

Self-employed? Here are some ways to claim your tax breaks

For the salaried, it is fairly easy to file returns. After all, you could simply copy your Form 16. For freelance professionals, it's a different story. You not only have to keep records of all transactions and payments but take care that all the conditions laid by the I-T department are met to claim deductions. "Most of the times even when an expense is made, people tend to miss out on claiming deductions because of certain pre-laid conditions under the I-T law," says Varun Advani, COO, makemyreturns.com Here are some pointers to ensure you claim the maximum deductions.

OPERATIONAL EXPENSES

Usually a freelancer can claim all expenses directly related to their business. The list includes rent, repairs, office supplies, monthly telephone bills, internet bills, travelling expenses and entertainment or hospitality expenses connected with the business. However, these expenses must be spent fully and exclusively for freelancing work and not be a capital asset or personal expenditure. In case there are expenses, such as a mobile phone or a laptop, which is being used for both personal and business purposes, only a portion of the expenses is allowed as a deduction. "One can see the trend for a couple of months and then define percentage of bill which must get allocated to professional expense," says Archit Gupta, founder and CEO, ClearTax.in.

Similarly, if you have set up a room as your office in your rented apartment, you can show a proportional amount as rental expense. "Even if the house belongs to your parents you can pay them rent and show it as an expense," says Sudhir Kaushik, CA and CFO, Taxspanner.com.

COMPLIANCE TIP

When paying in cash make sure the amount does not exceeds Rs 20,000 per day. Else, the same won't be allowed for deduction. As per Section 40A(3), payments above Rs 20,000 have to be made using an account payee cheque to be able to claim deductions.

DEPRECIATING ASSETS

Capital expenditures include furniture and gadgets used to set-up your business or property bought to run it, where benefit of such an asset is usually expected to last more than a year. On capital expenses you are allowed to charge a small depreciation every year. The depreciation percentage and methods are laid out in the I-T Act for different type of assets.

In case you own the property and only a portion is being used as your office, you can still show depreciation on a percentage of the property value. "If you have taken a home loan on this property , make sure you do not claim the amount twice. Deduct the business expense portion from your interest and principal re-payment claims before you show it under the capital asset depreciation column," says Kaushik.

COMPLIANCE TIP

The percentage you can charge as depreciation varies hugely depending on the usage even within a particular category. For instance, with a building mainly used for residential purposes, you can charge 5-10 per cent depreciation.

However, if you have done up wooden structures in office, those can be depreciated at 100 per cent in the first year.

Then there are different rates for intangible assets such as patents and copyrights.

ANIMIS PROFESSIONAL FEES

Many freelancers consult other professionals to assist them and pay a fee for it. Often these transactions are informal. But, if documented, these fees can be claimed as deductions.

A lot of newbie entrepreneurs tend to employ their relatives at key positions. "In certain cases these people tend to jack-up the salaries to claim higher deductions under business expenses. To check these cases of tax avoidance, the I-T department says that any payment made over and above the market rate for hiring such a resource, won't be eligible for deduction," says Advani. Similarly, entrepreneurs often hire the services of professionals outside India. Some of them work as consultants while others are on their pay-rolls. "The money is either paid as a fee or as salary, such an expense will be allowed as deductions only when TDS has been deducted and paid to the I-T department before filing taxes," says Advani.

COMPLIANCE TIP

If you are a professional with a turnover exceeding Rs 25 lakh and are liable to get your books of accounts audited, deductions on certain payments such as interest, commission, royalty, etc. won't be allowed for deductions in case you have not deducted the tax at source, or TDS and submitted the same before filing the return.

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