

TAX PLANNING AWARENESS AND TECHNIQUES ADOPTED BY SALARIED ASSESSEE (HAVING HOUSE PROPERTY INCOME)

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ABSTRACT

Taxes, after all are the due we pay for the privileges of membership in an organised society. It is the duty of each government in every civilized country to look after the welfare of its citizens. Tax is an important and significant source of government's income or revenue for this purpose. Tax awareness is essential part of the tax planning for the individual assessee. Income tax takes away major chunks of hard earning money of an assessee. As every individual assessee who has income more than stipulated limit described by income tax law is liable to pay tax. Therefore, it is important to do tax planning. The objective of tax planning is to reduce the tax liability to the minimum. The benefits of tax planning are substantial in the long run. However many times the assessee do not seek professional advice, when they are salaried employees. Professional advice is sought by business entities and business men especially when they are subjected to tax audit. However individual assessee does not seek such help. That is why in tax planning done in a haphazard manner. E-filing of returns is a relatively new mode of filing returns and it has been a welcome change and this study attempts to gauge the efficiency and effectiveness of the electronic mode of filing returns. Furthermore, the study helps find if the assessee are aware of the various tax provisions that are available to them and whether they have made use of them efficiently in order to plan their taxes efficiently.

KEYWORDS : Assessee, Tax Planning, Income, Tax provisions, Tax awareness, E-filing.

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1. INTRODUCTION

According to the income tax Act, 1961, the definition of person includes the following seven types of identities like an individual, a Hindu undivided family, a company, a firm; an association of persons, a local authority, and every artificial juridical person whose total income exceeds maximum exemption limit is liable to pay income tax at the rates prescribed by the act. It is not a voluntary payment rather it is an enforced contribution that is mandatory for all persons who fall under the bracket and this is the reason why it is known as a levy. Despite the fact that the money collected through taxation is used to carry out many activities that are for the welfare of the society.

In India the main body, which is responsible for the collection of taxes, is the Central Board of Direct Taxes (CBDT). It is a part of the Department of Revenue under the Ministry of Finance of the Indian government. According to Indian Income Tax Act 1961, income of an individual can be classified into following five heads of Income [1]: Income from salary, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources. Any individual can have income under one head, under two or more than two heads or under all the heads. Sum total of income under all the heads is known as Gross Total Income. Deductions U/S 80 of Income Tax Act is allowed from Gross Total Income and residual amount is known as Total Income. Income tax is one of the most important taxes. It determines the types of income which are liable to tax and the persons on whom such tax is to be imposed. Salaried assessee also derives income from capital gains, house property and other sources. Tax Planning can be defined as an arrangement of one's financial and economic affairs by taking complete legitimate benefit of all deductions, exemptions, allowances and rebates so that tax liability reduces to minimum.

The objective of tax planning is to reduce the tax liability to the minimum. It is futuristic in approach. It is a wide concept and includes tax management. The benefits of tax planning are substantial in the long run. Tax avoidance is tax hedging within the framework of law. Any planning of tax which aims at reducing tax burden in legitimate way is tax avoidance. On the other hand tax evasion is illegal. Hence reducing tax liability by illegal ways is tax evasion. Tax evasion is tax omission. Tax management deals with filing of returns, drafting appeals. It has

limited scope. However effective tax management can lead to avoidance of Penalty, penal interest and prosecution. Essential Features of tax Planning are:

1. It comprises arrangements by which tax laws are fully complied.
2. All legal obligations and transactions are met.
3. Transactions do not take the form of colorable devices.
4. There is no intention to deceit the genuine spirits of laws.
5. There is no intention to deceit substance of transactions.
6. There is no intention to misrepresent or twist of facts or data.

The present law of income tax is contained in the income tax year 1961 as amended up to date almost every year. This act contains nearly sections. The provisions regarding computation of total income, procedure for assessment, appeal, penalties, prosecution, refund powers of Income Tax authorities etc. are governed by this Act. Every year the parliament passes a finance act. This finance act introduces amendment of direct tax laws. The rates of income tax for a current assessment year, rates for reduction of tax at source and advance payment tax for the said financial year are fixed by this Finance Act.

2. OBJECTIVES:

This paper proposes to study the following objectives:

- To identify the elements of income and savings of the selected respondents of the study.
- To make appropriate suggestion and conclusion.
- To study the level of tax compliance existing among individual assessee.
- To study the efficiency and effectiveness of e-filing measures initiated by the government
- To critically analyze the tax planning measures adopted by the individual assessee.

3. STATEMENT OF PROBLEM

Income tax is an important source of direct tax revenue for the Government and the assessee taxable under the head 'Income from Salaries' contributes a significant share to the government. After the IT boom in India that occurred during the late 1990's there has been a considerable increase in the quantum of salaries earned by the employees. However the tax provisions that is available for the salaried class for tax planning purposes has not been widened in its scope. All

the relevant information for the study has been obtained from the representative samples of the salaried section and without referring to any records. As the study is occurred for current and also a short period, those data are shown to be reliable.

4. LITERATURE REVIEW

For assessing their groups total income basic pay, allowance and income through employment and taxable perquisite were included. Further efforts have been made for to find out the extent of other sources of incomes of the salaried assessee. In the analysis the respondents were divided into different sub-group such as income group, age group, department group, service group and sex group. Most of the individual tax payers are not awareness of the e-filing and e-payment procedures so sufficient steps are required to create more awareness in the minds of tax payers regarding e-filing of income tax. On analyzing the response 48% of the respondents take their financial decisions independently while only 11% of the respondents take investment decisions from financial advisors as per the report published by the Indian Institute of planning and management. Salaried people often falsely believe that they do not need any financial planning as their income and expenses are regular and they do not make simple efforts to understand and take control of their personal finances including income tax issues.

Most respondents in this study feel that financial planning is important and that they are interested in developing a financial plan, less than 13 percent have prepared a comprehensive personal financial plan. The level of education and majors influence financial product awareness are shown among young people. Also, males were found to have higher levels of financial awareness compared to females. (Joyce K.H. Nag, Lisa H.L. Yong, Rathakrishnan D. Sellappan, 2010). A study showed that individuals who are more financially literate focused more on personal financial planning to pre-empt adverse impacts that poor financial planning might have on their lives, vice versa. The lack of active involvement in personal financial planning by individuals indicates that there is a great need of awareness of well-planned and sophisticated financial planning. The demand of personal financial planning professional has opened an additional avenue for financial practitioners. (Ming-Ming Lai, Wei-Kong Tan, 2009). Keeping the literature review in mind the objectives and hypothesis were framed.

5. RESEARCH METHODOLOGY

Data collection: Both primary and secondary data has been collected.

Primary Data: Primary data was collected by using the questionnaire technique. The prepared questionnaire was administered on 100 respondents belonging to the salaried class of individuals. The sample of 100 respondents was chosen by using the random sampling technique from a population of respondents belonging to different age groups, different income levels and different sectors of employment.

Questionnaire Design: The questionnaire was designed in a manner that facilitates the respondents to answer it with ease and with minimum amount of time and effort. The questions were direct and to extract maximum information from them. The respondents were requested to provide the correct information to the best of their ability. The questionnaire consisted of close-ended questions.

Secondary Data: Major portion of the research was carried out using the primary data that was collected through Questionnaires. Secondary data from various websites were used to form a base for the study and to understand the various concepts and theoretical aspects of taxation, which was necessary to carry out the research.

6. TAX PLANNING:

Tax planning may be defined as an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions, full advantage is taken of all exemptions, deductions, concessions, rebates, allowances and other reliefs or benefits permitted under the Act so that the burden of taxation, as far as possible, is the least. Tax planning may, therefore, be regarded as a method of intelligent application of expert knowledge while planning one's affairs with a view to securing the consciously provided tax benefits on the basis of national priorities in keeping with the legislative and judicial opinion. Tax planning is neither tax evasion nor tax avoidance. It is the scientific planning of one's financial affairs in such a way as to attract minimum liability to tax or postponement of the tax liability for the subsequent period by availing of various incentives, concessions, allowances, rebates and reliefs provided for, in the context of existing tax laws. The exemptions, deductions, rebates and relief have been provided

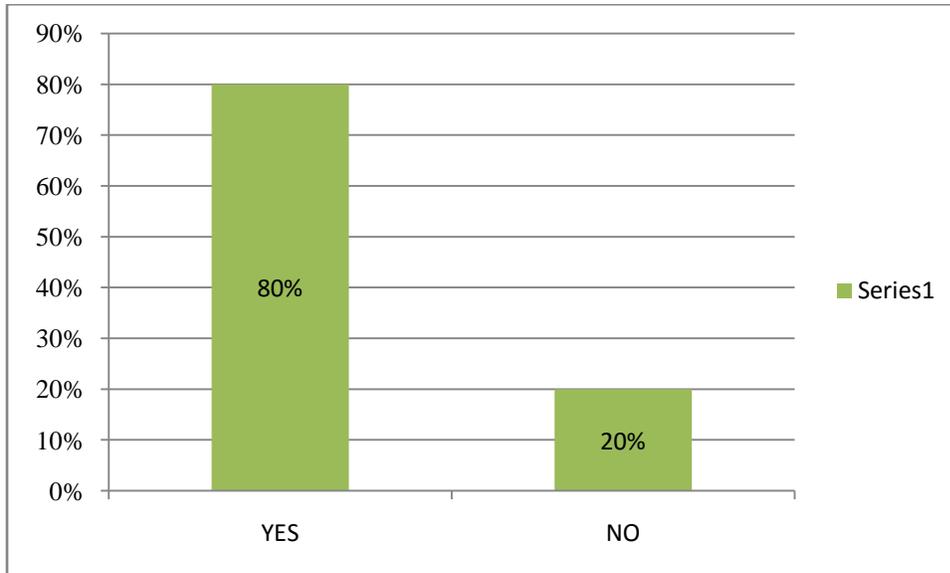
by the legislature to achieve certain social and economic goals and to encourage savings and investments for the economic development of the country. Tax planning is an act within the four corners of the Act and it is not a colorable device to avoid the tax. Thus, if a person takes the advantage of the deductions and rebates, he not only reduces his tax liability, but also helps in achieving the objectives of the legislature, which is lawful, social and ethical.

One of the important components of financial planning is tax management. Tax management refers to tax payer's ability to manage personal taxation issues such as computation of tax liability, tax savings, and payment of taxes on time and timely filing of tax return. In order to handle the issues relating to tax management, tax payer must be aware as well as knowledgeable about basic concepts of personal taxation. In this context tax literacy of an individual plays an important role. Tax avoidance is dodging of tax where loopholes of law used for the benefit. However tax avoidance is not illegal but it is immoral. Tax evasion is all methods by which tax liability is illegally avoided are termed as tax evasion. Tax evasion may involves stating an untrue statement knowingly, submitting documents, suppression of facts, not maintaining proper account of income earned, omission of material facts on assessment. Individual assessee knowingly or unknowingly uses tax evasion as tax reduction tools and ultimately met with penalty by Income tax department. Therefore proper knowledge taxation laws are required not only for tax planning but also for tax management.

7. ANALYSIS:

There were 100 respondents who were different ages and interviewed by administering a questionnaire comprising of 21 questions. These were all working professionals' .i.e. salaried employees. However they were earning income from a variety of sources such as rent, dividend, interest, royalty on books written, share trading running a part time business. 40% of the respondents were female assesses. And the remaining 60% were male assesses. 80% of the respondents were aware of the basic exemption limit applicable to them and knew the income slab they belonged to. Whereas 20% of the respondents could not identify the basic exemption limit applicable to them and could not identify the income slab.

The respondents obtained information from a large number of sources such as friends and relatives, agents for insurance and Postal Schemes, tax consultants and media. Media implies that they got information about insurance and other schemes from newspapers and television advertisement. 80% of the times information was obtained from friends and relatives, whereas only 20% said that the information about tax saving investment is obtained from Tax consultants.



7.1 BASIC EXEMPTION LIMIT AND INCOME SLAB

RESULTS:

- An encouraging majority (90%) of the respondents felt that e-filing of returns was a safe, secure and easy mode of filing returns. A further analysis of the reasons motivating assesses to use e filing revealed the following as top reasons: quick processing, security, lesser constraints of time and place, accuracy and access to past data.
- When asked if TDS has been deducted regularly and Form 16 been issued on time, 65% of respondents also Confirmed that the employer deducted TDS regularly and issued certificates too.
- Study revealed that assessee having a younger age profile, preferred, the electronic mode of filing returns as they were well acquainted with using computers.

- Most of the tax planning options that salaried class of assessee preferred was under Sec 80c of the Income Tax Act. Maximum number of respondents invested in Life insurance Premium (41%) the second most highly preferred tax savings investment is Public Provident Fund with 21%. And the next highly preferred investment option was in 5years Fixed Deposits with banks and post office, which had 17% of the total responses. Other common investment options were Equity Linked Savings Schemes, National Savings Certificate and Tuition fees paid for children's education. (8%, 7% and 6% respectively).
- The respondents also relied on agents and media for information. 60% of the respondents file their returns themselves and 40% of the respondents file through a tax consultant. 80% said that they are doing tax planning, 20% of which take professional help, the rest either take advice from friends and relatives or do a self-study for tax Planning. Those not taking any help from professionals believed that they are meant for large businesses and business men. Many of the respondents were not really satisfied with their tax planning. Almost 60% of the respondents said that tax planning could be done in a more effective way.
- Of the various other provisions that an assessee could adopt, the most popular ones were as below: 35% of respondents opted for tax savings by resorting to home loans, 31% used House Rent Allowance as a tool for tax planning. Salary restructuring and investing in spouse's name etc received equal attention as tax planning measures (15%) and the remaining 4% of the responses resorted to Leave Travel Allowance and other lesser known ways of tax planning.

TABLE: 7.2**SEX COMPOSITION AND TAX PAID****HYPOTHESIS**

THE SEX OF THE RESPONDENTS HAS NO INFLUENCE OVER THE AMOUNT OF TAX PAID

SEX	Below 15000	15000- 30000	30000- 45000	45000- 60000	Above 60000	TOTAL
MALE	9	14	16	14	7	60
FEMALE	9	13	8	8	2	40
TOTAL	18	27	24	22	9	100

Source: Primary Data

Calculated value: 4.222

Degrees of Freedom – (2-1) (5-1) = 4

Table value: 9.488 @ 5% level.

Since the calculated value of Chi-square (4.222) is less than the tabulated value of chi-square (9.488) at 5% level of significance, the hypothesis is **accepted**. Hence, it can be suggested that, the sex has no significant influence over the amount of tax paid.

TABLE: 7.3

AGE AND TAX PAID

HYPOTHESIS

AGE OF THE RESPONDENTS AND AMOUNT OF TAX PAID ARE INDEPENDENTS.

AGE	Below 15000	15000- 30000	30000- 45000	45000- 60000	Above 60000	TOTAL
25 – 35	9	11	4	4	1	29
36 – 45	3	15	10	5	-	33
46 – 55	4	5	7	15	-	31
Above 55	1	1	1	1	3	7
TOTAL	17	32	22	25	4	100

Source: primary Data

Calculated value: 31.288

Degrees of Freedom – (4-1) (5-1) =12

Table value: 21.026@ 5% level.

The hypothesis is **rejected** because of the fact that the calculated value (31.288) of the chi-square (21.026) of 5% level of significance. In other words, age has significant influence over the amount of tax paid.

TABLE: 7.4**RELATIONSHIP BETWEEN INCOME AND TAX PAID**

savings income	BELOW 20000	20000- 40000	40000- 60000	60000- 80000	ABOVE 80000	TOTAL
150000- 250000	10	4	-	-	-	14
250000- 350000	4	9	11	-	-	24
350000- 450000	5	9	9	6	2	31
450000- 550000	-	9	6	2	1	18
550000- 650000	1	-	2	2	8	13
TOTAL	20	31	28	10	11	100

Source: primary Data

Correlation Co-efficient = 0.7153

Result:

The above correlation co-efficient shows that there is positive relationship between the income and tax paid. It can be concluded that there is a high relationship between income and tax paid.

8. FINDINGS

Majority of the respondents knew the basic tax provisions such as tax rates, basic exemption limit, the concepts of previous year and assessment year but most of them were doing tax planning by self-study or with the help of friends and relatives. And only a few were taking professional help. The assesseees said that going to the tax consultant would cost them more. And felt that it was not necessary for them. Assesseees are aware about the basic knowledge but many of them do not take professional advice as many of the salaried employees do not find it necessary to consult tax consultant. Many salaries assesseees say that hiring a tax consultant for

the purpose of tax planning is done large scale companies. Some assesses believe those tax consultants only are useful in filing tax returns.

The Chi-square analysis suggests that sex have influence over the amount of tax paid, where as the age of respondents has low influence over the amount of tax paid. It is evident from the study that experienced employees are willing to pay tax because of several personal factors. Further, the level of awareness of the respondents is significantly higher over the different tax savings scheme. To eradicate that the government agency should come forward to highlight the features of tax savings schemes. It can also be concluded that the senior employees are diverting a portion of their income to other non-governmental schemes, which give very high returns.

The correlation analysis has revealed that there is a moderate high degree of correlation existing between income of the respondents and savings, amount of tax paid, savings on tax savings scheme. It can be concluded that, the respondents are diverting a portion of their income to some other non-government schemes which gives them high returns and hence they are willing to pay high tax.

9. SUGGESTIONS:

- Several more e-processes can be introduced by the Government in various areas, as e – filing is the most sought after way of filing returns by assessees.
- “Help Kendra’s” could be set up for those tax payers who are still reluctant to resort to e-filing due to their inadequate knowledge about computers.
- Since the tax is the main source of income for the govt., and the salaried class paying their tax regularly (tax deduct at source), the government can come forward to implement some of the welfare scheme by way of:

Housing loans

Loans for purchasing domestic appliance

Loan for marriage etc., with moderate rate of interest

Loan for the education

In the tax calculation, the amount of DD and CCA can excluded from the net taxable income.

- **It** was strongly suggested by assessees that the threshold limit of Sec 80 D for Medical insurance available for the assessee and his/her parents could be increased beyond the existing limit.
- Most of the professionals like Doctors, Lawyers and Business men earn more than the other employees. But, their payment of tax is very less or completely nil when compared to other employees. This is because there is no material evidence for the receipt of their income and their employers cannot deduct tax payment from their income. In this situation IT act could be applied by more attractive ways.
- Several assessees did not resort to the following sections for tax planning at all; it has been recommended here that the IT act look at ways of making the following sections more attractive and popular. The sections are: Section 80G (Donations), Section 80GG (deduction on rent paid), Section 80DD (Expenditure on disabled dependent), Section. 80E (deduction on loan for higher education), 80C (Investment) and could be increased the existing basic exemption limit.

10. CONCLUSION

It is found that on overwhelming majority of the salaried employee's opinion regarding direct tax imposed is high and very high. The findings of this research have helped to conclude that Electronic mode of filing returns has been a welcome change in the area of taxation. It has been resorted to by most of the taxpayers for its simplicity and quickness'-filing of returns is believed to be efficient and effective. Hence the hypothesis that assessees have basic knowledge of tax provisions is proved. And the hypothesis that majority of them do not seek professional help is also proved. Hence it can be concluded that tax payers have basic knowledge about the income tax provision, but tax planning is done without any professional help. Investments can be made in options which give tax benefit or in those which do not give any tax benefits, but give good returns. The most common source of information about various investment options is through friends and family. The highly preferred option is Life Insurance Premium and Public Provident Fund. The study has observed that investing for the purpose of tax planning is common among the salaried assessees - as they make efficient use of the deductions available under Chapter VI A for planning their taxes effectively. If proper tax planning is done then the money can be utilized

other investment avenues. Assesseees should be encouraged to avail services of professionals like Chartered Accountant. It is concluded that the salaried employees are reducing the tax liability.

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