A STUDY ON FACTORS INFLUENCING INVESTMENT IN TAX SCHEMES

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Abstract

Tax Avoidance, Tax Exemption and Tax Evasion are the most talked of topics in India these days. But due to lack of time and information the investors tend to make their investments in unfruitful schemes which may not yield them proper returns upto their worth. So in our study we have tried to collect and analyze the various factors used by the successful investors to decide upon their investments and make the general public also aware about the same. And above all we have made a comparison between the various investment schemes available in Indian Market.

I. INTRODUCTION

The history of taxation dates back to time immemorial and it is not a recent development by any account. A thorough research on the history of taxation system shows that taxes were levied on either on the sale and purchase of merchandise or livestock.

Further, the history of taxation suggests that the process of levying and the manner of tax collection were unorganized. But it suggests that all historical leaders and head countrymen collected taxes to run its authority. In other words taxes on income, sale, purchase and properties were collected to run the ruling Government machineries. Further, these taxes were collected to meet their military and civil expenditure and also to meet the common needs of the subjects like maintenance of roads, drainage system, government buildings, administration of justice and other functions of the region. day India tax machinery is very much based on that laid down foundation. In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthasastra'. There was a perfect admixture of direct taxes with indirect taxes and they were varied in nature. India's history of taxation suggests existence of a large and composite taxable population. With the advent of the moguls in India the country witnessed a sea of change in the taxation system of India. Although, they also practiced the same norm of taxation but it was more homogeneous in structure and collection. The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done in the history of taxation system in India. The period thereafter witnessed rapid growth and modernization of the Indian taxation system and the present.

II. TAX PLANNING

Tax Planning India is an application to reduce tax liability through the finest use of all accessible allowances, exclusions, deductions, exemptions, etc, to trim down income and/or capital profits.

Salaried individuals in India are not fully aware of the tax planning exercise which is why they rush at the end of the tax-planning season and make investments to reduce their tax liability. This has negative effect on tax payable by them and they eventually end up paying more taxes than they are required to. Tax-planning tips that can assist salaried people to reduce their tax accountability

1. Make full use of the entire Section 80C deduction

The maximum reduction available in Section 80C is 100,000 and salaried citizens whose gross salary is 250,000 or more are entitled to use the full 100,000 limit. Individuals who make monetary infusions of over 100,000 in Section 80C in selected areas fail to understand that the advantages are limited. In spite of investing 70,000 and 40,000 in Public Provident Fund and ELSS respectively, the amount entitled by the investor is only 100,000.

Following investments/contributions meet the criteria for Section 80C reduction

- Public Provident Fund
- Accrued interest on National Saving Certificate
- Life Insurance Premium
- National Saving Certificate
- Tuition fees paid for children's education (maximum 2 children)

- Principal component of home loan repayment
- 5-Year fixed deposits with banks and Post Office
- Equity Linked Savings Schemes (ELSS)

2. Reduction of tax liability beyond Section 80C deductions

If your salary surpasses ` 250,000 pa and the reductions under Section 80C are not enough to minimize the general tax liability consider the following:

- **Home loan**: Interest payments of upto ` 150,000 pa are entitled for reduction under Section 24
- **Medical insurance**: A deduction of upto ` 15,000 pa under section 80D is applicable under this.
- **Donations**: Tax advantages under Section 80G entitle the donations to particular funds/institutions.

3. Assert tax advantages on house rent paid

If HRA is not included in the salary structure then the salaried individuals can asset rent paid by them for residential lodging. This reduction is accessible under Section 80GG and is smallest amount of the following:

- 25% of the total earnings or,
- 2,000 every month or,
- Surplus of housing charge paid over 10% of total salary

4. Reorganize the salary

Reorganizing the salary and incorporating certain apparatus can help in the long run in minimizing the tax liability. In order to assert tax benefits salary reform is a more competent measure. The following can be included in an individual's salary structure:

- Food coupons can release up to ` 60,000 per year from tax.
- Medical expenses which are compensated by the employer spare up to ` 15,000 per year.
- House Rent Allowance (HRA) should be incorporated in the salaries of individuals who stay in rented houses.
- Transport allowance discharge upto ` 800 per month.

5. Go for a combined home loan

The primary reimbursement on a home loan is entitled for a reduction of up to ` 100,000 pa and the interest rewarded is entitled for a reduction of up to ` 150,000 pa. When a home loan is for a considerable amount then the interest and chief reimbursement surpass the allotted limit. A salaried individual can go for a combined joint home loan with his parent, spouse or sibling, to guarantee the best utilization of tax advantages.

III. ABOUT TAX SAVING

An income tax is imposed on an individual or a company by the Government of India only if his or her income is included in the slab of taxable income. The Indian Income Tax Act of the year 1961 governs the levy whereas C. B. D. T. (Central Board for Direct sections of this Act like Section 80 C, 80 CCF, 80 D etc., exemptions are given on certain incomes. There are many tax saving options, investing on which, one can get a deduction on his or her total income tax.

Tax Saving Options

India has got several government as well as private sector organizations offering numerous tax saving options to the residents of this country. Some of them are as follows:

Instrument	Minimum Contribution	Maximum Contribution	Lock-in Period	Risk	Liquidity	Return	Tax Relief u/s
PPF	Rs.500.00	Rs.100,000.00	5 years	Moderate	Moderate	8.6% annual	80C
ULIP	Rs.5,000.00	Unlimited	3 years	Always Present	High	As per Market situation	80C
ELSS	Rs.500.00	Unlimited	3 years	Always Present	High	As per Market situation	80C
FD	Rs.100.00	Unlimited	scheme to scheme differs	No	Moderate	9-9.5% annual	80C

IV. OBJECTIVES OF THE STUDY

1) To analyze the various factors that influences the salaried assessee to invest in different tax saving schemes
2) To identify which factors has highly influenced the salaried assessee to invest in tax saving schemes
3) To identify preference of investors in different schemes
4) To make a comparison between different tax savings schemes for the investors.
5) To suggest better strategies for tax planning and investment schemes

V. RESEARCH METHODOLOGY

Tools & Techniques

Tools & techniques means the methods & ways that how the data for the research is collected and analyzed in order to fulfill the objectives of the research work. In our study we have confined ourselves basically to primary data but when their was lack of information we referred to secondary data. For the purpose of collecting primary data we have focused on interview and observation method Therefore the details are given below

Primary Data collection through

1) Interviews

2) Observation

Secondary Data collection through

1) Internet

2) Magazines

Method of Analysis

1) Balanced Score Card

2) Likert Scale

3) Ranking Scale

VI. BY THE USE OF LIKERT SCALE & RANKING METHOD DATA CAN BE ANALYZED

1. Balanced Score Card

The Balanced Scorecard (BSC) is a strategic performance management tool - a semi-standard structured report, supported by proven design methods and automation tools, that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions. It is perhaps the best known of several such frameworks (it is the most widely adopted performance management framework reported in the annual survey of management tools undertaken by Bain & Company, and has been widely adopted in English-speaking western countries and Scandinavia in the early 1990s). Since 2000, use of the Balanced Scorecard, its derivatives (e.g., Performance Prism), and other similar tools (e.g., Results Based Management) has also become common in the Middle East, Asia and Spanish-speaking countries

2. Likert Scale

Likert type scales are developed by utilizing the item analysis is approach wherein a particular item is evaluated on the basis of how well it discriminates between those persons whose total score is high and those whose score is low. Those items or statements that best meet this sort of discrimination test are included in the final instrument.

Thus, submitted scales consist of number of statement which expresses either a favorable or unfavorable attitude towards the given object to which the respondent is asked to react. The respondents indicate his agreement or disagreement with each statement in the instrument. Each response is given a numerical score, indicating its favorable or unfavorable, and the scores are totaled to measure the respondents attitude. In other words, the overall score represents the respondent's position on the continuum of favorable or unfavorable towards an issue.

3. Ranking Scale

Under ranking scales or comparative we make relative judgment against other similar. The respondents under this method directly compare two or more objects and make choices among them. There are two generally used approaches of ranking scales-

1) Method of paired comparison

2) Method of rank order

In our study, method of rank order is used which is as follows;

Under this method of comparative scaling, the respondents are asked to rank their choices .this method is easier and faster than the method of paired comparisons stated above.

Sample Size

A total number of respondents for our study were 600 from Agra region.

VII. DATA ANALYSIS & INTERPRETATIONS

The collection of information based upon the interviews given by the respondents at the initial level were of varying nature some gave policies as their primary investment needs while on the other hand others focused on factors such as NSC's,PPF and Infrastructural Bonds. Therefore we tabulated the results for all of them separately on various factors which are given below for Comparative analysis:-

1. Life Insurance Policy

Influencing factors the sample assessee to invest in the insurance policy

From-Table 1.1, it is found that tax benefit (mean score 5.152) is the main factor that influenced the sample assessee to invest in Life Insurance Policy. Other factors that influenced the assessee to invest in this scheme, according to their priority are Risk Coverage (4.268), Old age need (3.577), High return (3.098),Safety(2.880) and liquidity(2.303).

Table 1.1	Scale and Score Value for factors influencing the sample assessee to invest in insurance policy ;scaling the ranking technique								
Rank Scale * Value Factors	I 6	II 5	III 4	IV 3	V 2	VI 1	Total Score	Mean Score	Rank
{f} TaxBenefit	424	46	25	37	38	30	600	5.152	1
{fx}	2544	230	100	111	76	30	3091		
{f} HighReturn	25	45	92	326	26	86	600	3.098	IV
{fx}	150	225	368	978	52	86	1859		

Hence, it could be concluded that the sample assessee invest in insurance policy mainly for the tax benefit and then for risk coverage.

2. Provident Fund Scheme

Influencing factors the sample assessee to invest in provident fund schemes.

From-Table 1.2, it is found that tax benefit (mean score 4.436) is the main factor that influenced the sample assessee to invest in Provident fund scheme. Other factors that influenced the assessee to invest in this scheme, according to their priority are High return (3.427), Old age need (2.600), Safety (2.562) and liquidity (1.980).

Table 1.2	Scale and Score Value for factors influencing the sample assessee to invest in insurance policy ;scaling the ranking technique							
Rank Scale * Value Factors	I 5	II 4	III 3	IV 2	V 1	Total Score	Mean Score	Rank
{f} Tax Benefit	392	127	44	25	12	600	4.436	I
{fx}	1960	508	132	50	12	2662		
{f} High Return	63	316	96	64	61	600	3.427	II
{fx}	315	1264	288	128	61	2056		
{f} Safety	62	55	106	312	65	600	2.562	IV
{fx}	310	220	318	624	65	1537		
{f} Liquidity	41	66	42	142	309	600	1.98	V
{fx}	205	264	126	284	309	1188		
{f} Old age need	42	36	312	57	153	600	2.6	III
{fx}	210	144	936	114	153	1557		
Total	600	600	600	600	600			

Hence, it could be concluded that the sample assesses invest in provident fund scheme for High return (8.5% per annum), next to tax benefit.

3. National Saving Schemes

Influencing factors the sample assessee to invest in National saving schemes.

From-Table 1.3, it is found that tax benefit is the main factor that influenced the sample assessee to invest in National Saving Schemes. Other factors that influenced the assessee to invest in this scheme, according to their priority are High return (2.536),Old age need(1.822),Safety(3.629) and liquidity(3.132).

Table 1.3	Scale and Score Value for factors influencing the sample assessee to invest in insurance policy ;scaling the ranking technique							
Rank Scale * Value Factors	I 5	II 4	III 3	IV 2	V 1	Total Score	Mean Score	Rank
{f} Tax Benefit	342	72	56	34	96	600	3.883	I
{fx}	1710	288	168	68	96	2330		
{f} High Return	78	44	56	365	57	600	2.536	IV
{fx}	390	176	168	730	57	1521		

Hence, it could be concluded that the sample assesses invest in National Saving Scheme for safety next to tax benefit.

4. Infrastructural Bonds

Influencing factors the sample assessee to invest in National saving schemes.

From-Table 1.4, it is found that tax benefit(mean score 4.640) is the main factor that influenced the sample assessee to invest in Infrastructure Bonds. Other factors that influenced the assessee to invest in this scheme, according to their priority are High return(3.022),Old age need(1.443),Safety(3.595) and liquidity(2.300).

Table 1.4	Scale and Score Value for factors influencing the sample assesee to invest in insurance policy ;scaling the ranking technique							
Rank Scale ValueFactors	I 5	II 4	III 3	IV 2	V 1	Total Score	Mean Score	Rank
(f) Tax Benefit (fx)	507 2535	32 128	21 63	18 36	22 22	600 2784	4.640	I
(f) High Return (fx)	19 95	45 180	486 1458	30 60	20 20	600 1813	3.022	III
(f) Safety (fx)	32 160	436 1744	38 114	45 90	49 49	600 2157	3.595	II
(f) Liquidity (fx)	28 340	52 208	25 75	462 924	33 33	600 1380	2.300	IV
(f) Old age need (fx)	14 70	35 140	30 90	45 90	476 476	600 866	1.443	V
Total	600	600	600	600	600	-	-	

Comparative Analysis of various Investment Schemes

Table 1.5 : Distribution of factors influencing investment in tax -saving schemes on the basis of their mean score

Tax - Saving Schemes							
Factors	Insurance Policy	Provident Fund	Saving Certificate	Infrastructure bond	Total Score	Mean Score	Rank
Tax Benefit	5.512	4.436	3.883	4.640	18.111	4.528	I
High Return	3.038	3.427	2.536	3.022	12.089	3.021	III
Safety	2.880	2.562	3.629	3.595	12.666	3.167	II
Liquidity	2.303	1.980	3.312	2.300	9.715	2.429	IV
Old age Need	3.577	2.660	1.822	1.443	9.442	2.361	V

For this purpose, the factors influencing investment in four tax saving schemes are classified and ranked on the basis of their mean scores obtained in Table 1.5 exhibits that Tax benefit (mean score 4.528) is the predominant factor that influenced the sample assessee to invest these tax saving schemes .the other factors that influenced the respondents to invest in these tax saving schemes ,according to their rank are Risk coverage(4.268),High return (3.021),Liquidity(2.429) and old age need (2.361).

Findings

It is found that tax benefit is the main factor that influences the assessee to invest in tax –saving schemes. Further it is found that other factors that influence investment in tax –saving schemes, according to the assessee in order of priority are-

1. Insurance policy, risk coverage, old age benefit, high return safety and liquidity
2. Provident fund scheme: high return, safety ,old age benefit and liquidity
3. National saving certificate; safety,liquidity,high return and old age benefit
4. Infrastructure bonds; safety, high return liquidity and old age benefit
5. Choice pf priority for further investment in tax schemes is Provident Fund, Insurance Policy, Infrastructure bonds and National saving certificates.
6. Reasons for tax planning; In the order of importance on the basis of assessee choice are increasing income, high income tax rate, problems in income tax payment and increasing income of family members
7. Main cause of tax planning is increasing income of assessee

Recommendations and Suggestions

1. Assesses may be a risk taker to get a high return
2. The institutions have to provide full information about tax saving schemes
3. Assesses have to invest more and more in tax saving schemes because at the time of recession these will be helpful
4. Emphasis on better corporate governance
5. Introduction of financial planners who can provide need based advice.

VIII. CONCLUSION

It is found that only 16% of the sample assesses eave invested in the infrastructure bonds and units of mutual funds. There may be various reasons for this poor response. One reason may be that assess are not aware of the merits of these investments. Another reason maybe that they fear the safety of these investments.

Hence it is suggested hat the sponsoring institutions should create awareness among the assesses through various programmers such as print mass media, electronic mass media, meetings and conferences to popularize these tax saving investment schemes and remove the fear among assess about the safety of investments. The financial institutions which manage these investment schemes are autonomous bodies ands have high reputation and efficiency. Moreover these investment schemes are continuously monitored and controlled by Semiannual dividend is automatically credited in the assess electronic bank account. Investment in these bonds and units give excellent return

It is found that 100% of the sample assessee has contributed to statutory provident fund. However no salaried assessee has contributed to statutory provident fund scheme. This may be because there is no agent canvassing for that.

Hence it is suggested that State Bank of India and post offices which are operating under this scheme may appoint agents to mobilize under this scheme. The investment in this scheme may increase the governments revenue and generate more employment oppurtuinites.It is also noticed that assess should be given priority.

IX. REFERENCES

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