



“ A Study of Awareness of Income Tax and Tax Planning Avenues Practiced by Select Government Employees”

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Abstract

Government Employees are one of the fixed incomes earning class in our country who pay regular tax for their income. It is therefore, essential for this class of tax payers to know their tax obligations in the right perspective and the measure of tax planning available to them, so that they can make the best use of their earning by reducing the incidence of tax. Tax planning is possible through appropriate savings and investment decisions. Tax payers normally turn away of their tax liability only towards the end of financial year. This leaves them with little option to invest or save with the available income. The real issue would relate to having awareness on the numerous provisions that would help in reducing the tax liability. The key issue is awareness about the income tax provisions as well as investment opportunities. Investments come in the form of physical asset and financial assets with varying yields. The complete understanding of the opportunities available and managing ones finance considering tax liability and post-tax cost are crucial as far as personal finance is concerned.

Keywords: Incomes, Tax, Tax Planning, Tax Payers, Tax Liability.



Introduction

In an organized society, tax is unavoidable because it is the price paid for administrative and Political stability by the public to the Government. It is the duty of each citizen to pay due taxes in time and not to resort to any device to evade the payment of taxes. An effective tax strategy is vital for successful financial planning since payment of taxes reduces the disposable income of the tax payers. To solve the problem of tax burden, the concept of tax planning has been introduced in the Income Tax Act. Tax planning may be defined as an arrangement of one “financial affairs in such a way that without violating in any way the legal provisions, full advantage is taken of all tax exemptions, rebates, allowances and other reliefs or benefits permitted under the Act. This will reduce the burden of taxation on assesses as far as possible. Tax planning may be regarded as a method of intelligent application of expert knowledge of planning ones economic 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. But it does not imply taking undue advantage of loopholes in tax laws or evading tax liability. Hence tax planning is defined as the methods used by a tax payer to reduce his burden of taxes in a legal manner. Tax planning may be legitimate provided it is within the frame work of tax laws. Hence tax evasion and tax avoidance must be understood as distinct from tax planning. The present study discusses the concepts of tax planning and explains the deductions and relief available to individual income tax assesses under the provisions of the Income Tax Act for the period under study. The study is organized in to two parts. While the first part explains the concepts of tax planning, second part discusses tax planning of employees under the provisions of Income Tax Act, 1961.

Tax Planning means deferring and flat out avoiding of tax by taking advantages of beneficial tax law provision increasing, and accelerating tax deductions and tax credits and generally making maximum use of all applicable breaks available under our beloved Internal Revenue Code. Taxation is considered as a complex matter affecting financial planning of each individual income tax assesses. The scope of the present study is limited to the tax planning measures adopted by the government employees in Pune city. The study also evaluates the extent of awareness of employees on tax laws and planning measures. The savings habits, investment patterns, repayment of liabilities, tax planning measures adopted for the period under study and



the level of awareness of government employees on tax laws and tax planning measures where studied and evaluated.

Tax Planning and Management

In the matter of taxation of salaries, the law of income tax has recently been made comprehensive. Almost every type of salary, or remuneration of every kind of employee, government or private, is covered under it. Therefore, it becomes very important for an employee; however high or low placed he may be, to understand at least those fundamental principles of income - tax law which directly or indirectly affect him, before he is caught unaware in the net of taxation. Employees, next to the business community, constitute the biggest sector of income taxpaying public and contribute the most to the income tax in the country. Since income from salary has been accounted correctly and there is less or no scope for evasion, this class of tax payers is considered as the most honest in the records of Income Tax Department. However, in a period of ever growing inflation resulting in spiraling prices, it is the fixed income earners who suffer the most. The salaried tax payers are the hardest hit in every case where there is a serious economic crisis in the country leading to uncontrolled rise in prices without a corresponding increase in the volume of goods that are available for consumption. In view of the constant erosion in the intrinsic value of the rupee, the fixed income groups are left with no choice but to forego a major part of the conveniences and benefits, which they would otherwise have availed of. In a constant effort to match income and expenditure and to see that the family budget is kept at safe levels, each taxpayer in the salaried group is required or even forced to put in more serious effort than taxpayers carrying on business or others who are in the fluctuating income group. In view of this, tax planning is of great importance to every employee because it leaves the maximum possible amount of salary after payment of taxes with them. This could be achieved 28 only by availing maximum amount of tax exemptions, deductions and relief. Therefore, tax planning and management is the scientific planning made by the government employees to attract minimum liability to tax and or postponement of the tax liability for the subsequent period by availing of various incentives, concessions, allowances, rebates and relief provided, in the context of existing tax laws. While planning for salary income, the following hints will be of much use to the employees in getting maximum benefits of tax planning.



1. Tax on salaries can be reduced to minimum if salary is divided into different allowances (which are not taxable or which are partially exempt from tax) and perquisites.
2. It should be ensured that, under the terms of employment, dearness allowance and dearness pay form part of basic salary. This will minimise tax incidence on house rent allowance, entertainment allowance, gratuity and commuted pension.
3. A tax-payer should properly assess the incidence of tax and choose between going in for house rent allowance or rent free furnished or unfurnished accommodation. House rent allowance is exempt under section 10 (13A) of the Income Tax Act within the limits prescribed by Rule 2A of the Income Tax Rules, 1962.
4. There are several employees' welfare schemes such as recognised provident fund, approved superannuation fund, gratuity fund etc. Payments received from such funds by the employees are totally exempt or exempt up to significant amounts.
5. Employees should go in for free medical facilities instead of a fixed medical allowance, since medical allowance is taxable.

Objectives of the Study

1. To ascertain the level of awareness among government employees on various Tax planning measures available under the Income Tax Act.1961
1. To understand the Tax planning measures adopted by the government employees.

Research Methodology

This study is an investigative as well as descriptive one mainly concentrating on the tax planning on government employees in Pune city. Both primary and secondary data were used. Primary data were collected from 50 respondents of government employees by using survey method.



Well-structured interview schedule is used to collect information relating to savings behaviour and tax planning measures adopted by the government employees in Pune city. Convenient sampling technique is used for the selection of sample respondents. All the data collected were appropriately tabulated and summarised to facilitate understanding. The data is analysed and interpreted with the help of mathematical methods is used for analysing the data. The analysis of data is presented through tables.. Simple statistical tools percentage and weighted average method was used for the analysis.

Data Analysis

The present study entitled “A Study of Awareness of Income Tax and Tax Planning Avenues Practiced by Select Government Employees”. The primary data for the analysis were collected from 50 Government Employees from Pune city. The collected data were analysed by using the percentage, frequency tables, etc. The study reveals the following results.

Table 1 Annual income

Annual Income	No of Respondents	Percentage
Below 5 Lakhs	4	8
Between 5 to 7.5 Lakhs	16	32
Between 7.5 to 10 Lakhs	28	56
Above 10 Lkhs	2	4
Total	50	100

The table indicates that 56 percentage of the respondents annual income ranging between 750000to 1000000. 8 per cent of the respondents were belonging to below 500000 and 4 percentage was belonging to above 1000000. Balance 32 percentage was belonging to the range between500000 to 750000.



Table 2 Awareness on Various Deductions and Reliefs

Variables	Mean Score	Rank
Professional tax	4.50	1
Interest on housing loan	3.25	4
Capital gain arising from the transfer of property used for residence	3.50	3
Deductions U/s 80C	4.25	2
Contribution to Pension fund	2.50	7
Deduction in respect of Medical insurance policy	2.75	6
Treatment of handicapped dependents	2.25	8
Interest on loan taken for higher education	3.00	5
Donations to charitable fund	2.00	9
Relief in respect of Arrear Salary/Advance Salary	1.50	10

Interpretation

From the table (Table 2), it shows that most of the respondents are aware about various deductions. By analysing the table 3.5 ranks 1 is assigned to professional tax having highest mean score and rank 2 is assigned to deductions u/s 80c. Rank 10 is given to lowest mean score relief in respect of arrears salary and advance salary. In short all the respondents are aware about various deductions.



Table 3 Tax Planning Measures Adopted

Variables	No of Respondents	Percentage
Proper maintenance of books of Accounts and Audit	18.00	36
Compliance to provisions of law And updating of circulars and notifications	32.00	64
Filing of Tax returns	45.00	90
Interest on Housing Loan	35.00	70
Capital Gains Exemption	5.00	10
Deduction u/s 80 C	50.00	100
Relief in Respect of Arrear of Salary/Advance Salary	22.00	44
Contribution to Pension Fund	30.00	60
Deduction in respect of Medical Insurance Policy	28.00	56
Treatment of Handicapped Dependents	6.00	12
Interest on Loan taken for Higher Education	16.00	32
Donation to Charitable Fund	17.00	34
Using PAN	40.00	80

Interpretation

From the table it is clear that most of the respondents prefer deduction u/c 80, filing of return, using of PAN, interest on housing loan, contribution to pension fund and compliance to law are the important measures of Tax planning (Table 3).



Table 4 Priority for Improving Tax Planning

Variables	No of Respondents	Rank	Percentage
Tax rates should be lowered	16	1	32.00
Nominal rates should be deducted from all employees to avoid filing of return	9	3	18.00
Widening of Tax net	11	2	22.00
Monthly TDS	2	7	4.00
More tax incentives for Investments	4	5	8.00
Tax Planning education	5	4	10.00
E-filing should be Popularised	3	6	6.00
Total	50		100.00

Interpretation

From the table (Table 4) it showed the suggestions for improvement in tax planning measures and procedures. Suggestions were analysed using ranking tables. First rank was assigned to the variable tax rates should be lowered. Seventh rank was assigned to cost of tax administration can be reduced where monthly tax is deducted at source.

Conclusion

Tax Planning has a wider philosophy and is closely associated with the employees' earnings and his propensity to consume. The gap between the same goes as savings and if that savings can relieve one from tax, the tax planning is effective. The whole process relates to viewing the Income Tax Act in terms of revenue for the Government and fair disposable income for the assesses. We want a rationalized, simplified, operational tax system where an assesses is assessed but not feel exploited. Tax Planning reduces not only the tax burden but also gives mental satisfaction. If employees tax planning measures it will help them to save a considerable



amount of their hard earned money in a legal way. When the government has given a wide chance

of investing money according to the assesses financial condition and preferences, it is the prime duty of each assesses to utilise his or her chances and reap the harvest. What is required is knowledge of a few sections of the Income Tax Act. Thus, Tax Planning is not at all complicated and could be done with a certain degree of awareness and applications of the provisions of the Income Tax Act 196

Findings

- A. This study shows majority of the respondents are belongs to the age group of 30 to 45 years and of the opinion that, tax planning education should be provided by the government to minimize the difficulties in filing the tax return.
- B. From the study it is found that 64 percentages of the respondents are male and 36 Percentage female.
- C. Fifty percent of the respondents had service ranging between 10 and 20 years of services followed by Thirty four percent with 20 to 30 years.
- D. Data reveals that majority of respondents have income level between Rs.750000 to 1000000 & are aware of the different ways in which Tax concession/ tax exemption/ tax rebate.

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