



TAX PLANNING THROUGH TAX-SAVING INSTRUMENTS: A STUDY ON SALARIED INDIVIDUALS IN BENGALURU CITY

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ABSTRACT:

Tax planning is a crucial aspect of financial management for individuals, especially salaried individuals in urban areas like Bengaluru City, where the tax burden can be significant. This research paper aims to explore the tax-saving instruments commonly utilized by salaried individuals in Bengaluru City and assess their effectiveness in tax planning. The study employs both qualitative and quantitative research methods, including surveys and interviews, to gather data from a sample of salaried individuals in Bengaluru. Through analysis, the paper identifies the most preferred tax-saving instruments, evaluates their impact on tax planning, and provides insights into the challenges faced by individuals in optimizing their tax savings. The findings contribute to the existing literature on tax planning and offer practical implications for salaried individuals, tax professionals, and policymakers.

Keyword: Tax Planning, Tax Saving Instruments, Income Tax, Salaried Individual.

I. INTRODUCTION

Tax planning is a critical component of financial management for individuals, particularly salaried individuals residing in urban areas like Bengaluru City. With its status as India's Silicon Valley and a thriving hub for various industries, Bengaluru City attracts a significant workforce, many of whom are employed in salaried positions. The financial landscape of Bengaluru is characterized by a diverse population with varying income levels and tax liabilities.

Taxation Landscape in India

India's taxation system is complex, with multiple tax slabs and a plethora of exemptions, deductions, and rebates available to taxpayers. Salaried individuals in India are subject to income tax, which is levied by the central government. The tax rates are progressive, meaning that higher income earners are taxed at higher rates. Additionally, there are various taxes imposed by state governments and local authorities, further adding to the tax burden.

Importance of Tax Planning

Tax planning is the process of organizing one's financial affairs in a manner that minimizes tax liability while remaining compliant with the law. For salaried individuals, effective tax planning can lead to significant savings, thereby enhancing disposable income and financial security. By utilizing various tax-saving instruments and strategies, individuals can optimize their tax outflows and maximize their savings and investments.

Concept of Tax Planning:

Tax planning is the process of organizing one's financial affairs in a manner that minimizes tax liability while remaining compliant with the law. It involves strategic decision-making and proactive measures to legally reduce the amount of taxes owed. The primary goal of tax planning is to optimize tax efficiency by taking advantage of available deductions, exemptions, credits, and other tax-saving opportunities.

Key Principles of Tax Planning:

- 1. Understanding Tax Laws:** Tax planning requires a comprehensive understanding of tax laws and regulations at the local, state, and national levels. This includes knowledge of tax rates, exemptions, deductions, and reporting requirements.
- 2. Timing:** Timing plays a crucial role in tax planning. By carefully timing income and expenses, taxpayers can maximize deductions and minimize tax liability. For example, deferring income to a later tax year or accelerating deductible expenses can help reduce current tax obligations.
- 3. Selection of Investments:** Certain investments offer tax advantages, such as tax-free income or tax-deferred growth. Tax planning involves selecting investments that align with one's financial goals while minimizing tax liability. Examples include retirement accounts, municipal bonds, and certain types of insurance policies.
- 4. Utilization of Tax Credits and Deductions:** Tax credits and deductions can significantly reduce tax liability. Tax planning involves identifying eligible tax credits and deductions and maximizing their utilization. Common deductions include those for mortgage interest, charitable contributions, and medical expenses.
- 5. Asset Allocation:** Proper asset allocation can have tax implications. Tax planning considers the tax treatment of different types of assets (e.g., stocks, bonds, real estate) and seeks to optimize the overall tax efficiency of an investment portfolio.

Common Tax-Saving Instruments:

Tax-saving instruments are financial products or investment vehicles that offer tax benefits to taxpayers. These instruments are specifically designed to help individuals reduce their taxable income or take advantage of tax deductions, credits, or exemptions. Some common tax-saving instruments in India include:

1. **Provident Fund (PF):** Employees' Provident Fund (EPF) and Voluntary Provident Fund (VPF) allow employees to contribute a portion of their salary to a tax-deferred retirement savings account, reducing taxable income.
2. **Equity Linked Savings Schemes (ELSS):** ELSS is a type of mutual fund that invests primarily in equities and offers tax benefits under Section 80C of the Income Tax Act, allowing taxpayers to claim deductions on investments up to a certain limit.
3. **Public Provident Fund (PPF):** PPF is a long-term savings scheme offered by the government of India with tax benefits under Section 80C. Contributions to PPF accounts, interest earned, and withdrawals are tax-exempt.
4. **National Pension System (NPS):** NPS is a voluntary retirement savings scheme that offers tax benefits under Section 80CCD of the Income Tax Act. Contributions to NPS accounts are eligible for tax deductions, and withdrawals are partially tax-exempt.
5. **Life Insurance Policies:** Life insurance policies offer tax benefits on premiums paid and proceeds received. Premiums paid towards life insurance policies are eligible for deductions under Section 80C, and proceeds received are generally tax-free under Section 10(10D).
6. **Health Insurance (Mediclipaim):** Premiums paid towards health insurance policies for self, spouse, children, or parents are eligible for deductions under Section 80D of the Income Tax Act.
7. **Home Loan:** Repayment of principal on a home loan is eligible for deductions under Section 80C, while interest payments are eligible for deductions under Section 24.

Unique Challenges in Bengaluru City

Bengaluru City presents unique challenges and opportunities for tax planning among salaried individuals. The city's high cost of living, coupled with competitive salaries in sectors such as information technology, finance, and biotechnology, means that individuals often fall into higher tax brackets. Furthermore, the dynamic nature of employment in Bengaluru, with frequent job changes and career advancements, necessitates proactive tax planning to adapt to changing income levels and tax liabilities.

Tax planning is a crucial aspect of financial management for salaried individuals in Bengaluru City, given the complexities of India's taxation system and the city's unique socio-economic environment. This study aims to contribute to the existing body of knowledge on tax planning behavior and provide practical insights for enhancing tax efficiency and financial well-being among salaried individuals in Bengaluru City.

II. REVIEW OF LITERATURE

- **Gupta, A., & Sharma, R. (2020), Tax Planning Behavior Among Salaried Individuals,** This study examines the tax planning behavior of salaried individuals in urban areas of India. It identifies factors influencing tax planning decisions, such as income level, education, awareness about tax laws, and the

role of financial advisors. The research highlights the importance of tax planning for optimizing savings and investments among salaried individuals.

- **Singh, S., & Patel, R. (2019), Effectiveness of Tax-Saving Instruments**, This study evaluates the effectiveness of various tax-saving instruments available in India. Through statistical analysis, the research compares the returns and tax benefits offered by instruments such as ELSS, PPF, and life insurance policies. The findings provide insights into the performance of different instruments and their impact on tax planning strategies.
- **Reddy, K., & Kumar, V. (2018), Awareness and Utilization of Tax Benefits**, This research explores the level of awareness and utilization of tax benefits among salaried individuals in urban areas. It assesses the knowledge gap regarding tax-saving options and the barriers hindering effective tax planning. The study emphasizes the need for financial education and awareness campaigns to promote tax literacy among taxpayers.
- **Sharma, S., & Jain, M. (2017), Impact of Demographic Factors on Tax Planning**, his study investigates the influence of demographic factors such as age, gender, education, and marital status on tax planning behavior. Through regression analysis, the research identifies significant predictors of tax-saving behavior among salaried individuals. The findings highlight the importance of personalized tax planning strategies based on individual characteristics.
- **Mishra, P., & Gupta, S. (2016), Role of Financial Advisors in Tax Planning**, This research explores the role of financial advisors in guiding tax planning decisions among salaried individuals. It examines the factors influencing individuals' reliance on financial advisors, the quality of advice received, and the impact on tax-saving outcomes. The study underscores the importance of professional guidance in optimizing tax efficiency.
- **Tiwari, A., & Singh, D. (2015), Comparative Analysis of Tax-Saving Instruments**, This study conducts a comparative analysis of different tax-saving instruments, including ELSS, PPF, and NPS. By evaluating the risk-return profiles and tax benefits of each instrument, the research provides insights into the suitability of various options for salaried individuals. The findings help taxpayers make informed decisions in selecting tax-saving avenues.

The reviewed literature provides valuable insights into the tax planning behavior, preferences, and challenges faced by salaried individuals in India. While there is a growing awareness about tax-saving options, there remains a significant knowledge gap and underutilization of tax benefits among taxpayers. Factors such as income level, education, and access to financial advice influence tax planning decisions. By understanding these dynamics and promoting tax literacy, policymakers and financial institutions can enhance tax efficiency and promote financial well-being among salaried individuals, particularly in urban areas like Bengaluru City.

III. RESEARCH METHODOLOGY

i. Significance of the Study

Given the significance of tax planning in the financial well-being of individuals, understanding the tax planning behavior of salaried individuals in Bengaluru City is essential. This study seeks to shed light on the tax-saving instruments commonly utilized by individuals, their effectiveness in reducing tax liability, and the challenges faced in optimizing tax savings. The findings of this research can inform policymakers, tax professionals, and individuals themselves in developing and implementing strategies for efficient tax planning.

ii. Research Design:

The research employs a mixed-methods approach, combining both quantitative and qualitative research techniques to gather comprehensive data on tax planning behavior among salaried individuals in Bengaluru City.

iii. Data Collection and Analysis

Quantitative data is collected through structured surveys administered to a sample of salaried individuals in Bengaluru City. The survey gathered information on demographic characteristics, tax-saving preferences, awareness levels, and perceived barriers to effective tax planning. Qualitative data is collected through semi-structured interviews with a subset of survey respondents and tax professionals. Interviews provide in-depth insights into individual tax planning behavior, decision-making processes, and experiences with tax-saving instruments.

iv. Objectives of the Study

- To Identify Commonly Used Tax-Saving Instruments
- To Assess the Effectiveness of Tax-Saving Instruments in Tax Planning
- To Explore Factors Influencing Tax Planning Decisions

v. Scope of the Study

The study considers a wide range of tax-saving instruments available to salaried individuals in India, including but not limited to Provident Fund (PF), Equity Linked Savings Schemes (ELSS), Public Provident Fund (PPF), National Pension System (NPS), life insurance policies, and others. The research focuses specifically on salaried individuals residing in Bengaluru City, considering the unique socio-economic and demographic characteristics of the city's population.

vi. Limitations of the Study:

- The study acknowledges potential limitations, such as sampling bias, self-reporting biases in survey responses, and constraints associated with the research design.
- Steps are taken to mitigate these limitations and ensure the validity and reliability of the research findings.

IV. Tax-Saving Instruments: Overview and Analysis

Tax-saving instruments play a crucial role in tax planning for salaried individuals, offering avenues to minimize tax liability while simultaneously promoting savings and investments. In this section, we provide an overview of various tax-saving instruments available to salaried individuals in Bengaluru City, analyze their preference and utilization among respondents, assess their effectiveness in reducing tax liability, and compare popular tax-saving instruments based on returns and risk.

1. Overview of Tax-Saving Instruments

1.1 Provident Fund (PF):

- Provident Fund, including the Employees' Provident Fund (EPF) and Voluntary Provident Fund (VPF), allows employees to contribute a portion of their salary towards a tax-deferred retirement savings account. Contributions to EPF are eligible for tax deductions under Section 80C of the Income Tax Act.

1.2 Equity Linked Savings Schemes (ELSS):

- ELSS is a type of mutual fund that primarily invests in equities and offers tax benefits under Section 80C. Investments in ELSS funds are subject to a lock-in period of three years and provide potential for higher returns compared to traditional tax-saving instruments.

1.3 Public Provident Fund (PPF):

- PPF is a long-term savings scheme offered by the government of India with tax benefits under Section 80C. Contributions to PPF accounts, interest earned, and withdrawals are tax-exempt, making it a popular choice for tax-saving and retirement planning.

1.4 National Pension System (NPS):

- NPS is a voluntary retirement savings scheme that offers tax benefits under Section 80CCD of the Income Tax Act. Contributions to NPS accounts are eligible for tax deductions, and withdrawals are partially tax-exempt, subject to certain conditions.

1.5 Life Insurance Policies:

- Life insurance policies, including term insurance, endowment plans, and unit-linked insurance plans (ULIPs), offer tax benefits on premiums paid and proceeds received. Premiums paid towards life insurance policies are eligible for deductions under Section 80C, while proceeds received are generally tax-free under Section 10(10D).

2. Analysis of Preference and Utilization

2.1 Survey Findings:

- Survey responses from salaried individuals in Bengaluru City indicate varying preferences and utilization of tax-saving instruments. Factors influencing instrument selection include risk appetite, investment horizon, and tax-saving objectives.

2.2 Preference Rankings:

- Analysis of survey data reveals the most preferred tax-saving instruments among respondents, providing insights into the popularity and perceived effectiveness of each instrument in tax planning strategies.

3. Effectiveness in Reducing Tax Liability

3.1 Tax Savings Calculation:

- Quantitative analysis is conducted to assess the effectiveness of tax-saving instruments in reducing tax liability. Comparisons are made between tax liabilities with and without utilization of tax-saving instruments to quantify the savings achieved.

3.2 Impact on Overall Tax Burden:

- The study evaluates the impact of tax-saving instruments on the overall tax burden of respondents, considering factors such as income level, tax bracket, and investment allocation.

4. Comparison of Popular Tax-Saving Instruments

4.1 Returns and Risk Analysis:

- Comparative analysis is conducted to evaluate the returns and risk profiles of popular tax-saving instruments, including PF, ELSS, PPF, NPS, and life insurance policies. Factors such as historical performance, volatility, and liquidity are considered in the comparison.

4.2 Recommendations:

- Based on the analysis, recommendations are provided for salaried individuals regarding the selection and allocation of tax-saving instruments to optimize tax efficiency and achieve financial goals.

V. Factors Influencing Tax Planning Behavior

Tax planning behavior among salaried individuals is influenced by various socio-demographic factors, levels of awareness and knowledge about tax-saving options, the influence of financial advisors and peers, as well as perceived barriers to effective tax planning. Understanding these factors is essential for developing effective tax planning strategies and promoting financial literacy among taxpayers.

1. Socio-demographic Factors Affecting Tax Planning Decisions

1.1 Income Level:

- The level of income significantly influences tax planning decisions. Higher-income individuals may have access to a wider range of tax-saving instruments and may seek more sophisticated tax planning strategies to optimize their tax efficiency.

1.2 Education and Occupation:

- Education level and occupation play a crucial role in tax planning behavior. Educated individuals with professional occupations may have better awareness of tax laws and financial instruments, enabling them to make informed tax planning decisions.

1.3 Age and Life Stage:

- Tax planning preferences may vary based on age and life stage. Younger individuals may focus on wealth accumulation and long-term investments, while older individuals may prioritize retirement planning and wealth preservation.

1.4 Marital Status and Dependents:

- Marital status and the presence of dependents influence tax planning decisions, particularly regarding deductions and exemptions available for spouses, children, and other dependents.

2. Awareness and Knowledge about Tax-Saving Options

2.1 Tax Literacy:

- Awareness and knowledge about tax laws and available tax-saving options are crucial determinants of tax planning behavior. Individuals with higher levels of tax literacy are more likely to engage in proactive tax planning and optimize their tax savings.

2.2 Access to Information:

- Access to reliable information about tax-saving instruments and strategies is essential for effective tax planning. Individuals who actively seek out information from credible sources are better equipped to make informed tax planning decisions.

3. Influence of Financial Advisors and Peers on Tax Planning Choices

3.1 Role of Financial Advisors:

- Financial advisors play a significant role in guiding tax planning decisions. Their expertise and advice can help individuals navigate complex tax laws, identify tax-saving opportunities, and implement tax-efficient investment strategies.

3.2 Peer Influence:

- Peer influence and social norms also impact tax planning choices. Individuals may be influenced by the tax planning strategies adopted by their peers, colleagues, or family members, leading to the adoption of similar approaches.

4. Perceived Barriers to Effective Tax Planning

4.1 Complexity of Tax Laws:

- The complexity of tax laws and regulations can act as a barrier to effective tax planning. Individuals may find it challenging to understand and navigate the intricate tax landscape, leading to suboptimal tax planning outcomes.

4.2 Lack of Awareness and Resources:

- Limited awareness about tax-saving options and resources, coupled with a lack of access to financial advice, can hinder effective tax planning. Individuals may miss out on valuable tax-saving opportunities due to a lack of knowledge or resources.

4.3 Time Constraints and Procrastination:

- Time constraints and procrastination may prevent individuals from engaging in proactive tax planning. Busy schedules and competing priorities may result in last-minute tax-saving decisions, leading to missed opportunities and higher tax liabilities.

Factors such as socio-demographic characteristics, awareness and knowledge about tax-saving options, the influence of financial advisors and peers, and perceived barriers to effective tax planning significantly influence tax planning behavior among salaried individuals. Addressing these factors through targeted interventions and educational initiatives can empower taxpayers to make informed tax planning decisions and optimize their tax efficiency.

VI. FINDINGS

Tax-Saving Instruments:

- The most commonly utilized tax-saving instruments among salaried individuals in Bengaluru City are Provident Fund (PF), Equity Linked Savings Schemes (ELSS), Public Provident Fund (PPF), National Pension System (NPS), and life insurance policies.
- Preference for specific tax-saving instruments varies based on factors such as risk appetite, investment horizon, and tax-saving objectives.

Effectiveness in Reducing Tax Liability:

- Tax-saving instruments such as ELSS and PPF have been found to be particularly effective in reducing tax liability due to their tax benefits and potential for higher returns.
- Contributions to Provident Fund (PF) and National Pension System (NPS) accounts also offer significant tax deductions, contributing to overall tax savings for salaried individuals.

Factors Influencing Tax Planning Behavior:

- Socio-demographic factors such as income level, education, age, marital status, and dependents significantly influence tax planning decisions among salaried individuals.
- Awareness and knowledge about tax-saving options play a crucial role in determining tax planning behavior, with individuals with higher tax literacy being more proactive in tax planning.
- Financial advisors and peer influence have a considerable impact on tax planning choices, highlighting the importance of professional guidance and social networks in shaping tax planning behavior.
- Perceived barriers to effective tax planning, including the complexity of tax laws, lack of awareness and resources, and time constraints, hinder individuals' ability to optimize tax savings.

VII. SUGGESTIONS

Enhancing Tax Literacy:

- Implement educational initiatives and awareness campaigns to improve tax literacy among salaried individuals, providing them with the necessary knowledge and resources to make informed tax planning decisions.

Access to Financial Advice:

- Promote access to reliable financial advice and guidance through tax professionals, financial advisors, and online resources, enabling individuals to navigate complex tax laws and optimize tax-saving strategies.

Simplifying Tax Laws:

- Advocate for simplification and clarity in tax laws and regulations to reduce barriers to effective tax planning, making it easier for individuals to understand and comply with tax requirements.

Encouraging Early Tax Planning:

- Encourage individuals to engage in proactive tax planning throughout the year, rather than waiting until the last minute, to maximize tax-saving opportunities and minimize tax liabilities.

VIII. CONCLUSIONS

Tax planning is a critical aspect of financial management for salaried individuals in Bengaluru City, given the significant tax burden and the multitude of tax-saving options available. The findings of this research highlight the importance of understanding individual preferences, socio-demographic factors, awareness levels, and barriers to effective tax planning in designing personalized tax strategies.

By addressing these factors through targeted interventions and educational initiatives, policymakers, tax professionals, and financial advisors can empower salaried individuals to optimize their tax efficiency, enhance their financial well-being, and achieve their long-term financial goals. Effective tax planning not only reduces tax liabilities but also promotes savings, investments, and overall financial security for individuals and their families.

In conclusion, this research contributes to the existing body of knowledge on tax planning behavior among salaried individuals in Bengaluru City and provides practical insights and recommendations for improving tax efficiency and financial literacy in the region.

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