Tax planning has assumed special importance for all sections of tax payers, particularly the salaried class. It has immense use in view of the mounting pressures of inflation, price hike and their strict obligations to tax compliance. In consequent to the constant erosion in the intrinsic value of the rupee, the fixed income groups are left with no choice but to forego a major part of the conveniences and benefits, which they would otherwise have availed of. In a constant effort to match income and expenditure and to keep the family budget at safe levels, each tax payer in the salaried group is required or even forced to put in more serious effort than tax payers carrying on business or others who are in the fluctuating income group.

As a pre-requisite of tax planning, each tax payer has to know their tax obligations in the right perspective and the measures of tax planning available to them so that they can make best use of their earnings by reducing the incidence of tax. This could be achieved only by availing maximum amount of
tax exemptions, deductions and relief that are available under the Act. A better awareness about the existing tax laws and the tax saving instruments is necessary to achieve this objective. The present study on personal income tax planning essentially involves a study on the savings pattern, investment pattern and the extent of awareness of the salaried class about the tax laws and the tax planning measures. The study was undertaken with the following specific objectives:

- To review the tax reforms being introduced by the Government in respect of Income Tax Laws and ascertain its impact on the salaried class.
- To assess the efficiency of the administrative machinery for collection of income tax and management of taxation matters as per the Income Tax Act.
- To understand and evaluate the tax planning measures being adopted by the salaried class of the State.
- To assess whether there is a significant difference 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.
- To ascertain the level of awareness of the salaried class on various tax planning measures available under the Income Tax Act.
- To analyse the impact of tax planning on savings habits and investment pattern of the assessee belonging to the salaried class.

The variables identified for the study include:

1. Savings pattern of employees.
2. Investment pattern of employees in financial assets.
3. Investment pattern of 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.

Based on the objectives stated and the variables identified, the study was conducted by selecting assessment year 2010 - ‘11 as the period of study. Purposive sampling method was adopted to select the sample size which consisted of six hundred salaried employees working in the State of Kerala who were income tax assessees for the AY 2010 - ‘11. Three hundred respondents each from the public sector and the private sector constituted the sample size. In order to make the sample size geographically representative, Trivandrum, Ernakulam and Kozhikode districts were opted for the study. On the basis of level of income the sample respondents were classified in to four income groups: low income group, lower middle income group, upper middle income group and high income group.

All data were tabulated and analysed with the help of statistical tools. SPSS was used for the analysis. Based on the analysis of the data, the study arrives at the following findings.

**8.1 Summary of Major Findings**

**8.1.1 Personal Income Tax Reforms and its Impact on Salaried Class**

The reforms that were undertaken in the personal income tax front during the period under study were divided into pre - 2005 and post - 2005 period. The cut of period was taken as 2005 for the reason that notable changes benefitting the salaried class were initiated w.e.f FY 2005 - ‘06.
The tax reforms during 1990s and first half of the 2000s had disproportionately shifted the tax burden to the lower and middle income group. The reasons attributed to this are: inadequate exemption limit, narrow income slabs, steep tax rates, lack of inflation indexing etc. The changes that were under taken in the tax structure during this period were neither scientific nor economically efficient and were made only on an ad hoc basis.

The situation was reversed from 2005 - ‘06 onwards. The widening of the income slabs, enhancement of the exemption limit, surcharge limited to high income groups only, replacement of rebate under Section 88 by deduction under Section 80C etc. were the initiatives taken during this period. Section 80C provided more freedom to the tax payers in making investment decisions since sectoral cap in various investment avenues were removed and by enhancing the maximum deduction u/s 80C to one lakh rupees. However, withdrawal of standard deduction and deletion of section 80L adversely affected the interest of the fixed income group. It was found that the reforms in the personal income tax front since 2005 - ‘06 have been beneficial to the fixed income group as compared to the pre - 2005 period.

Reforms at a glance:

- Tax Rate: 20-30-40-50 (1990 - 1992); 20-30-40 (1992 - ‘97) and 10-20 - 30 (1997 - ‘98 onwards). Minimum tax rate was decreased from 20 per cent to 10 per cent and maximum rate decreased from 50 per cent to 30 per cent over the period under study. The three tier rate structure of 10-20-30 has been followed w.e.f FY 1997 - 98 onwards.
- Basic Exemption Limit: ₹ 22,000 (1990 – ‘92); ₹ 50,000 (1998-2005); ₹ 160,000 (2009 - 10) and ₹ 180,000 in 2011 – ‘12.
Summary of Findings and Recommendations

- Standard deduction for employees deleted from the I-T Act w.e.f FY 2005 – ‘06.
- Special tax concessions for women in the form of tax rebate or higher exemption limit continued until FY 2010 – ‘11. Higher exemption limit for women below 65 years was ₹135,000 during 2005 - ‘06 increased to ₹190,000 w.e.f FY 2009 - ‘10 onwards.
- ₹190,000 w.e.f FY 2009 - ‘10 onwards.
- Section 80L: Deduction for income from approved savings under Section 80L was deleted from the I-T Act w.e.f. FY 2005 – ‘06.
- Section 80C: Substitution of rebate under section 88 by deduction under section 80C was introduced w.e.f FY 2005-06. Maximum deduction u/s 80C was fixed at ₹ 1 lakh.
- Surcharge: W.e.f FY 2005 – ‘06 surcharge was levied only on high income group, that is for taxable income above 10 lakh rupees. Surcharge on income tax was withdrawn w.e.f FY 2009 - ‘10. Education cess @ 3 per cent on income tax without any ceiling on income was introduced w.e.f FY 2009 - ‘10 and it was continued for FY 2010 -‘11 and 2011 - ‘12 also.
- Direct Tax Code 2010: expected to come in to force w.e.f April 2012.

8.1.2 Performance Efficiency of Direct Tax administration

The key indicators which were used to assess the performance of the Department includes compliance level, revenue growth, tax-GDP Ratio, tax buoyancy, cost of collection, disposal of assessments, arrears of collection, disposal of refunds, pendency of appeals and search and seizure operations.
Despite automation and induction of information technology, it was observed that the Department could not achieve most of the desired targets. Even though strong efforts were made by the department to improve tax payer service, still they have to go a long way.

With regard to compliance level, revenue collection, direct refund cases, cost of collection of taxes etc. the Dept. depicted a better picture. But the performance of the enforcement machinery towards the completion of assessments, collection of arrears, disposal of appeal cases and prosecution in search and seizure were not satisfactory.

A comparison with pre - 2000s shows that there is considerable improvement in the performance of the Department in terms of most of the factors considered for the study.

8.1.3 Savings Pattern of the Employees

Analysing the savings pattern of the employees, it was revealed that as the income increases absolute savings goes up i.e. savings up to an income level is low, and then savings rate remains constant for all income levels. This is true even in the low income group. It was also found that employees in general are consumption oriented since their minimum spendings reached up to 70 per cent as against savings.

Table 8.1.3 shows the savings pattern of the employees in either sector considering the percentage of savings to annual income.
Table 8.1.3 Savings Pattern of Employees

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Savings Pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income Group</td>
<td>Up to 20 per cent</td>
</tr>
<tr>
<td>Lower middle Income Group</td>
<td>10 - 30 per cent</td>
</tr>
<tr>
<td>Upper Middle Income Group</td>
<td>10 – 30 per cent</td>
</tr>
<tr>
<td>High Income Group</td>
<td>10 – 30 per cent</td>
</tr>
</tbody>
</table>

Source: Data Analysis

8.1.4 Investment Pattern of the Employees

Analysing the investment pattern of the employees, it was observed that as far as investments in total financial assets are concerned, it was the private sector employees who made the maximum investment than the public sector employees.

It was found further that bank deposits were the most preferred financial asset among employees in the private sector and among the public sector employees in the low income group. In either sector capital market investments showed a lower level of preference.

Public sector employees showed more preference for investments in PF, Life Insurance Policies, Pension funds etc. It indicated that public sector employees accorded top priority to investments in government oriented funds while private sector employees preferred to bank deposits and chitties and kuries. Capital market investments were less attractive to employees in either sector.

With regard to the investment pattern of the employees in physical assets, the most preferred investment in physical asset was ‘gold’ in both the
sectors for employees in lower middle income group while it was ‘real estate’ in upper middle income and high income group.

With regard to the low income group, public sector employees preferred to ‘gold’ while private sector preferred to ‘real estate’. It was shown that both the sectors of low income and lower middle income group generally preferred to investments in ‘gold’ where as upper middle income and high income group preferred to investments in ‘real estate’.

Capital appreciation in the value of gold, absence of risk, purchases in convenient units according to the ability of the purchaser, existing social set up (gold and marriage of girl children) etc. make gold an attractive investment among physical assets.

As far as lower middle income group and high income are concerned, it was public sector employees who made higher investments in total physical assets, where as in the low income group and upper middle income group, private sector employees made higher investments in total physical assets.

8.1.5 Repayment of Liabilities

Analysing the outflow of income in the form of repayment of liabilities, it was found that ‘Housing loan’ constituted the most important outflow of income for employees. This was true for employees in either sector for all the income groups except the upper middle income group and high income group in the public sector.

For the upper middle income group in the public sector, it was ‘education loan’ and for the high income group it was ‘other liabilities’ which constituted the maximum outflow. This underlined the fact that employees in general accorded more priority for housing sector and education sector.
8.1.6 Extent of Awareness about Deductions Available Under the Income Tax Act

It was observed that employees exhibited high awareness for ‘PF’, ‘Insurance’, ‘Professional Tax’ and ‘Housing Loan’.

In the private sector ‘PF’ showed the highest level of awareness among the Low Income Group and Upper Middle Income Group. ‘Insurance’ came first for the Lower Middle Income Group while ‘Housing Loan’ secured first among the High Income Group.

In the public sector, ‘Professional Tax’ came first among the Low Income Group and Upper Middle Income Group. ‘PF’ occupied the first among Lower middle Income Group while ‘Insurance’ came first for the High Income Group.

In the private sector, ‘Subscription to Approved Infrastructure Bonds’ showed the lowest level of awareness among the Low income Group while ‘Relief u/s 89 in respect of Arrear /Advance Salary’ had the lowest level of awareness among the other three income groups.

In the public sector, ‘Capital Gain’ had the lowest level of awareness for all the income groups. The other factors on which there was low level of awareness are ‘Treatment of Handicapped Dependents’, ‘Interest on Loan for Higher Education’ and ‘Subscription to Mutual Funds’. Table

It was also found that the awareness level of the employees about deductions available under the Act were still confined to the statutory (and therefore compulsory) deductions from the salary, contractual savings and housing loan. Therefore they exhibited high awareness on provisions relating to PF, professional tax, insurance and housing loan and showed low level of
awareness for capital gains, treatment of handicapped dependents, mutual funds etc.

It was found that private sector employees showed low level of awareness for tax relief u/s 89 towards arrear salary or advance salary. This may be due to the fact that in the private sector any increase in salary due to a pay revision was immediately disbursed off while it was not so in the public sector.

In the public sector, Pay Commissions usually announced the pay revisions with retrospective effect and employees got their revised salaries after some time, which resulted in arrear salary. In order to reduce the tax liability of a particular year they usually avail section 89 for spreading their income over the period.

8.1.7 Tax Planning Measures Adopted by the Respondents for the PY 2009 - ‘10

The tax planning measure which received the widest acceptance in either sector was ‘housing loan’. This was true for all the income groups in either sector except for the public sector employees in the upper middle income group.

It was ‘interest on education loan’ which received highest priority followed by ‘housing loan’ for the public sector employees who belonged to the upper middle income group.

Other than housing loan, employees accorded more priority for investments in PF/PPF, fixed deposits, education loan and life insurance policy.
8.1.8 Total Deduction Claimed u/s 80C of Income Tax Act

The maximum amount of deduction available u/s 80C was ₹ 1 lakh for the period under study and the same was claimed in full by the public sector employees who belonged to the Lower Middle Income Group and the High Income Group.

All other groups of employees were not able to make the full claim. However, public sector employees under the upper middle income group and private sector employees under the high income group stood very close to the maximum deduction of ₹ 1 lakh.

8.1.9 Reforms under the Income Tax Act

Responses of the employees with regard to reforms under the Income Tax Act showed similar pattern. Employees in either sector showed maximum agreement as well as disagreement for the same factors. They believed that income tax exemption limit must be enhanced from the current level of ₹ 1.6 lakh. The maximum deduction available u/s 80C must be enhanced. Surcharge should be avoided and there should be rationalization of tax rates. However, in both the sectors there was disagreement about the withdrawal of deduction u/s 80 of the Act.

8.1.10 Response to Taxation Procedures

Responses of the employees towards taxation procedures showed that ‘Building proper information system’ and ‘rationalization and simplification of tax laws are inevitable’ received maximum agreement in the private sector while in the public sector maximum agreement was for ‘quick and time bound refund of excess tax paid’ and ‘rationalization and simplification of tax laws are inevitable’.
Private sector employees showed disagreement towards ‘preference for uniform tax rate to progressive tax rate’ and ‘favor for the system of tax imposed without basic exemption to tax imposed after basic exemption’.

In the public sector, the factors on which the employees showed disagreement were ‘filing of return is very complex’, ‘preference for uniform tax rate to progressive tax rate’ and ‘favor for the system of tax imposed without basic exemption to tax imposed after basic exemption’.

8.2 Other Findings

It was found that the practice of seeking the services of professional financial advisors for making investment decisions was not common among the salaried taxpayers. In either sector, majority of the employees ‘never’ used the services of financial advisors in making investment decisions. Statistical analysis revealed that employees in the private sector rarely used the services of financial advisors while employees in the public sector occasionally used such services.

The importance of time factor in the formulation of tax plan was not a matter of concern as far as the employees are concerned. Only forty four per cent of the respondents in either sector had made their tax plan ‘in the beginning of the year’. There were twenty one per cent of the respondents in the private sector and eleven per cent in the public sector who never had a plan at all and thirty six per cent in the private sector and forty five per cent in the public sector who had partial planning only. The number of respondents with ‘no planning at all’ was more among the private sector than public sector. It can thus be inferred that round the year tax planning was absent among the employees.
The services of tax consultants were found to be immaterial as far as employees are concerned. They rarely seek such services for filing of returns. The number of respondents who had never used the services of tax consultants was more in public sector (71 per cent) than private sector (65 per cent). The number of respondents always using the services of tax consultants was higher in private sector (13 per cent) as against three per cent in the public sector. Statistically it was revealed that employees in either sector rarely used the services of tax consultants for filing returns.

The level of awareness on the proposed direct tax code was found to be low as far as salaried income tax assesses are concerned. The fully aware group was only eleven per cent of the total population. It was nine per cent in the private sector and thirteen per cent in the public sector. Forty per cent of the private sector respondents and thirty four per cent of the public sector were completely unaware. It can thus be inferred that employees in general are partially aware of the proposed direct tax code.

It was further found that majority of the employees in either sector supported for the introduction of the Direct Tax Code. However, it was found to be high among the public sector respondents (64 per cent) than private sector (52 per cent).

8.3 Evaluation and Contribution of the Researcher

The overall conclusion derived from the study is that salaried class in general utilize the tax exemption opportunities available under the Act, but with differences across categories. The awareness on tax laws and tax planning measures exhibited interesting conclusions. The salaried class were aware of the tax planning measures to a larger extend, but they were not fully utilizing those measures for the benefit of limiting their tax liability.
Scientific attempt was done to explore the awareness of salaried class about the tax laws and tax planning measures and the extent to which it was being practiced. The study having survived a detailed account of tax reforms and tax administration, the researcher could explore the exact nature of tax planning measures adopted by different income groups, which is a pioneering effort in this area.

8.4 Policy Implications

The findings of the study have certain policy implications. Some of them are discussed below. Popularisation of the provisions of the tax laws as well as reforms in the tax system are simultaneously required for the success of a scientific tax plan. The areas in the tax system which needs thorough revision can be examined first. Tax system in India was critically viewed in the post reforms period (post 2005) on the following issues which are still alive.

- Inadequate exemption limit.
- Narrow tax slabs
- Steep tax rates at the bottom level
- Lack of inflation indexing
- Taxation at special rates
- Operationalising changes on an ad hoc basis.

The minimum exemption limit was revised without considering changes in income levels on a year to year basis. Normally, every year during the month of February-March the exemption limits are reviewed and changes recommended without considering overall change in the income levels of citizens in various categories as well as without considering the impact on disposable income. This creates a severe burden on the fixed income group.
There should be a policy that calls for scientific fixation of exemption limits considering proportionate changes in income as well as changes in price index so as to reflect up on the true benefit. This issue also reflected in terms of fixing the income slabs on the basis of progressive tax rates. There is no relationship for the exemption limit and income slabs with the inflation index. Taking a base year (similar to that of capital gains), we need to have an inflation index in the fixation of income slabs and the progressive tax rates.

The policy reforms should aim at enhancing tax revenue through progressively taxing the high income group, whatever be the source of income. Annual income of above ₹ 10 lakh would have a higher rate where the rate of change from the previous slab is more than proportionate. In short policies on enhancing the maximum marginal rates to say 40 per cent, and re-fixing the applicable slabs for maximum marginal rates to above ₹ 12 lakh would enhance revenue.

There should be proper accounting systems that record for various ‘expenditure heads’ which in turn will ask for related sources. Taxing income through identification of source would be a welcome move. The basic tax reforms should simplify taxation procedures, strengthen net working and help in identification of source of income. The objective should be to focus on assessees with higher income and again focus on income escaping taxation.

Secondary data clearly brings out the fact that personal income tax assessees are very large in number and personal income tax is a relatively strong source. Corporates and firms in India are registered and do file their annual reports. There should be a trend to monitor their expenditure and payments and link the same to the source of income. Filing of related schedules,
reports and affidavits with the returns and thereby making disclosure possible should make the assessment procedure easier.

Set offs claimed so also deductions claimed and adjustments made on income outside India through business combinations should get reflected in the assessment procedure.

The reform measures are only one side of the coin. On the other, the most important one is the provision to be made in all fronts of policy to popularize and make the tax payers aware of the tax planning.

8.5 Suggestions

Suggestion are made on the basis of responses from respondents, both private and public sector, on the basis of response from experts and finally on the basis of findings of the study.

8.5.1 Suggestions of Respondents

Detailed questions were incorporated in the interview schedules for the responses of the respondents in respect of suggestions for improvement of tax planning measures.

Suggestions made by the respondents for improving tax planning measures and taxation procedures included ‘tax rates should be lowered’, ‘nominal rates should be deducted from all employees at source, there by avoiding the necessity for filing returns’, ‘tax liability should be minimized and total tax revenue to the Govt. should be enhanced through widening the tax net’, ‘cost of tax administration can be reduced where monthly tax is deducted at source’, ‘investments in selected avenues should be promoted by providing tax incentives’, ‘tax planning education should be provided’ and ‘E-filing should be popularized’.
Suggestions were analysed by using ranking tables. Spearman’s Rank Correlation was used to ascertain whether there is a significant relation between the ranking of suggestions given by respondents in the private sector and the public sector.

It was observed that ‘lowering tax rates’ and ‘widening the tax net’ received the maximum priority in either sector. ‘Nominal rates should be deducted from all employees at source’ and ‘providing tax plan education’ received third priority respectively in the private sector and the public sector.

However, ‘e-filing’ as well as cost of tax administration’ were not a matter of concern for the respondents in either sector.

The rank correlation of the priority is 0.858 which indicated high degree of positive correlation in the priority of suggestions made by the private sector and the public sector respondents with regard to improvement in tax planning measures and procedures.

8.5.2 Suggestions of Experts

Based on the discussion made with the tax authorities, tax consultants, financial planners, academicians etc, the following suggestions were made in respect of tax planning measures

Tax planning is a continuous and consistent process. It is not something to be undertaken at the end of the financial year. It was observed that assessees generally indulge in tax planning efforts only towards the end of the year and non availability of funds often prevent taking advantage of tax planning measures.

The official website of the Income Tax Department as well as income tax advertisements brought out by the Department can show information on tax
planning measures in periodic intervals through out the year. It must be in line with the present system of posting advertisements relating to the payment of tax before due date and filing of income tax returns.

Such advertisements can educate the assessee on various provisions of the Income Tax Act relating to infrastructure bonds, relief u/s 89, benefits from various investments, possibility for liquid cash and ways and means of filing returns including e-filing. Wise investment policies are used and returns are linked with tax benefits can be conveyed.

It was commonly observed that certain steps envisaged in the Income Tax Act like provident fund, insurance policies and long term bank deposits were well taken while income tax provisions relating to infrastructure bonds and capital market securities were least understood or adopted. So also the practice of annual return filing and deduction of tax by the employer was not taken as a timely measure. Employers need to be directed on conveying tax liability through proper estimation of the same right from the beginning of the year and making the tax liability into equated monthly installments.

8.5.3 Suggestions based on the findings of the study

As far as the salaried assessees are concerned, it was observed that their savings were up to 30 percent of annual income. There was no variation based on income. This implies that assessees are consumption oriented (70 per cent) and that is true even in the low income groups. This means tax planning measures through the investments route alone will not be sufficient. Providing an alternate channel which is supportive to present consumption or immediate consumption is recommended. Ensuring liquidity in tax planning would strengthen the tax planning process.
Summary of Findings and Recommendations

Tax planning essentially depends on provisions in the Finance Act and the Budget. Educating the masses of the provisions of the same and creating awareness on availing the benefits is recommended.

8.6 Future Research Issues

The study has ended up with a number of research issues to be investigated in future. They are:

1. Comparison between the salaried and the business class so that salaried class may get many lessons from the business class or vice versa.
2. Escaped income and tax revenue lost - expenditure based taxation.
3. Procedural tax planning.

8.7 Conclusion

Tax planning has a wider philosophy and is closely associated with what the salaried assessee earns and his propensity to consume. The gap between the same goes as savings and if that savings can relieve one from tax, the tax planning is effective. The whole process relates to viewing the Income Tax Act in terms of revenue for the Government and fair disposable income for the assessee. We want a rationalized, simplified, operational tax system where an assessee is assessed but not feel exploited.