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# Freedom of Choice

**Like any** other alternative, the independence of being a consultant over an employee comes with its share of risks

In my 30 years of practice as a tax consultant dealing with corporate entities, professionals and the salaried, one point to which most conversations meander to is tax savings. Of the lot, the salaried individual is the most harried taxpayer, who is forever crying foul over high taxes that he has to pay and the little savings that he is left with at the end of the year. While the usual tax-saving options under Section 80C exist, most often, one is looking at ways to reduce his or her tax outgo to as close as nil and have more money in his or her hands.



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Yes, the salaried class ends up being burdened by income tax a lot more than others. The difference is stark when you compare the tax liability of a salaried individual to someone who acts as a consultant, but does the same job as that of the salaried individual. The reason for this anomaly exists because the way the tax laws are applicable to them.

In case of the salaried individual, tax is withheld by the employer every month at an average rate applicable to them. But for professionals, a company using their services deducts tax at a flat rate of 10 per cent from the consultancy fee at the time of payment.

The discrepancy sets at this level itself because the salaried spends from what they receive post the applicable tax. In contrast a professional first earns, then spends and finally pays taxes on what is left after the expenses. Let me explain this with an example: Suppose A earns ₹10 lakh as salary excluding the deductions, he will be liable to pay tax of around ₹1.3 lakh. Now, if A were to convert his employment to that of a consultant and continue to provide the same services to the organisation for the same remuneration, he will

be entitled to charge all his profession-related expenses to the income and pay tax on the remaining income.

The advantages are immense. For instance, whether you are salaried, or a consultant, you might be using a car to drive to work and pay a parking fee for the whole day while you work.

The beauty of being a consultant is that you can claim for not only the expenses you incur when travelling to work, you can additionally

claim for depreciation of the car, its maintenance, insurance, driver's salary and also the parking fee that you pay.

These expenses are deducted from the income you earn as a consultant before tax applies on the remaining sum. This is just one instance of how consultants benefit over the salaried for the same work both do.

Moreover, a consultant can even claim depreciation on assets like AC, furniture, computer, phones and other business assets used for providing services. However, consultants are required to maintain accounts of these expenditures in such a fashion that it can be reasonably ascertained by the income tax department. They are also required to maintain the necessary documents for six years and the services also attract service tax on earnings once they exceed ₹10 lakh in a financial year.

Service tax, however, is invariably paid by the employer. It does pay to become a consultant for both you and your employer, with an element of risk in it. While you stand to gain monetarily, your employer will be less impacted by the compliance issues that they need to follow in case of salaried people. ■

*(The writer is a tax consultant)*