

TAX SAVING AVENUES: A STUDY EXPLORING THE PERCEPTION OF INDIVIDUAL ASSEESSEES IN TINSUKIA TOWN, ASSAM

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ABSTRACT

Tax planning is the process of analyzing the financial plan of an assessee in order to ensure that all the elements of the financial plan can function with maximum tax efficiency. An adequate tax planning helps in streamlining the investments and tax payments in such a manner which ensures considerable returns over a specified period of time involving minimum risk. The paper aims to explore the perception of both salaried and business class assesseees regarding tax planning and the various tax saving investment avenues available under the Income Tax Act, 1961. The present study is exploratory and descriptive in nature and based on both the primary and secondary sources of data. The study revealed that individuals perceive tax planning, as a tool that not only helps in channelizing their taxable income to various investment alternatives, but also helps in effective financial planning and better tax compliance. The most influencing factor while making a tax saving investment decision is the tax benefit derived from the investment. The study recommends that it is the need of the hour to create awareness about the non-conventional tax saving avenues among the individuals and further steps should be taken to educate the assesseees regarding the importance of effective tax planning.

KEYWORDS: *Tax Planning, Tax Saving Avenues, Tax Compliance, Financial planning*

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INTRODUCTION

Tax planning is an integral part of financial planning which aims at utilizing the provisions of income tax laws in an effective and efficient manner so as to reduce the tax burden of an individual assessee. Tax planning is a broader concept which includes channelizing the taxable income to various tax saving investment alternatives, disclosing correct information to relevant Income Tax Authorities, planning the tax liability within the framework of law, ensuring compliance with the applicable rules and regulations etc. There are a number of tax saving investment avenues such as Public Provident Fund, National Saving Certificate, Kisan Vikas Patra, Post office time deposits, Tax Saving Fixed Deposit Schemes, Sukanya Samridhi Account Scheme, etc. through which an individual assessee can reduce his or her income tax liability by claiming appropriate exemptions and deductions for the investments made during a particular financial year. A good tax planning decision can be taken at the beginning of the previous year which provides long term benefits and also helps in making an efficient and diversified investment portfolio.

When an individual plans the tax liability as per the legal provisions of the act, it is termed as tax planning, whereas if it is done illegally then it is referred to as tax evasion which is an unethical practice and should be strictly avoided as it may lead to unnecessary consequences and litigations. Tax planning can be of varied nature, depending upon the time at which the plan is formulated, the tenure and the objectives associated with it. Some of the different types of tax planning are short term tax planning, long term tax planning, purposive tax planning and permissible tax planning.¹ Thus, in order to take an appropriate tax planning decision one must have sound knowledge regarding all the exemptions allowed under section 10 and deductions allowed under section 80C to 80U of the Income Tax Act, 1961. The Table 1, below shows the different slabs of total income along with the income tax rates applicable to the individual taxpayers under the old and the new regime of taxation, which can be compared as follows:²

Table 1: Personal Income Tax Structure for AY 2022-2023

Sl. No.	Total Income (in Rs.)	Old Regime	New Regime
1.	Up to 2,50,000	Nil	Nil
2.	From 2,50,001 to 5,00,000	5%	5%
3.	From 5,00,001 to 7,50,000	20%	10%
4.	From 7,50,001 to 10,00,000	20%	15%
5.	From 10,00,001 to 12,50,000	30%	20%
6.	From 12,50,001 to 15,00,000	30%	25%
7.	Above 15,00,000	30%	30%

(Source: Highlights of the Union Budget 2020-21 Analysis).

REVIEW OF LITERATURE

Oberholzer & Stack (2009)³ carried out a study on “Perceptions of Taxation: A Comparative Study of Different Individual Taxpayers’ in South Africa”, recommended that, South African government should evaluate their corporate communication strategies on a regular basis, in order to determine the most effective manner for communicating tax issues with its citizens. Dhar & Ghosh (2010)⁴ in a research study on “Presumptive Taxation: Systems, Perceptions and Problems”, concluded that the sources of information are largely informal and the contractors are rarely made aware of this system through wide publicity in media by the tax authorities. Mansuri & Dalvadi (2012)⁵ conducted a research on “Tax Awareness and Tax Planning among Individual Assessee: A Study”, and concluded that 79% of respondents were aware regarding the areas of tax planning and 21% of the respondents were unaware of tax planning areas. Bhushan & Medury (2013)⁶ carried out a study on, “Determining Tax Literacy of Salaried Individuals – An Empirical Analysis”, and revealed that the overall tax literacy level of 57.08% is low and indicates that salaried individuals are not well versed with the basic concepts of personal taxation, tax literacy of males is higher as compared to females. Hastuti (2014)⁷ in a study titled “Tax Awareness and Tax Education: A Perception of Potential Taxpayers”, revealed that there is no significant difference in the contextual and ethical awareness between the groups and tax knowledge should be provided to all the students as it would help in ensuring tax compliance. Gayathri & Jayakumar (2016)⁸ in their study titled “A Study On Tax Payers’ Perception Towards E-Filing of Income Tax Returns With Reference To Teachers in Bengaluru East, Karnataka”, highlighted that the majority of the respondents were satisfied with the e-filing procedure, easiness of e-filing, e-payment procedure and the acknowledgement generated by the e-filing system. Among the various factors, the extension of e-filing, faster tax refunds were the most important motivators for the respondents for using the e-filing system. Rantelangi & Majid (2017)⁹ in a research study on “Factors that Influence the Taxpayers’ Perception on the Tax Evasion highlighted that tax knowledge, tax morale, tax system; tax fairness negatively influences the taxpayers’ perception on the tax evasion, whereas the compliance cost influences the taxpayers’ perception positively. Kalgutkar (2018)¹⁰ in a research study titled “Tax

Awareness and Tax Planning on Wealth Creation of Individual Assesseees” studied the relationship between tax awareness and planning on wealth creation of individual assesseees in the form of different investments prescribed by income tax laws and concluded that the tax awareness and tax planning helps an individual assessee to build efficient portfolio of investment which in turn helps in wealth creation. Remali et al. (2020)¹¹ carried out a study to collect “Taxpayers’ perception regarding tax compliance”, to determine the level of tax compliance and revealed that a high level of tax compliance can be achieved if the tax fairness and tax knowledge are high and the tax complexity is low. Venkatesan (2020)¹² in a research study titled “Attitude of Individual Business Class Assessee towards Tax Planning in Salem District” highlighted the respondents attitude towards tax planning are influenced in respect of their gender, marital status, age, nature of business, educational qualification, monthly income etc. Khan & Zada (2021)¹³ carried out a research study on “A Study about Financial Planning and Tax Saving options for Primary and Secondary School Teachers of Nagpur Region”, concluded that the teachers were well educated regarding the financial planning and saving of tax and the most popular investment option for tax saving was LIC.

The existing literature reviewed, primarily focuses on the Investment behavior of Salaried Class, the factors influencing their investment behavior, methodology of planning tax liability, Perception of individuals regarding the Direct Tax Code, Tax Saving Schemes and various Investment Avenues such as ELSS, etc. Since the researcher has come across no significant study being conducted particularly in Tinsukia town, regarding the perception of the taxpayers towards tax planning and tax saving investment avenues, therefore an attempt has been made to explore the perception of individual assesseees regarding tax planning and the various tax saving investment avenues available under the Income Tax Act, 1961.

RESEARCH OBJECTIVES

- To examine the perception of individuals towards tax planning and examine the preferred tax saving avenues among them.
- To study the major factors influencing the tax saving investment decisions of individual assesseees.

RESEARCH METHODOLOGY

The population for the study comprises of the individual taxpayers of Tinsukia town, who are either the business owners or the salaried individuals employed in various institutions such as banking, educational and insurance sectors etc. The researcher has approached 146 individuals but only 100 individuals responded the questionnaire. Thus the response rate is 68.49% respectively. The researcher has taken 100 as the sample size based on the time frame and feasibility considering the nature of the study. Both the primary and secondary data has been collected to meet the objectives of the study. The Primary Data was collected with the help of a well designed questionnaire which were distributed to the respondents using both the online and offline methods whereas some of the respondents were also personally interviewed by the researcher. The secondary data has been collected from books written by different authors, journal articles, research papers, annual reports furnished by ministry of finance etc. Assessment year 2022-23 has been selected as the period for the study.

RESULTS AND DISCUSSIONS

The population under the study was divided into two categories based on the occupation of the respondents. The total number of respondents for the study was 100 comprising 50 salaried individuals, and 50 business owners respectively. The demographic profile of the respondents can be represented as follows:

Table 2: Demographic Profile of the Respondents

Demographic Variables	Category	Salaried Individuals (Nos.)	Business Owners (Nos.)
Age Group	Below 45years	18	12
	45-60 years	27	26
	Above 60 years	05	12
Gender	Male	17	40
	Female	33	10
Marital Status	Married	30	37
	Unmarried	20	13
Educational Qualification	High School	-	04
	Higher Secondary	02	28
	Bachelor's Degree	10	12
	Post Graduation	32	06
	Further Studies	06	-
Annual Income(INR)	Up to 3,00,000	08	02
	3,00,001-5,00,000	22	04
	5,00,001-10,00,000	20	34
	Above 10,00,000	-	10
Monthly Savings(INR)	Below 10,000	26	10
	10,000-30,000	16	28
	Above 30,000	08	12
Family Size	2 members	14	04
	3-6 members	31	19
	Above 6 members	05	27

(Source: Field Survey)

The above table 2 represents the demographic profile of the 100 respondents, comprising 50 salaried individuals and 50 business owners who participated in the survey. It is observed from the table that the majority of the respondents i.e. 54% of salaried individuals and 52% of business owners are in the age group of 45-60 years respectively. The survey consisted of 66% female salaried individuals and 80% male business owners. As a whole there are 57% male respondents and 43% female respondents. With regard to the marital status of the respondents, it is observed that 67% of the respondents are married and 33% of them are unmarried. It can also be noted that the survey consisted of 50% respondents who are salaried individuals and 50% respondents having business as their nature of occupation. With regards to the educational qualification, it is observed that majority of the respondents i.e. 64% salaried individuals are post graduates whereas 56% of business owners are qualified up to higher secondary education. The respondents are also classified based on their annual income. It is seen that 44% of the salaried individuals have annual income in the range of 3,00,001-5,00,000 whereas majority of business owners i.e. 68% of them have annual income in the range of 5,00,001-10,00,000 respectively. With regard to the monthly savings of the respondents, it is observed that 52% of the salaried individuals have monthly savings below Rs. 10,000 and 56% of the business owners have monthly savings in the range of 10,000-30,000. It can also be noted that the majority of the salaried individuals i.e. 62% of them have a family size of 3-6 members, whereas majority of the business owners i.e. 54% of them have a family size above 6 members.

Perception of Individual Assesses towards Tax Planning

Perception refers to the way in which something is regarded, understood or interpreted. The study attempts to understand the perception of individual assesses i.e. both the salaried individuals and business owners regarding the various aspects of tax planning.

Table 3: Perception of Individual assesseees Towards tax Planning

Parameters	Respondents	No. of Respondents					Mode
		1	2	3	4	5	
Tax Planning imperative for effective Financial Planning	Salaried Individuals	04	11	07	21	07	4
	Business Owners	-	14	04	24	08	4
Provisions of Income Tax complex to understand	Salaried Individuals	02	09	12	08	19	5
	Business Owners	04	03	07	27	09	4
Simplification of Income Tax Laws the need of the hour	Salaried Individuals	-	05	04	08	33	4
	Business Owners	03	06	09	14	18	5
Poor Tax Planning encourages Tax Evasion and Tax Avoidance	Salaried Individuals	08	03	02	11	26	5
	Business Owners	09	11	-	28	03	4
Tax Planning channelizes taxable income to various investment alternatives	Salaried Individuals	-	04	08	27	11	4
	Business Owners	06	03	02	29	10	4
Burden of medical expenses covered by proper tax planning	Salaried Individuals	03	07	02	29	09	4
	Business Owners	05	04	07	26	08	4
Wealth distribution influenced by the tax system	Salaried Individuals	02	06	03	21	18	4
	Business Owners	04	02	05	15	24	5
Effective Tax planning prevents future litigations	Salaried Individuals	-	05	10	29	06	4
	Business Owners	04	03	11	22	10	4
Tax Planning leads to unnecessary wastage of time	Salaried Individuals	21	15	09	03	02	1
	Business Owners	14	19	06	07	04	2
Tax education and knowledge enhances tax compliance	Salaried Individuals	04	06	05	17	18	5
	Business Owners	02	09	02	27	10	4
Tax planning merely helps in reducing tax burden	Salaried Individuals	20	16	04	07	03	1
	Business Owners	14	18	06	04	08	2

(Source: Field Survey)

Note: Strongly Disagree=1, Disagree=2, Neutral=3, Agree=4, Strongly Agree=5

From the above table, it can be analysed that the majority of the respondents agreed that tax planning is imperative for effective financial planning, as the mode is 4 for both categories of respondents. The perception of both the salaried individuals and business owners revealed that the provisions of income tax laws are complex to understand, thus steps should be taken for simplification of income tax laws. The respondents also perceive that poor tax planning encourages tax evasion and by giving correct information to IT Authorities would significantly help in preventing future litigations. Further, they were of the view that a proper tax planning not only helps in channelizing their taxable income to various investment alternatives, but also ensures better tax compliance. Thus, it is observed that only a few individuals perceived tax planning as a tool to merely reduce the tax burden, whereas majority of the salaried individuals and business owners does not agreed with the statement, "Tax planning merely helps in reducing tax burden".

Preferred Tax Saving Avenues among Individual Assesseees

The preferences of individual assesseees towards various tax saving avenues is affected by many variables such as their awareness level, attributes of such investments, tax benefits derived etc. In order to determine the preferred tax saving avenues among individual assesseees, a list of tax saving investment avenues were given to the respondents to rank based on their preference to invest. Here 1st rank denotes the most preferred investment and the 12th rank denotes the least preferred investment. The ranks assigned to each of the tax saving investment avenues by the respondents are represented in the table below

Table 4: Ranking of Tax Saving Avenues Based on the Preferences of Individual Taxpayers

Investment Avenues / Ranks	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
Public Provident Fund	58	21	11	02	02	01	04	01	-	-	-	-
Unit Linked Insurance Plans	-	-	-	02	04	02	03	07	02	21	43	16
Senior Citizen Saving Scheme	09	14	11	05	08	18	17	02	07	04	05	-
Sukanya Samridhi Account	04	06	05	09	04	23	07	21	15	02	03	01
National Saving Certificate	03	07	09	08	09	11	14	17	21	-	-	01
Equity Linked Saving Schemes	-	-	-	04	09	04	03	05	08	18	24	25
Health Insurance Plans	18	09	13	11	06	14	10	07	09	03	-	-
Life Insurance Plans	30	10	27	12	14	-	-	-	07	-	-	-
Kisan Vikas Patra	-	-	08	17	10	09	08	10	04	15	04	15
Post Office Time Deposits	-	-	06	14	12	04	-	24	29	-	-	11
Tax Saving Fixed Deposits	05	18	10	14	09	12	16	01	06	07	02	-
Notified Units of Mutual Funds	-	-	-	02	01	02	18	05	16	17	12	27

(Source: Field Survey)

Note: Rank1=Highest and Rank 12= Lowest

Based on the ranks assigned by the respondents it can be inferred that the most preferred tax saving Investment Avenue is the Public Provident Fund Scheme, followed by the Life Insurance Plans whereas the least preferred tax saving investment avenues is the Unit Linked Insurance Plans and Equity Linked Savings Scheme. Thus, the most preferred investment avenues are those which involve very low risk as compared to other investment avenues, thus it can be concluded that the respondents are more risk averse and avoid making risky investments.

Factors Influencing tax Saving Investment Decisions of Respondents

There are a number of factors influencing the investment decisions of an individual assessee. Some of these factors are rate of return derived from investments, frequency of return, risk involved in the investment, safety and security aspects, maturity benefits, tax benefits, liquidity aspects and future prospects involved. Since the investment decisions are taken after detailed examination of the considerable factors of investment, therefore the respondents were asked to specify the factor which significantly influences their tax saving investment decisions.

Table 5: Factors Influencing Investment Decisions in the Tax Saving Avenues

SL.NO	Particulars	Salaried Individuals (Nos.)	Business Owners (Nos.)	Salaried Individuals (%)	Business Owners (%)
1.	Safety and Security	26	31	13.61	14.29
2.	Liquidity Aspects	14	22	7.34	10.14
3.	Future Prospects	22	15	11.51	6.91
4.	Level of Risk	15	14	7.85	6.45
5.	Rate of Return	26	32	13.61	14.75
6.	Maturity Value	31	35	16.24	16.13
7.	Tax Benefits	42	46	21.99	21.19
8.	Time Period	15	22	7.85	10.14
	TOTAL	191	217	100	100

(Source: Field Survey)

Note: Since Some of the Respondents have Mentioned More than one Factor, Therefore the Total Responses are Outnumbered the Total Respondents. Total Respondents are 100 I.E. 50 Salaried Individuals and 50 Business Owners Respectively.

Table 5 represents the factors influencing the tax saving investment decisions of individual tax payers. From the above tabulation, it can be interpreted that 21.99% of salaried individuals and 21.19% of business owners consider tax benefits as one of the most important factor influencing the investment in tax saving avenues. Thus, after considering the responses of both the business owners and salaried individuals, it can be interpreted that tax benefits derived from investments is the most influencing factor followed by the maturity value of investments and the safety and security involved in the investment avenue.

CONCLUSIONS

The present study revealed that majority of the respondents generally preferred the conventional tax saving investment avenues such as Public Provident Fund, Life Insurance Plans etc. and seemed to have little knowledge regarding the Unit Linked Insurance Plans and Equity Linked Saving Schemes etc. Majority of the salaried individuals are efficient tax planners as they initiated their tax planning right from the beginning of the financial year. The respondents generally approached a tax consultant for tax planning due to complexity of tax laws and in order to avoid any future litigation. While taking a tax saving investment decision, the respondents primarily focused on the tax benefits derived and the frequency of investments in tax saving avenues is generally once in a particular financial year. Thus, it can be concluded that appropriate measures should be taken by the respective authorities to create awareness about the non-conventional tax saving avenues among the individuals. Further, steps should be taken to educate the assesseees regarding the importance of effective tax planning. It is also imperative that individuals initiate their tax planning right from the beginning of the financial year, so as to avoid the instances of tax evasion or tax avoidance.

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