A STUDY ON THE RELEVANCE OF TAX PLANNING FOR EFFECTIVE TAX SAVINGS BY SALARIED INDIVIDUALS WITH SPECIAL REFERENCE TO PALAKKAD DISTRICT

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Abstract

Tax planning means creating situations and investment portfolios that are efficient in terms of taxes. It is about making the most of the exemptions, deductions, discounts and reliefs allowed by law to reduce the tax level to its minimum. In a country like India, tax structures have become complicated, which consumes a large part of the taxpayer's income. For efficient tax planning of members with incomes, in-depth knowledge of tax laws and investment options is becoming important. Therefore, this study sheds light on the awareness of tax planning among the income earning group of our society. The study is about how they are planning their investments if they know about tax planning, how concerned they are when making investments and if they are looking for the help of any professional. The study revolves around identifying the degree of knowledge of tax planning and tax declaration options, analyzing whether they are aware of the different investment opportunities and discovering several alternatives in which investment is made to minimize tax liability and most attractive investment plan.

Introduction

In an organized society, the tax is inevitable because it is the price the public pays the government for administrative and political stability. It is the duty of each citizen to pay taxes on time and not resort to any device to evade the payment of taxes. An effective fiscal strategy is vital for successful financial planning since the payment of taxes reduces the disposable income of taxpayers. To solve the problem of the tax burden, the concept of tax planning has been introduced in the Income Tax Law. Tax planning can be defined as an arrangement of a person's financial affairs in such a way that, without violating the legal provisions in any way, all exemptions, reimbursements, bonuses and other reliefs or benefits permitted by law will be maximized. This will reduce the tax burden on evaluations as much as possible.

Objectives

To study the overall tax relevance and awareness levels of salaried individuals regarding residential status and related tax incidence, effective splitting ups of salary, deductions and rebate for effective tax savings and also bothering of consequences of tax evasion.

Review of literature

According to Ofuan .J. Ilaboya (2016) in one section of the literature, tax planning has been measured by the effective tax rate, in another section of the literature, tax planning was measured using tax savings. Therefore, it is important that researchers find an adequate measure of tax planning.

Jennifer Jackson Fevens, VP, CIM, FSCI Assistant Branch Manager and Investment Advisor **(2017)** stated that, if you have made capital gains during the year and you are holding values with unrealized losses,

consider selling those values to make the losses. This strategy of selling loss-making securities to offset the capital gains made during the year is a year-end tax planning technique.

Mahfoudh Hussein Mgammal and Ku Nor Izah Ku Ismail (2015) stated that numerous approaches to tax planning have been identified, including the change of income, modification of income characteristics, organizational structure and tax exemption. The main motivations for undertaking tax planning are the expected financial benefits.

Acharya, Shankar and Associates (1985) made an analysis of various aspects related to the unaccounted income in the Indian economy. The study observed that demonetization and voluntary disclosure schemes failed to control the generation of black money. The researchers suggested a reduction in tax rates, the simplification of the tax structure, the strict application of the law and the punishment of tax evaders for controlling the generation of income in black.

Jhaveri (1972) attempted to analyse the impact of income tax concessions on the after-tax income of different financial assets eligible for such concession. For this purpose, hypothetical examples were elaborated taking certain assumed tax rates, the pre-tax interest rate, the different income levels and the savings period. The results showed that qualified financial assets were more useful for those taxpayers who had to pay a high marginal tax rate. The taxpayers in the medium and small income groups did not obtain benefits in real terms by investing in qualifying assets. Therefore, they would prefer to invest in units, preferred shares instead of Public Pension Fund, Accumulated Time Deposit and Employees' Provident Fund. The author suggested that the deduction related to the savings in specific assets should be given gradually. It should range from more than 100 percent to low levels of gross taxable income, up to 40 percent with high gross taxable income. It was also suggested that the exemption of income obtained from financial assets qualified for tax relief be withdrawn.

Tax Planning

Tax planning can be considered as a method of intelligent application of expert knowledge of the planning of economic affairs in order to ensure the financial benefits provided consciously on the basis of national priorities in maintaining legislative and judicial opinion. But that does not mean taking undue advantage of the loopholes in tax laws or evading tax liability. Hence the tax planning is defined as the methods used by a taxpayer to reduce their tax burden in a legal manner. Tax planning can be legitimate as long as it is within the framework of tax laws. Therefore, tax evasion and tax avoidance should be understood as distinct from tax planning.

Tax evasion v/s tax avoidance

Each taxpayer is expected to make voluntary disclosures of their income and tax obligations through legal compliance. When a taxpayer deliberately or knowingly does not provide material data or provides false or inaccurate information or defrauds the State by violating any of the law's provisions, it will be called tax evasion. Tax evasion is considered unethical and illegal. Tax avoidance, on the other hand, is a method of reducing tax liability by making use of certain gaps and gaps in the law. It is the art of escaping the tax burden without breaking the law. However, this type of tax planning requires a thorough knowledge of the provisions of tax laws and relevant legal decisions, as well as other statutes that affect any aspect of taxes.

You can plan your financial affairs within the framework of the law means tax planning But that does not mean that, in the name of tax planning, you can enjoy tax evasion or tax avoidance.

Methodology and tools used

The study is mainly based on the primary data and the required primary data were collected through structured questionnaires from the 200 sample respondents who were selected through the convenience

random sampling methods. In order to find out the association between the various independent variables analysed by using statistical tools like simple percentages Chi-Square test and ANOVA.

Findings

Table 01. Distribution of sample units by age.

Age	No. Of resonance	Percentage
21-30	40	20%
31-40	44	22%
41-50	60	30%
51-60	30	15%
60 and above	26	13%
Total	200	100%

Table 01 shows 30% Majority of respondents belongs to the age group of 41-50 and 22 % belongs to 31-40.

Table 02. Distribution of sample units by gender.

Gender	No. Of resonance	Percentage
Male	114	57%
Female	86	43%
Total	200	100%

Table 02 shows the gender wise distribution of sample units reveal that the number male respondents exceed female sample respondents.

Table 03. Distribution of sample units by marital status.

Marital status	No. Of resonance	Percentage
Married	136	68%
Unmarried	64	32%
Total	200	100%

Table 03 shows on marital status wise distribution 68% of sample respondents are married.

Table 04. Distribution of sample units by level of education.

Level of education	No. Of resonance	Percentage
Below SSLC	26	13%
Sslc / higher secondary	34	17%
Graduate	90	45%
Postgraduate	50	25%
Total	200	100%

Table 04 shows the distribution of sample units by education majority of the respondents 45% Graduates 25% post Graduates. And least 13% below SSLC

Table 05. Distribution of sample units by income

Income	No. Of resonance	Percentage
Below 250000	28	14%
2500001-350000	38	19%
350001-500000	48	24%
500001-1000000	58	29%
1000001 and above	28	14%
Total	200	100%

Table 05 shows the study indicates that 29% of the respondents have the income between 5 Lakhs, to 10 Lakhs, and 24% in between 3.5 Lakhs, to & 5 Lakhs. The study revealed that 19% of the respondents have income between 2.5 Lakhs, to 3.5 Lakhs, so they are eligible for tax rebate.

Table 06. Distribution of sample units by the source of information.

Source	No. Of resonance	Percentage
Newspaper & leaflets	32	16%
Chartered Accountants	36	18%
Tax preciseness	24	12%
Internet	40	20%
Friends	28	14%
Relatives	30	15%
Others	10	5%
Total	200	100%

Table 06 shows it is observed that majority the respondents get the source of information regarding tax planning from the internet (20%) and 18% from Chartered accountants

Table 07. Distribution of sample units by sub source of income.

Sub source of income	No. Of resonance	Percentage
Business income	16	8%
Professional income	12	6%
Capital gain	10	5%
Rental income	24	12%
Other sources	30	15%
No sub source	108	54%
Total	200	100%

Table 07 shows the study revealed that 46% of respondents have sub-sources of income other than salary.

Table 08. Analysis of chi-square – test independence of two attributes.

H_0: there is no significant association between two attributes

H_1 two attributes are dependent

Attributes	Chi-square value	Table value	DF	Remarks (dependency or independence)	Hypothesis
Age group and source of	18.7	36.415	24	Independent	Accepted

information's					
Education and source of information's	34.6	28.869	18	Dependent	Rejected
Gender and source of information	19.24	12.592	6	Dependent	Rejected
Marital status and source of information	10.14	12.592	6	Independent	Accepted
Sub source of income and source of information	34.75	43.773	30	Independent	Accepted

Table 08 shows the result of chi-square test indicates that the attributes education and source of information, gender and source of information the hypothesis are rejected and we can conclude that these attributes are dependent and directly associated. But while testing attributes age group and source of information, marital status and source of information and sub source of income and source of information the hypothesis is accepted that is these attributes are independents.

Table 09. Analysis of variance between income and educational level.

H_0: there is no significant difference in annual income and educational qualifications.

Source of variation	Sum of squares	Degree of freedom	Mean square	F ratio	Table value	Remarks	Hypothesis
SSC	440	4	110	2.36	2.77	No significant variance	Accepted
SSR	260	3	86.67	1.85	2.5	No significant variance	Accepted
Residual error	560	12	46.6				
Total	1260	19					

ANOVA Table 09 shows the analysis of variance between income and education. It reveals that through column wise analysis there is no significant variance in income level of respondents since calculated value (2.36) less than table value (2.77). And through row-wise analysis also there is no significant variance in educational level since calculated value (1.85) is less than table value (2.5).

Table 10. Analysis of variance between education sub-sources of income.

Source of variation	Sum of squares	Degree of freedom	Mean square	F ratio	Table value	Remarks	Hypothesis
SSC	260	3	86.67	3.61	3.28	Significant variance	Rejected
SSR	290	5	58	2.41	2.9	No significant variance	Accepted
Residual error	360	15	24				
Total	910	23					

ANOVA Table 10 shows the variance between education and sub source of income. While carrying out two-way analysis exhibits that, through education there is a significant variance since calculated value (3.61) greater than Table value (3.28). But row-wise analysis that is through a source of information the hypothesis is accepted so there is no significant variance here, the calculated value (2.41) and table value (2.9).

Table 11. Analysis of variance between education and source of information.

Source of variation	Sum of squares	Degree of freedom	Mean square	F ratio	Table value	Remarks	Hypothesis
SSC	260	3	86.67	3.3	3.16	Significant variance	Rejected
SSR	770	6	128.3	7.24	2.66	Significant variance	Rejected
Residual error	422	18	26.22				
Total	1452	27					

ANOVA Table 11 shows the analysis of variance between education and source of information for tax planning reveals that through column wise analysis there is significant variance in educational level of respondents calculated value (3.3) and table value (3.16) and on row-wise analysis source of information for tax planning also have significant variance the calculated value is (7.24) and table value (2.66).

Suggestions

- More possible awareness about tax planning can be given to tax payers through newspapers, internets and other popular medias
- Proper gridlines must be provided to lover education level people regarding consequences of tax evasion
- Chartered accountants and tax practitioners can create more awareness regarding tax planning and tax evasion to increase general people's attitude towards tax payments
- Tax payment, tax planning, and tax savings education are very important for all sorts of income earning groups. Research and awareness program should be conducted for employees and other income-earning groups.
- Seminars conferences and training programs should be arranged for proper tax awareness and workshops too if possible.

Conclusion

Tax planning is a wide term that is utilized to depict the procedures used by people to pay the taxes. In general, depending on the literature discussed in this paper, Tax Planning essentially refers to avoidance and evasion. In this context, Tax Planning is defined in general as being the procedure of structuring one's affairs in order to postpone, decrease or – even eliminate the amount of taxes payable to the government. The primary motivations for undertaking Tax Planning are the expected financial benefits. By reviewing the different literature, it can be concluded that there are many aspects of Tax Planning needs to be covered by researchers in the future to fill the gap in the body of knowledge.

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