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A Study on the Awareness of Tax Saving Instruments of Individual Tax Payers

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Abstract:

Tax planning means the assessment of one's financial affairs without violating the legal provisions of an act. It reduces the burden of taxation of an assessee by taking the full advantage of exemptions, deductions, rebates and relief permitted under the act. This study aims to know the most suitable and popular tax saving instrument used to save tax and to know the amount saved by using that instruments by the assessees in sreekrishnapuram. Overall findings of the study reveals that 80C deduction is the most adopted tax saving instrument and 80EE is the second most adopted tax saving instrument.

Key words: Income Tax, Tax Planning, Tax Saving Instrument, Tax Avoidance and Tax Evasion.

I. INCOME TAX AND TAX PLANNING: INTRODUCTION

A fee charged by government on a product, income or activity is called tax. There are two types of taxes; if tax is levied directly on the income or wealth of a person, such tax is called direct tax. E.g.:- Income tax. If tax is levied on the price of goods or services it called indirect tax. E.g.:- excise duty.

INCOME TAX:

Income tax is the most important direct tax. The levy of income tax in India is governed by the income tax act 1961 and the act came into force on 1st April 1962. Central Board of Direct Taxes is looked after the administration of direct taxes.

Income tax is an annual tax on income. The income of previous year is taxable in the next following assessment year at the rate or rates applicable to that assessment year. The tax rate is fixed by the Annual Finance Act.

Income tax is charged on the total income of the every person. A person includes Individual, Hindu Undivided Family, Association Of Person, Body Of Individuals, Firm, Company and Every other person. The person by whom any tax or any other sum of money is payable under income tax act 1961 is called assessee.

INCOME TAX SLAB RATE FOR THE ASSESSMENT YEAR 2018-19

Individuals (Less Than 60 Years Old)

Income Tax Slabs	**Tax rate**
Income up to Rs. 2,50,000	nil
Income from 2,50,000-5,00,000	5%
Income from 5,00,000-10,00,000	20%
Income more than Rs. 10,00,000	30%

Individuals (60 years old or more but less than 80 years old)

Income Tax Slabs	**Tax rate**
Income up to Rs. 3,00,000	nil
Income from 3,00,000-5,00,000	5%
Income from 5,00,000-10,00,000	20%
Income more than Rs. 10,00,000	30%

Very senior citizens (80 years old or more) (both men & women)

Income Tax Slabs	**Tax rate**
Income up to Rs. 5,00,000	nil
Income from 5,00,000-10,00,000	20%
Income more than Rs. 10,00,000	30%

Surcharge:

If total income is between Rs. 50 lakhs and Rs.1 crore- 10% of income tax.
If total income exceeds Rs.1 crore- 15% of income tax

Education Cess: 3% on total of income tax and surcharge.

TAX PLANNING:

Tax planning allows a tax payer to make the best use of the various tax exemptions, deductions and benefit to minimize their tax liability over a financial year. It is an important part of a financial plan. Tax planning ensures accruals of tax benefits within the four concerns of law and also ensures the tax obligations are properly discharged to avoid a penal provision.

Tax planning is an activity undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. to reduce income.

TAX EVASION, TAX AVOIDANCE AND TAX MANAGEMENT:

TAX EVASION:

Tax evasion is a deliberate attempt of a tax payer for reducing tax liability by misrepresentation of facts, falsification of accounts including downright fraud. In other words an assessee, who dishonestly claims the benefit under the statute by making false statement, would be guilty of tax evasion. It is an illegal and immoral practice.

TAX AVOIDANCE:

It is a method of reducing tax incidence by availing certain loop holes in the law. It is done by adjusting the affairs in such a manner that there is no infringement of taxation laws and taking full advantage of the loopholes there in to attract the least incidence of tax.

TAX MANAGEMENT:

Tax planning is not possible without tax management. Tax management is an internal part of tax planning. It takes necessary precautions to comply with the legal formalities to avail the tax exemptions, deductions. Tax management also protects an assessee against penalty and prosecution by charging tax obligations in time.

OBJECTIVES OF THE STUDY:

- To ascertain the level of awareness of individuals on various tax planning measures available under the income tax act.
- To find out the most suitable tax saving instrument used to save tax.
- To examine the amount saved by using tax saving instrument.

HYPOTHESIS:

H0: there is no association between gender and level of awareness among individuals about tax saving instruments.

tax saving instruments by individuals.

II. REVIEW OF LITERATURE:

Nirmala Dorasamy (2011), in her study propounded that personal income tax administration reforms as a mechanism to enhance collection of revenue on the one hand and availability of more pool of fund for welfare of the public on the other. She also found that a comprehensive tax policy promotes the individual to compliance tax laws other ways they adopt unfair means to reduce their tax burden.

Ria Sinha (2010) tries to evaluate the existing tax structure in India in comparison to some of the developed and developing countries like, Mexico, South Korea, Japan, China, USA, UK, Canada and Malaysia. The study revealed that, extend of government expenditure financed by taxes was comparatively law in India as compared to developed countries.

Ankita Gupta (2009) studied the major trends in the taxation of personal income in India after the tax reforms initiated in the liberalization era. It was revealed that tax reforms have a favorable impact on the growth of personal income tax. The study concluded that simplification of tax rate and broadening of tax base are the important reforms undertaken for reforming the tax structure and increasing its responsiveness.

Peter (2001), propounded that taxation in its various forms affect the ability and willingness of individual to work, save and invest but the effect gets vary according to the base of tax, rate of tax and level of tax burden.

III. RESEARCH METHODOLOGY:

The research design of the study is descriptive in nature. It throws light on relationship between assesses age group and income level on tax saving amount. Research methodology is a way to solve problem. The research methodology for this study is as follows.

SAMPLE DESIGN: The present study is based on convenience sampling. The population for this study consists of the assessee in the Sreekrishnapuram.

SAMPLE SIZE: 30 samples are selected for this study in various classes of occupation, age group and income group based on convenience.

DATA COLLECTION: Primary data was collected through the use of questionnaire and the secondary data was collected from text books, journals, on-line published articles and news papers.

TOOLS AND TECHNIQUES FOR ANALYSIS:

- Percentage analysis
- Chi square analysis
- Ranking techniques

AN OVERVIEW OF TAX SAVING INSTRUMENTS:

Section 80C:

The maximum tax exemption limit under Section 80C is Rs 1.5 Lakh. The major investment avenues or expenses that can be claimed as tax deductions under section 80c are as below;

- PPF- Public Provident Fund
- EPF - Employees' Provident Fund
- Five year Post office or bank Tax saving Deposits
- NSC - National Savings Certificates
- ELSS Mutual Funds- Equity Linked Saving Schemes
- Kid's Tuition Fees
- Post office Senior Citizen Savings Scheme (SCSS)
- Principal repayment of Home Loan
- NPS - National Pension System
- Life Insurance Premium
- Sukanya Samriddhi Account Deposit Scheme

Section 80CCC:

Under section 80CCC contribution to annuity plan of LIC or any other Life Insurance Company is considered for tax benefit of Rs 1.5 Lakh for receiving pension from the fund.

Section 80CCD:

Employee can contribute to Government notified Pension Schemes Eg:- National Pension Scheme. The contributions can be up to 10% of the salary (salaried individuals) and Rs 50,000 additional tax benefit u/s 80CCD (1b) was proposed in Budget 2015. Individual other than the salaried class can contribute up to 20% of their gross income and can be deducted from the taxable income.

As per the financial year 2018-2019 the total deduction under section 80C, 80CCC and 80CCD together cannot exceed Rs.1,50,000 and additional tax deduction of Rs 50,000 u/s 80CCD .

Section 80D:

The maximum tax deduction limits for senior citizens under Section 80D for FY 2017-18 is Rs. 30,000.

- Under Section 80D an individual can claim a deduction in respect of payments towards annual premium on health insurance policy, preventive health check-up or medical expenditure in respect of senior citizen (above 60 years of age).
- Very Senior Citizens (who are above 80 years of age), in case they don't have health insurance can claim a deduction of up to Rs 30,000 incurred towards medical expenditure. an additional deduction can be claimed by Individuals who pay premiums for their dependent senior citizens parents can on health insurance premium (or) medical expenditure.

  Note: Preventive health checkup expenses to the extent of Rs 5,000/- per family can be claimed as tax deductions.

Section 80DD

You can claim up to Rs 75,000 for spending on medical treatments of your dependents (spouse, parents, kids or siblings) that have 40% disability. In case of severe disability tax deduction limit of up to Rs 1.25 lakh can be availed of an individual.

To claim this deduction, submit Form no 10-IA

Section 80DDB

An individual (less than 60 years of age) can claim up to Rs 40,000 for the treatment of specified critical ailments for him and on behalf of his dependent under this section. The tax deduction limit under this section has been revised to Rs. 1, 00,000 for Senior Citizens and very Senior Citizens (above 80 years).

Section 80E

Loan taken for higher studies of assessee or his/her spouse or his/her children or for a student for whom assessee is a legal guardian, tax deduction can be claimed under Section 80E for interest of such Education Loan.

There is no limit on the amount of interest claim as deduction under section 80E. The deduction is available for a maximum of 8 years or till the interest is paid, whichever is earlier under the section 80E.

Section 80EE

Eligible home buyers can claim exemption of Rs. 50,000/- for interest on home loan from assessment year beginning from 1st April 2017 and subsequent years.

Section 80G

Contributions made via cheque or draft or in cash to certain relief funds and charitable institutions can be claimed as a deduction. Contributions such as food, material, clothes, medicines etc do not qualify for deduction under this act

The donations made to any Political party can be claimed under section 80GGC and in the FY 2017-18, the limit of deduction is reduced from current Rs 10,000 to Rs 2,000 under section 80G / 80GGC for donations made in cash only.

Section 80GG

Under this section total amount of tax deduction is Rs.60,000 per annum. Section 80GG is applicable to an individual who do not own a residential house & do not receive HRA. The amount of tax deduction will be limited to the least amount of the following;

- Excess of rent paid over 10 percent the adjusted total income.
- Rs 5,000 per month; or
- 25 % of the total income.

Rebate under Section 87A

A tax rebate of Rs 2,500 for individuals with income up to Rs 3.5 Lakh has been proposed in Budget 2017-18.

Section 80 TTA & new Section 80TTB

The Interest income earned on Fixed Deposits & Recurring Deposits (Banks / Post office schemes) will be exempt up to Rs 50,000 (FY 2017-18 limit is up to Rs 10,000), for senior citizens. This deduction can be claimed under new Section 80TTB, however, no deductions under existing 80TTA can be claimed if 80TTB tax benefit has been claimed (the limit for FY 2017-18 & FY 2018-19 is Rs 10,000 u/s 80TTA).

Section 80TTA offers deductions on interest on savings bank deposit up to Rs 10,000. Interest income from deposits held with companies will not benefit this deduction. ie, senior citizens will not get this benefit for interest income from corporate fixed deposits us/ 80TTB.

Section 80U

This is similar to Section 80DD. Tax deduction is allowed for the assessee who is physically and mentally challenged.

Standard Deduction - Rs 40,000 in-lieu of Medical Allowance

The medical allowance of up to Rs 15,000 is exempted income from Gross salary for FY 2017-18. To claim this deduction assessee need to submit medical bills to the employer and get the allowance benefit. Under Section 10 of the Income Tax Act medical reimbursement allowance is exempted.

IV. ANALYSIS:

- **PERCENTAGE ANALYSIS:**

TABLE 4. 1

Awareness level of tax saving instruments used by individuals

Response	No.of	Percentage
Aware	19	63%
Unaware	11	37%
Total	30	100%

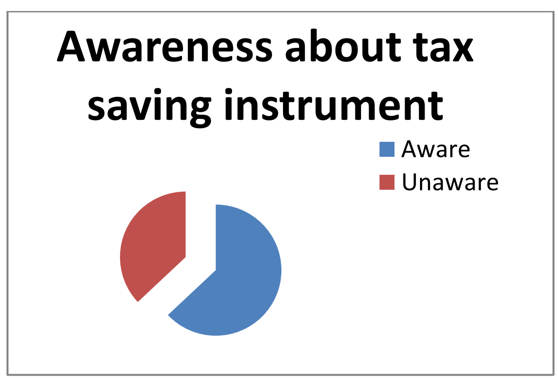
Source: Primary data

INTERPRETATION:

From the above table it is clear that 63% of respondences are aware about various tax saving instruments and 37% are not aware about tax saving instruments.

CHART 4.1

Awareness level of tax saving instruments used by individuals



- **CHI- SQUARE ANALYSIS:**

HYPOTHESIS: H0= there is no association between gender and level of awareness among individuals about tax saving instruments.

TABLE 4.2

Awareness and sex composition

RESPONSE	GENDER		TOTAL
	MALE	FEMAE	
AWARE	8	9	17
UNAWARE	6	7	13
TOTAL	14	16	30

Source: primary data

Calculated value: 0. 010

Degree of freedom: 5

Table value: 3.841

Since the calculated value of Chi-square (0.010) is less than the tabulated value of chi-square (3.841) at 5% level of significance, the hypothesis is accepted. Hence, it can be concluded that there is no association between gender and awareness level of individual about tax planning instruments.

- **RANKING**

TABLE 4.3

Ranking of major deductions available to individuals

Major deductions	Summated score	Rank
80C	176	I
80D	74	V
80E	88	III
80EE	101	II
80G	80	IV
80U	53	VI

Source: primary data

INTERPRETATION:

Based on ranking technique it is clear that, 80C deduction is the most adopted tax saving instrument by the individual tax payers. 80EE, 80E, 80G, 80D and 80U got second, third, fourth fifth and sixth rank respectively.

V. RESULTS AND DISCUSSIONS

On the basis of this study it is found that most of the respondences in Sreekrishnapuram are aware about tax saving instruments. It is also found that there is no association between gender and level of awareness among individual tax payers. In this study respondence rank various tax saving instruments according to their priority. The most adopted tax saving instrument is deduction under 80C, which got the first rank in this study. The second most adopted tax saving instrument is u/s 80EE ie, tax deduction for interest on home loan upto Rs. 50,000. Third choice is deduction for interest on education loan (80E). Contribution made to certain relief funds and charitable institutions (80G), deduction for medical insurance & health check up (80D),deductions for disabled individuals (80U) got fourth, fifth and sixth ranks respectively.

VI. CONCLUSION

Any individuals who want to assess income tax and want to do tax planning and savings, first calculate total income then compute the income tax by deduction and adjustment in total income as per taxable structure.

Tax planning is not just a strategy to reduce tax burden. It helps to save tax by encouraging investments in Government Securities. Tax planning not only reduces the tax burden of an individual but also gives mental satisfaction to them. This study creates awareness about tax planning in the minds of assesses as well as the researcher. In the course of the present research, the Researches in the near future can attempt to study, the tax planning of Individual assessees in respect of tax on Fringe Benefits, Bank Cash Transaction and Securities Transaction and the Opinion of the Tax Consultants, Industrialists and Trade Unions in respect of Tax Planning Options offered for various categories of assessees by the Government of India.

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