

A Study On Tax Planning Measures Adopted By Salaried Class Based On Kottayam District In Kerala

Diya Usman

Research Scholar, Department of Commerce, Catholicate College, Pathanamthitta, Kerala

Abstract

This study entitled “A study on tax planning measures adopted by salaried class based on Kottayam district in Kerala”, is done to know the measures adopted by salaried class, to understand the problems faced by them in this regard, and suggest measures to be adopted to overcome these problems. Most of the respondents were males and belonged to public sector. Since taxable income arise for only those having income above Rs.250000,they are particularly opted, they are only doing tax planning as well. In case of filing of tax returns most of the employees depend upon professionals. Even if they all are educated they lack interest in knowing about tax and its related aspects. Complexity of IT Act and inefficiency of tax planning measures made them move away from this area. Majority of the people are interested in knowing about Mutual Fund and such innovative tax deduction measures. Tax planning is important not only for the employee but for the whole nation .Measures must be taken to impart more knowledge in this area among employees.

Keywords: Tax planning, Taxable income, IT Act 1961.

A tax is a compulsory contribution to state revenue .It is a financial charge on a tax payer. Taxes are of two types direct and indirect. Taxes in India are levied by the Central Government, State Government and by other local authorities. Direct tax is paid by the tax payer directly to the Government. Income tax which is a direct tax is one of the major source of revenue of Central Government. The IT Act 1961 , imposes tax on income under the following five heads;

1. Income from salary,
2. Income from house property.
3. Profits and gains from business or profession.
4. Capital gains
5. Income from other sources.

Indirect tax is not directly paid by the tax payer. It is levied on goods and services. GST is an indirect tax applicable throughout India.

Tax planning

Tax planning is the analysis of a person's financial situation so that he/she can make use of various tax exemptions ,deductions and benefits to optimally reduce tax liability in a financial year.

Various deductions are available from Section 80C to 80U of IT Act. It is the legal way to minimize litigation among tax payers and tax authorities ,which results in employment generation and healthy growth of economy. An employee can restructure his salary by including exemptions ,allowances and reimbursements so that he can reduce his tax liability. It can also be minimized by investing in tax saving devices specified U/S 80C of Income Tax Act. Employees should opt for optimal tax planning scheme after considering different options available for them. Law of Income Tax includes both public sector and private sector employees. Tax planning is the scientific method available to an employee, which allows them to have maximum amount of salary with them after payment of taxes.

Even though tax planning have many merits it have demerits too. It is a process which requires attention from the starting of a financial year. Amendments in the IT Act , Finance Act etc.. should be considered whenever it happens.

Some of the studies related to this area is given below;

Ria Sinha(2010) , conducted a study on "An International Comparison of Tax Regimes". It is a comparative study of the existing tax structure of India and developing as well as developed countries during 2000-2008.This study shows that Indian tax structure progressive in a low pace in comparison to other countries. And also the extend of Government expenditure financed by taxes is low in India. The study revealed that there is no need to reduce the existing tax rates.

H.P Ranina(2005) , revealed the main objectives that must be considered while levying taxes, namely simplicity, certainty and clarity in tax laws. Government should only levy minimum tax which is need for the national welfare. The study emphasized on the need of a new tax code, outsourcing of the functions of tax department for more quality and need for a speedy dispute settlement mechanism.

Chitta Ranjan Sarker(2004) , found out that the tax incentives in India would motivate taxpayers of rural and backward areas to save and invest more. The study emphasized on the evaluation of income tax exemptions, concessions and theoretical issues related to the operation of tax incentives.

The Standing Committee On Finance (2004-2005) Fourteenth Lok Sabha studied about necessity for widening the tax base and control tax evasion. And the study found out that Government should emphasis on both the activities and also should take strong and sincere efforts to eliminate tax evasion.

Muneer(2002) , conducted a study on college and university department teachers to know about their awareness in tax planning measures, investment patterns for availing tax benefits under the IT Act. The study concluded that they have general awareness in the above said areas, but their extent of awareness was different.

Objectives of the study;

1. To identify the various tax planning measures being adopted by the salaried people.
2. To ascertain the level of awareness of the salaried class on various tax planning measures available under IT Act.
3. To understand the problems faced by salaried class regarding tax planning measures.
4. To assess whether there is significant difference in tax planning measures adopted by different segments of salaried class based on level of income and sector of their employment.

Hypothesis;

H0: There is no significant relationship between level of income of taxpayers and sector of employment of tax payers.

H1: There is a significant relationship between level of income of taxpayers and sector of employment of taxpayers.

Methodology of study;

Sources of data: Primary data and secondary data has been used for conducting the study. Data collection was done with the help of questionnaire.

Sample size: The data was collected from 80 employees of various institutions of Kottayam district.

Sampling technique: The sampling method used for study was convenience sampling.

Data collection: A three page questionnaire was designed keeping in mind the objectives of the study.

Data analysis: Data analysis was done with the help of charts, graphs and Chi-square test. Analysis is conducted on the basis of factors like age , gender , education, sector of employment , annual income etc...

Limitations of study;

- 1 .Some of the respondents were reluctant to answer the questionnaire.
2. The study was limited to only one district. Therefore it cannot be applied to other districts.
3. The study is based on a sample of 80 respondents. Demerits of sampling technique is also an important constraint of the study.

Analysis and Interpretation of study;

- Out of total respondents 60% of employees were male and 40% were female.
- 52.55%of employees belong to age group 40-60 , 32.55% of employees are below 40 years

of age , 15% belong to the age group 60-80 and none of the employees were above 80 years of age.

- Majority of respondents belonged to public sector.
- In India annual income above Rs.250000 is only taxable.25% of employees under study are having annual income between Rs.250000-Rs.500000 , 55% of employees were having annual income between Rs.500000-Rs.1000000 and 20% were having annual income above Rs.1000000 during the financial year 2016-2017.
- All the employees under study were taxpayers and therefore they all are filing returns also.
- Majority of employees were filing returns with the help of professionals.
- And also majority of employees were aware of the tax planning measures available under the IT Act. The main reasons for unawareness of tax planning measures is lack of interest.
- Salaried employees were of the opinion that inefficiency of the tax planning measures and complexity of IT Act are the problems affecting them with regard to tax planning measures.
- 35% of employees start their tax planning during the beginning of the year itself, 27% do their tax planning only by the end of the year and the rest have no planning at all.
- Majority of people opted LIC premium as their deduction , followed by PF/PPF, payment of tuition fees , interest on housing loan etc..
- The most familiar deduction among the tax payers is HRA , followed by interest on housing loan ,medical allowance , LTA, insurance premium etc..
- The least familiar deduction among tax payers is subscription to mutual fund.
- Majority of tax payers is of the opinion that the present tax planning measures are complex to deal with and is not efficient enough.

Testing of hypothesis is done using Chi-Square test and H0 was accepted. So there is no significant relationship between level of income of tax payers and sector of employment of tax payers.

Suggestions;

- Measures should be taken to create awareness among tax payers about tax planning.

- Providing education regarding tax planning is also a factor to promote tax planning.
- Using Medias to provide information can induce tax planning.
- Promoting e-filing of returns will reduce the dependence of tax payers on professionals.

Conclusion;

Tax is the main source of income of government .The study was conducted on the topic “A study on tax planning measures adopted by salaried class based on Kottayam District”. It was found that majority of employees are aware of the tax planning measures available under IT Act. Promoting tax planning measures is beneficial not only for the employees but for the country as a whole.

Total 80 samples were collected from different institutions of the Kottayam District. It was found that there is no significant relationship between income level of employees and sector of their employment.

Bibliography:

Books used;

- 1.Philip A.P, Direct Taxes Law and Practice, Changanassery: Soba Publications, 2016.
- 2.Acharya Shuklendra and M.G.Gurha,Tax Planning under Direct Taxes,Modern Publishers,Lucknow,2001.
- 3.Anupama Gupta,A Study of Personal Income Taxation in India,Progressive Publishers,Calcutta ,1975.
- 4.Anil Kumar Jain and Parul Jain Reforms in Direct Taxes through the union Budgets,RBSA Publishers,Lucknow,2001.

Websites used;

- 1.<http://www.mgutheses.in/page/?q=T%202206&search=commerce&page=4&rad=all#Page>
- 2.http://www.moneycontrol.com/tax/other_source/what-income-is-taxed-under-income-tax-her-sources_628523.html
- 3.<http://www.caclubindia.com/articles/tax-planning-for-salaried-individuals-1458.asp>
- 4.<https://in.finance.yahoo.com/news/basics-explained--what-are-direct-and-indirect-taxes-064840748.html>

- 5.<http://www.caclubindia.com/articles/tax-planning-for-salaried-individuals-1458.asp>
- 6.<http://www.letslearnaccounting.com/taxation-of-income-from-business-or-profession>
- 7.<http://economictimes.indiatimes.com/wealth/tax/how-to-calculate-income-from-house-property-for-income-tax-purposes/articleshow/58528370.cms>
- 8.<https://www.bankbazaar.com/tax/how-to-calculate-capital-gains-tax-on-shares.html>
- 9.<https://www.slideshare.net/navinmkhubchandani/dit-project>
- 10.https://en.wikipedia.org/wiki/Indirect_tax
- 11.<http://incometaxmanagement.com/Pages/Tax-Management-Procedure/5-1-Meaning-of-Tax-Planning.html>
- 12.<http://www.karladennis.com/needs-for-tax-planning/#axzz4lmPH6hYF>
- 13.http://shodhganga.inflibnet.ac.in/bitstream/10603/25992/13/13_chapter%203.pdf