A Study of Awareness and Perception Regarding Tax Saving Options Among Salaried People

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Abstract

The study attempted to know the awareness and perception regarding various tax saving options available to save tax for salaried class employees. The study was conducted to know if there was any difference in income, savings, and investment patterns on the basis of gender as well as factors which are considered before investing in a particular investment option. The study also attempted to know which tax saving investment options are generally used to save tax. Correlation analysis was done to know the relationship among savings, investments, and income and to know whether there was any difference between men and women regarding their income, savings, and investments. Descriptive statistics was also used to present the data. The study based on 266 respondents concluded that women were more inclined towards the savings and investments as compare to men. Tax saving, risk association, and returns were the factors which were found to be considered more before making investments. The study also found PPF as the most preferable investment option due to its EEE benefits and comparatively high rate of interest. Life insurance premium and tuition fees of children were the other preferable investment options. On the other hand, NPS and NSC were found as the least preferable tax saving options. Deduction under section 80D was found to be under utilization. Most of the salaried employees were of the opinion that the tax rate should be reduced and basic exemption limit should be increased.

Key words : tax, insurance, deductions, salaried employees, investment

JEL Classification : D14, G11, G22, H20

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As we know, our Indian tax system is not for "quid pro quo," that is, something in return. We don't get any direct benefit by paying tax. Sometimes, it implies to have pain while giving tax. In our Income Tax Act, we are having various deductions, reliefs, and rebates available, which can be utilized for planning tax, which can be useful to reduce the tax liability legally. An individual can claim deduction upto ₹ 1,50,000 under section 80C of the Income Tax Act, 1961 on certain expenditures and investments such as PPF, NSC, tax saving FD, life insurance premium, tuition fees of children, principal repayment of home loan, Sukanya Samriddhi account, NPS, etc. Also, an individual can claim upto ₹ 25,000 under section 80D for health insurance premium. The present study is an attempt to know the awareness level of various tax saving options available and the extent to which the salaried employees were using these for reducing their tax liability.

Income, savings, and investments are related to each other. For the growth of any country, it is compulsory to convert the savings into investments. Only savings will not accelerate the growth of the country, so it is essential to

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motivate people for investments because with inflation, the value of savings will decrease by passing of time. The study is an attempt to know how they are interrelated with each other and whether there is any difference in income, savings, and investment patterns on the basis of gender. The study also attempts to analyze to what extent change in income affects savings and investments.

Investment is an important activity with the purpose of getting maximum returns on it. Most of the people invest their funds irrespective of their race ; caste ; educational, economic, and family background. Investors invest whatever they save after all the expenditures (consumption) with a view in mind to earn handsome returns in the future as a reward for their invested money. People have their own preferences on the basis of which they decide where to invest. Some people invest to save tax ; some for good returns on the investments ; some consider the time period of investments, that is, for a short time period or long time period ; some people consider the risk as the most important factor while taking investment decisions, and so on.

Apparao and Babu (2015) found safety for future, regular returns, and capital appreciation to be the most important factors for the investments. According to the researchers, more studies are required to understand the perceptions of the consumers about investment methods. Hence, the present study is also an attempt to know the factors which are considered as the most important factors before investing in a particular investment option.

There are several investment options available for tax saving purposes, where a person can invest to save tax. The present study has considered the following eight investment options : PPF, NSC, tax saving FD, life insurance premium, tuition fees of children, principal repayment of home loan, Sukanya Samriddhi account, NPS, and health insurance. Apparao and Babu (2015) found fixed deposits and insurance schemes as the two most preferred avenues for investment. According to the researchers, more studies on the perception of consumers about investments methods need to be conducted.

The primary objective of the study is to determine investors' awareness regarding various tax saving options. The secondary objectives of the study are :

- To determine the criteria for the selection of investment options for salaried employees,
- Does there exist any difference towards income, savings, and investment patterns on the basis of gender ?
- To know the investment options that are most preferred for the purpose of tax saving for salaried employees.
- To ascertain the extent to which salaried employees are using medical insurance premium for saving tax.
- To have a general opinion on the Indian tax system of salaried employees.

Literature Review

Kasilingam and Jayabal (2009) talked about the awareness of investors as well as how the investors compared the merits and demerits of numerous avenues of savings and investments. They also analyzed the reasons for failure of many good schemes and good products and suggested suitable promotion schemes.

Patel and Patel (2012) focused their study on investment schemes opted by salaried employees of the private sector. As per their study, salaried people wanted to avail good returns and gain maximum tax benefit out of their investments. Post office schemes and fixed deposits were not considered as opted tools due to their low interest rate.

Vedantam and Sriram (2015) used statistical tools like analysis of variance (ANOVA) and chi-square to verify the results and found that irrespective of their demographic aspects, respondents were aware of the difference between savings and investments. The authors suggested that to examine the exact implementation and awareness of these investment tools, similar studies need to be conducted at several places across India to improve the general public's financial inclusion process in the Indian money market.

Chakraborty and Digal (2015) found that while investing, one major thought that households pondered upon was whether these financial products also provided social security. The study was conducted in Odisha and found that savings objectives were significantly influenced by the households to save differently depending on their demographic profiles.

Ahammad and Lakshmanna (2017) studied the different options of investments available as well as the factors that played an important role while selecting the investment tools with respect to salaried employees. The study concluded that people were fully aware of the available options, but still, investments in metals, bank deposits, chits, and real estate were the most opted options. The study also found safety and liquidity as the most considerable factors while making investments. The authors also observed that the employees wanted more secure and steady flow of funds on the investments made in the past.

Ansari and Moid (2013) studied the investment behavior of an individual investor regarding the dissemination of left out income in different investment schemes. The study revealed that one of the most prominent factors which guided them while investing was the risk factor associated with that tool. The major purpose of investment was for growth and additional income ; whereas, income and age also played an important role while investing, irrespective of gender.

Pathy (2016) studied the awareness among people about various investment avenues available to the people of Cuttack city and what factors they should consider before making an investment. The author observed that individuals considered the factors like type of return, tax benefits, risk-related aspects before taking investment decisions.

Sathiyamoorthy and Krishnamurthy (2015) in their study on investment pattern and level of awareness among the salaried class investors in Tiruvannamali district of Tamil Nadu found that people still felt bank deposits to be the safest way to keep money for an unpredictable future as they looked after the safety of their investments rather than going for high returns. The sole purpose behind this type of safe investment was for children's education and marriage as well as security after retirement.

Mak and Ip (2017) attempted to find out what were the roles played by demographic, psychological, and sociological factors while making investment decisions. The authors observed that the major attributes which played a prominent role were age, income level, educational level, gender, investment experience, and marital status.

Lokhande (2015) attempted to find out the awareness of rural investors (men and women) about various investment schemes, their inclination, and thought for investing money. People preferred to invest in safer modes of investment, out of which these options stood in descending order of their preference - first : deposits in government banks, second : gold & jewellery, third : real estate (especially agricultural plot), LIC, etc.

Patil and Nandawar (2014) found that investors were aware about investment avenues available in India, but still, investors preferred to invest in bank deposits, real estate, and metals. The study revealed that 39% of the respondents believed that safety was an area of prime concern while doing investments and the other second major category consisting of 25% of the respondents invested their money in tax saving schemes to avail tax benefits.

Mehta, Sharma, Goel, and Singhal (2017) found that people were more interested in investing their money rather than keeping it ideal. Bank fixed deposits, provident funds, life insurance policies, post office saving schemes were favorites among all due to safety and as well as a tax benefit instrument too.

Thulasipriya (2016) examined the investment preferences among the salaried investors. The analysis revealed that the salaried investors chose to have both long-term and short-term investments for their safe future. The salaried group, irrespective of age and annual income, besides their occupation and marital status, preferred investment options which gave them long-term benefits and highly secured cum profitable avenues.

Thulasipriya (2015) was of the opinion that investment decisions are complex decisions - it is not easy to understand and evaluate a perfect investment avenue. The author's study revealed that irrespective of income,

status, and age, the Indian consumers want safe investments.

Manikandan and Muthumeenakshi's (2017) study concluded that most of the investors invested in preferred bank deposits so that the invested money could be used for purchasing home and long-term growth. Most of the investors were not interested in investing money for long term. People preferred short term investments as compared to long term investments.

Sundari, Vidhyapriya, and Venmathi (2016) observed that the tax prevalence for individuals was to invest in some avenues where relaxation was given by the government for various tax schemes. However, the tax instruments selected totally depended on the income of the investors. The study also revealed that individuals were not always aware of all the technical details about the schemes which they chose for investments.

Patel (2015) found that majority of the investors came to know about various investment avenues through newspapers, education, TV, and invested 25% to 50% of their income in different avenues. Most of the investors were aware about bank deposits, but the awareness for PPF was found to be low.

Sood and Kaur (2015) studied the savings and investment patterns of salaried class people and found LIC and bank deposits as the most preferred investment options, while high returns, tax benefits, and safety were found to be the most significant factors before making investments. The researchers recommended increasing the savings and investment habits among the salaried class people.

Research Gap

On the basis of the literature review, we found that most of the studies have been conducted for various investment options available, which comprised of both tax saving and non tax saving options. Our study is conducted exclusively on the tax saving options available for salaried class employees. The study is also unique as we have compared the gender wise relationship between income and investment patterns. The study also considered health insurance premium as a tax saving option, which was not found to be used in the previous studies.

Research Methodology

(1) Data Collection Procedure : The study is based on primary data collected through a questionnaire. The questionnaire was structured in two parts. The first part contained the basic questions related to the respondents such as age, gender, occupation, annual income, liable to pay tax or not ; while, the second part was related to their investments and savings, that is, consideration before investment, preference of their investments, etc.

(2) Sample : Data were collected through mails and direct interviews. The study targeted 400 salaried people from the Delhi - NCR region on the basis of convenience sampling technique. Out of 400 targeted people, we received 292 responses (response rate 73%) of which 26 were not complete. So, in the study, we have considered only 266 responses. Out of these 266 respondents, 141 (approx. 53%) were men and 125 (approx. 47%) were women. The study was confined to the salaried employees in the Delhi-NCR region. The study survey was conducted during 2017-18 with the help of a well-structured questionnaire.

(3) Method : SPSS Version-22 was used to analyze the data. An overall and gender wise correlation analysis was done to know the relationship among savings, investments, and income and to know whether there was any difference between men and women regarding their income, savings, and investments or not. Descriptive statistics were also used to present the data which included standard deviation, average, minimum and maximum value. The study was conducted in the Delhi - NCR region. The respondents were classified on the basis of their

annual income. Four categories of income were prepared which comprised of : first, income upto ₹ 2.5 lakhs ; second, income upto ₹ 2.5 lakhs to ₹ 5 lakhs ; third : income upto ₹ 5 lakhs to ₹ 10 lakhs ; and fourth : income above ₹ 10 lakhs.

Data Analysis and Findings

The study observed that approximately 26% of the people were not fully aware of all the tax planning instruments. The majority of the people (approx. 47%) were in the group of saving less than 20% and approximately 36% of the people were in the group of saving between 20% to 35% of their annual income. The study also found that approximately 64% of the people were saving less than 20% of their annual income. It implies that there is a need to motivate people to do more savings and investments. Regarding the general opinion on the Indian tax system of salaried employees on the basis of responses received, we can conclude that the salaried class employees were not satisfied with the current tax system. Most of the employees considered it as a complicated system and they were of the opinion that the tax rate was too high and it should be reduced and the basic exemption limit should also be increased.

(1) Tax Deduction Based on Health Insurance Premium Under Section 80D : We can get a deduction of ₹ 25,000 for a medical insurance premium under section 80D. The study found that approximately 33% of the respondents were still not using this deduction. The respondents were paying a health insurance premium and the average investment in the health insurance policy was only ₹ 8921. So, the deduction under this section was underutilized. We recommend to those who have not taken a health insurance policy to take the policy to reduce tax as well as to avoid the uncertainty related to health and wellness.

(2) Relationship Among Annual Income, Savings, and Investments : To know the relation among income, savings, and investments, correlation test was used, which shows that income and savings are significantly positively correlated with each other at a significance level of 5%. It implies that with an increase in income, respondents increased their savings also. The study also finds a statistically significant relation between savings percentage and investment percentage. It is significant at the 1% significance level, which implies that with an increase in savings, investments also increase. However, the study finds no significant relationship between income and investments, though there is a positive relation between these two, but that is a very low positive and not significant also (see Table 1).

(3) Correlation on the Basis of Gender : We analyzed the correlation on the basis of gender (male, female) to know whether there is any difference in the relation of income, savings, and investments on the basis of gender. The Table 2 (on the basis of gender – male) shows a statistically significant positive relationship between savings and investments, but no significant low positive relationship between income and savings. The study observes a negative correlation between income and investment for men. This implies that the men were investing with the purpose of tax savings rather than only for investment purposes.

The Table 3 (on the basis of gender - female) shows a statistically significant positive relationship between income and savings and investment and savings. Thus, from the above, we can conclude that women were more inclined towards savings and investments as compared to men.

(4) Consideration Before Investment in a Particular Investment Option : To know the basic motives for the investment by an individual, the study considered six factors, that is tax saving, returns, investment amount,

Table 1. Correlations Among Annual Income, Savings, and Investments

		Annual Income	Saving %	Investment %
Annual Income	Pearson Correlation	1	.314*	.008
	Sig. (2-tailed)		.010	.950
	N	266	266	266
Saving Percentage	Pearson Correlation	.314*	1	.522**
	Sig. (2-tailed)	.010		.000
	N	266	266	266
Investment Percentage	Pearson Correlation	.008	.522**	1
	Sig. (2-tailed)	.950	.000	
	N	266	266	266

Note : *. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 2. Correlations on the Basis of Gender (Male)

		Annual Income	Savings %	Investment %
Annual Income	Pearson Correlation	1	.240	-.168
	Sig. (2-tailed)		.130	.294
	N	141	141	141
Saving Percentage	Pearson Correlation	.240	1	.378*
	Sig. (2-tailed)	.130		.015
	N	141	141	141
Investment Percentage	Pearson Correlation	-.168	.378*	1
	Sig. (2-tailed)	.294	.015	
	N	141	141	141

Note : *. Correlation is significant at the 0.05 level (2-tailed).

Gender = Male

Table 3. Correlations on the Basis of Gender (Female)

		Annual Income	Savings %	Investment %
Annual Income	Pearson Correlation	1	.413*	.343
	Sig. (2-tailed)		.040	.093
	N	125	125	125
Saving Percentage	Pearson Correlation	.413*	1	.732**
	Sig. (2-tailed)	.040		.000
	N	125	125	125
Investment Percentage	Pearson Correlation	.343	.732**	1
	Sig. (2-tailed)	.093	.000	
	N	125	125	125

Note : *. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
Gender = Female

Table 4. Descriptive Statistics of Consideration Before Investment in a Particular Investment Option

	N	Minimum	Maximum	Mean	Std. Deviation
Tax Saving	266	2	5	4.29	.890
Return	266	1	5	4.03	1.037
Investment Amount	266	1	5	3.86	1.006
Period	266	1	5	3.59	1.052
Risk	266	1	5	4.27	.904
Investment Type	266	1	5	3.61	1.251
Valid *N* (list wise)	266				

Table 5. Descriptive Statistics of Preferable Investment Options

	N	Minimum	Maximum	Mean	Std. Deviation
PPF	266	1	5	4.17	1.061
NSC	266	1	5	3.05	1.044
Tax Saving FD	266	1	5	3.11	1.178
LIP	266	1	5	3.94	.990
Tuition Fee	266	1	5	3.56	1.152
Principal Loan	266	1	5	3.08	1.351
SS Account	266	1	5	3.08	1.207
NPS	266	1	5	2.68	1.205
Valid *N* (list wise)	266				

period, risk, and type of investment. The study found the most motivating factor for investment is to save tax (as the average value is 4.29 out of 5). This implies that before investment, the respondents considered whether they will get tax saving by investment or not. Risk associated with investment (average value : 4.27) and return on investment (average value : 4.03) are also found to be important factors which help to take the investment decisions (Table 4). These results obtained by us are in line with the study results of Patel and Patel (2012), Apparao and Babu (2015), and Pathy (2016).

(5) Preferable Investment Options : To know the preferable investment options for an individual, the study considered eight factors, that is, investment in public provident fund (PPF), national saving certificates (NSCs), tax saving fixed deposits (FD), life insurance premium payment, children's tuition fee, principal repayment of home loan, Sukanya Samriddhi Yojna, and NPS. The study finds PPF as the most preferable investment option (as the average value is 4.17 out of 5). This implies most of the people were using PPF as the tax-saving instrument. The reason behind opting for PPF was found to be its EEE (exemption at the time of depositing the amount, interest exemption from tax, and maturity exemption from tax) and comparatively high rate of interest. Life insurance premium was the second preferable tax saving instrument (average value is 3.94). The third important tax saving instrument used was tuition fees of children (average value is 3.56). On the other hand, NPS and NSC were found to be the least preferable tax saving instruments (as shown in Table 5). The values of standard deviation are very low, which indicates more reliability of the data. The results of our study are in line with the study results of Mehta et al. (2017) and Sood and Kaur (2015), but the results are not similar to the study results obtained by Patel and Patel (2012).

Conclusion and Implications

On the basis of the findings, we can conclude that salaried people considered safe investment options for investments. They preferred to invest in those avenues where the tax liability is EEE based. Salaried people preferred to invest in that option from where they could get the benefit of tax saving, having low risk, and good returns. Salaried class women were more inclined toward saving and investments as compared to men. The respondents felt that our taxation system is complicated, and they did not have proper awareness regarding the tax saving options ; so, they took the help of experts to file their income tax returns. The Government should try to simplify the tax system so that citizens can easily understand and file the returns by themselves. Initiatives should be taken to increase the awareness level of the tax saving options.

The study also observes that salaried people felt that they paid more tax as compared to other class of tax payers. The same is supported by a news report ("Unevenness in taxes paid by salaried class, business people," 2018), which also shows that there is a need to reduce the tax burden on the salaried employees as tax paid by 1.89 crore salaried employees was ₹ 1.44 lakh crores as compare to 1.88 crore individual business tax payers, who paid ₹ 48,000 crores as tax for the assessment year 2016 -17.

We also found that the respondents were not investing in NPS, though there is an option to save extra tax by investing upto ₹ 50,000. That is due to lack of awareness of NPS. Employers' can play a crucial role in creating awareness among the employees about NPS and motivate them to invest in NPS to reduce their tax liability.

Limitations of the Study and Scope for Further Research

The outcome of the present study may not be applicable in general. The interpretations are based on the basis of information received; so, the study results may be affected due to the respondent bias. We considered a sample of 266 respondents only; the sample should be larger to get more concise results. The study has considered only tax saving investment options, other investment options which cannot be used for tax saving were not considered. The study considered only salaried employees, other people like self employed, businessmen, retired persons etc. were not included in the study.

As in the present study we have considered only tax saving instruments, further studies can be conducted on other investment options, that is, real estate, metals (gold or silver), share market, etc. There is a further scope of the study to be conducted for other than salaried class persons as well.

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