Module 6 · Different Aspects of Tax Planning P15 · topic 6.0

SM pp. 295–318 (exercise 319–320). **One MCQ every paper since Jun'24** (planning vs management vs evasion); long questions in D23 (seven acts) and J24 (capital structure by EPS after tax). Expected ~3 marks.

Paper	What was asked	Marks
Dec'23	Q3(a) seven acts: tax planning, management or evasion	7
Jun'24	Q3(b) **equity vs debentures vs loan: choose by return after tax** · MCQ: reinvesting LTCG in a house = planning	7 + 2
Dec'24	MCQ: paying TDS before the due date = management	2
Dec'25 · Jun'26	MCQ: buying 54EC bonds = planning · paying advance tax on time = management	2 · 2
ICMAI	PTP Q3(a) salary package (allowances vs perquisites), Q3(b) **lease vs buy** · postal Q7(a) ten acts, Q8(b) capital structure	–

A Planning, avoidance, evasion, management

	Tax planning	Tax avoidance	Tax evasion	Tax management
Meaning	full use of exemptions, deductions, rebates and reliefs the Act gives	legal use of **loopholes**	illegal: suppressing income / sales or inflating expenses	procedure to **comply** with the law
Feature	within the law and its moral	bends the law without breaking it	illegal in script and moral	implementation in the tax department
Approach	futuristic, positive	short-term (loopholes get closed)	after the liability arose; negative	past, present, future (continuous)
Result	tax saving · desirable · moral	tax hedging · avoidable · immoral	concealment · objectionable · penalty, prosecution	administration · essential · a duty

Cases: **McDowell & Co.** (SC 1985) — planning legitimate only within the law; colourable devices are not planning · **Westminster**, **Helvering v. Gregory**, **Raman & Co.** — arranging affairs to pay less is allowed · **B.M. Kharwar** — authorities may unravel a device · **Motor & General Stores** — form counts for genuine transactions; Wanchoo Committee on evasion v. avoidance. [SM 295–299]

- **Objectives**: reduce tax liability; minimise litigation; productive investment; healthy growth of the economy; economic stability. **Essentials**: up-to-date law, full disclosure, no sham transactions, foresight / flexibility. [SM 302–303]
- **Types**: short-range (one year, e.g. PPF / NSC) and long-range; **permissive** (express provisions) and **purposive** (circumventing, e.g. avoiding clubbing). [SM 304]
- **Areas**: form of organisation, location (SEZ 10AA for units started by 31-03-2021, 80-IE, 80LA), nature of business (33AB, 35AD, 44AD, 44B …), restructuring, financial decisions, employee remuneration, non-residents. [SM 305–310]

- **Form**: company 30% (or lower) + SC + cess, dividends taxed again; firm / LLP 30%, partners' share exempt, remuneration within 40(b); proprietor at slab rates, no deduction for own salary / interest. [SM 305–306]
- **Financing**: interest is deductible, dividend is not; equity issue cost capital (35D amortisation), debt-raising cost revenue. **Lease or buy**: lease rent deductible (no depreciation); owned asset — depreciation + interest after first use (before that, interest is capitalised). [SM 308–309]
- **Salary**: split pay into allowances, prefer perquisites with low valuation, commuted pension, leave encashment, employer PF up to 12%. [SM 309–310]
- Tax planning cells: volume, documentation, data, integration, monitoring, alternatives. [SM 311]

PROBLEMS BOX · Q3(b)-TYPE TAX PLANNING SUM · CAPITAL STRUCTURE / LEASE OR BUY (J24 Q3(b); PTP Q3(b); postal Q8(b))

WORKED PATTERN · SM SOLVED CASE 1 (₹50 LAKH; EBIT 15%; TAX 31.2%) — RE-WORKED BY SCRIPT

	Option 1	Option 2	Option 3
Equity / 12% debentures / 18% loan (₹ lakh)	40 / 10 / –	30 / 10 / 10	30 / 20 / –
EBIT	7,50,000	7,50,000	7,50,000
– interest	1,20,000	3,00,000	2,40,000
Profit before tax	6,30,000	4,50,000	5,10,000
Tax @ 31.2%	1,96,560	1,40,400	1,59,120
Profit after tax	**4,33,440**	**3,09,600**	**3,50,880**
Return on equity capital	**10.84%**	**10.32%**	**11.70%**

Option 3 gives the highest return on capital. [SM 318]

LEASE OR BUY · SM ILLUSTRATION 5 (₹1,00,000 ASSET; TAX 33.22%; PV 10%)

- **Own (loan of 5 × ₹20,000 at 14%)**: each year outflow = instalment + interest − tax on (interest + 15% depreciation): year 1 = 20,000 + 14,000 − 9,634 = **24,366** … PV ₹83,985. [SM 315–316]
- **Lease** (₹30,000 a year + 1% fee in year 0): net 20,034 a year → PV **₹76,611** → **lease is better**. [SM 316]
- The SM's PV columns are loosely rounded (exact: owning ₹83,967, leasing ₹76,597); the decision does not change.

STEPS

1. Same EBIT for every option; deduct interest (tax-deductible), never dividend.
2. Tax at the rate given; PAT; divide by equity (or EPS = PAT ÷ number of shares).
3. Lease v buy: after-tax cash outflows × PV factors; choose the lower PV.

PRACTISE THESE

J24 Q3(b) · postal Q8(b) · PTP Q3(a), Q3(b) · SM Illustrations 1 (salary package), 3 (interest before first use capitalised), 5 · SM numerical problem (make or buy, SM 319) · SM case 1 (Virat Ltd, SM 320) · **ICMAI workbook Ch 5 illustrations 1–4**.

CLASSIFY THE ACT (D23 Q3(a), postal Q7(a), MCQ (vi)/(ix)) · SM ILLUSTRATION 6 + PAST MCQs

Act	Answer	Act	Answer
LIC premium to cut total income · new house for s.54 · SB interest shown and 80TTA claimed · buying 54EC bonds (D25) · reinvesting LTCG in a house (J24)	**Planning**	Registers of TDS kept for timely compliance · advance tax paid on time (J26) · TDS paid before the due date (D24)	**Management**
Home AC shown as factory asset · credit note to MD's son to shift income · partner's salary shown as "salary" · personal car charged to business (postal) · FD interest not disclosed	**Evasion**	Countries that minimise taxes (postal MCQ)	**Tax havens**

MCQ bank Q25, Q26, Q36, Q149 · ICMAI workbook Ch 5 illustration 5. [SM 316–317]

MEMORY HOOKS

- **Planning saves, avoidance hedges, evasion hides, management complies.**
- Paying on time = management; investing to claim a deduction = planning; hiding or false claims = evasion.