

## **TAX PLANNING MEASURES OF SALARIED EMPLOYEES- AN ANALYTICAL STUDY**

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### **ABSTRACT**

The research generally focuses on the study of tax planning measures of salaried employees. Tax planning is an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions of an Act, full advantage is taken of all exemptions, deductions, rebates and reliefs permitted under the Act. So that the burden of the taxation on and assesses, as far as possible, the least. Tax planning has assumed special importance for salaried class of tax payers in view of the mounting pressures of inflation, price hike and their and strict obligation for tax compliance. It is therefore essential for this class of tax payers to know their tax obligations in the right perspective and the measures of tax planning available to them so that they can make the best use of their earnings by reducing the incidence of tax.

**Key words:** Tax planning, Tax payers, Tax planning measures, Income tax act, Assessee, Income, Employee.

### **INTRODUCTION**

Tax planning is an Act within the four corners of the Act to achieve certain social and economic objectives and it is not a colourable device to avoid the tax. Tax planning is a legal right and a social responsibility. By tax planning certain social and economic objectives are achieved. Tax planning requires thorough knowledge of the relevant Acts, social, economic and political situation of the country. Tax planning helps in economic development of the country by providing additional funds for investment in desired channels. Tax planning should be done before the accrual of income. Tax planning is a way by which you arrange your financial affairs in such a manner that without breaking up any law you take full advantage of all exemptions, deductions, rebate and reliefs allowed by law so that your tax liability will be reduced. Tax planning should not be done with the intent to defraud the revenue; though all transactions entered in to by an assessee could be legally correct, yet on the whole the transactions be devised to defraud the revenue. Tax planning should be done before the accrual of income.

The tax is a compulsory payment that has to be made by an individual or other person to Central Government, State Government and Local Government. A tax is a compulsory charge imposed by the government without any expectations of direct return in benefit. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay the tax. Taxes are compulsory contributions imposed by the government on its citizens to meet its general expenses incurred for the common good, without any corresponding benefits to the tax payer. A tax payer cannot claim reciprocal benefits against the taxes paid.

Tax payers generally plan their affairs so as to attract the least incidence of tax. Tax payer spares no efforts in maximising his profits and attracting the least incidence. The tax gatherer, on the other hand tries to break the plans whose sole objectives is to save taxes.

**Three common practices to save taxes are: Tax Evasion; Tax Avoidance; Tax Planning.**

**Tax evasion** refers to situation where a person tries to reduce his tax liability by deliberately suppressing the income or by inflating the expenditure with results into showing of income lower than the actual and resorting to various types of deliberate manipulations. An assessee guilty of tax evasion is punishable under the relevant laws.

**Tax avoidance** There is a thin line of difference between tax avoidance and tax planning. Any planning done according to legal requirements defeats the basic intention of legislature behind the statute could be termed as Tax avoidance. Tax avoidance is done in such manner that no infringement of taxation laws and by taking full advantages of loopholes to attract least incidence of tax. Earlier tax avoidance was considered completely legitimate, but at present it may be illegitimate in certain situations.

**Tax planning** means arranging the financial activities in such manner that maximum tax benefits are enjoyed by making use of all beneficial provisions mentioned in the law. Tax planning is permitted and not frowned upon by law. Tax planning different from tax avoidance and tax evasion as it is a systematic and scientific planning of company's operation to attract minimum tax liability.

#### **REVIEW OF LITERATURE**

**Puneet Bhushan and Yajulu Medury (2013)** studied the behaviour of salaried employees as regards tax provisions and found that they are not well informed about various provisions and deduction available to them which results in difficulty in computation of tax liability. Salaried assesses have only the basic knowledge of compulsory savings which are reflected in their salary certificates but not otherwise.

**Geetha (2014)** was of the view that salaried employees still display less awareness with respect to deduction under chapter VI A of the Income Tax Act 1961, although they have more knowledge about investments in provident fund, housing loans and insurance.

**Ledid Bin Abdul Khader (2017)** examined tax awareness amongst college teachers and concluded that they were unaware of the new exemptions, deductions and reliefs provided to salaried assesses and still followed traditional ways of savings and investments.

**Geethu Gopi and Priyanka (2018)** were of the opinion that investment is an activity confined to specific financial aims of investors. The study attempts to understand the investment preference of salaried group of people working in the private sector in shipping industries. The findings suggest that most of the employee's savings are directed to their personal expenses like children's education and marriage.

#### **RESEARCH GAP**

From the review of literature it is evident that there have been numerous studies on tax planning and tax reforms. The present study made an attempt to understand the tax planning measures of salaried employee in public and private sector undertaking in Kanyakumari district of Tamil Nadu.

#### **STATEMENT OF PROBLEM**

Tax savings can be a complicated process if not planned well in advance. Planning employee taxes at the last moment leaves little time for employee to study different investment options. It may also become a burden to invest a lumpsum amount to save tax, investing, not just to save taxes. But also to fulfil your goals, can prove beneficial in tax planning. Effective tax planning involves early and regular investments. Studying one's salary slip should also be a part of one's tax planning check list.

#### **SCOPE OF THE STUDY**

The scope of the current study is limited to the salaried assesses in the Kanyakumari district. The study evaluates and analysis the tax planning measures adopted thereof, saving habits, investment choices, outflow of liabilities, adopted by the salaried assesses in Kanyakumari district for the period covered under the study.

#### **OBJECTIVES OF THE STUDY**

1. To analyse the tax planning measures of salaried employee in Kanyakumari district.
2. To ascertain the level of awareness of salaried employee on various tax planning measure available under the income tax act.

#### **RESEARCH METHODOLOGY**

##### **• POPULATION**

The population for the study consists of salaried employee income tax assesses working in Kanyakumari district.

##### **• SAMPLE**

The sample size selected from the population was 150. The sampling method here used for taking samples from the population is convenient sampling.

• **SOURCES OF DATA**

Primary data are collected from 150 respondents of salaried classes by using survey method Questionnaire is a tool of survey.

Secondary data will be collected from published sources and reports published in the internet.

• **TOOLS OF ANALYSIS**

The data is analysed and interpreted with the help of mathematical methods. Simple percentage method is analysing the data.

**DATA ANALYSIS AND INTERPRATION**

**Table 1 Age of respondents**

Age	Frequency	Percentage
20-30	30	20
30-40	32	21
40-50	28	19
50-60	34	23
Above 60	26	17
Total	150	100

INTERPRETATION: From the above Table 23 per cent of the respondents are in between the ages 50- 60, 21 per cent of the respondents are between the ages 30-40, 20 per cent of the respondents are between the ages 20-30, 19 per cent of the respondents are between 40-50, 17 per cent of the respondents are above 60

**Table 2 Gender of respondents**

Gender	Frequency	Percentage
Male	70	47
Female	80	53
Total	150	100

INTERPRETATION: The figure shows that 53 per cent respondents are female and 47 per cent are male.

**Table 3 Sector wise classification**

Sector	Frequency	Percentage
Private sector	60	40
Public sector	90	60
Total	150	100

INTERPRETATION: The figure shows that 60 per cent are public sector employees and 40 per cent are private sector.

**Table 4 Income level**

Income level	Frequency	Percentage
Less than 3 lakh	40	27
3 lakh- 5lakh	50	33
More than 5 lakh	60	40
Total	150	100

INTERPRETATION: This figure shows that 40 per cent earns more than 5lakhs. 33 per cent earns between 3lakhs -5lakhs and 27 per cent earns less than 3lakhs.

**Table 5 Income tax exemption limit**

Income exceeds	Frequency	Percentage
Yes	92	61
No	58	39
Total	150	100

INTERPRETATION: This figure shows that 61 per cent of the respondents income exceeds income tax level and 39 per cent respondents income does not exceeds income tax exemption limit.

**Table 6 Employers awareness about different tax concession /exemption/rebate availed of**

Awareness	Frequency	Percentage
Yes	119	79
No	31	21
Total	150	100

INTERPRETATION: This figure shows that 79 per cent respondents are aware about the different tax concessions availed of and 21 per cent respondents are not aware about the different tax concessions / rebate/exemptions availed of

**Table 7 Source of income tax information**

Source	Frequency	percentage
News paper	49	33
Business journal	40	27
Internet	19	13
Friends and relatives	17	11
Tax consultants	14	9
Chartered accountants	11	7
Total	150	100

INTERPRETATION: The figure shows that 33 per cent respondents gets information about income tax from news paper, 9 per cent from tax consultants ,11 per cent from friends and relatives , 13 per cent from internet and 27 per cent from business journals.

**Table 8 Savings**

Income	Frequency	Percentage
Up to 10%	40	27
10-20%	70	47
20-30%	20	13
30-40%	8	5
Above 40	12	8
Total	150	100

INTERPRETATION: This figure shows that among the total respondents 27 per cent saves 10 per cent of income in schemes approved by CBDT 47 per cent up to 10-20 per cent 13 per cent up to 20-30 per cent, 5 per cent up to 30-40 per cent, 8 per cent up to Above 40

**Table 9 Methods of savings**

Savings	Frequency	Percentage
Chit funds	14	9
Banks	72	48
Insurance	40	27
Nonbanking financial institution	10	7
Capital market	8	5
Other assets	6	4
Total	150	100

INTERPRETATION: The figure shows that about 48 per cent under banks, 27 per cent under insurance, 9 per cent of the respondents saves their income under chit funds, 7 per cent under non banking financial institution, 5 per cent under capital market and 4 per cent under other assets.

**Table 10 Tax planning measures of CBDT**

Options	Frequency	Percentage
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Provident fund	30	20
Life insurance policy	68	45
Approved mutual funds	12	8
Fixed deposit	40	27
Total	150	100

INTERPRETATION: The above table shows that 45 per cent of the respondents use life insurance for getting tax exemption, 27 per cent by using fixed deposit, 20 per cent by provident fund and 8 per cent by approved mutual fund.

**Table 11 Services rendered by professional financial advisor**

Options	Frequency	Percentage
Always	5	3
Often occasionally	18	12
Rarely	67	45
Never	60	40
Total	150	100

INTERPRETATION: This figure shows that only 3 per cent respondents seek services rendered by financial advisor, 12 per cent seek often occasionally, 45 per cent seek services rarely and 40 per cent never seeks the services rendered by financial advisor.

**Table 12 Time formulating plans**

Time	Frequency	Percentage
Beginning of the year	40	27
End of the year	64	43
At any time	40	27
No planning at all	6	4
Total	150	100

INTERPRETATION: This figure shows that 27 per cent respondents formulate their tax plans at the beginning of the year, 43 per cent at the end of the year, 27 per cent at any time and 4 per cent of total respondents have no planning at all.

**Table 13 Income tax awareness from tax consultants**

Awareness	Frequency	Percentage
Always	7	5
Often	12	8
Occasionally	50	33
Never	81	54
Total	150	100

INTERPRETATION: This figure shows that about 54 per cent of the respondents never seek awareness of a tax consultant, 25 per cent seeks occasionally, 8 per cent seeks often and 5 per cent of the respondents always seek awareness of tax consultant for filing returns.

## FINDINGS OF THE STUDY

- From the study it is found that 23 per cent of the respondents are in between the ages 50- 60, 21 per cent of the respondents are between the ages 30-40, 20 per cent of the respondents are between the ages 20-30, 19 per cent of the respondents are between 40-50, 17 per cent of the respondents are above 60
- From the study it is found that 47 per cent of the respondents are male, 53 per cent are female
- When the respondents are classified on the basis of sector, 40 per cent lies under private sector and 60 per cent are public sector.
- About 61 per cent of the respondents states that their income exceeds income tax limit.
- From the total respondents, a majority of 79 per cent are aware of the different ways in which tax concession/ tax exemption/ tax rebate.

- Most of the respondents 33 per cent get income tax information from news paper. Information from business journals 27 per cent and internet 13 per cent are almost standing same. Least respondent are 7 per cent from Chartered Accountant.
- Normally the money not spent is saved. So the percentage of the responds with respect to previous is almost same. 47 per cent of respondents save 10-20 and only 8 per cent save above 40.
- Most of the respondents 48 per cent save their money at bank because they feel that it is safe. Least respondents 5 per cent consider capital market as the factor for savings.
- Majority of the respondents adopt life insurance policy as a tax planning measures 45 per cent. Measure chosen the least is approved mutual funds 8 per cent. Other mostly chosen measures are fixed deposit in banks 27 per cent then comes provident fund savings 20 per cent.
- Most of the respondents 45 per cent rarely consult financial advisor for advices. Very few 3 per cent always or not at all make consultations.
- Majority of the respondents 43 per cent have end of the year for the formulation of tax plans. Least respondents 4 per cent have no planning at all.
- From the study result it is clear that majority of the respondents never seek the awareness of a tax consultant for filing returns.

### SUGGESTIONS

- Many salaried people approach tax in a way that it is a burden on them. Such approach will changes if they realise that the tax collected from them is used for government for the development of society.
- It is necessary that salaried people should have awareness about various tax planning options from their carrier starting point itself.
- It would be convenient if the taxpaying mechanism to India is simplified.
- Opinion of the tax consultants, industrialists and trade unions in respect of tax planning options offered for various categories of assesses by the government of India.

### CONCLUSION

Throughout the paper we have seen about Tax, Income tax, Tax planning, Tax exemption etc. The aim of the taxation is to collect a part of the earnings from high Income people and to use it for the benefit of the poor in the Country and the development of other social factors. But this study shows that salaried people are not fully aware of the various tax plans even though they are partially aware. After studying the habit of savings and the choice of investments made by salaried assessee working in the private and public sector in Nagercoil it was observed that they had different choices with respect to investments in financial and physical assets depending on their levels of annual income earned and saved. Tax planning had a wider philosophy and is closely associated with what the salaried assesses earns and his propensity to consume. Tax planning reduces not only the tax burden but also give mental satisfaction.

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