Awareness Level of Tax Planning With Respect to Wealth Creation – A Study of Individual Assesses

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ABSTRACT

Tax awareness is an important component of tax planning. In India, tax on personal income takes away foremost part of earned income. As every individual assesses who have earned yearly income which is more than a limit as prescribed by the income tax law is liable to pay tax. Self-assessment system requires tax payers to have full understanding of tax rules. Tax planning does not mean skipping the payment of income tax, it is just efficient allocation of earned income in different tax savings investment to acquire maximum benefits by individual assesses. The objective of this study is to examine the relationship between tax awareness and planning on wealth creation of individual assesses. In order to save tax, an individual assesse invests their hard-earned money on law prescribed investment avenues. Study focus on identifying level of awareness towards income tax provisions and tax planning of individual assesses. Study will also identify the government measures undertaken to increase the level of awareness among tax payers.

Access this Article Online	
http://heb-nic.in/cass-studies	**Quick Response Code:**
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INTRODUCTION

Income Tax Act, 1961 contains the present law of income tax and the income tax rules amended up-to-date. It is extended to the whole of India and came into existence on on 1st April 1962. Income tax is a central levied tax but its proceeds are divided between both the Centre and the states separately except any type of surcharge on income tax. It is an important aspect of every economy and also is a valuable tool for achieving the socio-economic objectives.

According to the Constitution of India, the government has the right to levy taxes on organizations and individuals. The Central Board of Revenue act of 1983 functions according to the CBDT.

Tax Awareness, Planning and Wealth Creation:

The awareness level of taxpayers is very important for a country to collect the State revenue. Tax awareness means awareness if provisions of income tax tax act including terms of exemptions, allowances, deductions from section 80C to 80U, changes in income tax slabs and rates, rebates, education cess, penalty for non-payment, TDS, knowledge of loopholes, advance payment tax, tax saving techniques etc.

It is important to have taxation knowledge as it functions as a guide to minimise the tax liability of both individuals and business entity. An individual also needs to identify their residence status to know if their tax liability lies in the home country or not.

The awareness and planning of tax of the people to obediently pay the tax is still low and so their understanding regarding tax awareness and tax planning needs to be developed.

Tax planning is done to avoid paying high rate of income tax to the government by efficiently taking the advantage of tax saving instruments as per income tax laws. Tax planning is an arrangement of person's financial sources in a way to reduce tax liability. Tax evasion on the other hand is illegal and is done by adopting illegal procedures by brilliant minds of the country.

Wealth represents the net worth of an individual that is how much money he has in savings, investments real estate, cash etc. One of the tax planning measures adopted by the individual assesses to create wealth in future is by investing in tax saving schemes. Different schemes are introduced from time to time for individual assesses to take advantage of increasing their wealth and reducing their tax liability. An individual earns his income from salary, house property, business profession, capital gains, other sources or all of them combined. So wealth can be created in the hands of individuals only when he has knowledge of tax provisions and laws and then uses the same for efficient tax planning

LITERATURE REVIEW

(Kalgutkar & Anjuman, 2018) found and concluded that there is a relationship between tax awareness and wealth creation and in order to save tax, an individual assesses invests their hard-earned money on law prescribed investment avenues which helps an individual to create wealth in future.

(Dey & Varma, 2016) concluded that taxes constitute major source of revenue for any government it is important for government to make people aware about the tax schemes. In the study it was observed that only 23% people have good knowledge about tax awareness and 34% have poor knowledge.*(Saravanan & MuthuLakshmi, 2017*) researched and found that there are variety of tax saving investment options available in the market but a most adopted tax saving instrument is Provident Fund, which got the first rank in this study and the second most adopted tax saving instrument is Life Insurance policy.

(*Mathew, 2016*) carried out a study to explain the tax planning awareness among working women in our society and analyzing whether they are aware about different investment opportunities and finding out various alternatives in which investment is made to minimize tax liability and most attractive investment scheme.*(Bhide, 2013)* observed that majority of salaried employees do not seek professional advice. Professional advice is sought by business entities and business men especially when they are subjected to tax audit. Individual assesses who do not take professional guidance results in tax planning done in a hap hazard manner.

(*Natarajan, 2008)* studied the options for investments for tax savings in Erode district, Tamil Nadu. In order to reduce tax liability, an assesses has to plan well as to where to invest and how much to invest. In choosing a specific investment, an assesses needs definite knowledge regarding a number of features of investments such as tax benefit, safety of principal, liquidity, stability of income etc.

(*Gupta, 2012)* concludes in the study about the reforms needed in the personal income tax structure so that people could feel encouraged for investments which is the vital tool not only for their personal affluence but also for economic development of the nation. Study further highlights how high-income tax rates reduce the incentive to invest.

(Vasanthi, 2015) observed that direct tax imposed on salaried employee is very high. It was also concluded that the salaried employees are reducing the tax liability. *(Singh & Sharma, 2007)* observed that most of the tax consultants were satisfied with tax rates but majority showed dissatisfaction with regard to price level adjustment. It was also observed that most of the taxpayers consulted tax experts because they found it cheap. Factor Analysis of data showed that seven factors which are reduction in tax evasion, extension of relief to taxpayers, incentives for dependents and honest taxpayers, broadening the tax base, e- filing of returns, adequacy of deductions and impact of exempt-exempt tax system played an important role in determining the effectiveness of Indian tax system.(*Kaushik, 2012*) suggested the process of calculating tax liability in which firstly an individual need to calculate his/her total income then compute the income tax by

deduction and adjustment in total income as per tax table structure and if any tax is paid in access then they can get refund from the income tax department.

OBJECTIVES OF THE STUDY

- To study the income tax provisions awareness and tax planning of individual assesse
- To study the effect of tax awareness on wealth creation of individual assesses.

RESEARCH METHODOLOGY

The research takes into consideration both secondary and primary data to reach to a conclusion. The primary data is sourced from the 106 individuals from NCR. Distributive statistical tools are used to conduct the study. Convenience sampling is used to analyse the tax awareness level of individual assesses and its impact on wealth creation.

Hypothesis

H0: Tax awareness doesn't have positive effect on wealth creation

H1: Tax awareness have positive effect on wealth creation.

ANALYSIS AND INTERPRETATION

Descriptive statistics of sample respondents (%)

Gender		
Male		Female
54		46
Age (Years)		
18-22		24
23-27		32
28-32		17
33 and above		27
Occupation		
Self employed		50
Salaried		50
Annual Income		
Below 250000		18
250000-500000		32
500000-750000		28
750000-1000000		15
1000000 and above		7

Table 1

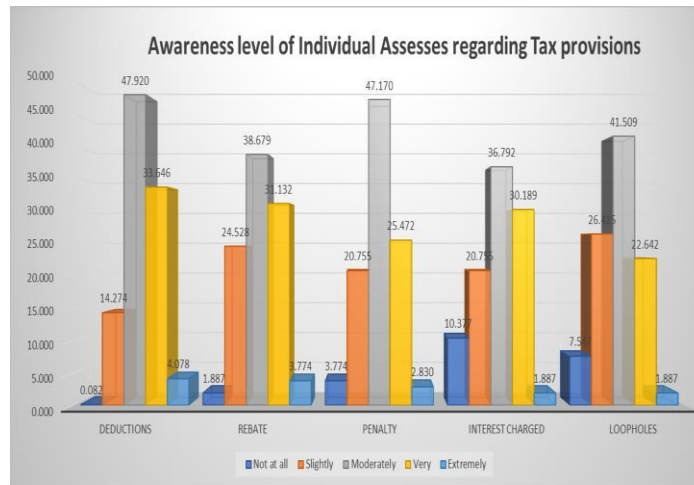**Awareness level of Individual Assesses towards Tax provisions**

Figure 1

The above figure shows tax awareness of individual assesses. It can be inferred that most of the individuals have tax awareness about provisions like deductions from section 80C to 80U, rebate, penalty, interest charged and knowledge of loopholes. There are only few individuals who have no knowledge of the various tax provisions and complete knowledge of such provisions.

Most individuals have moderate knowledge about the various deductions under section 80C to 80U i.e. 47.920%. Individuals have good knowledge about rebate (31.132%), moderate knowledge of penalty charged (47.170%), good knowledge of interest charged (30.189%) and moderate knowledge of loopholes in the tax provisions (41.509%).

Reliability

Based on data collected, reliability analysis was carried on all variables included to check awareness among individuals. The Cronbach alpha obtained was 0.865. Value obtained represent high level of internal consistency for our scale.

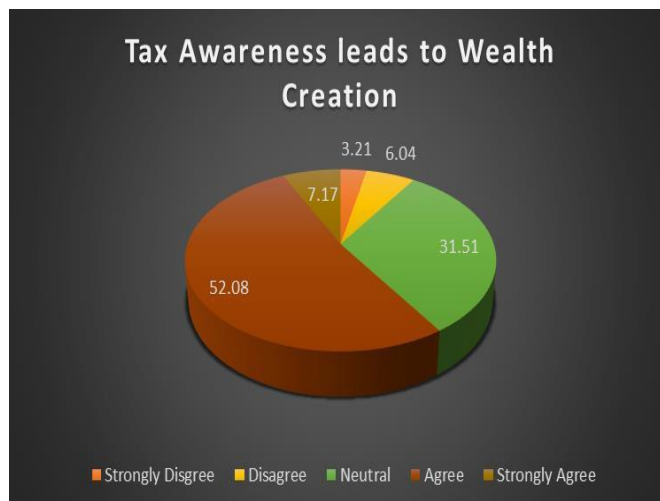**Effect Of Tax Awareness On Creation Of Wealth Creation**

Figure 2

The above figure shows significant relationship between tax awareness and wealth creation. It can be inferred that most of the individual assesses agree that tax awareness leads to wealth creation. They further agree that it result in increase on savings, wealth, efficient building of investment portfolio. Most of the individual assesses also believe that tax awareness also helps in safeguarding retired life and improves the standard of living in future.

Through the analysis of pie chart, it can be inferred that 52.08% of individual assesses agree that tax awareness leads to wealth creation. Further, 54 out of the total number of individual assesses agree that tax awareness leads to savings, 58 of the total number of individual assesses agree that tax awareness leads to wealth creation, 51 of the total number agrees that it leads to building of efficient portfolio of investment, 59 of the total number believes that it safeguards the retired life and a number of 54 individuals believe that tax awareness increases wealth which further leads to high standard of living.

Regression

Regression is done to analyze the effect of tax awareness on wealth creation, where Rebate, deductions, Interest charged, Non-payment and loopholes knowledge are independent variables and Wealth creation is independent variable.

This table provides R, R^2 and adjusted R^2 which can be used to determine how well a regression model fits the data.

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.442ª	.195	.155	.804	.195	4.858	5	100	.001

a. Predictors: (Constant), Knowledge of loopholes, Deductions, Interest charged, Non-payment, Rebate

Table 2

The R column Represent the value of R, the multiple correlation coefficient. R can be considered to be one measure of the quality of the prediction of dependent variable i.e. wealth creation. A value of .442 indicates a good level of prediction.

The R^2 column represent that which proportion of variance in the dependent variable can be explained by the independent variable. Independent variables explains 19.5% variability in dependent variable.

Statistical Significance

The F- ratio in the anova table tests whether the overall regression model is a good fit for data.

ANOVAª					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	15.709	5	3.142	4.858	.001ᵇ
Residual	64.668	100	.647		
Total	80.377	105			

a. Dependent Variable: wealth creation

b. Predictors: (Constant), Knowledge of loopholes, Deductions, Interest charged, Non-payment, Rebate

The Anova table is used to determine whether the model is a good fit or not. As the significance value is less than 0.05, so the null hypothesis is rejected. And the alternate hypothesis is accepted i.e. Tax awareness have positive effect on wealth creation.

Estimated Model coefficient

The general form of the equation for wealth creation from awareness of Rebate, deductions, Interest charged, Non-payment and loopholes knowledge is

Wealth creation = 3.667 – 0.377(deductions) + 0.169(Rebate)-0.160(non-payment)–0.073(Interest charged) + 0.012(Knowledge of loopholes)

CONCLUSION:

Tax awareness is an important aspect in order to create wealth. The above analysis indicates that there is a relationship between tax awareness, planning and wealth creation.

Majority of the individual assesses have tax awareness. Most of the individual assesses believe that tax awareness further leads to savings, wealth, safeguards retired life, helps in building efficient portfolio of investments and further helps in increasing standard of living.

FURTHER SCOPE

The present study has taken into consideration only two broad occupations wise individual assesses. Research on many more occupation wise and investments of Male and Female comparison also can be done.

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