Commandments of Tax Planning

1. **Execution of Tax Planning:** Execution of Tax planning should be such that the proposal should be applied with good conceptual knowledge of the facts. Tax Planning principles must be sound and also due care should be exercised in structuring it and in its execution. Thus, while discussing tax planning ideas it is also important to discuss the considerations in tax planning.

2. **Tax requires talent and ability:** Tax planners should possess in themselves proper and good knowledge of tax laws so that they can apply their talent and ability in tax planning. Besides tax laws, they should also be aware about other laws like company law, transfer of property law, registration law etc.

3. **Is reducing tax the only aim?** : The ultimate goal of the tax planning proposal is not only reducing the tax but also it should emphasize on increasing the net worth of the client. In any tax planning, one should consider not only a particular tax, say, income tax for which planning is being done but also all the applicable direct taxes and indirect taxes, levies and costs.

4. **Past, present and future tax repercussions to be considered:** All the past, present and future tax repercussions should be considered while planning a proposal where they are conflicting in nature, they must be carefully analyzed and then final decision should be taken. Those proposals which give permanent tax benefit (may be of smaller amount) should be considered better than those proposals which give temporary tax benefits (i.e. which involve litigations). Though, these implications should be given due weightage while deciding for tax planning.

5. **Cash flows are very crucial:** There should be proper control over the funds and assets by the tax planner in implementing the tax planning aspects. Any tax planning which results in losing a particular asset or control over it, it may not be regarded as good tax planning.

6. **Tax planning vis a vis Judiciary:** Tax planner should have adequate knowledge about case laws and he should carefully study the case laws which are against the assessee so that the weakness of those cases are taken care of in the present planning.

7. **All the alternatives should be assessed:** Tax planner must weigh and compare various alternatives available for reducing the tax incidence in order to achieve client's objectives. It is for the tax consultants to dig out the real issues and work out the various alternatives and assess their tax consequences. Tax planning also helps in avoiding adverse consequences and tax litigations.

8. **All perils to be considered:** Tax planner should evaluate each and every proposal and evaluate the hazards involved under each and every proposal so that potential areas of litigations and their consequences should be identified. Further, the client should be made aware of the potential areas of litigation and their consequences because it is ultimately the client who should decide whether or not he wants to undertake those risks. Some assesses want to play completely safe (i.e. they are risk averse) whereas others may be prepared to take risks for a reasonable reward (i.e. they are risk lovers) in the form of tax saving. But, still the ultimate decision has to be taken by the client and not by the tax planner.

9. **Miscellaneous:**

    a.) Tax planning proposal should be supported by proper documentation and paper work because tax department just needs evidence from the documents in support of the transaction. Therefore, need for proper documentation is a requisite factor in the implementation of tax planning.

    b.) After implementation of the tax planning proposal, appropriate disclosure must be made in the tax returns so as to avoid any penalty for concealment of income/wealth/gift.

    c.) It is also important to make proper representations before the Assessing Officer and the appellate authorities if the matter comes up before them. Further, it is essential to judge the mind of the Assessing Officer or of the appellate authorities and then develop an appropriate strategy for representation.