

SYNOPSIS

A STUDY ON TAX PLANNING MEASURES ADOPTED BY THE SALARIED CLASS IN KERALA

Research Guide: Dr.Gabriel Simon Thattil

Research Scholar: Geetha.C.A.

Taxes are an every day financial fact of life. An effective tax strategy is vital for successful financial planning. Tax planning is of utmost importance from the point of view of every income tax assessee having income from salaries. It not only ensures proper compliance with the provisions of tax laws but also to see that the incidence of tax is reduced to the minimum possible extent and thereby securing that the money remaining after payment of tax is kept at the maximum level. A better understanding about tax laws and tax planning measures available under the Act would be helpful to reduce the tax burden to the minimum level. Hence tax planning involves a thorough and up to date knowledge of tax laws.

Statement of the Problem

The salaried employees constitute a sizable class of taxpayers who contribute about 12 percent of the total revenue collection by way of income tax to the public exchequer (Indian Public Finance Statistics 2008-09, Govt. of India). 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 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 assesseees 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 about the numerous provisions that would help in reducing the tax liability.

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

1.2 Objectives of the Study

The objectives of the study are:

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

1.3 Sources of Data and Tools for Collection

The study is analytical as well as descriptive in nature. It makes use of both primary data and secondary data. Primary data was collected through a structured questionnaire to collect information relating to savings habit, investment pattern and tax planning measures adopted by the salaried class income tax assesseees of the State. Assessment Year 2010-11 was selected as the period of study for collecting primary 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.

All data were tabulated and analysed with the help of statistical tools. SPSS was used for the analysis. Percentages, averages, ratios, rank correlation, t- test and chi-square test were used to analyse the data.

1.4 Sample Design

Salaried class income tax assesseees working in the State of Kerala constituted the population selected 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 assesseees for the Assessment Year 2010-11. Three hundred respondents each from private sector and 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 represent private sector and public sector.

On the basis of level of income, the sample respondents were classified in to four income groups. Employees having salary income of below Rs.3 lakh constituted the low income group. Employees having annual income of Rs.3 to Rs.5 lakh constituted the lower middle income group and annual income ranging between Rs.5 to Rs.8 lakh constituted the upper middle income group. The high income group consisted of employees having salary income above Rs.8 lakh. The proportion of the sample size to the various income groups was 4:3:2:1. Thus 240 respondents constituted the first category of below Rs.3 lakh. It is 40 per cent of the total sample size. 180 employees (30 per cent) constituted the income group of Rs.3 to Rs.5 lakh. 120 employees (20 percent) came under the income group of Rs.5 to Rs.8 Lakh and 60 employees (10 per cent) constituted income group of above Rs.8 lakh.

1.5 Variables Identified for the Study

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.

MAJOR FINDINGS OF THE STUDY

Savings Pattern of Employees:

The study revealed that the annual savings of the employees in all income groups except low income group in either sector showed '10-30 per cent' of their annual income. It was 'up to 20 per cent' for low income group in either sector.

Investment Pattern of Employees:

'Bank deposits' were found to be the most preferred financial asset among employees in the private sector and among the public sector employees in the low income group. 'Capital market' investment showed a lower level of preference in either sector. The 'others' category (which included investments in Provident Fund, Life Insurance Policies, Pension funds etc.) came first among employees in the public sector except for those in the low income group. The most preferred investment in physical asset was 'gold' for employees in both the sectors under the 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 'gold' while private sector preferred 'real estate'.

Repayment of Liabilities:

'Housing loan' constituted the most important outflow in terms of repayment of liabilities. 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.

Level of Awareness about Deductions Available Under the Income Tax Act:

In general, employees in Kerala exhibited high level of awareness with regard to deductions available under the Income Tax Act. The awareness of the employees with respect to various deductions available under the Act was found to be different based on type of organization and level of income.

The study revealed that employees showed maximum 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' had 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'.

Tax Planning Measures Adopted for the PY 2009-'10

The tax planning measure which received the widest acceptance in the public sector was 'interest on education loan'. This was true for the Low Income Group and Upper Middle Income Group where as for the Lower Middle Income Group, it was 'PF' and for the High Income Group, it was 'housing loan'.

In the private sector the most popular tax planning measure was 'interest on housing loan' for the Lower Middle Income Group and the High Income Group while it was 'fixed deposits' for the Low Income Group and the Upper Middle Income Group.

The maximum amount of deduction available u/s 80C was Rs.1 lakh and the same was claimed 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.