

A Study on Financial Planning and Tax Savings Strategies for Salaried Employees

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Abstract

Despite significant attempts to broaden the tax base, our nation has only roughly 82.7 million taxpayers, or 6.25 percent of its more than 132 crore population, which is a trivial number for our nation. Budgeting, performance goal setting, and system building are all parts of the financial planning process. The annual income is depleted by taxes. Tax planning is a useful strategy for controlling this by lowering tax liabilities. It helps in maximizing the use of available tax exemptions, deductions, and benefits while lowering obligations. For the salaried class, income tax deductions provide a variety of opportunities to reduce their taxable income, including life insurance premiums, contributions to pension plans, employee provident funds, and principal payments on home loans, and tuition for dependent children. These exclusions and deductions would enable tax to be significantly decreased. To determine the extent of employee awareness of tax planning strategies and their saving and investing habits, a research of 107 salaried employees was conducted.

Keywords: Financial planning; Investment pattern; Tax planning; Tax exemptions.

INTRODUCTION

Tax Planning

Tax planning is the organization of one's financial and economic affairs to fully benefit from all permissible deductions, exemptions, allowances, and rebates in order to minimize one's tax liability.¹ Utilizing the legal concessions and exemptions granted by the tax legislation, aids in lowering tax liabilities. Financial planning for tax efficiency

is referred to as tax planning.² It aims to reduce one's tax obligations and make the best use of tax breaks, rebates, and advantages. Making financial and commercial decisions to reduce the impact of taxes is a part of tax planning. This enables you to effectively utilize all tax laws' advantageous features in order to obtain the maximum profit.³ It allows one to consider their finances and taxes at the start of the fiscal year, as opposed to afterward.

STATEMENT OF THE PROBLEM

Savings and wise investment choices can help with tax preparation.⁴ Taxpayers have few options to invest or save with their available income when they take the strategy of ignoring their tax burden. The problem is that not enough individuals are aware of the several laws that could help them pay less in taxes. The majority of investments are made in financial and physical assets with a range

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of yields.⁵ In terms of personal finance, it is essential to have a thorough awareness of the opportunities available and to manage one's finances while taking tax liabilities and post tax charges into account. The current study focuses on analyzing the tax preparation tactics used by salaried people. The goal of the study is to identify different tax saving solutions and demonstrate how financial planning may be used to accomplish both long and short term financial objectives.

OBJECTIVES OF THE STUDY

- To analyze the tax-planning strategies adopted by salaried employees.
- To examine the preferred fact or so investment by salaried employees of different sectors.
- To assess the investment and saving patterns of salaried employees.

REVIEW OF LITERATURE

Abhishek Janvier Frederick (2017) examined how aware working women are of tax benefit programmes and how they invest in them. Understanding client awareness of tax benefit programmes was the goal of the study. The study assessed whether the participants were aware of the tax incentives available to them and the industries in which they should invest to maximize their tax benefits. Additionally, it sought to comprehend how customers invested in these tax advantage programmes.⁶ The study additionally revealed that working women were unaware of the tax rate they were subject to.

Bitto Benny (2018) focused on the study of tax planning and the salaried class's knowledge of tax laws. The publications under examination highlighted the significance of tax planning strategies and general public awareness. Other key goals were determining the degree of knowledge among the salaried class regarding the various tax planning strategies permitted by the Income Tax Act of 1961 and the interaction between the financial advisor and the employee's tax planning.⁷

Pujari R (2018) identified that the primary goals were to understand and synthesize the tax preparation strategy utilized by Edelweiss employees in the salaried class. The goal of analyzing the salaried class to ensure that there was a sufficient level of precaution and awareness regarding the various planning measures available under the Act to determine the impact of income tax laws on the salaried class by the Indian government to review the tax reforms and evaluating the impact of tax planning on the savings and investment practices

of the salaried class assesses.⁸

RESEARCH METHODOLOGY

Research and Sampling Methods

The study adopted descriptive research and convenience sampling technique.

Sampling Size

The sample size used for the study is 107. The primary data required for the study was directly collected from salaried employees across India through a structured questionnaire (Google form).

Statistical Tools Used

The collected primary data was analyzed by Cochran Q test, Chi-Square, and Independent sample T-test.

DATA ANALYSIS AND INTERPRETATION

Descriptive Statistics

Table 1: Gender

Gender	Frequency	Percent
Male	71	66.4
Female	36	33.6
Total	107	100

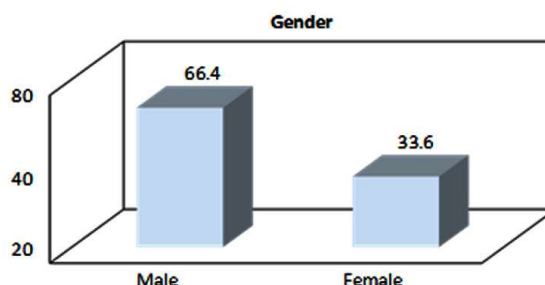


Table 2: Age groups

Age groups	Frequency	Percent
Below 30	90	84.1
31-45	7	6.5
45-60	10	9.3
Total	107	100

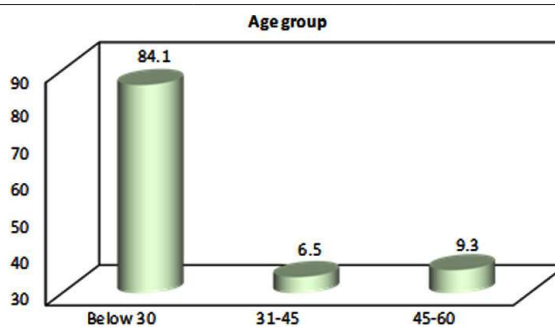
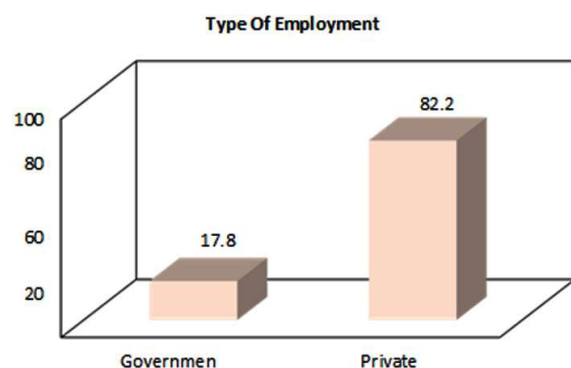
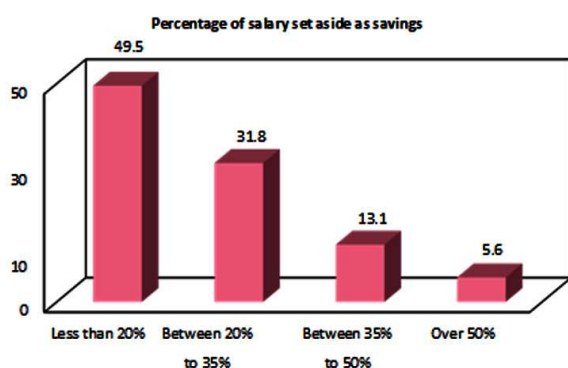


Table 3: Type of Employment

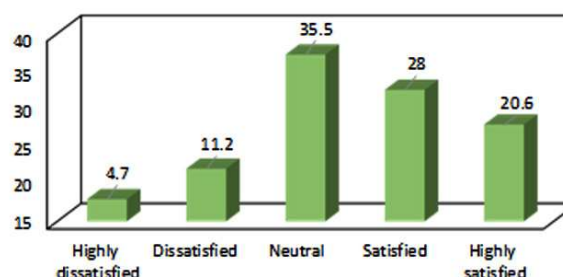
Type of Employment	Frequency	Percent
Government	19	17.8
Private	88	82.2
Total	107	100

**Table 4:** Percentage of salary as savings

Percentage of salary set aside as savings	Frequency	Percent
Less than 20%	53	49.5
Between 20% to 35%	34	31.8
Between 35% to 50%	14	13.1
Over 50%	6	5.6
Total	107	100

**Table 5:** Satisfaction level with tax planning strategies

Satisfaction level with tax planning strategies	Frequency	Percent
Highly dissatisfied	5	4.7
Dissatisfied	12	11.2
Neutral	38	35.5
Satisfied	30	28
Highly satisfied	22	20.6
Total	107	100

Satisfaction level with tax planning strategies

INFERENCE STATISTICS

Cochran Q Test

Preferences for various Tax Saving Instruments.

Null hypothesis (H_0): There is no significant difference between the preferences for various tax saving instruments.

Alternate hypothesis (H_1): There is a significant difference between the preferences for various tax saving instruments.

Tax Saving Instruments	Frequencies	
	Yes	No
Insurance Premium	48	59
Pension scheme	11	96
Medical Insurance	37	70
Educational Loan	23	84
Donation	19	88
Mutual Funds	14	93
None	34	73

Since P value < 0.05, reject null hypothesis

Inference: There is a significant difference between the preferences for various tax saving instruments.

Interpretation: Respondents mostly prefer Insurance Premium as a tax saving instrument and pension scheme & mutual funds are the respondents' least preferred tax saving instruments.

CHI SQUARE TEST

Annual income and Tax planning of salaried employees

Null hypothesis (H_0): There is no significant association between level of annual income and whether the employees do tax planning.

Alternate hypothesis (H_1): There is significant association between level of annual income and whether the employees do tax planning.

Income		Whether the employees do tax planning		Total
		Yes	No	
Below Rs. 5 Lakhs	Count	28	35	63
	Expected Count	37.1	25.9	63.0
Between Rs. 5 Lakhs and Rs. 7.5 Lakhs	Count	12	4	16
	Expected Count	9.4	6.6	16.0
Between Rs. 7.5 Lakhs and Rs.10 Lakhs	Count	11	1	12
	Expected Count	7.1	4.9	12.0
Between Rs. 10 Lakhs and Rs.15 Lakhs	Count	4	1	5
	Expected Count	2.9	2.1	5.0
Between Rs. 15 Lakhs and Rs.20 Lakhs	Count	3	3	6
	Expected Count	3.5	2.5	6.0
Above Rs. 20 Lakhs	Count	5	0	5
	Expected Count	-	-	-
Total	Count	63.0	44.0	107.0

Since P value < 0.05, reject null hypothesis

Inference: There is significant association between level of annual income and whether the employees do tax planning

Interpretation: Employees earning a higher level of annual income tend to do more tax planning than employees who earn a lower level of annual income.

Independent sample T-Test

Marital Status v/s Factors of investment

Null hypothesis (H₀): There is no significant difference between the marital status of the respondents and their preferences towards factors of investment.

Alternate hypothesis (H₁): There is a significant difference between the marital status of the respondents and their preferences towards factors of investment.

Independent Samples Test											
		Levine's Test for Equality of Variances		t-test for Equality of Means							
		F	Sig.	t	df	Significance		Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
						One-Sided p	Two-Sided p			Lower	Upper
Factors of investment	Equal variances assumed	.475	.492	-2.205	105	.015	.030	-2.06977	.93869	-3.93101	-.20853
	Equal variances not assumed	-	-	-2.438	34.940	.010	.020	-2.06977	.84900	-3.79344	-.34610

Since P value < 0.05, Reject null hypothesis

Inference : There is a significant difference between the marital status of the respondents and their preferences towards factors of investment.

Interpretation: Married respondents prefer different factors of investment income par is on with unmarried respondents.

DISCUSSIONS

Findings

- Most (66.4%) of the respondents are male.
- Most (84.1%) of the respondents are aged below 30.

- Most (80.4%) of the respondents are married.
- Most (82.2%) of the respondents are private-sector employees.
- Most (58.9%) of the respondents earn an annual income that is below Rs. 5 lakhs.
- Most (58.9%) of the respondents do tax planning.
- Majority (43%) of the respondents do not have an emergency fund.
- Majority (49.5%) of the respondents set aside less than 20% of their salary as savings.
- Most (71%) of the respondents' income is taxed under the head 'Income from salary'.
- Majority (35.5%) of the respondents have stated that their satisfaction level with tax planning strategies is neutral.
- Most (65.4%) of the respondents utilize their Income Tax benefits.
- Respondents who are married used a considerably higher percentage of salary to repay loans
- Government employees purchased more assets on loan, do more tax planning, utilize their tax benefits than private employees.
- Employees earning a higher level of annual income tend to do more tax planning than employees who earn a lower level of annual income
- Respondents mostly prefer Insurance Premium as a tax-saving instrument and pension schemes & mutual funds are the respondent's least preferred tax-saving instruments.
- The vast array of tax planning options makes it challenging for investors to select a particular strategy within a set time frame.
- Banks serve as more than just a venue for information and investment. There are numerous other organizations that offer superior investment opportunities as well as investment advice.

CONCLUSION

The study and analysis of salaried employees' knowledge of tax laws and provisions showed that, overall, employees had high levels of knowledge about the various deductions, exemptions, and provisions of the Income Tax Act of 1961. The overall observation was that provident funds and insurance displayed maximum awareness. Salaried taxpayers look out for secured investments to utilize their savings where safety is guaranteed, the risk is less, returns are maximum and the rate of return is high. This justifies why housing loans, provident funds, and insurance schemes score high on salaried investments charts. However, there were some differences among the employees based on their income brackets, savings, and job descriptions. In terms of the tax planning tactics used by salaried assesses for the fiscal year 2020–2021, life insurance and public provident funds were widely accepted by workers at all levels, while home loan repayment came in second place due to the advantages of tax deductions and interest repayments.

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SUGGESTIONS

The critical step of making many features online available is one that the Income Tax Department has made. The use of technology will aid in increasing business and wealth creator trust.

- Increasing the number of taxpayers is crucial. Currently, just 5.6% of Indians pay personal income taxes, and of those, the salaried class makes up the majority.
- People should be informed about the significance of tax preparation in general and tax-saving programmes by the government and financial organizations. People cannot make use of possibilities to the fullest extent without such education.

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