

## **TAX AWARENESS AND TAX PLANNING ON WEALTH CREATION OF INDIVIDUAL ASSESSEES**

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### ***Abstract***

*This research paper is related to personal financial aspects of individual assessee. 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 assessee 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. In order to have an efficient tax planning, awareness of the yearly wise tax laws and rules are inevitable. 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 assessee. The objective of this paper is to study the relationship between tax awareness and planning on wealth creation of individual assessees in the form of different investments which is prescribed by income tax laws. In order to save tax, an individual assessee invests their hard earned money on law prescribed investment avenues. This creates wealth in the hands of individual assessees in the form of good return in future. Here, an attempt has been made to know how tax awareness and tax planning helps an individual assessees to build efficient portfolio of investment which in turn creates wealth to the them.*

### **Keywords:**

**A**ssessees,

**A**wareness,

**I**ndividual,

**I**nevitable,

**P**ortfolio,

**S**elf-assessment,

**W**ealth.

## 1. INTRODUCTION:

Income tax was first introduced in India on 31<sup>st</sup> July 1860 by the British for five years to overcome financial crunch experienced by the Government (*R. Vasanthi 2015*). This act was revised in 1867 in the form of “License Tax” which was imposed on trades and profession based on their yearly income. In India, there is three tier systems which is based between the Central government, State Governments and the Local government organizations. India has a well-developed tax structure with clearly separated authority between Central and State Governments and local bodies. According to the Constitution of India, the government has the right to levy taxes on organizations and individuals. The CBDT functions as per the Central Board of Revenue Act of 1963.

### 1.1 TAX AWARENESS, PLANNING AND WEALTH CREATION:

Tax awareness is the main component of tax planning for any individual assesses. According to Mansuri-2012, tax awareness is the knowledge of current year tax laws and principles are in computing total income tax payment to the Government. Tax awareness means awareness level of income tax laws and its provisions of Individual assesseees in terms of exemptions, allowances, deductions from 80C to 80U, changes in income tax rates,

rebates, education cess, penalty for non-payment, TDS, knowledge of loopholes, advance payment tax, tax saving techniques, penalty & interest charged. Every individual assessee is liable to pay tax, if income exceeds the particular limit as prescribed by the law. Therefore, it is important to do efficient tax planning. To have an efficient tax planning, knowledge of current year tax laws and different tax savings instruments are must.

According to Khader-2017, Tax Planning is a pre-planning of tax burden by an assessee by taking complete available benefits of all deductions, exemptions, allowances and rebates so that tax liability reduces to minimum. The main goal of tax planning is to reduce the tax burden to the minimum. Tax planning is futuristic in nature. The main benefit of tax planning is considerable in the long run. Tax avoidance is taking advantage of tax savings instruments as per income tax laws. Assessee’s planning of tax which aims at reduction in tax payment is tax avoidance. When it comes to tax evasion, it is illegal. Adoption of illegal procedure to reduce tax is called tax evasion. Tax planning is a refined form of ‘tax avoidance’ and implies arrangement of a person’s financial sources in such a way that it reduces the tax liability. As per Geeta-2014, tax avoidance can be achieved

by taking full advantage of all the tax exemptions, deductions, concessions, rebates, reliefs, allowances and other benefits granted by the income tax laws so that tax burden is reduced. Tax planning is an act within the stipulated limits and it is not a device to avoid the tax. Thus, if an assessee takes the advantage of the deductions and rebates, he is coming under tax avoidance bracket and helps in achieving the objectives of the legislature, which is lawful, social and ethical.

Wealth a measure of net worth or cash flows that is how much a person has in savings, investments, real estate and cash etc. Tax planning leads to creation of wealth for the Individual assessee in the form of different tax saving investments. Investment in tax-saving schemes is one of the tax planning measures adopted by the individual assessees which in turn creates wealth in future. From time to time various tax saving schemes are introduced to invest their income and reduce tax liability. It is not necessary that an assessee earns his income only from salary or house property or business and profession or capital gains or other sources. It means an assessee earns his income from all the above heads. In order to have an effective tax planning, an individual assessee must have knowledge of tax laws and provisions. Tax awareness helps in

investing in those investments which will provide tax benefits as well as in long run it gives good rate of return in terms of wealth. Therefore, tax planning with tax awareness helps in creating wealth to the individual assessees due to their investments.

## **2. LITERATURE REVIEW:**

Srivasta (2017) researched and found that there are variety of investment options available in the market but a best investment option can be something which is beneficial to the individual assessee from the point of view of tax saving and wealth creation in future. Suganya (2015) found and concluded that tax awareness measures are not significant. Workshop on tax management has to conduct in practical manner such that the expenditure pattern of money gets reduced. Dev (2015) carried out a study to explain tax planning measures adopted by different salaried class are almost uniform. Gender and experience wise assessees have no significant relationship with the level of tax awareness. Patil (2014) observed that majority of individual assessees are aware of the investment avenues and make investments appropriately. The awareness amongst men is more as compared to females. The study also revealed that there was no relationship between income level

and awareness of investment avenues. Geetha (2014) has investigated the differences in the savings and investment pattern of the employees belonging to the private sector and public sector. Even if people have awareness about tax planning, the implementation of tax planning measures adopted by the employees was not up to the mark even by high tax slab groups. Employees showed greater awareness for PF, insurance; Professional Tax and Housing Loan but have a lower awareness regarding capital gains and relief.

Umamaheswari (2013) observed that the investors lacked awareness about the concept and working of the investment pattern. Deb (2013) observed that the most preferred tax savings investment was LIC-schemes because of deduction available u/s 80C followed by ICICI Prudential which in turn creates wealth in future in the form of lump sum principal amount and bonus. Sheety (2013) empirically analysed and concluded that individual in order to reduce their tax burden through tax planning does resort to tax saving investments. While investing, all the benefits available in a particular investment are not known to individual investors they must make all possible efforts to see that the terms of investment are known. Sharma (2013) has studied the

investment pattern amongst and also awareness level for investment in the industrial securities, to find preferences & possibilities of new investment avenues and in turn find the most popular investment avenue which creates wealth in hand. Savita (2013) studied the options for investments for tax savings; the object of the study was to find the most popular form of investment for tax savings. It was observed that investment by way of premium paid for life insurance policy, followed by provident fund contribution and fixed deposits savings were the most popular forms of investment. The paper also revealed that the savings for tax purpose was the maximum in age group 50-60 and least in age group 20-30. Manjunath (2015) has observed that lack of tax awareness, age group; income level and occupation are the important influencing component of the attitude of individual assessee towards tax savings instruments. Chhajjer (2013) has concluded that the primary reasons for individual assessee not achieving their investment objectives are lack of tax saving investment knowledge, avoiding professional help of financial advisors.

## **2.2 RESEARCH GAP:**

The previous studies have failed to analyse the actual awareness level of income tax laws and its provisions of Individual

assesseees in terms of exemptions, allowances, deductions from 80C to 80U, changes in income tax rates, rebates, education cess, penalty for non-payment, TDS, knowledge of loopholes, advance payment tax, tax saving techniques, penalty & interest charged. All these important components of awareness level have been totally ignored in the previous studies. Most of the research papers and reviews have analysed only different tax savings instruments and their tax liability without analysing and suggesting will their investment fetch good return in future or not? and have not suggested effective tax planning procedure to the individual assesseees. Previous studies on tax awareness and tax planning have focused only on Individual assessee's tax planning practices and tax savings habits but failed to study wealth creation of the individual assesseees from those investments. The most preferable investment avenues recommend by the previous research is life insurance, provident funds, bank FD's, statutory provident funds, and annuity plans etc., which are the old methods of investments. As per latest income tax laws government has come up with new investment instruments with more flexibility which has been ignored in the previous study. Most of the previous research works have concentrated only in analysing the assessee's tax savings

instruments instead guiding them in building effective and efficient portfolio of investment which not only saves the tax but in future gives a good return to the individual assessee.

### **3. OBJECTIVES:**

1. To study the income tax provisions awareness and tax planning of individual assessee.
2. To study the effect of tax awareness, planning on wealth creation of individual assessee.

### **4. RESEARCH METHODOLOGY AND HYPOTHESIS:**

This study is undertaken to know how tax awareness, tax planning leads to wealth creation in the hands of individual assessee. Here data has been collected from 100 (numbers) individual assesseees of 5 different kinds like, Teachers/Lecturers/Professors, Bank employees, Railway employees, Company workers, and Doctors. The study uses primary data and collected in the form of questionnaire and personal meets with individual assessee.

#### **4.1: HYPOTHESIS:**

Every year an assessee with their own knowledge or with the help of advisor plans income tax saving. On the basis of tax planning, during the previous year

individual assessee invest some income earned on investment avenues which is prescribed by the income tax laws. The following hypothesis has been formulated on the basis of research study.

“H<sub>0</sub>= Tax awareness and planning doesn't have positive effect on wealth formation”.

“H<sub>1</sub>= Tax awareness and planning have positive effect on wealth formation”.

Hypothesis testing using 0.05 (5%).

#### 4.2: SAMPLING TECHNIQUE & SIZE:

In this study, sample sizes of 100 (numbers) assesseees are taken into consideration by adopting Stratified sampling. The sample selection is based on all 5 categories like Teachers/Lecturers/Professors, Bank employees, Railway employees, Company workers and Doctors at least 20 responses has been collected from each category.

**Table1. Descriptive Statistics of the Sample Respondents**

Category	No. of Respondents	%	Age (years)	No. of Respondents	%	Occupation	Respondents
Male	58	58	>28	6	6	Teachers/Lecturers/Professors	20
Female	42	42	28- 38	42	42	Bank employees	20
			38- 48	33	33	Railway employees	20
			48 <	19	19	Company workers	20
						Doctors	20

**TAX AWARENESS AND TAX PLANNING AMONG INDIVIDUAL ASSESSEE**  
**(OCCUPATION WISE)**

Table 2 brief the responses collected as per occupation wise on awareness of income tax provisions and laws.

**Table 2. Awareness of Income Tax Provisions (respondents 20 no. Each)**

<b>Particulars</b>	<b>Teacher /Lecturers/ Professors (20)</b>	<b>Bank Employees (20)</b>	<b>Railway employees (20)</b>	<b>Company Employees (20)</b>	<b>Doctors (20)</b>
Awareness of IT	20	20	20	20	20
Deductions from 80 C to 80 U	19	18	17	18	18
Rebate	18	18	17	17	15
Awareness of penalty for non-payment	15	17	17	18	19
TDS	18	19	18	17	19
Knowledge of loopholes	17	18	20	18	19
Tax savings techniques	18	19	18	17	16
Penalty and interest charged	17	15	19	16	17
Standard deductions	20	19	19	17	16
Chi-square=5006; p= 0.00001, Df =32					

**Source: Survey Data**

The above table shows the occupation wise individual assessee's tax awareness. It can

be inferred that majority of the occupation wise individual assessee's are aware about the income tax provisions like deductions,

rebate, TDS, standard deductions, loopholes penalty etc. The chi square tool has been used to test the above awareness level and it is revealed that majority of the assesseees are aware about the tax laws, provisions etc with ( $X^2=5006$ ;  $p=0.00001$ ). Here positive effect means occupation

wise individual assesseees are aware about the most of the income tax provisions. Therefore, inferences have been drawn in favour of positive relationship between tax awareness and individual assessee's occupation wise awareness level with  $X^2=5006$ ;  $p=0.00001$  value.

**Table 3. Tax planning occupation wise (respondents 20 no. Each)**

Particulars	Teacher /Lecturers/ Professors (20)	Bank Employees (20)	Railway employees (20)	Company Employees (20)	Doctors (20)
Planning of IT	19	18	16	17	17
Areas of Tax Planning known	17	15	19	17	18
Availing exemptions u/s 10	18	17	17	19	16
Chi-square= 256.15; p= 0.00001, Df= 8					
Chi-square= 256.15; p= 0.00001, Df= 8					

**Source: Survey Data**

The above table shows the occupation wise individual assessee's tax planning. It can be inferred that majority of the occupation wise individual assesseees are planning their tax payments, knows about the different areas of tax planning and availing all kinds of exemptions available under the law. The chi square tool has been used to

test the above tax planning occupation wise and it is revealed that awareness about the tax and its planning have positive effect on wealth formation with ( $X^2=256.15$ ;  $p=0.00001$ ). Here positive effect means occupation wise individual assesseees are planning their IT and have good knowledge about the different areas of tax planning. Therefore, inferences have

been drawn in favour of positive relationship between tax planning and individual assessee occupation wise tax

planning with Chi square= 256.15; p= 0.00001 value.

**Table 4. Tax awareness and Tax planning leads to Wealth Creation (Occupation wise)**  
 (respondents 20 no. Each)

<b>Particulars</b>	<b>Teacher /Lecturers/ Professors (20)</b>	<b>Bank Employees (20)</b>	<b>Railway employees (20)</b>	<b>Company Employees (20)</b>	<b>Doctors (20)</b>
Tax Awareness/ Tax Planning increases savings	20	19	19	18	20
Tax Awareness/ Tax Planning increases Wealth	20	18	20	20	19
Tax Awareness/ Tax Planning leads to build efficient portfolio of Investments	19	18	17	18	20
Tax Awareness/ Tax Planning enhances effective Investments opportunities	19	18	20	19	18
Tax Awareness/ Tax Planning increases Wealth and safe guards retired life	20	19	20	20	20
Tax Awareness/ Tax Planning increases Wealth and in turn higher standard of living.	18	19	18	19	18

Chi-square= 2211; p= 0.00011, Df= 20

### Source: Survey Data

The above table shows the significant relationship between individual assessee's tax awareness, tax planning and Wealth creation. It can be inferred that majority of the occupation wise individual assessees agrees that tax awareness and tax planning leads to wealth creation in their hands. Majority of the individual assessee's believes that tax planning and awareness leads to more savings, helps in building efficient portfolio and wealth safeguards their old age and increases their standard of living. The chi square tool is used to test the effect of tax awareness & tax planning on wealth creation. It is revealed that there is positive effect of tax awareness, planning on wealth creation with ( $X^2=2211$ ;  $p=0.00011$ ). Therefore, inferences have been drawn in favour of positive effect on wealth creation. Chi square and p value signals that positive relationship between awareness, tax planning and wealth creation. It means tax awareness, planning leads to creation of wealth in the hands of different individual assessees.

### 4.3: TESTING OF HYPOTHESIS:

As mentioned in the research methodology, for testing the above

hypothesis primary data from 100 numbers individual assessees has been collected and statistical tool Chi Square with level of significant is 0.05 (5%) and percentages are extensively used.

### 4.4: DISCUSSION AND RESULTS OF HYPOTHESIS:

Analysis of Hypothesis 1

" $H_0$ = Tax awareness and planning doesn't have positive effect on wealth formation".

" $H_1$ = Tax awareness and planning have positive effect on wealth formation".

#### Analysis:

Table no. 2-3 reports the awareness and knowledge of tax planning as per their occupation. Tax awareness level and tax planning are the two important variables helps to obtain the result of hypothesis which is going to say us either both variable have positive effect on wealth creation or doesn't have the effect on wealth formation. Table 2, shows us a positive relationship with  $X^2=5006$ ;  $p=0.00001$  value. Table 3 also shows us a positive sign as per occupation wise individual assessees with Chi-square= 256.15;  $p= 0.00001$  value.

Table 4, reports affirmative rapport between tax awareness, planning and wealth creation. It means tax awareness,

planning leads to creation of wealth in the hands of different individual assesseees with Chi-square= 2211;  $p= 0.00011$ ,  $Df= 20$ , where  $p$  value is below the significant level of (0.005).

Therefore, “ $H_0$  is rejected and  $H_1$  is accepted” which means that awareness regarding present tax provisions, tax planning have positive effect on wealth creation. In simple terms tax awareness and tax planning leads to creation of wealth in the hands of individual assessee.

## 5. SCOPE FOR FURTHER RESEARCH:

The present study has covered various facets of tax awareness, tax planning and its significant relationship on wealth creation. Yet there is a scope for further study in some aspects which are not covered in present study.

- Every year, assesseees are paying tax to the government; it means every year assesseees are planning their tax. This leads to every year savings which in turn wealth creation in the hands of assesseees. Therefore, a further research on comparison of yearly savings or investments of assesseees can be done.
- Present study has taken into consideration only five occupations wise individual assesseees. Research

on many more occupation wise and investments of Male and Female comparison also can be done.

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