



TAX SAVING STRATEGIES OF INDIVIDUAL TAXPAYERS':AN EMPIRICAL STUDY.

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Abstract

While enabling an individual for being eligible for deduction from total or partial tax liabilities, selecting some of the best investments is important and can be crucial for the taxpayers in India. One common alternate for investment, tax saving bond is considered to be a good option for serving the investors with 2 main purposes, i.e. tax saving alongwith growth in investment with zero risk. Most of the Indian investors consider making investment in the financial instruments as crucial decision in case of risk of investment. Several studies have been done for exploring how different options of financial instruments are perceived by investors in India. The results of these studies indicate that even though the taxpayers might continue placing emphasis on the returns on investment and specifically the tax benefits, interacting with the other crucial firm and the attributes specific to the product like previous performance, lock in period, etc. for influencing the evaluation and perception of the tax saving bond.

Keywords: tax saving, bond, debentures, investment options

Introduction

In simple words, all the arrangements through which tax maybe saved, through means and ways that comply with legal requirements and obligations and aren't colourable tactics or devices for meeting the laws but it would also constitute of tax planning. Taxation planning shouldn't be done for defrauding revenue. All the transactions which are entered into by assessee may be correct legally, but still on all the transactions might be devised for defrauding the revenue. All these devices where the status is followed strictly, actually the spirit behind the statute maybe marred and termed as the colourable devices and also they don't form the part of taxation planning. All the transactions regarding taxation planning

should be according to the statutes true spirit and it should also be correct in substance as well as form.

The substance and form of the transactions is the test of tax planning devices. The forms of transactions as it may appear superficially and actual intentions behind these kind of transactions could be concealed. The substance of the transactions is known as lifting veil of the legal documents and making sure that the intentions of the parties behind such transactions are also ascertained (**Al-Ttaffi, Bin-Nashwan and Amrah, 2020**).

Planning taxation is an arrangement of the affairs of an individual in a way that the planner could either reduce incidents of taxation completely or at least reduce them to the maximum extent possible. It doesn't amount to tax evasion. It's the act of farsightedness and prudence on the part of taxpayer who is eligible for reducing the burden of the tax liabilities to maximum extent possible under the current law. Planning taxation helps in making sure that not just accruals of the taxation benefits with 4 corners of the law are realised, but it even makes sure that obligations of taxation are discharged properly for avoiding the penal provisions.

Tax evasion is the situation when an individual tries reducing his taxation liabilities by suppressing income deliberately or through inflation of expenditure which shows income less than real income while resorting to different kinds of deliberate manipulations. An assessee who is guilty of taxation evasion is basically punishable under the current law. Taxation evasion involves stating of the untrue statements on purpose, submitting documents which might be misleading, suppression of the facts, no proper accounts of the earned income, omission of the material facts, etc. An assessee dishonestly claiming the benefits under statute by giving false statements might also be guilty of evading tax (**Baru, 2016**).

Literature Review

Several studies have explored the connection between the satisfied customers and organisations offering different types of financial products. They reveal that customers who are satisfied choose to maintain their connection with firms wherein the customers invest and wish to continue their investment. A study explores the savings bonds of the US which were available at some point of time. They conclude that in case the investor considers safety component and tax deferral features and competitive variable rate of interest, these bonds may be worthy of investment consideration (**Matharu, Haryani and Motwani, 2018**).

Another study identified the factors which affect the decision of the customers for choosing the products of Life Insurance. It depicts the importance of savings after retirement between the socio-economic status of the respondents and the risk preference. The study also

compares both the instruments of investment that is tax saving bond and tax free bond, with the other instruments of debt in India. It also concludes that the yields post tax are way superior in the TFBs and the TSBsin comparison to the other instruments of debt. The tax saving bonds are the ones wherein initial investment maybe exempted from the tax liabilities and interest maybe earned, while holding the instrument isn't tax exempted(**Bin-Nashwan, et.al., 2020**).

A study explored different demographic features and perceptions of the customers towards investment into different products of life insurance in India. It concluded that life insurance firm needs to recreate the strategies for convincing the customers for buying the products of insurance as the pension package or savings instruments.

Another exploratory research revealed various suggestions and insights regarding the perceptions of the consumers about the quality of the service. The researchers have concluded that in all there're ten determinants which are used by the consumers for forming the perception regarding their quality. There are a number of studies, literature and research papers which are available on the attitude of the investors regarding investment in equity linked savings schemes, mutual funds and other such financial instruments (**Masari and Suartana, 2019**).

Taxation management is considered to be the internal part of taxation planning. It takes all necessary precautions for complying with legal formalities for availing the tax deductions and exemptions, rebates, etc. are in schemes of taxation planning. Tax planning has an important role to play in the claiming allowance, tax exemptions and deductions by complying with necessary conditions. For instance, where the assessee follows the mercantile system for accounting, the claims for expenses need to be made according to provisions of the section 43B on the accrual basis, in case the assessee is not able to make any such claim, these expenses can't be deducted in future. Therefore, study of taxation planning can't be complete without exploring management. Taxation planning without studying taxation management would be like knowing about some medicine without knowing its use (**McKerchar and Hansford, 2015**).

Some of the most popular options of investment are PPF with the banks or the post office, statutory provident funds which may be paid by employees, Life insurance with LIC or some other private insurer, etc. Unit linked insurance including mutual funds or UTI, equity linked schemes of savings, national savings certificate, infra bonds, home loans, etc. Equity linked schemes are important instruments which are sold by the mutual fund agencies for some particular purpose to enable the taxpayers for saving taxes. The sales proceeds from the ELSS

are invested mostly in stock market and thus investors get the benefits of appreciation in the stock price, thereby making share market work for the investors. Medical and life insurance plans have been most popular instruments of tax savings amongst the taxpayers(**Newman, Charity and Ongayi, 2018**). The policies of insurance offer double advantage for deductions of tax on the paid premium and insurance coverage for insurer along with his family members in case of financially debilitating events like death, accident, etc. The paid premium on policies of life insurance are eligible for deductions in tax under the Section 80C, subject to maximum Rs.1 lakh/annum. Most of the agencies offering life insurance also provide policies of medical insurance and pension plan that offer tax deductions under the section 80D. Taxation deductions are allowed to HUF or individual for paying the premium for medical insurance(**Huda and Hernoko, 2017**).

In another study it was propounded that the reforms of tax administration on personal income work as the mechanism for improving the collection of the revenue on one hand and the availability of pool of funds for the welfare of public on other. It was also found that comprehensive taxation policy helps in promoting an individual in complying the laws of taxation along with the other ways. Another study tries evaluating the current taxation structure as compared to the developed as well as developing nations such as South Korea, Mexico, USA, China, etc. (**Pertiwi, Iqbal and Baridwan, 2020**).

Some researchers have also tried to assess the current structure of taxation in India as compared to the developing and the developed nations such as Japan, Mexico, South Korea, UK, USA, Malaysia, etc. Their studies reveal that the government expenditure which was financed by taxation was less in India in comparison to the developed nations. Some of the major and most important trends on taxation of the personal income have been studies in India post taxation reforms which were introduced in the period of liberalisation(**Prawira, I.F., (2015)**). It revealed that the taxation reforms have a major impact on growth of the tax on personal income. These studies have concluded that the simplification of the taxation rate and the broadening of the taxation base are some of the most important reforms which were undertaken in order to reform the taxation structure and for enhancing its responsiveness. It was also propounded in another study, that taxation in different forms affect ability as well as willingness of the individual for working, saving and investing. However, the effect may vary as per taxation, rate of taxation and the level of the taxation burden(**Suchithra and Vidhya, 2019**).

Knowledge about taxation maybe defined as the understanding of the taxation policy which is implemented inside a nation. Some studies explain that knowledge about taxation maybe

interpreted as anything which is understood or known regarding the laws of taxation. Some studies have offered a clear and a very simple definition for taxation knowledge as well. They explain that taxation knowledge maybe defined as an ability of taxpayer for understanding the laws of taxation and for computing the taxation liabilities(Muloud, 2015). Some of the studies regarding taxation compliance consider particular knowledge about taxation as a part of general education. They have identified different knowledge types which are required for taxation for including the declarative knowledge as well as procedural knowledge. The knowledge about declarative tax is the knowledge regarding the concepts and facts while the procedural knowledge about tax is an in depth knowledge regarding the ways of performing different tasks of taxation. A study has declared that the procedural knowledge could be easily developed with the help of experience and training. The knowledge which could be acquired easily by the tax payers without any efforts is called declarative knowledge(Saravanan and Lakshmi, 2017).

On effect of taxation knowledge regarding the behaviour of tax compliance, some studies suggest that the knowledge about taxation is crucial for the behaviour of tax compliance.A study also maintained that the knowledge regarding taxation is one of the most influential factors for determining the compliance behaviour of the taxpayers, especially during the implementation of the system of self-assessment. It has also been reported that having proper knowledge about taxation would definitely lead to higher rates of tax compliance. Studies show that the results for empirical studies aren't consistent(Mohammad and Kumar, 2017). Specifically, some studies claim that the knowledge about tax does not have any significant impact on the compliance behaviour of the tax payers. Therefore taxpayers who are knowledgeable aren't compliant necessarily. Some studies argue that the taxpayers having knowledge regarding the taxation laws are more likely to work in sync in comparison to the taxpayers who do not have such knowledge. When the taxpayer is knowledgeable enough, it might cause non-compliance maybe on purpose or unintentionally. Regarding this, it has been confirmed that the connection between the behaviour of the taxpayer and the knowledge of the taxpayer is significant([Gardner, 2018](#)).

Objectives of the Study:

1. To find the reasons for the tax saving strategies of individual taxpayers
2. To ascertain the significance of the reasons for the tax saving strategies of individual taxpayers

Research Methodology:

The present study is descriptive in nature in which the reasons for tax saving strategies of individual taxpayers have been studied. The sample size of the study is 150. The data were collected with the help of a structured questionnaire on a five-point scale and analysed with the help of the mean values and t test.

Table1 Demographic profile of the respondents

Variables	Number of respondents	% age
Gender		
Male	83	55%
Female	67	45%
Total	150	100%
Age group of customers		
18-45	64	43%
45-60	48	32%
Above 60	38	25%
Total	150	100%
Products they invest into		
Shares	42	28%
Debentures	39	26%
Government Bonds	34	23%
Other	35	23%
Total	150	100%
Monthly income		
Below 50,000	46	31%
50,000- 1,00,000	61	40%
Above 1,00,000	43	29%
Total	150	100%

Table 1 presents demographic profile of the respondents. There are 55% males and 45% females in the study. Among the respondents 43% are between 18-45 years of age, 32% are between 45-60 years and 25% are above 60 years of age. The 28% of respondents invest in shares, 26% invest in debentures, 23% invest in government bonds and 23% invest in other products. The 31% of the respondents have the monthly household income of less than Rs. 50,000, 40% of the respondents have monthly household income of Rs. 50,000- Rs. 1, 00,000 and 29% of the respondents have monthly household income of above Rs. 1, 00,000.

Table 2 Mean Value of the Tax saving strategies of individual taxpayers

Sr. No.	Tax saving strategies of individual taxpayers	Mean Score
1.	Tax management helps an individual in reducing burden of tax to the maximum	4.28
2.	Tax planning is essential for each and every investor	4.21
3.	An investor may choose any financial instrument for the purpose of tax saving	4.25
4.	Life insurance should re-plan their strategies for convincing the customers for buying the products of insurance as the pension package or savings instruments	4.22
5.	Tax management is an important part of tax planning	4.15
6.	PPF is the most popular option of investment	4.10
7.	Life insurance policies offer double benefits	4.19
8.	Tax reforms on personal income improve collection of revenue and also facilitate availability of funds for welfare of people	3.95
9.	Tax deductions are used for public welfare activities	3.93
10.	Different taxes affect individual's ability for investing	4.11

Table 2 shows the opinions of the respondents on Tax saving strategies of individual taxpayers. It is observed that Tax management helps an individual in reducing burden of tax to the maximum is the most important Tax saving strategy of individual taxpayers with the mean value of 4.28. It is followed by An investor may choose any financial instrument for the

purpose of tax saving (4.25), Life insurance should re-plan their strategies for convincing the customers for buying the products of insurance as the pension package or savings instruments (4.22), Tax planning is essential for each and every investor (4.21) and Life insurance policies offer double benefits (4.19). Further, Tax management is an important part of tax planning (4.15), Different taxes affect individual's ability for investing (4.11), PPF is the most popular option of investment (4.10), Tax reforms on personal income improve collection of revenue and also facilitate availability of funds for welfare of people (3.95) and Tax deductions are used for public welfare activities (3.93) were also considered important.

Table 3

Sr. No.	Tax saving strategies of individual taxpayers	Mean Score	t-Value	Sig
1.	Tax management helps an individual in reducing burden of tax to the maximum	4.28	9.656	0.000
2.	Tax planning is essential for each and every investor	4.21	8.267	0.000
3.	An investor may choose any financial instrument for the purpose of tax saving	4.25	8.516	0.000
4.	Life insurance should re-plan their strategies for convincing the customers for buying the products of insurance as the pension package or savings instruments	4.22	6.983	0.000
5.	Tax management is an important part of tax planning	4.15	6.616	0.000
6.	PPF is the most popular option of investment	4.10	6.887	0.000
7.	Life insurance policies offer double benefits	4.19	8.228	0.000
8.	Tax reforms on personal income improve collection of revenue and also facilitate availability of funds for welfare of people	3.95	5.935	0.000
9.	Tax deductions are used for public welfare activities	3.93	5.155	0.000
10.	Different taxes affect individual's ability for investing	4.11	7.359	0.000

Table 3 shows the results of t-test. It is found from the table that the significance value for all the statements is below 0.05, hence all the statements regarding the Tax saving strategies of individual taxpayers are significant.

Conclusion

An individual who wants to assess income tax or wishes to do some savings and tax planning accordingly, first calculates the total income and then computes income tax by deductions and adjustments in the total income according to the taxable structure. Planning taxation isn't just planning for reducing the burden of tax. It also helps in saving tax mainly by encouraging the investment in the Government Securities. Planning for taxation not just reduces burden of tax of the individual, but it even gives psychological satisfaction. Several studies have been done for creating awareness regarding taxation planning in mind of the assesses.

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