CHAPTER-I

INTRODUCTION AND DESIGN
OF THE STUDY
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1.1 INTRODUCTION

Monetary activities are as old as human beings themselves. Tax planning, for the advantage of assessees is one of such important monetary activities. Tax Planning is an arrangement of the financial affairs within the scope of law in a manner that derives maximum benefit of the exemptions, deductions, and relief to reduce the tax liability. However, in the name of tax planning, one should not indulge in Tax avoidance or Tax evasion. When financial transaction is arranged with a malafide intention of either not paying the tax or with a view to defeat the genuine spirit of the law, it cannot be accepted as legitimate Tax Planning.

There are two interesting things about tax planning. On the one hand, it is much misunderstood and is avoided by many assessees and on the other hand, it is over understood and is misused for personal advantages. Hence, it is very important that the assessees must make a perspective attempt to understand the importance of tax planning in its right spirit.

Tax Planning requires thorough knowledge of tax laws, so that the best alternative may be thought of, in order to reduce tax liability. In this respect, it is important to know the history, object and scope of the Indian Income Tax Act and the importance of tax planning in brief.
INDIAN INCOME TAX ACT-HISTORY

After the First War of Independence, (1857) the then Government was under severe financial burden. To overcome this burden, the Government introduced the income tax in the year 1860. However, there were many shortcomings in this Act. In 1886, the Act was redrafted as Indian Income Tax Act, 1886 with many added clauses. This Act was replaced by the Act of 1918 with the object of tightening machinery, doing away with Compartmentalization of a person's income into various clauses, giving up compounding of taxes for series of years etc. Under this Act, an assessment was first provisionally framed on the income of the previous year and was finally adjusted at the end of the year on the basis of income of the current year. But this Act was short lived.

Owing to the reforms brought about by the Government of India Act, 1919, which made Income Tax a central subject, a new Act (Act XI of 1922) was passed. This Act had 68 sections and one schedule. This Act remained in force for forty years and had been subjected to innumerable amendments.

The Act of 1922 was found to be complicated. So, the Government appointed the Law Commission in 1956, for redrafting and simplification of Income Tax Act 1922. The present Income Tax Act, 1961 emerged out of the deliberations of the Law Commission, the Direct Taxes Administration Enquiry Committee, the Central Board of Revenue and the Ministry of Law. The present Act is by and large a simplified and rearranged version of the Act, 1922.

On the recommendations of the Law Commission & Direct Taxes Enquiry Committee and in consultation with Law Ministry, a bill was framed in 1961. This bill was referred to a select committee and finally
was passed an Act in September 1961. This Act is named as Income Tax Act, 1961 and came into force from 1st April 1962 for the whole of the country (including the state of Jammu and Kashmir) and still it continues.

THE INCOME-TAX ACT, 1961

The Income-tax Act, 1961 is a comprehensive Act and consists of 298 sections, sub-sections running into thousands, seven schedules, rules, sub-rules and is supported by other Acts and Rules. The Income Tax Act is the main enactment which deals with the method of computation of income under the prescribed heads such as Income from salary, Income from House Property, Profits and Gains of Business or Profession, Capital Gains and Income from Other Sources, the procedure for making an assessment, collection and recovery of tax, refund, penalties and prosecutions, appeals, rectification proceedings and powers of the Income Tax Authorities.

The Finance Act is passed by the Parliament every year. It fixes the rate of tax for the relevant assessment year, rates for deduction of tax at source and advance payment of tax. Now it is also being used to effect substantial amendments to the Income-tax Act.

In any assessment year, if Finance Act has not been passed, on 1st April, the tax shall be charged at the rates in force in the preceding assessment year or at the proposed rates in the Finance Bill then before Parliament, whichever is favourable to the assessees. (Sec.294) ¹

OBJECT OF INCOME TAX ACT

After 1947, the Income Tax Act was studied in detail and a lot of changes were introduced to make it equitable, productive and economical. With the introduction of five-year plans, the Government needed more and more finance to achieve certain social and economic goals. Therefore, the tax Act was designed to encourage savings and investments, raising public resources, improving the allocation of resources, discouraging consumption of goods and services, which are harmful to the community’s progress, providing incentives to private sector, reducing inequalities of income and wealth, helping to achieve economic stability and higher national income growth rate and controlling inflationary tendencies in the economy.

SCOPE OF INCOME TAX ACT

The Income Tax Act broadly covers the following areas: Basis of charging income, Income exempt from income tax, Computation of income under various heads, Clubbing of incomes, Set-off and carry forward of losses, Permissible Deductions, Double taxation Relief, Determination of tax in certain special cases, Special provisions for Non-residents, Tax on dividends distributed by domestic companies, Income tax authorities and their powers, Survey, Search and Seizure, Assessment procedure, Assessment of firms, Collection and recovery of tax, Deduction and Collection of Tax at Source, Payment of Advance tax, Refund, Advance rulings, Appeal and revisions, Acquisition of immovable property, Penalty and Prosecution.

For implementing the various provisions of the Act, Income-tax Rules 1962 has been framed, which prescribes the Procedure, Time limits, Conditions and Forms. Besides these, the Central Board of Direct
Taxes issues a number of circulars/notifications, clarifying the provisions of the Act either on its own initiative or at the instance of public queries.

PERSONS LIABLE TO PAY INCOME TAX

Under the Income Tax Act, 1961,

a. Individuals (including non-residents).

b. Hindu Undivided Families.

c. Association of persons/Body of Individuals (where the individual shares of the members are known) and artificial juridical persons (such as deities of temples) having taxable income exceeding Rs.1,00,000, (Rs1,35,000 for resident women assessee below 65 years age and Rs.1,85,000 for resident senior citizens) for the Assessment Year 2006-07 (Basic exemption Rs.50,000 for the Assessment Year 2005-06).

d. Societies and charitable/religious trust having taxable income exceeding Rs.1,00,000 (Basic exemption Rs.50,000 for Assessment Year 2005-06).

e. All partnership firms irrespective of their income.

f. Co-operative societies irrespective of income.

g. Companies irrespective of income.

h. Local authorities irrespective of income and
i. AOP/BOI where shares of the members are indeterminate or unknown irrespective of income liable to pay tax\(^1\).

**INCOME- SECTION 2 (24)**

The total taxable income of a person includes all incomes received, accrued or earned by a person during the previous year. Under section 2(24) of the Income Tax Act, 1961 “Income includes”

a. Profits and gains, dividend.

b. Value of any Perquisites or Profits in lieu of salary taxable under the head “salaries”.

c. Special allowances or benefits other than perquisites, interest, salary bonus, commission or remuneration received by an individual or partner from the firm to the extent allowed as a deduction U/S 40 (b).

d. Value of any benefit or amenity, whether converted into money or not.

e. Income from House Property—whether residential or commercial, let out or self-occupied.

f. Profits and gains of business or profession.

g. Capital gain chargeable under section 45.

h. Income from other sources including bank interest, Interest on securities, Winnings from lotteries, Crossword puzzles, Races including horse races, Card games and other games of any sort

or from Gambling or betting of any form or nature whatsoever and

i. Gifts from unrelated persons exceeding Rs.25,000 received on or after 01-09-2004.¹

RULES REGARDING INCOME

An income earned whether legally or illegally is taxable. An income need not be received regularly and periodically, say, weekly, monthly or quarterly, lump-sum receipt can also be income. Income should be received from outside. It is not essential that the income must be received in the form of money. Income earned but not actually received by the assessee is also treated as income of assessee. A gift of which the personal element is of the essence is not income at all. Hence, birthday and wedding gifts that may be repeated year after year are not income. If there is dispute regarding the title of the income, the recipient of the income is liable to tax.

The Privy Council observed, “Anything which can properly be described as income, is taxable under the Act unless expressly exempted”.

TAX SAVING OF INDIVIDUAL INCOME TAX ASSESSEES

An individual investors’ objective is mostly concerned with safety, liquidity and profitability of the investment. An ideal investor tries to balance these three objectives when he is making investment decisions. The data available to an individual investor on the various tax savings schemes are inadequate and the investor collects the information from

agents of financial institutions. One important gap between the promotional agencies and the individual investor is the availability of all the relevant information. An investor should be quite clear regarding High return on investments, Low risk of capital loss, and Ensuring a certain degree of liquidity of investments.

However, mere clarity of the above three objectives does not enable the investor to take crucial financial decisions. There are too many alternatives having different concomitant benefits to choose from. Some give tax concessions on interest earned; some give tax concessions on annual contributions; some cover life; some give loan directly against investments; some can be pledged as securities to get a loan whereas there are some plans which allow partial withdrawals¹.

Among various tax concessions and benefits, the main criterion for investment is the return. An investor has to pick up a suitable investment plan, which ensures maximum return with minimum tax liability. One has to ensure that the invested capital remains reasonably safe. Investment is not merely for psychological satisfaction but to earn maximum return without risk.

Investment may be either in the form of 1. Economic Investment (Net additions to the capital stock of society) 2. General Investment (Commitment of money to a car) and 3. Financial Investment (Investment in securities)².

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Most of the salaried assessees have a pre-conceived notion that it is not possible for them to save any income tax. The first step towards tax planning for the salaried employees is to drop this wrong notion and start positive working in the line of tax planning whereby they could achieve substantial savings of income tax. Tax neither fully kills the person nor lets him in peace.

TAX PLANNING

Tax planning is neither tax evasion nor tax avoidance. Tax evasion means deliberately suppressing income or by inflating expenditure and resorting to various types of deliberate manipulations. Tax evasion is not only illegal but also immoral, anti-social and an anti-national practice.

Tax avoidance involves taking advantage of loopholes in law, which will not help in the long range financial planning whereas tax planning is a legal exercise and forms an integral part of the tax management.

Avoidance of tax is not tax evasion and it carries no ignominy with it, for, it is sound law and, certainly, not bad morality for anybody to so arrange his affairs as to reduce the burden of taxation to the minimum.

Tax Planning may be defined as an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions of an Act, full advantage is taken of all exemptions,

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deductions, rebates and reliefs permitted under the Act, so that the burden of the taxation on an assessee, as far as possible, becomes the least¹.

Tax planning may be legitimate provided it is within the framework of law. Though it is an obligation of every citizen to pay the tax honestly under the law, the taxpayer is legitimately entitled to plan his taxes in such a manner that his tax liability is reduced to minimum. Tax planning not only reduces the tax liability but also enables to achieve the nation’s economic and social goals.

Hence, it could be concluded that tax planning is a must for every income tax assessee. 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.

IMPORTANT OF TAX PLANNING

Tax planning is necessary for reducing tax liability. It is needed for the following reasons.

REDUCTION IN TAX LIABILITY

The basic need of tax planning is to reduce the tax liability, so that the surplus out of the income remains with the assessee for his/her personal and social needs and also for future investment. This is only possible by planning tax affairs properly and availing the Exemptions, Deductions, and Reliefs, which are admissible under the Act.

MINIMIZATION OF LITIGATION

There is always a tug-of-war between the taxpayers and the tax administrators. The taxpayers try their best to pay the minimum tax and the tax administrators attempt to extract the maximum. This sometimes leads to prolonged litigation. Actually, the main reason for litigation lies in tax avoidance and not in tax planning.

Whenever a taxpayer wants to reduce his tax liability by finding a loophole in the Act and the tax administrator does not agree with the interpretation of the assessee under which he is demanding exemption, deduction or relief, it ends up in litigation. A good tax planning is always based on clear words of the statute or in conformity with the provisions of the taxation Act. In such a case the chances of litigation are minimized.

PRODUCTIVE INVESTMENT

A proper tax planning brings fiscal discipline in the functioning of a taxpayer. The amount so saved by tax planning enhances the capacity of the taxpayer for expansion and growth, which in turn increases the tax revenue of the Government.

HEALTHY GROWTH OF ECONOMY

The growth of a nation’s economy depends upon the growth of its citizens. Savings through tax planning devices foster the growth of economy while savings through tax evasion lead to generation of black money-the evils of which are obvious. The tax planning plays an important role in the development of backward districts and backward states and development of infrastructure facilities or in other words it takes the economy in the intended direction.
EMPLOYMENT GENERATION

The amount saved by tax planning is generally invested in commencement of new undertakings or expansion of the business. This creates new employment opportunities in the business\textsuperscript{1}.

Thus tax planning is not only the need of the taxpayers but also of the society as a whole and the Government.

1.2 STATEMENT OF THE PROBLEM

How to choose an ideal tax saving investment is the problem of Individual income tax assesses. In order to reduce tax liability, an assessee has to plan well where to invest and how much to invest. In choosing a specific investment, one needs definite ideas regarding a number of features of investments such as safety of principal, liquidity, stability of income, capital growth and tax benefit. Assesees have to be made to understand the pros and cons of various investment opportunities, tax implications of those investments and the latest information of desired investment portfolio. Assesees have to plan their investments in such a way as to derive maximum return with minimum tax liability.

How to save the income tax legally is the problem of taxpayers. 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

\textsuperscript{1} Acharya shuklendra and Gurha, M.G. 1999. \textit{Tax planning under direct taxes}. Lucknow: Modern publishers (India), pp. 9-10.
and intricate for an average assessee. Further, the information available to individual income tax assessee on the tax saving schemes is not much.

Hence, it is needless to say that the investors should be made to understand the features of various tax saving schemes available with tax concession.

Income and its composition differ from person to person and salaried assessees are not an exception to this. For example, some assessees receive conveyance allowance whereas others prefer to use the conveyance provided by their employer; some assessees receive house rent allowance whereas others prefer to use rent-free accommodation provided by the employer; some assessees receive bonus, commission etc, whereas others may not have this opportunity. Some assessees may earn income from various other sources.

Some assessees may like to invest in tax saving schemes whereas others may like to invest in other investments rather than in tax saving schemes, as net return on other investments is higher than the savings of tax in tax saving schemes. Therefore, some assessees may adopt tax-planning measures to reduce their tax liability and others may prefer to pay tax if other non-tax saving investment schemes earn return higher than the investment in tax saving schemes. Some assessees may not be in a position to invest in either of these types of investments because nothing may be left out after meeting their family needs. These assessees may prefer to pay tax rather than to invest in tax saving schemes. Therefore, a lot of variations are bound to come up in their approach towards meeting the tax burden.

There are many factors that influence the salaried assessees to invest in tax saving schemes. The investments that are safe and liquid
may not have sufficient return. For example, fixed deposits in Banks are very safe and liquid, but they yield very low returns. The investments that are highly profitable may not have adequate safety. For example the private money lending yields very good return, but it is not safe. The investments that are safe, liquid and profitable may not have any tax concession. The investments that have tax concession may not have liquidity and profitability.

Hence it could be said that the investments for tax saving of salaried assessees is influenced by the factors like tax concession, safety, liquidity and profitability.

Therefore, this study is undertaken to find solutions to the following questions relating to tax planning.

1. What are the tax planning options available for the salaried assessees?

2. To what extent the salaried assessees have awareness on tax planning?

3. What is the relationship between income and personal factors of the salaried assessees?

4. Is there any association between, the level of income and investments made in tax saving schemes by the salaried assessees?

5. What are the factors influencing the salaried assessees to invest in tax saving schemes?
1.3 REVIEW OF LITERATURE

There are not many books published in this intricate area of tax planning. However, a few books have been published. Some of them are as follows.

Yasaswy, has written a book on “Personal Investment and Tax Planning”. Keeping in view, the importance of investment and tax planning investments, this book deals with pros and cons of various investments, tax implications on investments, impact of inflation, necessary information about the diversified investment portfolio, investment opportunities, safe investments and protective investment such as LIC, etc1.

Ram Niwas Lakhotia has written a book on “Tax planning and investment planning for salaried employees”. This book deals with different types of tax planning schemes and ideas that are relevant for the salaried employees. Another special feature of this book is that not only tax planning but also even comprehensive aspects relating to investment planning by the salaried employees are covered so as to give a lifetime beneficial ideas of tax planning. This book guarantees to save a substantial amount of income tax to assesses2.

Acharya Shuklendra has written a book on “Tax Planning under Direct Taxes” in 1885. This book deals with the Tax Planning for Salary Income, Tax Planning for Special deduction or Exemptions, Tax Planning for Investments, and Tax Planning for employees. The author has

suggested, a large number of Tax planning measures that could be adopted by the salaried assessee\textsuperscript{1}.

Further, Bhagwathi Prasad\textsuperscript{2}, Vinod K Singhania\textsuperscript{3}, Mehrotra and S.P.Goyal\textsuperscript{4} have also written a textbook on, "Income Tax Law and Practice including Wealth Tax & Tax Planning".

Though a few books are published relating to this topic and micro level research are done on this topic, no empirical study is made on this topic. Since the research is related with sensitive and personal financial aspects of the sample assessee, no macro level research is done hitherto in India on this topic. Therefore, the researcher feels it necessary to undertake an empirical research on this topic to provide suitable and valid suggestions for tax planning of salaried assessee.

MS.R.KALYANI, (1991) conducted a study on Tax planning of salaried employees in Coimbatore city for the financial year 1988-89. This study has identified various sources of income, different classes of salaried assessee, tax liability, tax payment and tax saving investments of different categories of employees in Coimbatore city. This study identified: has I. Older the age higher the tax liability II. Graduates and professionals have higher tax liability, III. Private sector employees get higher salary income than the government employees, IV. Tax payment decreases when tax saving investments increases V. Tax saving


investments increase along with the income and VI. Employees preferred to invest in Life Insurance Corporation, Provident fund and National savings Certificates.¹

MR.K.E.JOB (1995) conducted a study on “Investment Planning with special reference to State Government Officers in Palakkad District”. This study identifies the relationship between income and savings schemes and awareness of various schemes of employees. This study also analyses the reasons for preferring a particular investment scheme and utilization of tax concession by the employees. The finding of the study is 1. The savings are made to get regular income in future. 2. Profitability, Liquidity, Safety, Tax concession and Appreciation are the main reasons for investment.²

SHILPA NAYAK (2001) conducted a study on “Tax planning- the Taxman-cometh”. This study has concluded that there are two ways for tax saving i.e. 1. Claiming all permissible deductions and 2. Investing in tax saving schemes.³

The provisions of the Income Tax Act relating to Income Tax Rate, Tax Saving schemes, Tax-free incomes, Deductions, Relief etc are changing. But, the features of the tax savings schemes are more or less permanent. Hence, the suggestions given in the previous study are not highly suitable for choosing a suitable tax saving scheme at present to reduce tax liability.


Awareness of tax planning is also needed for selecting a suitable
tax saving scheme. Order of priority by the salaried assessees for
investment in tax savings scheme is a must for tax devising authorities.
Hence, in order to bridge the gap found in the earlier studies this study is
undertaken.

IMPORTANCE OF THE STUDY

Income tax assessees are mostly ignorant of tax planning due to
personal reasons or other preoccupations. Either they are too late to plan
or they leave the entire affair to the tax consultants who may not guide
them in appropriate time.

The present study intends to make a modest attempt to overcome
this hurdle. The assessees have to be put in the right perspective for the
healthy tax planning. Creating congeniality in the mind of assessees
towards tax planning will solve the problem in the long run.

Many assessees may need different tax saving schemes depending
upon their monetary condition. There is no one tax saving scheme that
may suit every assesse. So the assessees may be made to know all the
tax saving schemes for their tax planning. Many assessees are
shortsighted in their investment options. They want enormous return
within a short period, which is illogical in monetary activity. If they are
made to know the merits of the tax saving schemes, they may come
forward to invest in Government sponsored tax saving schemes. This
kind of healthy tax saving investments is good not only for the assessees
but also will help the Society, the Government and the Economy as a
whole.
The current study attempts to remove any misconception and create a congenial attitude on the part of the assessees to turn to meaningful tax saving schemes. Further, this study attempts to prove that the salaried assessees can substantially reduce the burden of income tax by proper tax planning.

1.4 SCOPE OF THE STUDY

Though the main objective of the study is to identify the tax planning measures undertaken by the individual income tax salaried assessees, the scope of the study is extended further to analyze the composition of various incomes (i.e., Salary income, House Property income, Professional income, Capital Gains and Income from Other Sources) received and the factors influencing the salaried assessees to invest in tax saving schemes.

This study covers only full time employees, receiving salary income above Rs.50,000/- for the Financial Year ended 31st march 2004 (Assessment year 2004-2005), in Erode, Gobichettipalayam and Sathyamangalam Taluks of Erode District in Tamil Nadu. In these three Taluks, 76.15 per cent (1,15,750) of the total salaried assessees who file their return through the tax consultants is residing.

In this study, various tax-planning options for the salaried assessees are reviewed. Further, awareness level of the salaried assessees about the tax planning is compared with personal factors like age, sex, educational qualification, employment status, professional status, residential area, and the marital status to ascertain the association between them.
The average taxable income of the salaried assessees and their personal factors are also compared to ascertain the association between them.

The relationship between the average investment in tax saving schemes and the personal factors is also established. The factors influencing the salaried assessees to invest in tax saving schemes are also studied with a view to identify the most important factor, which highly motivated them to invest in various tax saving schemes.

1.5 OBJECTIVES OF THE STUDY

The following are the objectives of the study

1. To review the tax planning 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 tax planning of the salaried assessees.

1.6 HYPOTHESES

The following 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 to enlighten the second, third and fourth objectives of the study.

HYPOTHESES RELATING TO AWARENESS ON TAX PLANNING

1. There is no significant association between the personal variables of 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) and their ‘awareness on tax planning’.

2. The average tax planning score of different groups of sample assessees (on the basis of the variables 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) is the same.

HYPOTHESIS RELATING TO TAXABLE INCOME

1. There is no significant association between the personal variables of sample assessees (such as age, educational qualification, employment status, professional status, type of family, and length of service) and their ‘taxable income’.

HYPOTHESIS RELATING TO INVESTMENT IN TAX-SAVING SCHEMES

1. There is no significant association between the personal variables of sample assessees (such as age, educational qualification, employment status, professional status, type of family, and length of service) and their ‘investment in Tax saving schemes’.
1.7 PRE-TESTING OF QUESTIONNAIRE

The pilot study has been conducted with a sample of 50 assessees during April 2004. In this pilot study, the questionnaire was pre-tested and then refined for use in the final study. This has helped to modify and include certain information in the final questionnaire. Therefore, the final questionnaire has been prepared after simplifying, including, excluding and modifying certain questions and statements of the pre-tested questionnaire. The final questionnaire thus prepared for data collection is given in the Appendix.

1.8 OPERATIONAL DEFINITION OF CONCEPTS

INCOME

Income refers to various types of monetary and non-monetary benefits of salaried assessees from their employers and other income earned by them.

ASSESSEE

Assessee is a full time employee liable to pay tax under the income Tax Act, 1961.

CENTRAL GOVERNMENT ASSESSEE

Central Government Assessee is a person who is employed by the Central Government in Departments like Postal and Telegraphic Department, Railways and Income Tax Department.

STATE GOVERNMENT ASSESSEE

State Government Assessee is a person who is employed in Revenue Department, Transport Department, Electricity Department, Police Department and Government schools.
SEMI-GOVERNMENT ASSESSEE

Semi-Government Assessee is a person who is employed in Life Insurance Company, State Bank of India and Municipalities.

PRIVATE CONCERN ASSESSEE

Private Concern Assessee is a person who is employed in Private Concerns like Private Companies, Partnership Firms, Private Colleges and schools.

PROFESSIONAL ASSESSEE

Professional is a person who is employed on full time basis and exercising his profession in medicine, engineering and accountancy management.

ADMINISTRATOR

Administrator is a person who is engaged in the administrative work in Central, State, Semi-Government or Private sector undertakings.

TAX PLANNING

Tax planning means arranging the financial activities in such a way that maximum tax benefits are enjoyed by making use of all the beneficial provisions in the tax laws which entitle the assessee to get tax concession. Tax planning is a wider area, which includes investing in schemes such as tax-free return, tax saving, tax-free maturity and no tax deduction at source.
TAX SAVING SCHEMES

Tax saving schemes, are those schemes, which are made by the salaried employees to reduce their tax liability. Investing in tax saving schemes is one of the tax planning measures of the salaried assessees. For example, contribution of premium for Life Insurance Policies, contribution to Provident Fund schemes, contribution to 10 or 15 years Cumulative Time Deposits in Post Offices, investing in National Savings Certificate VIII issue and investing in Infrastructure Bonds and Mutual Funds.

1.9 SAMPLING DESIGN AND METHODOLOGY

The present study is confined to the Erode District in Tamil Nadu. 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 are 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 is 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.

It was found from these nine tax consultants, that there were 16,600 assessees for the assessment year 2004-2005. These assessees were classified into four strata on the basis of their employment and found that there were 3818 assessees employed in Central Government, 4524 assessees employed in State Government, 3832 assessees employed in Semi-Government, and 4426 assessees employed in private concerns. Out of these 16,600 assessees, 1660 assessees (10% of 16,600) were selected by adopting stratified random sampling technique. Of these 382 assessees belong to Central Government, 452 assessees belong to State Government, 383 assessees belong to Semi-Government, and 443 assessees belong to private concerns.

Out of 1,660 questionnaires issued, owing to non-response, only 715 questionnaires were returned from these respondents duly filled in. Of these 715 respondents, it is found that there were 178 assessees belonging to Central Government, 197 belonging to State Government, 164 belonging to Semi-Government and 176 belonging to private concerns. Out of these 715 questionnaires received, on account of incomplete and contradictory information given for many questions, only 644 questionnaires (165 Central Government, 171 State Government, 150 Semi-Government and 158 private concern) have been considered valid for the analysis of this study.
For the final analysis, it has been decided to give equal representation for all the four strata i.e. 150 each from four strata. Hence, 600 respondents representing three Taluks of Erode District constitute the total sample and this is considered as adequate and representative.

Table 1 shows the selection of sample respondents on the basis of their employment status.

**TABLE-1.1**

**SELECTION OF SAMPLE RESPONDENTS**

<table>
<thead>
<tr>
<th>Assessees Employed in</th>
<th>Actual strength</th>
<th>Questionnaires</th>
<th>Questionnaires</th>
<th>Questionnaires</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Issued</td>
<td>Returned</td>
<td>Valid</td>
</tr>
<tr>
<td>Central Govt.</td>
<td>3818</td>
<td>382</td>
<td>178</td>
<td>165</td>
</tr>
<tr>
<td>State Govt.</td>
<td>4524</td>
<td>452</td>
<td>197</td>
<td>171</td>
</tr>
<tr>
<td>Semi-Govt.</td>
<td>3832</td>
<td>383</td>
<td>164</td>
<td>150</td>
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<tr>
<td>PVT.Concern</td>
<td>4426</td>
<td>443</td>
<td>176</td>
<td>158</td>
</tr>
<tr>
<td>Total</td>
<td>16.600</td>
<td>1660</td>
<td>715</td>
<td>644</td>
</tr>
</tbody>
</table>

THE QUESTIONNAIRE FOR PRIMARY DATA CONSISTS OF FOUR SECTIONS AS FOLLOWS

Section I deals with questions of general nature like age, sex, educational qualification, employment status, professional status, nature of employment, area of residence, marital status, type of family, particulars of family members and number of years of service.

Section II deals with the awareness of the 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.
This section also contains tax-free incomes, loan availed against tax-saving schemes by the respondents and their priority for further investment in tax-saving schemes.

Section III deals with the factors influencing the salaried assessees to invest in tax-saving schemes like Life Insurance Policy, Provident Fund Scheme, National Savings Certificate, Infrastructure Bond, Unit linked Insurance Plan, Group Insurance Scheme, and units of Mutual Funds.

Section IV deals with the questions relating to the awareness of various important income tax aspects regarding filing of Income Tax Return i.e., preparation of estimated income for deduction of tax at source, calculation of self-assessment tax, Payment of tax through bank, documents to be attached with return of income, Interest for delayed payment of tax, penalty for non-filing of income tax return, penalty for delayed filing of income tax return, tax-exemption limit for individuals, tax-saving schemes for individuals, Individuals covered under one by six scheme, Last date for filing income-tax return, Interest for excesses or shortage of income-tax paid, time limit for getting refund and assessment order.

This section also includes reasons for tax planning, and opinion on better tax saving scheme.

The schedule for secondary data consists of 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 salaried assessees for the assessment year 2004-2005.
1.10 COLLECTION OF DATA

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.

With the help of computer, the collected data were transformed into different tables and analyzed by using appropriate statistical techniques.

1.11 ANALYSIS OF DATA

The data collected were processed in computer. Tables were prepared and analyzed with the statistical tools. For analytical purpose, statistical measures such as Percentage, Rensis Likert-type two-point scale and Mean were calculated. For testing the hypotheses, Chi-square test, ‘F’ test, and ‘Z’ test were used.

1.12 LIMITATIONS OF THE STUDY

1. The income and the attitude of the salaried assessees differ from place to place. Therefore, tax-planning measures adopted by the salaried assessees of the selected area may not be suitable for the salaried assessees of other area. Hence, the suggestions given in this study on the basis of information given by the salaried assessees of this area may not be applicable to the salaried assessees of other parts of the country.
2. The provisions of the Income Tax Act are subject to change. Hence, the suggestions given for tax saving schemes of the salaried assessees according to the current provisions of the Income Tax Act may not be applicable for the subsequent years unless the tax provisions are constant.

3. The income of salaried assessees and tax provisions are subject to change from year to year. Hence, the suggestions given for better tax planning on the basis of current year’s income may not be suitable for the salaried assessees in the subsequent years if income tax provisions are changed.

1.13 CHAPTERISATION SCHEME

Keeping in view the objectives mentioned earlier, this study is presented in seven chapters along with tables and annexure to support the analysis and findings of the study.

The Questionnaire and Interview schedule used to collect primary and secondary data has been appended at the end of the thesis.

CHAPTER I: INTRODUCTION AND DESIGN OF THE STUDY

The introductory chapter contains introduction, object of Income Tax Act, scope of income Tax Act, tax planning, importance of tax planning, statement of the problem, review of previous studies, importance of the present study, scope of the present study, objectives, hypotheses, sampling design and methodology, collection of data, analysis of data, limitations of the study and chapter scheme.
CHAPTER II: TAX PLANNING FOR SALARIED ASSESSEES

This chapter reviews the various tax planning for the salaried assessees such as Tax-free return schemes, Deductions from Gross Total income, Tax Saving Schemes, Tax-free maturity schemes and No tax deduction at source schemes.

CHAPTER III: SALARIED ASSESSEES AWARENESS ON TAX PLANNING

This chapter examines the awareness level of the salaried assessees about the tax planning.

CHAPTER IV: INCOME AND ITS COMPOSITION OF SALARIED ASSESSEES

This chapter deals with the income and its composition of the salaried assessees such as Income from different heads, Tax-free income and Taxable income.

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

This chapter analyses the investments made in various tax saving schemes such as Insurance policy, Provident Fund, National Savings Certificate, Infrastructure bonds, etc. by the salaried assessees.

CHAPTER VI: FACTORS INFLUENCING TO INVEST IN TAX-SAVING SCHEMES

This chapter deals with the factors influencing the salaried assessees to invest in various tax saving schemes. The powerful factor for investing in tax saving schemes is also touched upon.
CHAPTER VII: A SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

This chapter is the summary of conclusions that has emerged from the study and suggestions offered for tax planning.