Tax Act, donation to certain funds and charitable institutions like Prime Minister's relief fund, Chief Minister's relief fund etc. are exempted from income tax.
- Under 80D, payment of medical insurance premium exempted from income tax.
- Section 80C provides deduction from total income in respect of various investments/ expenditures/payments in respect of which tax rebate u/s 88 was earlier available. The total deduction under this section is limited to Rs. 1.5 lakh only.

Here sample tables of tax rates for different income slabs according to different age groups are shown.

**Table 1**  
**Individual Tax Payers(Less than 60 years old)**

Income slab (In Rupees)	Tax rate	Education cess	Secondary and Higher Education cess
Up to ₹2,50,000	Nil	Nil	Nil
₹2,50,001 to ₹5,00,000	5% (On taxable income minus two lakh fifty thousand)	2% of Income tax	1% of Income tax
₹5,00,001 to ₹10,00,000	₹12,500 + 20% (On taxable income minus five lakh)	2% of Income tax	1% of Income tax
More than ₹10,00,000	₹1,12,500 + 30% (On taxable income minus ten lakh)	2% of Income tax	1% of Income tax
<b>Surcharge:</b> 10% of income tax, where total income is between Rs. 50 lakhs and Rs.1 crore. 15% of income tax,			

where total income exceeds Rs. 1 crore.

**Table 2**  
**Senior Citizens(60 years old or more but less than 80 years old)**

<b>Income slab (In Ruppes)</b>	<b>Tax rate</b>	<b>Education cess</b>	<b>Secondary and Higher Education cess</b>
Up to ₹3,00,000	Nil	Nil	Nil
₹3,00,001 to ₹5,00,000	5% (On taxable income minus three lakh)	2% of Income tax	1% of Income tax
₹5,00,001 to ₹10,00,000	₹10,000 + 20% (On taxable income minus five lakh)	2% of Income tax	1% of Income tax
More than ₹10,00,000	₹1,10,000 + 30% (On taxable income minus ten lakh)	2% of Income tax	1% of Income tax
<b>Surcharge:</b> 10% of income tax, where total income is between Rs. 50 lakhs and Rs.1 crore. 15% of income tax, where total income exceeds Rs. 1 crore.			

**Table 3**  
**Super Senior Citizens(Age above 80 years old)**

<b>Income slab (In Ruppes)</b>	<b>Tax rate</b>	<b>Education cess</b>	<b>Secondary and Higher Education cess</b>
Up to ₹5,00,000	Nil	Nil	Nil
₹5,00,001 to ₹10,00,000	20% (On taxable income minus five lakh)	2% of Income tax	1% of Income tax
More than ₹10,00,000	₹1,00,000 + 30% (On taxable income minus ten lakh)	2% of Income tax	1% of Income tax
<b>Surcharge:</b> 10% of income tax, where total income is between Rs. 50 lakhs and Rs.1 crore. 15% of income tax, where total income exceeds Rs. 1 crore.			

