Planning assumed a dominating role towards the close of the twentieth century and continues with ever expanding horizon in the twenty-first century also. For the economic development of any country, planning has to be resorted to in order to distribute the economic resources evenly or on priority basis to better the economic position of the weaker sections of the society. For the proper implementation of the development programmes, a sound base of public finance has also to be built up which requires huge revenue and a major part of which is achieved through the collection of taxes. Raising public revenue through taxation is a popular policy of an economy and it does not entail any extra burden on the government as in the case of borrowings. Thus taxation is considered to be the most effective source of raising public revenue.

The practical concept of taxation law is to realize the maximum revenue, of course, within the frame work of law. On the other hand payment of taxes reduces the disposable income of the tax payers and imposes a burden on them.
Since tax by definition is a payment without direct *quid pro quo*, every taxpayer wants to pay the minimum in the form of taxes. Therefore the modern taxpayer is ‘in between the lines’: whether he has to remain content after what is left by the taxing authorities or whether there is any scope for him to reduce the incidence of tax to the minimum possible extent. It is here that tax planning has assumed far-reaching importance in the confounding complexities of the taxation laws. The planning has proved a savior of the economic life of the taxpayer who can reduce the incidence of tax to the minimum if he is able to plan his tax affairs diligently and intelligently.

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, full advantage is taken of all exemptions, deductions, concessions, rebates, allowances and other reliefs or benefits permitted under the Act so that the burden of taxation, as far as possible, is the least. Tax planning may, therefore, be regarded as a method of intelligent application of expert knowledge while planning one’s affairs with a view to securing the consciously provided tax benefits on the basis of national priorities in keeping with the legislative and judicial opinion. Tax planning is neither tax evasion nor tax avoidance. It is the scientific planning of one’s financial affairs in such a way as to attract minimum liability to tax or postponement of the tax liability for the subsequent period by availing of various incentives, concessions, allowances, rebates and reliefs provided for, in the context of existing tax laws.

The exemptions, deductions, rebates and relief have been provided by the legislature to achieve certain social and economic goals and to encourage savings and investments for the economic development of the country. Tax planning is an act with in the four corners of the Act and it is not a colourable device to avoid the tax. Thus, if a person takes the advantage of the deductions...
Introduction

A Study on Tax Planning Measures Adopted By the Salaried Class in Kerala

and rebates, he not only reduces his tax liability, but also helps in achieving the objectives of the legislature, which is lawful, social and ethical.

Tax planning involves in every case a thorough and up-to-date knowledge of tax laws. Not only is an up-to-date knowledge of the statute law necessary, but one must also be aware of the judge-made laws in the form of various decisions of the Courts. One of the best methods to study tax planning is through the case law. The judgments of the Supreme Courts and various High Courts reveal instances of successful and unsuccessful tax planning. The judgments touch up on various provisions of tax laws and their application to different situations. The question of interpretation of law can also have a bearing on the success or failure of tax planning. The circulars issued by the Central Board of Direct Taxes from time to time will be of much use to the tax payers. Moreover, a sound method of tax planning should be carefully chartered after considering that whatever is done is not only strictly within the framework of law but is also in consonance with the legislative intentions and should sound sensible to any reasonable person.

1.1 Statement of the Problem

The salaried employees constitute a sizable class of taxpayers who contribute to the public exchequer about 12 percent of the total revenue collection by way of income tax\(^1\). Their income is assessed under the head “Salaries”. Tax planning has assumed special importance for the salaried class of tax payers in view of the mounting pressures of inflation, price hike and their strict obligations to tax compliance. It is, therefore, essential for this class of tax payers to know their tax obligations in the right perspective and the measures of tax planning available to them so that they can make the best use of their earnings by reducing the incidence of tax. Thorough and up-to-date knowledge
of the tax laws is necessary to avail the benefits provided under the provisions of the Act and there by ensuring that the ‘take home pay’ is kept at the maximum possible monetary level. However, efforts from the part of the assessees to plan his savings and investments so as to minimise the tax incidence is not up to the mark. There are numerous reasons for this ranging from lack of awareness of taxation laws to complexities in the compliance formalities. The administrative machinery for collection and enforcement of taxes is often complex in terms of maintenance and operations.

Tax planning is possible through appropriate savings and wise investment decisions. Tax payers normally turn away of their tax liability only towards the end of the financial year. This leaves them with little option to invest or save with the available income. The real issue would relate to having awareness on the numerous provisions that would help in reducing the tax liability. The key issue is awareness about the income tax provisions as well as awareness about investment opportunities.

Investment comes in the form of physical assets and financial assets with varying yields. The complete understanding on the opportunities available and managing one’s finance considering tax liability and post tax cost are crucial as far as personal finance is concerned. Planning for the future so as to enhance returns and minimise tax commitments would form part of financial decision making. These issues are more complex when it comes to the salaried class with a stabilized income inflow.

The current study is an effort to evaluate the tax planning measures adopted by the salaried income tax assessees of the State in the light of tax administration measures being implemented by the Government.
1.2 Objectives of the Study

The study was conducted with the following objectives:

1. To review the tax reforms being introduced by the Government in respect of Income Tax Laws and ascertain its impact on the salaried class.

2. To assess the efficiency of the administrative machinery for collection of income tax and management of taxation matters as per the Income Tax Act.

3. To understand and evaluate the tax planning measures being adopted by the salaried class of the State.

4. To assess whether there is significant differences in the tax planning measures adopted by different segments of the salaried class of the State, based on level of income and type of organisation.

5. To ascertain the level of awareness of the salaried class on various tax planning measures available under the Income Tax Act.

6. To analyse the impact of tax planning on savings habits and investment pattern of the assessees belonging to the salaried class.

1.3 Scope of the Study

Taxation is considered as a complex matter affecting financial planning of each individual income tax assessees. The scope of the present study is limited to the tax planning measures adopted by the salaried income tax assessees of the State. The study also evaluates the extent of awareness of employees on tax laws and tax planning measures. The savings habits, investment pattern, repayment of liabilities, tax planning measures adopted for
the period under study and the level of awareness of employees on tax laws and tax planning measures were studied and evaluated.

1.4 Hypotheses

Based on the problems identified and the objectives set, the following hypotheses were formulated.

1. There is no significant difference between employees of the private sector and the public sector with regard to their pattern of savings that lead to tax planning.

2. There is no significant difference between employees of the private sector and the public sector with regard to their pattern of investments in financial assets.

3. There is no significant difference between employees of the private sector and the public sector with regard to their pattern of investments in physical assets.

4. There is no significant difference between employees of the private sector and the public sector with regard to repayment of liabilities that lead to tax planning.

5. There is no significant difference between employees of the private sector and the public sector with regard to their level of awareness on taxation laws and tax planning measures under the Income Tax Act.

6. There is no significant difference between employees of the private sector and the public sector with regard to tax planning measures adopted for the PY 2009-'10.
All the above hypotheses were formulated and the same were tested for employees in either sector with regard to different groups. The income wise classification of employees was based on the tax rate schedule applicable to individual income tax assessees for the AY 2010-'11. As per the Finance Act 2009, minimum tax rate of 10 per cent was applicable to income slab of up to ₹ 3 lakh, income slab of ₹ 3 lakh to ₹ 5 lakh attracted tax rate of 20 per cent and income above ₹ 5 lakh was taxed at 30 per cent rate\(^2\). Hence the identified income groups were:

1. **Low Income Group** - Employees having annual salary income of below ₹ 3 lakh.

2. **Lower Middle Income Group** - Employees having annual income from salary ranging between ₹ 3 lakh to ₹ 5 lakh.

3. **Upper Middle Income Group** - Employees having annual salary income ranging between ₹ 5 lakh to ₹ 8 lakh.

4. **High Income Group** - Employees having annual income from salary of above ₹ 8 lakh.

### 1.5 Data Base and Methodology

In pursuance of the objectives identified and hypotheses formulated, the following methodology was adopted to conduct the study.

#### 1.5.1 Phase 1: Search for Available Literature

There had been numerous studies on the direct tax system in India in the backdrop of taxation reforms and administrative issues. Various studies have been conducted on taxation and its various aspects by the individual scholars, research organizations, State Governments and Government of India spanning
over a period of nearly six decades. These studies discussed the defects in the existing tax system and outlined the need for further reforms in Indian tax structure. However, studies relating to personal income tax in terms of tax planning measures related to income are few. Every effort was made to gather all available literature relating to personal income tax planning, personal income tax reforms and direct tax administration from different sources: journals, books, web sites, theses etc.

For this purpose the researcher had visited the libraries of National Institute of Public Finance and Policy, New Delhi; ICSSR, New Delhi; Indian Institute of Management, Kozhikode; Gulathi Institute of Taxation, Trivandrum; libraries of Centre for Development Studies, Trivandrum, Cochin University of Science and Technology, Kochi, University of Kerala, Trivandrum and Mahatma Gandhi University, Kottayam.

1.5.2 Phase 2: Collection of Secondary Data

The study is analytical as well as descriptive in nature. It makes use of both primary data and secondary data. Secondary data for the study was collected from the reports of Comptroller and Auditor General of India (Union Taxes), annual reports of All India Income Tax Statistics, Indian Public Finance Statistics, circulars and notifications of Central Board of Direct Taxes and Reserve Bank India Bulletin. Books, Journals and News Paper Reports also form part of the secondary data.

Secondary data pertaining to direct tax reforms was collected for a period of 21 years from FY 1990-'91 to 2010-'2011. The year 1991 was selected because comprehensive reform of direct taxes in India was undertaken along with economic reforms since 1991. Strong efforts from the part of the Government to reform direct tax administration was initiated in the year 2000
when the restructuring of the Income tax Department was started. Hence the time period opted for studying direct tax administration was for 10 years beginning from FY 2000-'01 to 2009-'10.

1.5.3 Phase 3: Collection of Primary Data

Primary data was collected through a structured questionnaire to collect information relating to savings behaviour, investment pattern and tax planning measures adopted by the salaried class income tax assessee of the State. Assessment Year 2010-'11 was selected as the period of study for collecting primary data. A pilot study was conducted on twenty respondents to test the original questionnaire and based on their responses final questionnaire was framed. Elaborate discussions were held with Income Tax Officials, Chartered Accountants, Financial and Investment Planners and Tax Consultants.

1.5.4 Phase 4: Sampling Design

Salaried class income tax assessee working in the State of Kerala constituted the population for the study. Purposive sampling method was adopted to select the sample size. The sample for the study consisted of six hundred salaried employees working in the State of Kerala who were income tax assessee for the Assessment Year 2010-'11. Three hundred respondents each from the private sector and the public sector constituted the total sample size. In order to make the sample size geographically representative, Trivandrum, Ernakulam and Kozhikode districts were opted for the study. Trivandrum district represented South Kerala, Ernakulam district represented Central Kerala and Kozhikode district represented North Kerala. Out of the two hundred sample respondents selected from each district, hundred respondents each represented the private sector and the public sector. Table 1.1 presents the sample design on the basis of type of organisation.


**Table 1.1 Sample Size - Type of Organisation**

<table>
<thead>
<tr>
<th>Type of Organisation</th>
<th>Districts</th>
<th>Trivandrum</th>
<th>Ernakulam</th>
<th>Kozhikode</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>Public Sector</td>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>600</td>
</tr>
</tbody>
</table>

Source: Sample Design

On the basis of level of income, the sample respondents were classified in to four income groups. Employees having annual salary income of below ₹ 3 lakh constituted the low income group. Employees having annual salary income of ₹ 3 to ₹ 5 lakh constituted the lower middle income group and ₹ 5 to ₹ 8 lakh constituted the upper middle income group. The high income group consisted of employees having annual salary income above ₹ 8 lakh. The proportion of the sample to the various income groups was 4:3:2:1. (Income wise category of personal income tax assessees for the year 2007-08 showed that 86.81 per cent of assessees belonged to taxable income below ₹ 2 lakh, 23.26 per cent came under ₹ 2 to ₹ 10 lakh and 1.28 per cent constituted the above ₹ 10 lakh)\(^3\). Majority of the individual income tax assesses belonged to the salaried class come under the low income and lower middle income group. Thus 240 respondents constituted the first category of below ₹ 3 lakh. It is 40 percent of the total sample size. 180 employees (30 percent) constituted the income group of ₹ 3 to ₹ 5 lakh. 120 employees (20 percent) came under the income group of ₹ 5 to ₹ 8 Lakh and 60 employees (10 percent) constituted income group of above ₹ 8 lakh. The sample design on the basis of level of income is presented in Table 1.2.
Table 1.2 Sample Size - Level of Income

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Income Groups</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Below ₹ 3</td>
<td>₹ 3 to ₹ 5</td>
<td>₹ 5 to ₹ 8</td>
<td>Above ₹ 8</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>lakh</td>
<td>lakh</td>
<td>lakh</td>
<td>lakh</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td>120</td>
<td>90</td>
<td>60</td>
<td>30</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Public sector</td>
<td>120</td>
<td>90</td>
<td>60</td>
<td>30</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>240</td>
<td>180</td>
<td>120</td>
<td>60</td>
<td>600</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sample Design

1.6 Variables Identified for the Study

The variables identified for the study included:

1. Savings pattern of the employees.
2. Investment pattern of the employees in financial assets.
3. Investment pattern of the employees in physical assets.
4. Repayment of liabilities.
5. Extent of awareness on tax laws and tax planning measures and
6. Tax planning measures adopted for the Previous Year 2009-10.

1.7 Tools for Analysis

All data were tabulated and analysed with the help of statistical tools. Statistical Package for Social Sciences (SPSS) was used for the analysis. Percentages, averages, ratios, ranking tables, rank correlation, t-test and chi-square test were used to analyse the data. t-test and chi-square test were used to test whether there is a significant difference in the responses of the employees in the public sector and in the private sector. Correlation was used to find out the association in terms of suggestions for improvement in tax planning measures between employees in the private sector and in the public sector.
Ranking table was used to identify priorities on direct tax reforms and examine whether employees in the private sector as well as in the public sector had the same priorities.

1.8 Limitations of the Study

Since personal income taxation is a very sensitive matter, people generally were reluctant to disclose information relating to their savings, investments and tax planning measures adopted for the period under study. Hence, more time and effort had to put to collect the data.

Secondary data for the study was collected mainly from the reports of Comptroller and Auditor General (Union Taxes), annual reports of All India Income Tax Statistics, Reserve Bank of India Bulletin and circulars and notifications of Central Board of Direct Taxes. Often there were discrepancies in the data available from various sources. The current statistics relating to some of the aspects of direct tax administration is still lacking.

In spite of the above limitations, all efforts were made to ensure correctness in the data collection.

1.9 Organisation of the Report

The study is presented in eight chapters:

Chapter one deals with introduction to the topic, statement of the problem, scope of the study, objectives of the study, hypotheses formulated, methodology adopted, limitations of the study and chapter scheme.

Chapter two presents the available literature based on previous studies relating to personal income tax planning, personal income tax reforms and direct tax administration.
Chapter three entitled Tax Planning - An Overview explains the concepts of tax planning and discusses the deductions and exemptions available for salaried class under the provisions of the Income Tax Act for the AY 2010-'11.

In the fourth chapter entitled Reforms in Direct Taxes - With Special Reference to Personal Income Tax, studies the reforms introduced in the direct tax system during the past two decades and try to assess the impact of those reforms on the tax liability of the salaried income tax assessee of the State during the period under study.

The fifth chapter is concerned with a study on the administration and enforcement of direct tax system in the country for the past ten years. An attempt has been made to evaluate the efficiency of the administrative system in terms of compliance level, collection of taxes, cost of collection, tax-GDP Ratio, disposal of assessments, disposal of refunds, pendency of appeals and efficiency of search and seizure operations.

Chapter six deals with analysis of the survey results on the savings behavior and investment pattern of the salaried income tax assessee of the State.

Chapter seven makes an analysis of the awareness level of the employees on tax planning measures and the various provisions of the Tax Laws affecting the salaried class. The tax planning measures adopted for the period under study by the private sector and the public sector employees under the various income groups were compared and analysed in this chapter.

The concluding chapter gives the summary of findings and recommendations based on the study and the scope for further research.
References

1. Indian Public Finance Statistics, 2008-'09, Govt. of India.