

A Study of Tax Saving Investment Pattern (80C) of Salaried Persons in Kolhapur City

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Abstract:

Tax planning is a necessary part of our financial planning. Efficient tax planning enables us to reduce our tax liability to the minimum. It can be done by legally taking advantage of all tax exemptions, deductions, rebates and allowances while ensuring that the investments align with their long-term goals (Gautam, 2013). The study is planned to find out the most suitable and popular tax-saving instrument used to save tax. Also, to examine the amount saved by using the selected instrument.

Tax planning is the arrangement of one's concerns so that the tax planner may either reduce tax wholly or reduce it to the maximum possible extent as may be permissible within the framework of the taxation rules. It does not amount to evasion of tax. It is an act of caution and vision on the taxpayer's part, which is entitled to reduce the burden of his tax liability to the maximum possible extent under the existing law (Gautam, 2013). Tax planning ensures not only accruals of tax benefits within the four corners of the law but also that the tax obligations are correctly discharged to avoid penal provision.

The respondents of the study consist of people having fixed salaried income in Kolhapur City. The Investment pattern of salaried person differs from that of professionals and business people due to safety, regular flow of income security and retirement benefits.

Key Words: Tax Planning, Financial Planning, Investment, Long-Term Goals, Salaried.

1.1 Introduction:

The factors considered in investment are securities as well as higher returns. There are two main types of factors that have drive returns of stocks, bonds, and other factors: macroeconomic and style factors. Think of the various types of investments as tools that can help to achieve the financial goals. Each broad investment type, from bank products to stocks and bonds, has its own general set of features, risk factors and ways investors can use them.

Investing money can allow it to grow. Most investment instruments, such as stocks, certificates of deposit, or bonds, offer returns on money over the long term. This return allows money to build wealth over time.

The money earned is not infinite, and whatever measures can be taken should be applied to ensure income stays in the pockets.

Many investors start investing just near the end of a financial year. It is a wrong decision by the investor. It has two implications:

1. Firstly, the investor will end up investing money without proper planning.
2. Secondly, the investor will lose interest/appreciation for the entire year.

Therefore, the investor should evaluate different investment options carefully before making an investment decision and should start investing right from the beginning of a financial year, that is, from April. It will have two implications:

- ✓ Firstly, it will enable the investor to make informed decisions.
- ✓ Secondly, the investor will earn the interest on investments for the entire year from April to March.

a. Theoretical Background

Tax planning is a necessary part in setting financial goals. Efficient tax planning helps us to reduce our tax liability. It is done legally by taking advantage of all tax exemptions while ensuring that investments align with long-term goals. The purpose of the study is to find out the most suitable and popular tax-saving (Gautam, 2013) instrument used by salaried persons to save tax.

b. Salaried Investors:

The respondents of the study consist of people having fixed salaried income in Kolhapur City. The Investment pattern of salaried person differs from that of professionals and business people due to safety, regular flow of income security and retirement benefits.

c. Tax Planning:

Tax planning is the arrangement of one's concerns. The tax planner may either reduce tax wholly or reduce it to the maximum possible extent. It is an act of caution and vision on the taxpayer's part, under the existing laws of India. Tax planning ensures not only increase of tax benefits but also that the tax obligations are correctly discharged to avoid penal provision. (Gautam, 2013)

The Popular Investment Options

- ✓ Public Provident Fund, Provident Fund
- ✓ Insurance policies, Unit-linked insurance.
- ✓ Equity-linked saving schemes.
- ✓ National Saving Certificates, Infrastructure bonds

1.2 Significance of the study

It is advisable to plan the investment in order to avoid last-minute hassles. In case investors are unable to invest in the right products, they would have to pay the entire tax depending on their income. The study will help salaried persons in tax planning, minimizing tax payments, and maximizing their savings.

As salaried employees have a fixed income, their investment patterns are also different. In connection with this, a study is made to determine the investment behaviour of investors in Kolhapur City. It will be helpful to understand the investment preferences of salaried investors. The current study will also highlight the awareness of the investment opportunities available in India.

1.3 Objective of the Study

1. To study the tax payer awareness about filing the income tax return,
2. To study the tax payer awareness about standard deduction U/S 80 C,
3. To identify the investment pattern of salaried persons,
4. To make the salaried person aware of investments for Income tax exemption,

1.4 Hypothesis of the Study

1. Ho: There is no relation between gender and awareness about income tax.
H1: There is a relation between gender and awareness about income tax
2. Ho: There is no association between income level and e-filing the return.
H1: There is an association between income level and e-filing the return.

1.5 Research Methodology

Kolhapur is a city situated in the southwest part of the state of Maharashtra, India. Kolhapur serves as the headquarters of the Kolhapur district. As of the 2011 India census, Kolhapur Urban Agglomeration had a population of 561,841, whereas the city had 549,293, making it the 78th most populous city in India. In this population, males constitute 287,376, and females constitute 274,465, resulting in a sex ratio 955. Kolhapur has an average literacy rate of 92.17%, higher than the national average of 59.5%. Presently, Kolhapur has become a very famous tourist attraction, industrial hub and educational hub.

The study is descriptive because it highlights the relationship between age groups and income level on tax saving amount.

a. Sources of Data Collection

The primary data is collected through a questionnaire method by circulating Google Forms in the presence of various salaried persons in Kolhapur city.

The secondary data related to the literature review, theoretical background, and conceptual data are collected by visiting the Library and refereeing articles and research papers related to our study. Also, by visiting the income tax website of the Indian Government, all the Tax Savings Instruments are collected.

b. Sampling

The sample size was planned to be 50. The snowball sampling technique is used to select a sample of 50 salaried persons using Google Forms. As the primary data is collected through Google form, the data of the first 50 respondents are considered for data analysis.

c. Scope of the Study

The data is collected from salaried persons of Kolhapur City. Therefore, scope of the study is limited to Kolhapur city only.

1.6 Limitations of the Study

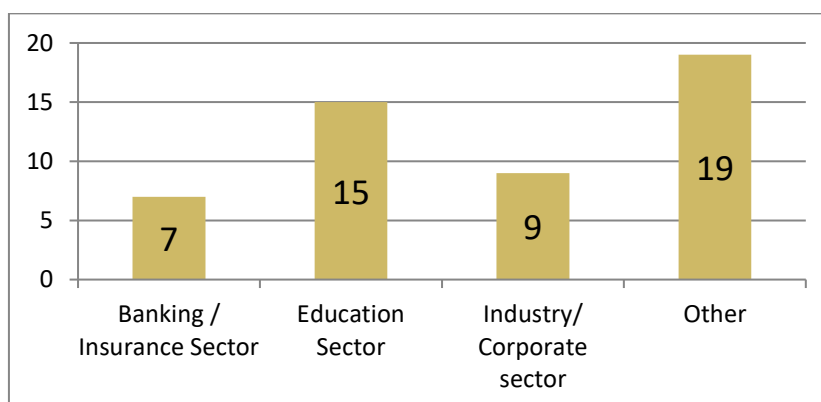
1. The present study is limited to a survey of only salaried persons.
2. The study is applied in nature. The findings emerging from the analysis are helpful to tax planning of salaried persons only.
3. In the present study, deductions U/S 80C are only considered.

2 Data Analysis & Interpretation

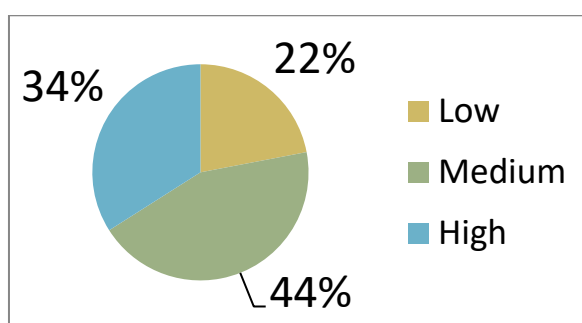
The data of 50 respondents is analyzed in the following various tables.

2.1 Service Sector-Wise Distribution of Respondent

The X-axis represents the Service sector of respondents, while the Y-axis represents number of respondents. 30 % of respondents are from the Educational Sector, 18 % are from the Industrial Sector, and the highest 38 % are from another sector.

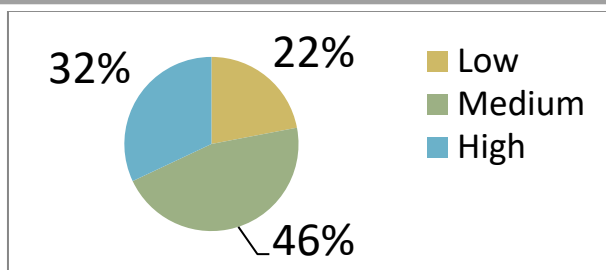


2.2 Awareness about Income Tax Calculation



From the diagram, 44 % respondents say that they have high awareness about income tax while 34% have medium, and only 22 % of respondents feel that they have low awareness about income tax.

2.3 Awareness about Income Tax Savings Instruments under Chapter VI A/ 80 C



From the diagram, 46 % say that they have high knowledge about tax savings instruments, while 32 % have medium. Only 22 % of respondents feel they need more awareness about tax savings instruments.

2.4 Factors Influencing on Tax Savings Investment

Influencing Factors	# of Respondent	Percentage
Liquidity	6	12
Safety	28	56
Tax Exemption Benefits	16	32
Total	50	100

56% of respondents are investing for future safety while 32 % are investing to get only tax exemption benefits. The remaining 12 % are investing for liquidity.

2.5 Factors Influencing on Investment

Objective of Investment	# of Respondent	Percentage
Future Goals	29	30.21
Security	29	30.21
Retirement	16	16.67
Tax Benefits	16	16.67
Emergency	6	6.25
Total	96	100

Note: Since some respondents have mentioned more than one response, the responses outnumbered the respondents.

The above table shows that 30.21 % respondents are investing their money in particular for safety and to achieve their future goals. 16.67 % respondents invest their money in tax-saving schemes to secure retirement. Another 6.25 % respondents invest their money for emergencies.

2.7 Selection of Tax Savings Instrument

Instrument	# of Respondent
Life Insurance	44

PPF	27
NSC	8
Housing Loans	6
NPS	6
ELSS	5
ULIP	4
Total	100

Note: Since some respondents have mentioned more than one response, the responses outnumbered the respondents.

The above table shows that 44 % invest their money in Life Insurance for Tax Savings. 27 % invest their money in the tax saving scheme of PPF – Public Provident Fund, and the remaining 8%, 6%, 6%, 5%, and 4 % of respondents invest in NSC, Housing Loans, NPS, ELSS and ULIP.

2.6 Preferred Tax Savings Instruments

Type	Very Low (1)	Low (2)	Neutral (3)	High (4)	Strong (5)	Weighted Average	Rank
Life Insurance	1	5	14	14	16	3.78	I
PPF	6	5	19	12	8	3.22	II
Housing Loans	9	7	16	7	11	3.08	III
NPS	10	5	19	9	7	2.96	IV
NSC	10	12	16	9	3	2.66	V
ELSS	10	12	17	8	3	2.64	VI
ULIP	10	23	10	7	0	2.28	VII

Source: Primary Data Collected

The respondents preferred life insurance as the best tax-saving instrument and ranked it first. Provident fund is the second highest rank tax saving instrument, while Home Loans ranked as third. The National Pension Scheme is the fourth highest preferred tax saving instrument. National Saving Certificates ranked fifth. Respondents preferred ELSS as the sixth and ULIP as the seventh.

2.7 Hypothesis of the Study:

Ho: There is no relation between gender and awareness about income tax.

H1: There is a relation between gender and awareness about income tax.

		Awareness about Income Tax			Total
		Low	Medium	High	
Gender of Respondent	Female	5	10	5	20
	Male	6	12	12	30
Total		11	22	17	50

Observed Frequency Of	Expected Frequency Ef	$\frac{(Of - Ef)^2}{Ef}$
5	4	0.2500
10	9	0.1111
5	7	0.5714
6	6	0.0000
12	13	0.0769
12	10	0.4000
$\chi^2 =$		1.4095

Degrees of Freedom = $(r - 1) \times (c - 1) = (2 - 1) \times (3 - 1) = 2$ Hence, $\chi^2_{0.05, 2} = 5.99$

As the calculated Chi-square value is less than the table value at a 5 % significance level, we accept the null hypothesis.

Conclusion: The hypotheses "There is no relation between gender and awareness about income tax." is accepted.

Hypothesis of the Study:

Ho: There is no association between income level and e-filing the return.

H1: There is an association between income level and e-filing the return.

		e-filing the return		Total
		Self	Other	
Income Level	Up to 500,000	15	5	20
	500,001 to 1000,000	9	9	18
	More than 1000,000	10	2	12
Total		34	16	50

Observed Frequency Of	Expected Frequency Ef	$\frac{(Of - Ef)^2}{Ef}$
15	14	0.0714
5	6	0.1667
9	12	0.7500
9	6	1.5000
10	8	0.5000
2	4	1.0000
$\chi^2 =$		3.9881

Degrees of Freedom = $(r - 1) \times (c - 1) = (2 - 1) \times (2 - 1) = 1$ Hence, $\chi^2_{0.05, 1} = 3.84$

As the calculated Chi-square value is greater than the table value at a 5 % level of significance, the evidence is not enough to accept the null hypothesis.

Conclusion: The hypotheses "There is an association between income level and e-filing the return." Is accepted

3. Findings:

1. In the study, the student investigated 50 salaried respondents of Kolhapur City, and it reveals that 52 % of investors are aware of filing income tax returns by themselves while the remaining 48 % are filing by taking the help of Financial Advisers, Friends or relatives.
2. 78 % of are using different Tax Savings Avenues, whereas 22 % of respondents need knowledge.

3. Safety is the primary factor while making tax savings investments, as 56 % are investing their money by considering safety.
4. 50 % make tax savings investments up to Rs. 50,000.
5. The main objectives of investors are to fulfill future goals/security, followed by retirement planning, as percentages are 60.42 % and 16.67 %, respectively.
6. Insurance investment got the first rank in this study. The second tax-saving instrument is the PPF. The third choice is Housing Loans. After that, National Pension Scheme, National Saving certificates, ELSS and ULIPs.
7. The student used the 'Chi-Square' method for hypothesis testing and found that "There is no relation between gender and awareness about income tax."
8. The student used the 'Chi-Square' method for hypothesis testing and found that "There is an association between income level and e-filing the return."

Suggestion:

1. Only 50 % are investing in tax savings instruments. The government should plan to create awareness and benefits of investing in tax savings instruments.
2. From the analysis, Life Insurance and PPF are at the first and second rank for Tax Savings. So SEBI and AMC Fund Houses should plan for creating awareness towards ULIP Plans and ELSS Plans and how these tax savings instruments are more beneficial as compared to traditional LIC & PPF with certain risks on investment.
3. Also, it is observed that up to the age of 45, the tax savings investment is less. So, the government should create awareness among young salaried persons for investing in tax savings instruments to secure their future. If they start investing from early stage of their jobs, at the time of retirement, they will get a good return.
4. It is observed that 52 % of respondents are self-filing their tax returns, while 48 % of respondents are filing by taking help from others. Filing tax returns is easy and self-explanatory, so the government should motivate a salaried person to file their returns themselves.

Conclusion:

Today, the living standard of the people is increasing daily, so the salaried class community has started realizing the importance of tax savings instruments and proper investment of their savings. They avoid spending money on a luxurious lifestyle and prefer the average living standard.

The study on preferred tax savings investment avenues among salaried people has been undertaken with critical objectives such as finding preferred tax savings investment avenues and also knowing the awareness level of investors. Analysis of the study was undertaken with the help of a survey conducted. After the analysis and interpretation of data, it is concluded that Investors are aware of investment avenues available in India, but still, investors prefer to invest in Life Insurance and public Provident Fund schemes at large. The data analysis reveals that safety is an essential factor while investing. Hence, it concluded that most salaried persons prefer secured regular income on investment in Kolhapur City.

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