Switching jobs? Find out how to overcome needless tax complications

By Shubham Agrawal

It's not uncommon for a 20-something to have worked with three to four employers in as many years. However, in the excitement of sifting through jobs—be it for a higher salary, better prospects, fresh challenges or acquisition of new skills—most of them ignore their finances and end up suffering needless complications. The worst casualty of poor financial planning is taxation, which is a bugaboo avoided by most employees either due to ignorance or sheer laziness. Here are the seven most common tax-related issues that are a fallout of job switches and how to make sure you don't face the financial consequences.

Impact of multiple Form 16s

Employers usually calculate the tax liability of an individual on the basis of the salary they paid during a financial year. If you change jobs midstream and do not inform your new employer about the previous income, be ready for a shock when you file your tax returns. You might have to cough up additional tax at that stage. This is because both the employers would have factored in the basic exemption of Rs 2.5 lakh and Section 80C investments of Rs 1.5 lakh while calculating your tax liability. They would also have given you the benefit of lower tax slabs.

To understand this better, assume that your package is Rs 8 lakh with the first employer and the second employer raises it to Rs 10 lakh. The first employer will deduct monthly tax assuming that your taxable income for the entire year is Rs 4 lakh (after basic exemption of Rs 2.5 lakh and deduction of Rs 1.5 lakh for Section 80C investments). If you change jobs in October, the second employer will assume that your taxable income is Rs 1 lakh after a similar exemption and deduction. So, while your total income for the year is Rs 9 lakh, you would have paid tax for only Rs 5 lakh, and that too at a lower rate. You can't sweep this under the carpet because the system will not give this double benefit when you file your tax returns.

Provident Fund

The EPFO has promised that the Provident Fund accounts will become portable from October this year. Till this becomes a reality, it is best to transfer your PF balance to the new employer instead of withdrawing the amount. If you withdraw your PF balance before five years of continuous service, you will lose the tax benefit availed of on the amount in previous years. The amount will be taxed as normal income in the year of withdrawal and you might lose a big chunk of interest earned on your balance to the taxman.

TDS on joining bonus

If you get a joining bonus, but don't serve till the stipulated period, you will be asked to refund the amount. Don't forget the tax angle if you do this. Your employer must have deducted tax on the bonus before paying it to you, but when you refund it, you have to pay the entire amount (including tax) to the employer. Of course, the deducted tax can be claimed when you file your tax return. Suppose A is offered a joining bonus of Rs 1 lakh, but gets Rs 70,000 after a 30% tax deduction. If A leaves the job within six months of joining, he has to pay Rs 1 lakh to his employer, and the Rs 30,000 deducted as tax can be claimed as refund when he files his return.

Leave travel allowance

According to the leave travel allowance (LTA) rules, travel expenses for you and your family can be claimed for two return journeys in a block of four years. This means that tax exemption can be claimed only twice, irrespective of the number of companies you were employed with during those four years. So, you can carry forward unused LTA from your previous employer to the next within the same block, but must retain the proof of travel to claim LTA.

Avoid taxation of allowances

If you change your job before the January deadline—to submit documentary proof for claiming the allowances you are eligible for—your annual house rent and medical or conveyance allowances could lose the tax-free status. This is because your previous employer will pay it along with the final settlement amount. If you have not submitted rent receipts and bills, the sum will be taxed as normal income without tax exemption. So, make sure you submit rent receipts and other documents before you put in your papers. If you fail to give the rent receipt, you can claim HRA exemption when you file the return.

Tax on overseas income

If you are moving to an overseas location, you may choose to withdraw your Provident Fund after three years. If a PF account is not active for three years, that is, there has been no deposit for 36 months, the EPFO will stop crediting interest. Apart from this, you also need to determine your residential status for the year in which you make the move. If you move before October (spending less than 182 days in India), you will be considered a non-resident for the tax year. So, the income earned abroad will not be taxed in India. However, if you are considered a resident Indian, you will need to pay tax on your overseas income in India. Besides, if India has a double taxation treaty with the country you are employed in, you can claim credit for the taxes paid abroad.

Check all documents before you exit

You must have the following documents when you move out of an organisation: payslips, full and final settlement statement, Form 19 and Form 10C for PF withdrawal, and your Provident Fund account details, among others. Also, do not forget to ask for your Form 16 at the end of the financial year.

(Economic Times)