REVIEW OF RESEARCH

A STUDY ON INVESTMENTS IN TAX SAVING PRODUCTS WITH REFERENCE TO VISAKHAPATNAM

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ABSTRACT:

Investments to save taxes for salaried employees, business men, and other professionals today are one of the commonest and yet one of the least well planned investments. In the present context salaried employees, entrepreneurs and professionals have a variety of investments options such as fixed deposits, gold, post office securities, mutual funds, equity funds, public provident funds, insurance, National saving certificate & so on. At the beginning of one's career one starts investing his/her saving with tax exempted products but without a clear plan. Such random financial decision takes a long time for the investor to come on to the right track. With this kind of uncertainty between what comes first fulfilling tax requirements or effective investment for future requirements, prevents investors to perfectly analyze what they actually need. In order to enable investors realize that tax saving instruments do much more than only saving taxes. The researchers studied the different sources of investments chosen as well as the reasons for investments, the investors investing behavior, whether the tax payers have an idea about the Income tax exemptions to save tax and the basic details one needs to understand while filing the income tax returns. Business, Salaried employees and Professionals are chosen as sample, for the area of study. A sample size is 150 respondents were collected through online by using Google forms from the respondents of Visakhapatnam. The data has been analyzed using statistical techniques such as percentages and mean scores. The researchers has analyzed that 'Savings Bank' account, followed by 'Gold/Silver' and 'Fixed Deposits' were the most preferred source of investment for savings by the respondents, majority of the respondents of the salaried class preferred to invest twenty percent of their income as a part of their savings. While business and professionals are preferring to invest about 25 per cent to 50 per cent of their income, towards Savings. It was also noted that majority of the respondents preferred to invest through monthly scheme. Among the type of savings bank deposit was most preferred means of saving and it is well supported towards purchase of a car is the top priority why they prefer to save.

KEYWORDS: *Investments, profit, salaried employees, savings, income tax, tax investment plan, tax saving.*

INTRODUCTION:

Taxes are known to be the lifeblood of the government. The government banks on the money raised through taxes to produce revenue. Tax revenue is that money collect by the governments to provide services and to pay for public requirements. Taxes are in fact good – they are the dues paid by the public in return in order to avail of the many significant benefits that the government provides for the society. Tax policies in India had initiated are working effectively to solve the social problems such as old age, poverty, health issues, unemployment and so on, and is the only way to uphold significant values like economic

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security and justice – then the money needed to sustenance these activities should be seen as a good.
In India, a percentage of all the money that individuals and businesses earn and spend is collected by the government for use in public spending. Individuals and businesses are required to pay two kinds of taxes, such as Goods and Services Tax (GST)and income tax. Income tax is a tax imposed on individuals or entities (taxpayers) that varies with the income or profits (taxable income) of the taxpayer by the government.

The tax was introduced in India in the year 1860 itself, prior to independence, by Sir James Wilson, in order to cover the losses incurred by the country on account of Military Mutiny of 1857. Since then, several amendments were made to it, having milestones in the years, 1886, 1918, 1922, 1962, 1956, 1958, and finally, the law commission has passed the Income Tax Act, 1961, which came into force from 1st April 1962. This Income Tax Act, 1961, has been subjected to many amendments and re-amendments by the union budget every year till date.

Sad to note in spite of all the efforts made by the government only just about one per cent of India's population pay their taxes. To justify this fact for the assessment year 2012-13, as part of a transparency drive, the government has made public direct tax data for last 15 years. For the assessment year 2012-13,a total of 2.87 Cr. individuals filed income tax returns for that year, but 1.62 Cr. of them did not pay any tax - leaving the number of taxpayers at just about 1.25 Cr. which was close to one per cent of the country's total population of about 123 Cr. at that time. When compared between 2002-03 to 2013-14 the number of income taxpayers has fallen from 2.7crores to 1.9 cores, even though tax revenue has risen from ₹36.585 Cr. to ₹2,58,326 Cr, this was due to the exemptions provided by the government was going up and many dropped out of the tax net.

To encourage and motivate the tax payers in India government had provided the opportunity for tax planning and added incentive to all taxpayers. Tax planning is an important part of one's financial planning. Efficient tax planning enables one to reduce their tax liability to the minimum. This is done by legitimately taking advantage of all tax exemptions, deductions rebates, and allowances while ensuring that one's investments are in line with their long-term goals.

On the other hand, the general attitude of people is to increase their income and decrease their tax liability i.e. to save taxes. While on the counterpart, the government tries to increase the tax liability on individuals, in order to improve their revenue. Thus, people try to make tax amount less and lesser to the maximum possible extent, and the government tries to make the same amount more and more. Hence, the tax saving schemes gained significance, in the recent past.

There are various Tax Saving options available, like people can invest into tax exempted products like; Interest income on savings account and NRE account, Maturity or claim amount by Life Insurance, Educational Scholarship, profit from selling shares and equity mutual funds, dividends received, Gifts, Ancestral property, Agricultural income, Secondary income on HUF Account, home loan, interest on education loan, donations, in case of profits distributed to partners in partnership firms and so on. There are most commonly used tax saving options under Section 80c, they are Public Provident Fund (PPF), Life Insurance Premium, National Savings Certificate (NSC), Equity Linked Savings Scheme, Principal Amount Repaid on Home Loan, 5 years fixed deposits with banks and post office, Tuition fees paid for children's education, up to a maximum of 2 children, etc.

The status wise distribution of key values is presented in Table1. It can be inferred that, among the five sources of incomes, the income from 'House Property Income' is least among all (1.22 per cent) and the highest source of Income is 'Business Income' (47.62 per cent). As Salary is the primary and pivotal source of income to an individual, salary income ranks highest among other sources of income. Among the *Individuals*, the contribution from 'Salary Income' is the highest and the least being from 'Short Term Capital Gains'. *Hindu Undivided Family (HUF)*, the contribution from 'Business Income' is highest and the least is from 'Short Term Capital Gains'. As, HUF, is a family run business, it is highest contributor among various sources of income would be Business Income. Similarly, in case of *Firm,* the contribution from 'Business Income' is highest and the least is from 'Short Term Capital Gains'. *Association of Persons (AOP)/Body of Individuals (BOI),* Short term capital gains contribution is high with ₹4,258 Cr. and House property income is low (₹318 Cr.) in this source. The next statuses are

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Companies and *Others,* in all of them, highest contributing source of income is 'Business Income', as per their very nature. While the least contributing sources of incomes varies among the two. Looking at *Companies*, least contributing sources of income is 'House property income'. Moving to *others,* least contributing source of income is from 'House property income.'

The reason for 'Short Term Capital Gains', contribution being very low in almost all the statuses is, Long-term capital gains on stocks and equity mutual funds are not taxed, but short-term gains are taxed at 15 per cent which is a demotivating factor to all statuses of people, and thus, they try to keep this source of income at maximum possible lower levels only, to avoid incidence of higher taxes, under their respective slabs.

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Table – 1: The status wise distribution of Key Values (In INR Crore)

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	Income type	Individual	HUF	Firm	AOP/BOI	Companies	Others	Total
a	Salary Income	15,94,486 (35.52)	-	-	-	-	-	15,94,486 (35.52)
b	House Property Income	31,957 (0.71)	4,236 (0.09)	3,549 (0.08)	318 (0.01)	13,413 (0.30)	1,105 (0.02)	54,578 (1.22)
c	Business Income	8,18,724 (18.24)	19,679 (0.44)	90,866 (2.02)	3,774 (0.08)	11,68,526 (26.03)	36,093 (0.80)	21,37,662 (47.62)
d	Long Term Capital Gains	52,229 (1.16)	1,595 (0.04)	3,446 (0.08)	349 (0.01)	73,659 (1.64)	2,090 (0.05)	1,33,368 (2.97)
e	Short Term Capital Gains	16,493 (0.37)	1,138 (0.03)	1,245 (0.03)	4,258 (0.09)	29,650 (0.66)	5,451 (0.12)	58,235 (1.30)
f	Other Sources Income	3,29,386 (7.34)	19,847 (0.44)	4,460 (0.10)	2,751 (0.06)	1,47,090 (3.28)	7,100 (0.16)	5,10,634 (11.38)
	Total Income (a+b+c+d+e+f)	28,43,275 (63.34)	46,494 (1.04)	1,03,566 (2.31)	11,450 (0.26)	14,32,339 (31.91)	51,838 (1.15)	44,88,962 (100.00)

Source: Income Tax Department, Income Tax Return Statistics, Assessment Year 2017-18. Version 1.0. P.8.
Note: Figures in parenthesis indicates percentage to the total Income.

Details of gross returns and gross income for the Assessment Year (AY) 2017-18 is presented in Table 2. The table clearly shows disparities among the tax payers. Only 4.98 Crore returns were filed during the AY 2017-18. About 9.74 per cent of the tax payers filed returns in the tax slab of above ₹10 lakh and they had contributed highest (57.92) percentage to the total tax collected. As many as 51.03 per cent of the returns are filed in the income range between ₹2,50,000 to ₹5,00,000 and their contribution to the total tax collected is ₹8,99,740 Crore (20.93 per cent).

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Table – 2: Gross Returns and Gross Income for AY 2017-18

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Range	Total Number of Gross Returns	Percentage of Returns	Gross Total Income (INR Crore)	Percentage of Tax Collected
0	9,22,517	1.85	0	0.00
Up to ₹2,50,000	67,67,780	13.57	1,02,828	2.39
₹2,50,001 to ₹5,00,000	2,54,45,864	51.03	8,99,740	20.93
₹5,00,001 to ₹10,00,000	1,18,76,287	23.82	8,05,967	18.75

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> ₹10,00,000	48,55,932	9.74	24,89,729	57.92
Total	**4,98,68,380**	**100.00**	**42,98,264**	**100.00**

Source: Income Tax Return Statistics, Assessment Year 2017-18.

SIGNIFICANCE OF THE STUDY

Salaried employees have fixed flow of income and their investments patterns are also different from that of business people and professionals. In connection with this, researcher tries to find out investment behavior of tax payers in Visakhapatnam region in terms of avoiding income tax payment. This study helps to understand the investment preferences of investors to save money from tax payment. The study also throws light on the awareness of the investments avenues available in India regarding tax exemption. The study has been undertaken to analyze whether the tax payers have an idea about the Income tax exemptions to save tax and how they go about filing the returns. This research will become a helping hand to the research scholars as well as students for their further studies in their respective area.

NEED FOR THE STUDY

Indian economy is growing significantly and income levels of the people are increasing continuously after liberalization policies. As per the income levels and Government initiatives tax payers' it is anticipated that the number would increase year by year. There are number of options for the tax payers to exempt the payment of tax to government by investing in specified investment areas. It is very important to know the rules and law about investments and save income as per Act. Many of the tax payers are depending on the third parties (consultants) to file the returns and tax saving investments. Very few research studies have been carried out on this area. This research study also focuses on understanding the opinions and awareness levels of the tax payers.

OBJECTIVES

1. To study various Tax Saving options available.
2. To know about the awareness levels of individuals towards tax saving products.
3. To find out the level of usage of various tax saving schemes.
4. To offer suggestions based on the study findings wherever necessary.

METHODOLOGY

Business, Salariedemployees and Professionals are chosen as sample, for the area of study. As these people are the major contributors to Tax payments and the people who indulge in gathering new information about various tax saving schemes in offering. The study is made on the basis of responses received from the selected respondents, and the sample size is 150 respondents. The sample was collected through online by using Google forms from the respondents of Visakhapatnam. There is no specific sampling technique used. But the sample was collected from the target group of tax payers. For the purpose of the study 150 sample respondents were selected randomly from the response of Googleforms. For the purpose of analyzing the data, the statistical techniques such as percentages and mean scores were used.

DEMOGRAPHIC PROFILE OF RESPONDENTS

Frequency distribution profile of respondents showed that majority of the respondents (36.7 per cent) fall in the age range between 21 to 30 years (Table 3). As many as 60 per cent of the respondents are male and only 40 per cent are female respondents. The educational background of the respondents revealed that 50 per cent of the respondents were post graduates and whereas about 32 per cent of the respondents were graduates. About 59 per cent of the respondents are employees, 27.3 per cent of the respondents are representing business community and only 14 per cent of the respondents are from professional background. The annual income of the respondents varied between

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below ₹2,50,000 and above ₹10,00,000. About 30 per cent of the respondents earned income more than ₹10,00,000 per annum. Nearly 62 respondents' annual income varied between less than ₹2,50,000to to ₹5,00,000 per annum. Majority of the respondents' (58 per cent) family size is 4 members and less than 20 per cent of the respondents' family size is below 4 members.

Table – 3: Demographic Profile of Respondents
(n=150)

		Frequency	Percentage
Age	21-30	55	36.7
	31-40	44	29.3
	41-50	33	22.0
	> 50	18	12.0
Gender	Male	90	60.0
	Female	60	40.0
Education	Primary	5	03.3
	Secondary	7	04.7
	Graduation	48	32.0
	Post-Graduation	75	50.0
	Others	15	10.0
Occupation	Business	41	27.3
	Employees	88	58.7
	Professionals	21	14.0
Annual Income (₹)	<= 2,50,000	31	20.7
	2,50,001 – 5,00,000	31	20.7
	5,00,001 – 10,00,000	43	28.7
	> 10,00,000	45	30.0
Size of the Family	< 4 Members	29	19.3
	4 Members	87	58.0
	> 4 Members	34	22.7

Source: Primary Data

Sources of Investment for Savings

The various Sources of investment for savings, available to the respondents are ascertained under the following six heads; such as Savings Bank Account, Fixed Deposit (FD), Shares/Debentures, Gold/Silver, and Postal Savings Account, Real Estate, Mutual Funds and Others. Table 4 describes the overall assessment of the varied sources of investment options available to the respondents. It reveals that 'Savings Bank' (score 832) got the highest rating followed by 'Gold/Silver' (score 640) and Fixed Deposits (score 619). In terms of percentage to MPS the values of each variable (source of investment) varied between 38.33 per cent and 69.33 per cent. The study revealed that among all the variables, Savings Bank Account, Fixed Deposit (FD), and Gold/Silver got more than 50 per cent value rated by the respondents in respect of Investment of Savings.

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Table – 4: Where do you invest your Savings?
(n=150)

Investment Option	Score	% to MPS*
Savings Bank	832	69.33
Fixed Deposits	619	51.58
Shares/Debentures	460	38.33
Gold/Silver	640	53.33
Postal Savings	542	45.17
Real Estate	574	47.83
Mutual Funds	522	43.50
Others	482	40.17

Source: Primary Data

* MPS – Maximum Possible Score

Investment pattern

The Investment pattern preferred by the respondents has been assessed by using the variables such as 'Monthly', 'Once in Six months', 'Once in a Year' and 'Very rare'. This is assessed with reference to the occupational details of the respondents. The data related to Investment pattern of the respondents is presented in Table 5. Majority of the respondents (43.3 per cent) are preferred monthly investments and only 14.7 per cent of the respondents' investments are 'very rare'.In all the time periods the employee category occupies the top position and professionals are in the least position on investment pattern.

Table – 5: Investment pattern
(n=150)

Time period	Occupation			Total
	Business	Employee	Professional	
Monthly	14	47	4	65
	(9.3)	(31.3)	(2.7)	(43.3)
Once in Six months	11	12	9	32
	(7.3)	(8.0)	(6.0)	(21.3)
Once in a year	10	17	4	31
	(6.7)	(11.3)	(2.7)	(20.7)
Very rare	6	12	4	22
	(4.0)	(8.0)	(2.7)	(14.7)

Source: Primary Data

Note: Figures within parenthesis indicates percentage to the total.

Major financial objectives – priority wise

The data related to major financial objectives (priority wise) of the respondents were presented in Table 6. 'Buy a Car' is the factor that secured highest score of 376which represents 50.13 per cent to MPS. Both 'Ensure a comfortable Retirement' and 'Provide for child's/children's Education costs' secured second highest scores of 370 each which represents 49.33 per cent to MPS. 'Reduce Housing/Other Loans' is rated to be next high in the order by the respondents. The scores of the variables as percentage to MPS varied between 41.33 per cent and 50.13 per cent. 'Provide for children's Marriage' is the factor that secured lowest rating/score.

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Table – 6: Major financial objectives

Financial objective	Score	% to MPS*
Ensure a comfortable Retirement	370	49.33
Provide for child's/children's Education costs	370	49.33
Buy a House	347	46.27
Provide for children's Marriage	310	41.33
Buy a Car	376	50.13
Achieve growth in investments	336	44.80
Protect income in the event of death/disability	336	44.80
Reduce Housing/Other Loans	360	48.00
Reduce Credit Card liability and other Personal Expenses	352	46.93
Ensure Assets are passed on smoothly to dependents	330	44.00
Reduce Income – Tax	312	41.60
Protect Income/Assets from Inflation	311	41.47

Source: Primary Data

* MPS – Maximum Possible Score

Income Tax Slabs and Rates

Based on the income earned, the tax payers need to be pay income tax fixed by the Government. This tax applies to the range of income, which is called Income Tax Slabs. Year to year the income tax slabs of may keep changing. Based on the tax slabs, tax rates are fixed. The Finance Minister of the country announces the tax slabs and rates of Income Tax in the Union Budget each year. Nearly 39 per cent of the respondents fall in the tax rate of 5 per cent and above 12 per cent of the respondents are in the tax rate of 30 per cent (Table 7). As many as 27.3 per cent of the respondents not paid any tax to the government even they filed IT returns.

Table – 7: Income Tax Rates
(n=150)

Tax Rate	Occupation			Total
	Business	Employee	Professional	
5%	12 (8.0)	44 (29.3)	2 (1.3)	58 (38.7)
20%	10 (6.7)	18 (12.0)	4 (2.7)	32 (21.3)
30%	5 (3.3)	12 (8.0)	2 (1.3)	19 (12.7)
None	14 (9.3)	14 (9.3)	13 (8.7)	41 (27.3)

Source: Primary Data

Note: Figures within parenthesis indicates percentage to the total.

Type of schemes chosen for Tax planning/saving

The study revealed that 'Fixed Deposit (FD)' tax planning/saving pattern is preferred by most of the respondents for tax saving and this variable secured 35.3 per cent of the total (Table 8). 'Public Provident Fund (PPF)' and 'Pension Plan' are the two tax planning/saving patterns that occupied second and third positions respectively as per the ratings of the respondents. 'Fixed Deposit (FD)',

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'Public Provident Fund (PPF)', and 'Pension Plan'; highest contribution to the ratings secured by each variable is obtained from Employees, followed by Business people and the least being from Professionals. Thus, it can be inferred that, the most preferred scheme for Tax planning/saving is fixed deposit, which proves that, still people continue to believe in traditional options for planning their savings. Also the table shows that most of the employees opt for Public Provident Fund (PPF) as their Tax planning/saving scheme, while Business people prefer Fixed Deposit, and Professionals choose Pension Plan.

Table – 8: Type of schemes chosen for tax planning/saving
(n=150)

Type of Scheme	Occupation			Total
	Business	Employee	Professional	
Pension Plan	6	10	6	22
	(4.0)	(6.7)	(4.0)	(14.7)
Public Provident Fund	5	43	2	50
	(3.3)	(28.7)	(1.3)	(33.3)
Fixed Deposit	18	29	6	53
	(12.0)	(19.3)	(4.0)	(35.3)
Medi-claim Policy	11	2	5	18
	(7.3)	(1.3)	(3.3)	(12.0)
National Saving Certificate	1	4	2	7
	(0.7)	(2.7)	(1.3)	(4.7)

Source: Primary Data
Note: Figures within parenthesis indicates percentage to the total.

Reasons for investing in Tax saving schemes

The various reasons of the respondents, for investing in tax saving schemes are ascertained by using five variables which include, 'Tax bracket requirements', 'Assured Returns',' Less Risky', 'Meeting Specific Requirements, and 'Others'. Table 9shows the overall rating of the respondents towards various reasons preferred for investing in tax saving schemes/products.The study revealed 'Less Risky' (score 419) is the top rated reason for investing in tax saving schemes/products, followed by 'Tax bracket requirements'(score 418), which is very close to the score of highest rated reason and the next highest rated reason is 'Assured Returns' (score 394). The percentage to MPS varies between 46.00 per cent and 55.87 per cent. The study revealed that all the variables got more than 50 per cent value rating by the respondents, except for 'Others' variable in respect of various reasons of the respondents for investing in tax saving schemes under study.

Table – 9: Reasons for investing in tax saving schemes

Reason	Score	% to MPS
Tax Bracket Requirement	418	55.73
Assured Returns	394	52.53
Less Risky	419	55.87
Meeting Specific Requirements	389	51.87
Others	345	46.00

Source: Primary Data

Table 10 depicts the details regarding the awareness of the stated facts among respondents. About 80.67 per cent of the respondents are aware of the fact that, 'Income Tax Act undergoes change

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every year with additions and deletions brought about, under the Finance Act passed by the Parliament (Government's Annual Budget)'. Also, 78.67 per cent of the respondents have knowledge about the existence of the provision of, 'Deductions permissible under Income Tax Act, 1961'. 67.33 per cent of the respondents know, 'How to calculate total income'. 62 per cent of the respondents have an idea about, 'How to file IT returns'. While, only 45.33 per cent of the respondents are aware about, 'the income of some other person is included in assesses total income'. Thus it can be inferred from the table that, respondents have good knowledge about the facts regarding Taxation.

Table – 10: Awareness about Income Tax
(n=150)

Particulars	Yes	No
Income Tax Act undergoes change every year with additions and deletions brought about, under the Finance Act passed by the Parliament (Government's Annual Budget)	121	29
The income of some other person is included in assesses total income.	68	82
Deductions permissible under Income Tax Act, 1961	118	32
Dou you know how to file IT returns?	93	57
Dou you know how to calculate total income?	101	49

Source: Primary Data

FINDINGS

It is found that all the respondents selected for the study, have a good demographic mix, as they belong to various agegroups, educational background, with varied family size and annual income, which have a bearing on the investment and saving pattern of an individual.Most preferred Investment pattern by the respondents is 'Monthly' scheme. 'Once in six months' and 'Once in a year' are the two investment patterns that occupied second and third positions respectively as per the ratings of the respondents. The major financial objective (priority wise) of the respondents is found to be, as follows, 'Buy a Car' is the factor that secured highest score. While, both 'ensure a comfortable retirement' and 'provide for child's/children's Education costs' secured second highest score. 'Reduce housing/other loans' is rated to be next highest in the order by the respondents. 'Provide for children's marriage' is the factor that secured lowest rating.It is found that, '10 per cent' is the tax bracket under which most of the respondents fall in, followed by '20 per cent' and '30 per cent' tax brackets.

The type of schemes chosen for Tax planning/saving is found to be, 'Fixed Deposit (FD)' as it is rated by most of the respondents. 'Public Provident Fund (PPF)' and 'Pension Plan' are the two tax planning/saving patterns that occupied second and third positions respectively as per the ratings of the respondents. Also it is found that highest contribution to the ratings secured by each variable is obtained from employees, followed by business people and the least being from professionals. The major reason of the respondents, for investing in tax saving schemes, is found to be, 'Less Risky' as it is the top rated reason for investing in tax saving schemes/products, followed by 'Tax bracket requirements', which is very close to the score of highest rated reason and the next highest rated reason is 'Assured Returns'.

The level of awareness among the respondents regarding certain aspects of the Income Tax, on an average 66.8 per cent of the respondents are aware of the facts stated under the study.The timing followed for filing Income tax returns by most of the respondents is found to be '1 month before due date'. Both employees and business people prefer this time.The study revealed that most of the respondents are filing returns since, 'Less than 5 years'.

CONCLUSION

Awareness about taxation has to be improved in the study area (Visakhapatnam), so that tax payers pay tax promptly and thus revenue to the government increases, leading to an improvement in

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the development activities.Also, people must be educated about the importance of paying taxes, as it is their duty/responsibility to contribute to the development of the nation. This awareness must be brought in the minds of the people, by explaining the taxation policy, to the masses as well. This can be done by an extensive promotion campaign, using various modes of communication like Television, Radio, Internet, Print and electronic Advertisements and so on.People in Visakhapatnam, choose tax saving products that are less risky, preferably a Fixed Deposit account, with a monthly scheme, and their major financial goal is to buy a car, followed by children education, and retirement planning. Thus, it can be concluded that people in Visakhapatnam, still believe in traditional financial saving instruments like, fixed deposits, and so on.Most of the respondents prefer to invest less than or equal to 25 per cent of their earnings into savings. Financial Institutions and Government needs to widely advertise the available tax saving schemes and its advantages to tax payers.

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