CHAPTER-VII

A SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION
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7.1 INTRODUCTION

India, being a developing country requires capital formation through savings and investments. This objective can be achieved when individual savings and investments have been properly planned, promoted and channeled. When an individual is saving some money and investing it in the shares of a particular company, he is directly participating in economic development by providing the risk capital. On the other hand, when he is paying his Life Insurance Premium, he is indirectly participating in capital formation, because with his money, the Life Insurance Corporation is supporting developmental activities. Thus, individuals, either directly or indirectly, help the process of development through savings and investments1.

An individual investor’s objective may not be the economic development of the country. He is mostly concerned with tax concession, safety, return and liquidity of his investment. While choosing a specific investment, an investor has to consider, not only the profitability of investment but also tax concession. Income of people differs from person to person. Similarly, tax liability and savings also differ from person to person. When individual’s income exceeds the maximum tax exempted limit, he has to plan his tax liability. Tax Planning is an arrangement of

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one’s financial affairs without violating the legal provisions of the Income Tax Act.

Tax planning not only reduces the tax liability but also enables to achieve the nation’s economic and social goals. Hence, if an assessee takes the advantage of tax planning, he not only reduces his tax liability but also helps in achieving the objective of the legislature, which is lawful, social and ethical.

Tax planning measures are investing funds in tax-free return investments, tax-saving investments, tax-free maturity investments and No tax deduction at source investments. Many assessees may be ignorant of these tax-planning measures. They can save income tax by adopting the tax planning measures. However, many taxpayers do not know the tax planning measures that are provided in the Income tax Act. Ironically, the agencies dealing with tax saving schemes also have not taken any step to popularize their schemes to the taxpayers. Hence, tax planning measures are a little complicated and intricate for an average assessee. Further, the information available to individual income tax assessee on the tax saving schemes is not much. It is needless to say that the investors should be made to understand the features of various tax saving schemes available with tax concession.

Hence, this study is undertaken to provide suitable tax planning measures to the salaried assessees in order to reduce substantially their tax liability.

This chapter is devoted to summarize the findings and conclusions of the study and offer suggestions for improving the tax planning of the salaried assessees in Erode District of Tamil Nadu. In order to maintain sequence, chapter wise conclusions are presented.
7.2 OBJECTIVES OF THE STUDY

The present study is undertaken with the following specific objectives

1. To review the tax planning options available for the salaried assessees.

2. To measure the awareness level of the salaried assessees about the tax planning.

3. To study the income and its composition of the salaried assessees.

4. To study the investments made in various tax-saving schemes by the salaried assessees.

5. To identify the various factors influencing the salaried assessees to invest in different tax-saving schemes.

6. To offer suggestions for the salaried assessees in respect of tax planning measures to reduce substantially their tax liability.

7.3 HYPOTHESES

Several hypotheses have been formulated by considering the objectives of the study, the researchers’ theoretical knowledge, discussions and deliberations with experts and from other research studies. These hypotheses are subjected to appropriate statistical tests.

7.4 SAMPLING DESIGN AND METHODOLOGY

This study is an empirical research based on survey method. The present study is confined to Erode district of Tamil Nadu. Erode district is selected for the present study as the researcher belongs to this district and
the attitude, aptitude and awareness level of the assessees of this district is expected to be the same in other districts of Tamil Nadu and also the whole country.

It was found from the records of Income Tax Office, Erode that there were 1,62,700 salaried assessees in Erode District for the assessment year 2004-05. Among them, 10,700 salaried assessees have filed their income-tax returns themselves without the help of tax consultants. The rest 1,52,000 salaried assessees filed their returns through qualified tax consultants. The present study does not include the assessees who filed their return themselves, as they may be aware of various tax planning measures. Among the seven Taluks in Erode District, Erode, Gobichettipalayam, and Sathyamangalam were the Taluks selected for this study as in these three Taluks 76.15 per cent (1,15,750) of the total salaried assessees who filed their returns through the tax consultants are concentrated.

For the collection of primary and secondary data, it was decided to approach the tax consultants of Erode, Gobichettipalayam and Sathyamangalam taluks. It was found from the records of the Income Tax Department, Erode that there were 163 Income tax consultants practicing in the three taluks of Erode District for the assessment year 2004-05. Among them, nine leading tax consultants who were amenable for providing data, representing three from each taluk, were selected for collecting both primary and secondary data.

A sample of 600 assessees has been selected from the three Taluks of Erode district on Stratified random sampling technique.
7.5 DATA COLLECTION

This study is conducted by using both primary and secondary data. The primary data were collected from the respondents by serving the pre-tested questionnaires. The secondary data were collected in the ‘designed schedule’ from the respective assessee’s income tax files maintained by their auditors in their office.

7.6 ANALYSIS OF DATA

The data collected from the primary sources were analyzed with reference to each of the objectives with various statistical techniques like, Chi-square test, “F” test, “z” test, scoring technique and scaling the ranking.

7.7 MAIN FINDINGS AND CONCLUSION

The following are the main findings of the study

CHAPTER-III SALARIED ASSESSEES AWARENESS ON TAX PLANNING

In this chapter, the awareness level on tax planning of the sample assessees has been examined. The primary data regarding awareness of 600 sample respondents regarding Tax-free incomes U/S 10, Deductions from Gross Total income U/S 80, Tax-saving schemes U/S 80C, Tax Free Maturity schemes and No Tax Deduction at Source Schemes, were collected through questionnaire from the sample respondents. Initially Seventy-five statements were prepared.

Rensis Likert-type scales were adopted by utilizing the item analysis approach wherein a particular item or statement is evaluated on the basis of how well it discriminates between whose total score is high
and whose score is low. With the help of item analysis technique, the total set of 75 statements was reduced to 50 statements.

A two-point Likert-type scale was used to measure the level of awareness on tax planning. The score of 600 sample assessees were calculated by adopting the scoring procedure i.e. if the respondent was ‘aware’ two points and one point for ‘unawareness’ has been assigned. If one respondent is aware of all 50 statements his/her maximum score would be 100 and if he/she is unaware of all the statements his/her score would be 50. The respondents who scored 75 and above were being classified as having ‘high-level awareness’ and who scored below 75 were classified as having ‘low-level awareness’ about the tax planning measures.

It is found that ‘61 per cent’ of the sample assessees has high awareness and ‘39 per cent’ of the sample assessees has low awareness on tax planning. It is also found that the ‘average awareness score’ of the 600 sample assessees is ‘77.67’.

ASSOCIATION BETWEEN INDEPENDENT VARIABLES AND AWARENESS LEVEL OF ASSESSEES ON TAX PLANNING

The personal variables of the sample assessees (such as Age, Gender, Educational qualification, Employment status, Professional status, Area of Residence, Marital status, Type of family, Number of dependants and Length of service) were associated and analyzed with the level of awareness on tax planning.

Significance of the association of all the above ten variables with the awareness on tax planning of the sample assessees has been analyzed by applying the appropriate statistical techniques.
AGE AND AWARENESS LEVEL ON TAX PLANNING

Among the three groups of sample assessees, 64.86% belonging to the age group 40 to 50 years and 86.27% belonging to the age group of 50 years and above have high awareness on tax planning. Further, 73.56% of the assessees belonging to the age group of less than 40 years and 35.14% belonging to the age group of 40 to 50 years have low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group young age is higher than the percentage of those assessees belonging to the other two groups.

The average awareness score of the old age assessees (84.19) is higher than the average awareness score of the middle (77.77) and young (69.91) age assessees.

GENDER AND AWARENESS LEVEL ON TAX PLANNING

Among the two groups of sample assessees, 80.56% of the assessees belonging to women group and 59.75% belonging to men group have high awareness on tax planning. Further, 40.25% of the assessees belonging to men group and 19.44% belonging to women group have low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group men is higher than the percentage of those assessees belonging to the group women.

The average awareness score of the women assessees (83.11) is higher than the average awareness score of the men assessees (77.32).
EDUCATIONAL QUALIFICATION AND AWARENESS LEVEL ON TAX PLANNING

Among the four groups of sample assessees, 71.09% of the post-graduate assessees and 60.94% of the professional degree assessees have high awareness on tax planning. Further, 70% of the assessees with SSLC qualification and 63.1% of the assessees with graduate qualification have low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group upto SSLC is higher than the percentage of those assessees belonging to the other three groups.

The average awareness score of assessees with post-graduate qualification (81.48) is higher than the average awareness score of the assessees with upto SSLC (68.70), Graduate (69.92) and professional degree/diploma (76.64).

EMPLOYMENT STATUS AND AWARENESS LEVEL ON TAX PLANNING

Among the four groups of sample assessees, 74.67% of the Central Government employees and 67.33% of the private concern have high awareness on tax planning. Further, 53.33% of the State Government employees and 44.67% of the quasi-Government employees have low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the State Government employees group is higher than the percentage of those assessees belonging to the other three groups.

The average awareness score of the Central Government assessees (82.93) is higher than the average awareness score of the State
Government (74.23), quasi-Government (74.84) and private concern (78.69) assessees.

**PROFESSIONAL STATUS AND AWARENESS LEVEL ON TAX PLANNING**

Among the three groups of sample assessees, 74.64% of the Teacher assessees and 58.68% of the Administrative assessees have high awareness on tax planning and 45.98% of the Professional assessees and 41.32% of the Administrative assessees have low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group professionals is higher than the percentage of those assessees belonging to the other two groups.

The average awareness score of the Teachers (81.54) is higher than the average awareness score of the Professionals (75.58) and the Administrators (77.08).

**AREA OF RESIDENCE AND AWARENESS LEVEL ON TAX PLANNING**

Among the two groups of sample assessees, 62.5% of the assessees belonging to towns and 43.75% of the assessees belonging to villages have high awareness and 56.25% of the assessees belonging to villages and 37.50% of the assessees belonging to towns have low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group village residents is higher than the percentage of those assessees belonging to the group town residents.

The average awareness score of the assessees belonging to towns (78.09) is higher than the average awareness score of the assessees belonging to villages (72.83).
**MARITAL STATUS AND AWARENESS LEVEL ON TAX PLANNING**

Among the two groups of sample assesseees, 61.39% of the married assessees, and 41.67% of the bachelor assessees have high awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group bachelors is higher than the percentage of those assessees belonging to the group married.

The average awareness score of the married assessees (77.82) is higher than the average awareness score of the bachelor assessees (70.33).

**TYPE OF FAMILY AND AWARENESS LEVEL ON TAX PLANNING**

Among the two groups of sample assessees, 62.44% of the assessees belonging nuclear families and 58.08% of the assessees belonging to joint families have high awareness on tax planning. Further 41.92% of the assessees belonging to joint families and 37.56% of the assessees belonging to nuclear families have low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group joint family is higher than the percentage of those assessees belonging to the group nuclear family.

The average awareness score of the assessees belonging to nuclear families (78.12) is higher than the average awareness score of the assessees belonging to joint families (76.76).

**NUMBER OF DEPENDANTS AND AWARENESS LEVEL ON TAX PLANNING**

Among the three groups of sample assessees, 76.67% of the assessees with 5 dependants and above, 60.75% of the assessees with 3 to
4 dependants and 51.45% of the assessees with upto 2 dependants have high awareness on tax planning. Further 48.55% of the assessees with upto 2 dependants has low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group upto two dependants is higher than the percentage of those assessees belonging to the other two groups.

The average awareness score of the assessees with 5 dependants and above (81.01) is higher than the average awareness score of the assessees with upto 2 dependants 75.19 and assessees with 3 to 4 dependants 77.78.

LENGTH OF SERVICE AND AWARENESS LEVEL ON TAX PLANNING

Among the three groups of sample assessees, 73.04% of the assessees with 20 years and above of service, 61.97% of the assessees with 10 to 20 years of service, and 44.44% of the assessees with less than 10 years of service have high awareness on tax planning. Further 55.56% of the assessees with less than 10 years of service has low awareness on tax planning. In the case of low-level awareness, the percentage of those assessees belonging to the group less than 10 years of service is higher than the percentage of those assessees belonging to the other two groups.

The average awareness score of the assessees with 20 years and above of service (81.24) is higher than the average awareness score of assessees with 10 to 20 years of service (76.86) and less than 10 years of service (74.35).

The Chi-square test reveals that there is no association between the independent variables of the sample assessees (such as Marital Status and Type of Family) and their level of awareness on tax planning.
The ‘F’ Test reveals that there exists a significant association between the independent variables of the sample assessees (such as Age, Educational Qualification, Employment Status, Professional Status, Number of Dependents and Length of Service) and their level of awareness on tax planning.

The ‘Z’ Test reveals that there is an association between the independent variables of the sample assessees (such as Gender and Area of Residence) and their level of awareness on tax planning.

The ‘Z’ Test also reveals that there is no association between the variables of the sample assessees (such as Marital Status and Type of Family) and their level of awareness on tax planning.

CHAPTER-IV INCOME AND ITS COMPOSITION OF SALARIED ASSESSEES

In this chapter, an attempt was made to study the income and its composition of the salaried assessees. The income of the assessees was classified into five heads as per the provisions of the Income Tax Act. An attempt was also made to ascertain the taxable income of the sample assessees under different heads.

Attempt has been made to examine the association between the independent variables of the 600 sample assessees and their taxable income. Significance of the association of six independent variables of the sample assessees (such as Age, Educational qualification, Employment status, Professional status, Type of family, and Length of service) and their level of taxable income has been analyzed by applying the Chi-square test.
The secondary data relating to Salary income, House Property income, Professional income, Capital gains, Income from other sources, taxable income, annual tax liability and investment in Tax-saving schemes of the sample assessee for the Assessment year 2004-2005 were collected in the designed schedule from the respective assessee's income tax files maintained by their auditors.

For the purpose of tax assessment, the Income of assessee is classified into five heads. Under each head there are permissible deductions. After these deductions, the total of each head is arrived at which is known as 'Net Income' of the respective head. The aggregation of the net income of the five heads is known as 'Gross Total Income'. From the Gross total income deductions under sections 80C to 80U are made to arrive at the 'Taxable Income'.

**TAXABLE INCOME**

Among the sample assessee, 50.66 per cent of them have taxable income upto Rs.2,00,000 and 49.34 per cent of them have taxable income above Rs.2,00,000. It is found (table 4.2) that the average taxable income of 50.66 per cent of the assessee was Rs.1,39,661 and 49.34 per cent of the assessee was Rs.2,32,150 for the assessment year 2004-2005.

**INCOME AND ITS COMPOSITION / HEADS OF INCOME**

Among the 600 sample assessee, 24 per cent of the assessees has incurred loss under the head house property, 19.33 per cent of the assessees has taxable income under the head profession in addition to salary income and 14.33 per cent of the assessees has taxable income under the head income from other sources for the assessment year 2004-2005.
SALARY INCOME

The salary income of the assessees includes Basic Salary; Bonus; Arrear salary; House rent Allowance; Dearness allowance; Medical Allowance; Traveling allowance; Leave salary and Arrear Dearness allowance. Among the 600 sample assessees, the net salary income of 42 per cent of the assessees’ was upto Rs.2,00,000 and 58 per cent of the assessees’ was above Rs.2,00,000 for the assessment year 2004-2005.

HOUSE PROPERTY INCOME

Among the 600 sample assessees, 85.33 per cent of them has constructed the houses in their own name and 14.67 per cent of them has constructed the houses in their spouse’s name. It is found that 24 per cent (144) of the sample respondents has loan on house property and the rest 76 per cent (456 assessees) of the sample respondents has no loan on house property for the assessment year 2004-2005. Only 144 assessees have incurred loss due to payment of interest on house loan. Among them, 66.66 per cent of the sample respondents has paid/payable interest on house loan upto Rs.20,000 and 33.34 per cent of the sample respondents has paid/payable interest on house loan above Rs.20,000.

PROFESSIONAL INCOME

Income from profession includes income earned by the salaried professional assessees like Doctors, Engineers, Lawyers and Chartered Accountants from their profession, besides their regular salary income. Among the 600 sample assessees, 19.33% (116) of the sample assessees has taxable income from profession in addition to their regular salary income. Among them, 56.04 per cent of the sample respondents’ professional income was upto Rs.20,000 and 43.96 per cent of the sample
respondents’ professional income was above Rs.20,000 for the relevant assessment year.

INCOME FROM OTHER SOURCES

Incomes, which are not taxable in the first four heads, shall be chargeable to income tax under the fifth head ‘Income from Other Sources’. Income from other sources includes dividend from foreign companies, winning from lotteries, crossword puzzles, card games, races including horse races, interest incomes, sub-letting of house Property and agency Commission.

Among the 600 sample assessees, 14.33% (86) of the sample assessees has income from other sources. Among them, as many as 88.37 per cent of the sample respondents’ has income from other sources was upto Rs.20,000 and 11.63 per cent of the sample respondents’ has income from other sources above Rs.20,000 for the assessment year 2004-2005.

TAX-FREE INCOMES

Under section 10 of the Income Tax Act, 1961, certain incomes are fully exempted from income tax and are called tax-free incomes. Agriculture income, Death-cum-retirement Gratuity for the Government employees, Encashment of Earned Leave on retirement for the employees of the Central or the State Government, Payment on voluntary retirement upto Rs.5,00,000, Maturity amount received from the Life Insurance Corporation or from the private Insurance Companies, Payment from Provident Funds, are the incomes fully exempted from income tax.

Among the 600 sample assessees, 50.74 per cent of them has tax-free incomes upto Rs.20,000 and 49.26 per cent of them has tax-free incomes above Rs.20,000 for the assessment year 2004-2005.
AGE AND TAXABLE INCOME

Among the three groups of sample assessees, 55.17% belonging to young age group, 58.56% belonging to middle age group and 34.31% belonging to old age group have taxable income above Rs.2,00,000. Further, 44.83% belonging to young age group, 41.44% belonging to middle age group and 65.69% belonging to old age group have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

GENDER AND TAXABLE INCOME

Among the two groups of sample assessees, 49.65% belonging to Men and 44.44% belonging to Women have taxable income above Rs.2,00,000. Further, 50.35% belonging to Men and 55.55% belonging to Women have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

EDUCATIONAL QUALIFICATION AND TAXABLE INCOME

Among the four groups of sample assessees, 51.7% belonging to Post-Graduates and 62.5% belonging Professional degree holders have taxable income above Rs.2,00,000. Further, 86.66% belonging to upto SSLC and 76.19% belonging to Graduates have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

EMPLOYMENT STATUS AND TAXABLE INCOME

Among the four groups of sample assessees, 84% belonging to Central Government and 50.67% belonging to State Government have taxable income above Rs.2,00,000. Further, 84% belonging to quasi-Government and 53.33% belonging to private concern have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.
PROFESSIONAL STATUS AND TAXABLE INCOME

Among the three groups of sample assessees, 52.17% belonging to teachers, 52.87% belonging to professionals and 45.84% belonging to administrators have taxable income above Rs.2,00,000. Further, 47.83% belonging to teachers, 47.13% belonging to professionals and 54.16% belonging to administrators have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

AREA OF RESIDENCE AND TAXABLE INCOME

Among the two groups of sample assessees, 50.35% belonging to town area and 37.5% belonging to village area have taxable income above Rs.2,00,000. Further, 49.64% belonging to town area and 62.5% belonging to village area have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

MARITAL STATUS AND TAXABLE INCOME

Among the two groups of sample assessees, 50% belonging to married and 2% belonging to bachelors have taxable income above Rs.2,00,000. Further, 50% belonging to married and 83.33% belonging to bachelors have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

TYPE OF FAMILY AND TAXABLE INCOME

Among the two groups of sample assessees, 57.21% belonging to nuclear family and 33.33% belonging joint family have taxable income above Rs.2,00,000. Further, 42.79% belonging to nuclear family and 66.67% belonging to joint family have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.
NUMBER OF DEPENDENTS AND TAXABLE INCOME

Among the three groups of sample assessees, 30.43% belonging to Upto 2 dependants, 48.93% belonging to 2 to 4 dependants, and 80% belonging to 5 dependants and above have taxable income above Rs.2,00,000. Further, 69.57% belonging to Upto 2 dependants, 51.07% belonging to 2 to 4 dependants, and 20% belonging to 5 dependants and above have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

LENGTH OF SERVICE AND TAXABLE INCOME

Among the three length of service groups of assessees, 46.92% belonging less than 10 years of service, 56.41% belonging to 10 to 20 years of service and 43.14% belonging to 20 years and above of service have taxable income above Rs.2,00,000. Further, 53.08% belonging to less than 10 years of service, 43.59% belonging to 10 to 20 years of service and 56.87% belonging to 20 years and above of service have taxable income upto Rs.2,00,000 for the assessment year 2004-2005.

The Chi-square test reveals that there exists a significant association between the independent variables of the sample assessees (such as Age, Educational qualification, Employment status, Professional status, Type of family, and Length of service) and their taxable income.

CHAPTER-V INVESTMENT IN TAX-SAVING SCHEMES OF SALARIED ASSESSEES

In this chapter, an attempt was made to study the investment in tax-saving schemes of the salaried assessees. From year to year, the tax-saving schemes are different. The number of schemes is also not constant.
The particulars of investment in tax-saving schemes of the 600 sample assessees were collected from their respective income tax files maintained by their auditors.

To ascertain the association between independent variables of the sample assessees (such as Age, Educational qualification, Employment status, Professional status, Type of family and Length of service) and their level of investments in tax-saving schemes, Chi-square test was applied.

**INVESTMENT IN TAX–SAVING SCHEMES**

Among the 600 sample assessees, 51.67 per cent of them has invested upto Rs.70,000 and 48.33 per cent of them has invested above Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.

**ANNUAL TAX LIABILITY**

Among the 600 sample assessees, 66.33 per cent of them has annual tax liability upto Rs.25,000 and 33.67 per cent of them has annual tax liability above Rs.25,000 for the assessment year 2004-2005.

**TAXABLE INCOME AND AVERAGE INVESTMENT IN TAX-SAVING SCHEMES**

Among the 600 sample assessees, 44 per cent of them belonging to the taxable income upto Rs.2,00,000, has invested on an average Rs.62,131 and 56 per cent of them, belonging to the taxable income above Rs.2,00,000, has invested on an average Rs.77,762 in various tax-saving schemes for the assessment year 2004-2005.
AGE AND INVESTMENT IN TAX-SAVING SCHEMES

Among the three groups of sample assesses, 45.98% belonging to young age group and 56.76% belonging to middle age group have invested above Rs.70,000 in various tax-saving schemes. Further, 54.02% belonging to young age group, 43.24% belonging to middle age group and 58.82% belonging to old age group have invested upto Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.

GENDER AND INVESTMENT IN TAX-SAVING SCHEMES

Among the two groups of sample assesses, 48.04% belonging to men assesses and 52.78% belonging to women assesses have invested above Rs.70,000 in various tax-saving schemes. Further, 51.96% belonging to men assesses and 47.22% belonging to women assesses have invested upto Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.

EDUCATIONAL QUALIFICATION AND INVESTMENT IN TAX-SAVING SCHEMES

Among the four groups of sample assesses, 53.57% belonging to Graduates and 58.85% belonging to the Professional degree/diploma holders have invested above Rs.70,000 in various tax-saving schemes. Further, 86.67% belonging to up to SSLC, 46.62% belonging to Graduates, 56.46% belonging to Post-Graduates and 41.14% belonging to the Professional degree/diploma holders have invested upto Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.
EMPLOYMENT STATUS AND INVESTMENT IN TAX-SAVING SCHEMES

Among the four groups of sample assessees, 57.33% belonging to Central Government assessees, and 53.33% belonging to private concern assessees have invested above Rs.70,000 in various tax-saving schemes. Further, 42.66% belonging to Central Government assessees, 52% belonging to State Government assessees, 67.33% belonging to Quasi-Government assessees and 44.67% belonging to private concern assessees have invested upto Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.

PROFESSIONAL STATUS AND INVESTMENT IN TAX-SAVING SCHEMES

Among the three groups of sample assessees, 50.57% belonging to salaried professionals and 47.92% belonging to administrators have invested above Rs.70,000 in various tax-saving schemes. Further, 53.62% belonging to teachers, 47.13% belonging to salaried professionals and 52.09% belonging to administrators have invested upto Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.

AREA OF RESIDENCE AND INVESTMENT IN TAX-SAVING SCHEMES

Among the two groups of sample assessees, 48.73% belonging to town assessees and 43.75% belonging to village assessees have invested above Rs.70,000 in various tax-saving schemes. Further, 51.27% belonging to town assessees and 56.25% belonging to village assessees have invested upto Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.
MARITAL STATUS AND INVESTMENT IN TAX-SAVING SCHEMES

Among the two groups of sample assessees 48.81% belonging to married assessees and 25% belonging to bachelor assessees have invested above Rs.70,000 in various tax-saving schemes. Further, 51.19% belonging to married assessees and 75% belonging to bachelor assessees have invested upto Rs.70,000 in different tax-saving schemes for the assessment year 2004-2005.

TYPE OF FAMILY AND INVESTMENT IN TAX-SAVING SCHEMES

Among the two groups of sample assessees, 47.76% belonging to nuclear family and 49.5% belonging to joint family have invested above Rs.70,000 in various tax-saving schemes. Further, 52.24% belonging to nuclear family and 50.5% belonging to joint family have invested upto Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005.

NUMBER OF DEPENDANTS AND INVESTMENT IN TAX-SAVING SCHEMES

Among the three groups of sample assessees, 47.85% of the assessees with 3 to 4 dependants and 66.67% of the assessees with 5 dependants and above have invested above Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005. Further, 62.32% of the assessees with 2 dependants, 52.15% of the assessees with 3 to 4 dependants and 33.33% of the assessees with 5 dependants and above have invested upto Rs.70,000 in different tax-saving schemes.
LENGTH OF SERVICE AND INVESTMENT IN TAX-SAVING SCHEMES

Among the three length of service groups of assessee, 46.30% belonging to less than 10 years of service and 56.86% belonging to 20 years and above of service have invested above Rs.70,000 in various tax-saving schemes for the assessment year 2004-2005. Further, 53.7% belonging to less than 10 years of service, 57.69% belonging to 10 to 20 years and 43.14% belonging to 20 years and above of service have invested upto Rs.70,000 in different tax-saving schemes.

LOAN AVAILED AGAINST TAX-SAVING SCHEMES

Among the 600 sample assessee, 14.5 per cent of the sample assessee against Insurance Policy, 20.67 per cent of the sample assessee against provident fund scheme and 18.75 per cent of the sample assessee against National Savings Certificate have availed loan for the assessment year 2004-2005. It is found that a meager percentage of the assessee generally avails loan from these savings scheme. The assessee generally consider that these investments are meant for their long-term purpose.

The chi-square test reveals that there exist a close association between the independent variables of the sample assessee (such as Age, Educational qualification, Employment status, Professional status, Type of family, and Length of service) and their investment in tax-saving schemes.

FACTORS INFLUENCING TO INVEST IN TAX-SAVING SCHEMES

In this chapter, the important factors influencing the tax-saving schemes, assessee’s preference for further investment in tax-saving scheme, the factors influencing the assessee for tax planning and
awareness of sample assessees on important income tax aspects were studied. For this study, only six factors have been identified. They are tax benefit, high return, liquidity, safety, risk coverage and old age need alone highly influences the assessees in choosing a particular tax-saving scheme. The other factors are not considered in this study because they are not given importance by the assessees.

Among the various tax-saving schemes, the assessees mostly contribute to four important tax-saving schemes i.e. Insurance policy, Provident Fund, National savings certificate VIII Issue and Infrastructure Bond. The assessees have not considered the other tax saving schemes. Hence, in this study, the four tax-saving schemes alone are considered.

To identify the relative importance of the factors, it is decided to use the scaling of ranks with the help of scaling the Ranking Technique. The six identified factors were given in the Questionnaire. The entire 600 sample assessees were requested to assign rank to all these factors on the basis of their relative importance of the factor by giving rank I to the most important factor, rank II to the second important factor and so on. Scale value was assigned to these ranks. A total score value is computed for each factor by multiplying the number of respondents with respective scale values.

The primary data regarding the factors influencing the salaried assessees to invest in tax-saving schemes like Life Insurance Policy, Provident Fund, National Savings Certificate, Infrastructure Bond, Unit linked Insurance Plan, Group Insurance, and units of Mutual Funds were collected through questionnaire from the sample respondents. Further, awareness of various important income tax aspects of the sample assessees such as To prepare estimated income for Deduction of tax at
Source, To calculate self-assessment tax, To pay tax in advance, Penalty for non-filing of income tax return, Penalty for delayed filing of income-tax return, Documents to be attached with income tax return. Last date for filing income-tax return, Interest for excesses or shortage of tax paid, Time limit for revised order, Time limit for getting refund and Assessment order were collected by serving questionnaire. Further, by serving the questionnaires, the reasons for tax planning, better tax-saving scheme and the assessee's choice for further investment in tax saving schemes were also collected.

**TAX BENEFIT**

Among the six identified factors that influenced the assessees to invest in tax-saving schemes (such as tax benefit, high return, safety, liquidity, risk coverage, old age need and regularity of income) tax benefit is the predominant factor.

**LIFE INSURANCE POLICY**

Among the six factors identified, the factors that influenced the assessees to invest in this scheme, according to the order of priority are Tax benefit, Risk coverage, Old age benefit, High return, Safety and Liquidity.

**PROVIDENT FUND SCHEME**

Among the five factors identified, the factors that influenced the assessees to invest in Provident Fund Scheme, according to the order of priority are Tax benefit, High return, Safety, Old age Benefit and Liquidity.
NATIONAL SAVINGS CERTIFICATE

Among the five factors identified, the factors that influenced the assessees to invest in National Savings Certificate, according to the order of priority are Tax benefit, Safety, Liquidity, High return and Old age benefit.

INFRASTRUCTURE BOND

Among the five factors identified, the factors that influenced the assessees to invest in infrastructure bond, according to the order of priority are Tax benefit, Safety, High return, Liquidity and Old age benefit.

ORDER OF PRIORITY FOR INVESTMENT TAX-SAVING SCHEMES

Among the five factors identified, the order of priority for investing in Tax-saving schemes are Tax benefit, Risk coverage, Safety, High return, Liquidity and Old age benefit.

CHOICE OF PRIORITY FOR FURTHER INVESTMENT

Among the four tax-saving schemes, the choice of priority for further investment in tax-saving schemes as per the opinion of the sample assessees are Provident fund scheme, Insurance policy, Infrastructure bonds and National savings Certificates.

REASONS FOR TAX PLANNING

Among the four major reasons for tax planning, the order of importance as per the opinion of the assessees are increasing income, high income tax rate, problems in tax payment, and increasing income of family members.
Increasing income of the assessees seems to be the predominant factor that edges the assessees to adopt a suitable tax-planning scheme well in advance.

*Awareness of Income Tax Aspects*

Generally the assessees are not aware of the important income tax aspects. They generally depend upon the tax consultants for any information relating to the income tax.

*7.8 Suggestions*

In the light of the findings, present tax provisions and features of different tax-saving schemes, the following suggestions are presented in this study. The salaried assessees, on the basis of the suggestions given, could adopt suitable tax planning options to reduce their tax liability considerably.

1. It is found that 73.56 per cent of those sample assessees belonging to the group young age (Table 3.2), 70 per cent belonging to the group upto SSLC studied (Table 3.8), 53.33 per cent belonging to the group State Government (Table 3.11), 45.98 per cent belonging to the group professionals (Table 3.14), 56.25 per cent belonging to the group in the village area (Table 3.17), 58.33 per cent belonging to the group of bachelors (Table 3.20), and 55.56 per cent belonging to the group who are less than 10 years of service (Table 3.27) have low-level of awareness about the various tax planning measures for the assessment year 2004-2005. Tax planning requires awareness about the various tax planning measures available and knowledge about the tax laws.

Hence, it is suggested in this respect that the institutions offering tax-saving schemes such as Post-office, Mutual Fund, Tax Consultants
should come forward to arrange periodical programs to educate these types of assessees (i.e. the assessees belonging to the group of young age, studied upto SSLC, State Government, professional, village area, bachelors and employees who have put in less than 10 years of service) about timely tax planning. They may bring out suitable handouts about the various tax planning options available and their features. Frequent meetings may be arranged to update their knowledge in tax laws and recent amendments in tax laws. Special meetings may be arranged for the salaried assessees, in each institution to motivate them to invest in tax-saving schemes. In these meetings informative pamphlets in vernacular may be distributed. Mass media such as newspapers and televisions can be used in this respect.

2. It is found that 85.33 per cent of the sample assessees has constructed houses in their own name whereas only 14.67 per cent of the sample assessees has constructed houses in their spouse’s name (Table 4.5).

Hence it is suggested that the spouse could be included as co-applicant for obtaining house loan from the financial institutions. In such a case both the husband and the wife are entitled for tax concession in the proportion in which they own the house property. Similarly, Father and Son can also claim deduction under section 24 and 80C in respect of the interest and principal repayment in the proportion in which they own the property. Further, if loan is taken on a joint name, (like in the name of husband and wife) then both can individually claim the deduction of Rs.1, 50,000 for the same house property.¹ Hence, the salaried assessees should construct, acquire, or extend the house properties by borrowing

money from the financial institutions by including spouse or son or daughter as co-applicant for the house loan.

3. It is found that only 24 per cent of the sample respondents has availed loan for construction or acquisition of house property and the rest 76 per cent of the sample respondents has not availed loan on house property (Table 4.6). This may be due to the reason that the Central and State Government assessees should get permission from the Government for availing the house loan. There is undue delay in the sanctioning of permission to avail the house loan. Therefore, the Central and State Government assessees do not evince interest to borrow house loan for further extension or remodeling of their houses. Further to make investment above Rs.50,000 even in tax-saving schemes, the assessees working in central or state governments should get prior permission from their higher authorities.

Hence it is suggested that the procedure for getting permission from the Government for obtaining house loan or investment in tax-saving schemes should be made simple so that the assessees may come forward to borrow house loan for further extension or repair of the existing house or to invest in tax-saving schemes. In the current taxation scenario, the assessees whose annual taxable income falls below Rs.3,50,000 need not pay tax at all if they fully utilize the tax concession under section 80C available under various tax-saving schemes and under section 24 i.e. interest on house loan from the financial institutions.

4. It is found that 22.33% of the sample assessees has earned tax-free incomes (Table 4.9) such as Agriculture income, Interest on Post Office Savings Bank Account, Maturity and survival benefit from Life Insurance Corporation of India, Daily allowance to meet the expenses in
connection with official work, Dividend from Domestic Companies, Dividend from Unit Trust of India and Mutual Funds. Among the total sample assessees, 50.74% per cent of them has earned these tax-free incomes upto Rs.20,000 for the assessment year 2004-2005. But there is no provision to mention these tax-free incomes in the Income-Tax Return Form No 2D SARAL. Further there is no provision made in the Income-Tax Return Form No 2D SARAL to mention the accumulated savings and investments made by the salaried assessees upto the current assessment year. This leads to serious difficulties for the salaried assessees whenever they contemplate to invest further. The Income Tax Authorities may question the source whenever they make further investments.

Hence it is suggested that the Income Tax Return Form No 2D SARAL, meant for salaried class assessees should incorporate a column to show the tax free incomes, accumulated savings and investments made upto the current assessment year like the Income Tax Return Form meant for professional and business assessees.

5. It is found that only 16% of the sample assessees has invested in the infrastructure bonds and Units of Mutual Funds (Table 5.1). There may be various reasons for this poor response. One reason may be that the assessees may not be aware of these infrastructure bonds and their merits. Another reason may be that many assessees may have fear as to the safety of this investment. Moreover, these infrastructure bonds are not open for investment throughout the year as is the case of other tax-saving investment options. Equity shares, bonds, and units of Unit trust of India, or Mutual Funds are known as infrastructure shares, bonds, and units.
Hence it is suggested that the sponsoring institutions should create awareness among the assessees through various programs such as print mass media, electronic mass media, meetings and conferences to popularize these tax-saving investment schemes and remove the vague fear among the assessees about the safety of the investment. The financial institutions, which manage these investment schemes are autonomous bodies and have a high reputation and efficiency. Moreover, these investment schemes are continuously monitored and controlled by the Securities and Exchange Board of India (SEBI). Annual dividend is automatically credited in the assessees’ Electronic Bank account. Further, all categories of infrastructure securities should be made available throughout the year, as is the case of other tax-saving investment schemes. Investment in these bonds and units offer excellent return. The best return begins with a minimum of 20% to a maximum 121.57% per annum in addition to tax benefit. For example the annual return on SBI Magnum Tax gain 121.57%, Prudential ICICI Tax Plan 87.61%, HDFC Tax Saver 93.49%, Sundaram Tax Saver 82.34%, Birla Equity Plan 73.50%, Unit trust of India Equity Tax-savings 52.96%, and Tata Tax-saving Fund 59.1% for the assessment year 2005-2006. The dividend from this investment is tax-free. The fund collected from these bonds is invested in infrastructure projects, which are instrumental in industrialization and generate skilled and unskilled employment opportunities in the country.

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2 Ibid, p.36.
6. It is found that 100% of the sample assessees has contributed to the Statutory Provident Fund (SPF) scheme (Table 5.1). But unfortunately no salaried assessees had contributed to the Public Provident Scheme (PPF). This may be because of the fact that there is no agent for canvassing for this investment scheme among the salaried assessees. Another reason may be a long lock in period of 15 years. This may be quite inconvenient for many investors.

Hence it is suggested that the State Bank of India and Post Offices, which are operating this scheme, may appoint agents to mobilize this tax-saving scheme among the assessees. The lock in period of 15 years may be reduced to three years, as is the case in other tax-saving investments like Mutual Funds and Infrastructure Bonds. Public provident Fund (PPF) scheme can be opened in Post Offices or State Bank of India. This has been one of the most conventional avenues for tax saving. Investments in PPF earn a guaranteed return of 8% compounded annually. The investment in this scheme empowers the Government in terms of resource. As the contribution directly goes to the exchequer, the Government may have good money flow. This will ultimately increase the Government revenue and generate more employment opportunities in the country.

7. It is found that the sample assessees have given first preference for further investment in Statutory Provident Fund scheme if the ceiling limits of Rs.1, 00,000 U/S 80C is raised (Table 6.6).

Hence, it is suggested that the assessees can opt other tax-saving schemes, like Infrastructure Bonds and units of Mutual Funds, which are comparatively worthy. The rate of return in this case varies from minimum 20% to maximum 121.57% per annum. Therefore, the
assessees are to be educated as to the merits of Infrastructure Bonds, units of Mutual Funds and units of Unit Trust of India. Hence, the assessees should give first priority for Mutual Fund scheme over the Statutory Provident Fund scheme if ceiling limit for contribution to tax-saving schemes stands enhanced.

7.9 CONCLUSION

Tax evasion is a serious crime. In general, assessees show lethargic attitude towards tax planning. This is likely to land the assessees in financial trouble. Tax planning is not just a strategy to reduce tax burden. In fact, it helps to save by encouraging investments in Government Securities. Tax planning reduces not only the tax burden but also gives mental satisfaction. If salaried assessees adopt tax planning measures it will help them to save a considerable amount of their hard earned money in a legal way. When the Government has given a wide chance of investing money according to the assessees’ financial condition and taste, it is the prime duty of every salaried assesse to utilize his/her chances and reaps the harvest.

Savings reduce extravagance, and correspondingly inflation. Tax saving is permitted only for investment made in Government Securities and Bonds of priority sectors, which ultimately help the whole nation. Therefore, the assessees’ savings in tax help the Central and State Government to mobilize funds. Savings and investments are interconnected. To make investments there should be saving. To make saving there should be surplus. To make surplus there should be proper tax planning. To make proper tax planning there should be knowledge in tax laws and opportunities in the country. More often many assessees prefer paying tax rather than taking an additional step towards tax planning as
they feel it very complicated. Actually this is far from the truth. What is required is Knowledge of a few sections of the Income-Tax Act. Thus, Tax Planning is not at all complicated and could be done with a certain degree of awareness and application.

As such, tax planning of salaried assessees is not satisfactory. It needs great improvement. In this respect it is the duty of the Scholars in this field to create awareness about tax planning in the minds of the assessees. The current study is a humble step towards this objective. By proper tax planning, both the assessees and the Government shall equally be benefited.

7.10 SUGGESTIONS FOR FURTHER RESEARCH

The present study covers only full-time salaried assessees and reviews the tax planning options available for them. This study also covers awareness level on tax planning, income composition and tax-saving schemes of the salaried assessees in Erode District of Tamil Nadu.

In the course of the present research, it is felt that there are other worthy areas of tax planning for further research. Researches in the near future can attempt to study the following.

1. Tax planning of the part-time employee assessees, retired employee assessees, professional assessees and business assessees.

2. Comparative study between Tax planning of salaried assessees and other assessees.


4. Opinion of the Tax Consultants, Industrialists and Trade Unions in respect of Tax Planning Options offered for various categories of assessees by the Government of India.