

Tax saving opportunities under Section 80C of the Income Tax Act 1961 for informed “Investment decision making”

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Abstract

Investment is a vital option to create an additional source of income. In the existing scenario, variety of investment options are available to individuals which facilitate short term and long term capital gains. Therefore individuals earn through investment in different investment tools like Life Insurance, Public Provident Fund, National Pension Scheme, National Saving Certificate, Life Insurance, Post office, Equity Linked Saving Scheme, Fixed deposit and Sukanya Samridhi Yojana etc. This helps to accomplish the dual objective of getting returns as well as getting tax benefits by claiming the amount as tax deduction under the section 80 C of Income Tax act 1961. This paper enlightens about the tax saving opportunities accessible to investors under section 80C. This paper also focuses on investor preferences, objectives, selection of safe investment option, preferable factor and mode of payment towards investment. The paper describes the significant difference between the investment objective selected by male and female and throws light on the investors' awareness related to deductions specified in Section 80C and if it is dependent on their qualification, monthly income.

Keywords: *Investment Avenue, investment objective, preferable factor and awareness of deductions specified under section 80C.*

Introduction

Investment basically refers to putting money, efforts and time into investment tools and getting the benefits in return. It is a kind of aspiration that attracts individual to work hard and save money for investment. Therefore it is necessary that investors should be aware of the risk, return and other benefits appended with the specific investment avenue in which they are planning to invest. Investors can get specific and concrete information about tax saving opportunities by looking into the Section 80C of Income Tax Act 1961 which portrays the rate of return and tax benefits comprehensively. Under this section, an investor can claim Rs. 1,50,000 (maximum) as tax deduction during the financial year 2017-18. The following table represents the diverse investment avenues, their interest rates, lock in period, minimum and maximum amount of investment, amount eligible for deduction under Section 80C of Income Tax Act 1961 for the financial year 2017-18 and whether related avenues are risky or not.

Table No. 1: Comparative analysis of different investment avenue comes under Section 80C

Investment Avenue	Rate of Interest (per annum)	Minimum Investment (Yearly in Rs.)	Maximum Investment (Yearly in Rs.)	Amount eligible for deduction under section 80C	Lock in Period	Risk Structure
Public Provident Fund	7.8%	500	1,50,000	1,50,000	15 years	Non-risky
Life Insurance Scheme	5 or 6% (vary with scheme)	10000 approx	Based on premium amount	Premium amount (should not exceed 20% of the actual capital sum assured.)	5 years	Non-risky
Equity Linked Saving Scheme	Market linked	500	No limit	1,50,000	3 years	Risky
5 Year Bank Fixed Deposits	6.25% (SBI)	1,000	No limit	1,50,000	5 years	Non-risky
National Saving Certificate	7.8%	100	Up to 1,00,000	1,50,000	5 years	Non-risky
5 Year Post Office Time Deposit Scheme	7.1%	200 and multiple of 200	No limit	1,50,000	5 years	Non-risky

Need for the study

At present investors have numerous investment opportunities but they are not wholly aware of selection of safe investment option, mode of investment and availability of tax benefits. This study will help them to understand the different tax saving options available under section 80C through which investors can avail tax benefits as well as get significant returns.

Objectives of the Study

- To study about investors preference towards available different investment options.
- To study the views of male and female on their investment objectives.
- To study the deciding factors for investment such as return, risk, maturity period and company reputation.
- To find out the knowledge of investors about Section 80 C under Income Tax Act 1961.

Review of Literature

Srivastava (2017) conducted a study to know the investors preference between Equity linked Saving Schemes funds and Fixed deposits. The study revealed that investors choose ELSS compare to other income investment option like PPF, NSC and bank fixed deposits as they are generating higher return, have moderate lock in period of three years as well as are tax free. Usually young investors give preference to ELSS as they have high risk tolerance and sufficient time horizon to endure volatility allied with equity investments.

Mane (2016) conducted a research to know the investors perception towards Mutual Funds in Aurangabad city with 30 sample size. The Chi-test was applied as a statistical tool to analyze that there is significant difference in preference for investment and AMC preference and awareness towards the mutual fund. It was found that investors give most preference to fixed deposit and they feel it is the safest investment option. Also investors give AMC preference to SBI and ICICI mutual fund as they have good scheme to attract the investors and 83% investors are not aware with the mutual fund scheme and does not have confidence in investing the money in it.

Apparao and Babu (2015) focus a research study to analyze the investor perception towards different investment avenue in Godavari district of Andhra Pradesh with a 576 sample size. The study describes that investor are familiar with the different investment avenue like mutual fund, provident fund, fixed deposit, shares, debentures, national saving certificate but they do not select national saving certificate as an investment option. Investors give first priority to bank deposit as it is a safe investment option according to them. Also the main motive behind saving is safety for future.

Pahuja (2014) conducted a study to analyzing the investor's preference towards Unit linked insurance plan. The research methodology used was a primary survey on 100 investors of tricity (Chandigarh, Panchkula, Mohali). The tools used for analysis were mean, percentages, ANOVA and correlation. It was found that the investors invest to avail the tax benefit and to meet the future contingency and their investment decision was influenced by reference groups. Also a positive correlation found that preferences for ULIPs vary for males and females and vary for different age people.

Vyas (2012) revealed that investors give preference to gold, fixed deposit and life insurance scheme for investment. Investors are aware with the risk but they do not have adequate knowledge to analyze the risk in their investment. Further study describes a significant relationship between time of holding investment and occupation.

Research Methodology

• Source of Data

The study is based on both primary and secondary data. The primary data was collected with the help of a structured questionnaire whereas secondary data was collected from Books, Journals, Periodicals, Magazines, Annual Reports and Websites.

• Tools of data collection

The data was accumulated by using questionnaire which contains the required information related to tax saving opportunities that come under Section 80C of Income Tax Act 1961. Also the questionnaire was filled by the investors who invest money as per the mentioned criteria.

• Sample size

For the study sample size consisted of 53 respondents. The respondents are resident of Durgapura Area of Jaipur, Rajasthan. Also respondents were categorized on the basis of their income, gender, age, occupation, income and qualification.

• Hypothesis

H1₀: There are no differences found investment objective selected by male and female.

H1₁: There are differences found investment objective selected by male and female.

H2₀: Qualification and awareness of deductions specified under Section 80C of Income Tax Act 1961 are not dependent.

H2₁: Qualification and awareness of deductions specified under Section 80C of Income Tax Act 1961 are dependent.

H3₀: Income and awareness of deductions specified under Section 80C of Income Tax Act 1961 are not dependent.

H3₁: Income and awareness of deductions specified under Section 80C of Income Tax Act 1961 are dependent.

• Tools of Data Analysis

The collected data is classified in SPSS and is presented in a systematic manner. Also for this study the following statistical tools were used:

- Mean
- T- Test

- Frequency Table
- Chi-square Test

Interpretation of outcomes

After applying the above mentioned test on 53 respondents, following are the results and its analysis:

1. Type of Investment preferred by investor- To study this respondents were asked to give points based on the 6 point likert scale (1 referred to strongly preferred6 referred to strongly not preferred) for the different investment avenues like Public Provident Fund, Life Insurance Scheme, Equity Linked Saving Schemes, 5 Year Bank Fixed Deposits, National Saving Certificate and 5 Year Post Office time Deposit Scheme. The mean value is used as a statistical tool to find out the preference of investor from the available investment options based on occupation.

Table No. 2: Type of Investment Preferred by Investors – Occupation wise

Investment Options Occupation	Public Provident Fund	Life Insurance Scheme	Equity Linked Saving Schemes	5 Year Bank Fixed Deposits	National Saving Certificate	5 Year Post Office Time Deposit Scheme
Businessman	3.14	2.00	4.57	3.57	5.57	4.00
Private Employee	2.80	2.23	3.78	3.38	4.45	4.20
Government Employee	2.75	2.00	5.00	3.00	4.75	5.25
Others	1.50	1.50	3.50	1.50	2.50	1.00
Total Mean Value	2.79	2.15	3.96	3.30	4.55	4.13
Rank	2	1	4	3	6	5

The Table No. 2 illustrates that businessmen, government and private employees give strong preference to Life Insurance Scheme. In other words, **Life Insurance** is 1st choice of investors as it is an old and trustworthy investment option for them. Public Provident Fund is the 2nd choice of investment as it gives tax benefit with returns and it is immediately followed by 5 Year Bank Fixed Deposits as it is considered a safe investment option in the existing market according to the investors. Equity Linked Saving Scheme is the 4th choice of investment as it has minimum lock in period which is followed by 5 Year Post Office Time Deposit Scheme while National Saving Certificate is strongly not preferred by investors as it is a new investment option and investors are not completely aware of it.

2. Investment objective of investors- For this respondents were asked to give rank to their investment objectives like retirement benefit, tax reduction, meet contingencies, children's education, purchase of assets and capital appreciation. Respondents were asked to give rank 1-5 (Most preferred as 1 and Not Preferred as 5). To know the difference between investment objective selected by the male and female, T- test is applied.

Table No. 3: Investment objective of investors- Gender wise

Variable	Gender	Mean	N	D.F	T-value	Sig(2 –tailed)	Significant or Not
Retirement Benefit	Male	2.78	27	51	-.246	.807	Not Significant
	Female	2.85	26				
Tax Reduction	Male	2.15	27	51	-.111	.912	Not Significant
	Female	2.19	26				
Meet Contingencies	Male	2.93	27	51	1.016	.315	Not Significant
	Female	2.54	26				
Children's Education	Male	2.67	27	51	-.060	.952	Not Significant
	Female	2.69	26				
Purchase of Assets	Male	3.56	27	51	2.769	.008	Significant
	Female	2.42	26				

Capital Appreciation	Male	3.48	27	51	1.814	.076	Not Significant
	Female	2.65	26				
	Female	2.78	27				

The Table No. 3 shows T-test result that there are no differences found between the investment objective selected by male and female expect in case of purchase of assets. It means male and female behave differently when they consider purchasing of assets as an investment objective.

3. Selection of safe investment option – To select amongst the safe investment options, respondents were asked to choose from the available alternatives such as Public Provident Fund, Life Insurance Scheme, Equity linked Saving Schemes, 5 Year Bank Fixed Deposits, National Saving Certificate and 5 Year Post Office Time Deposit Scheme. To analyze the outcome, frequency table is used and rank is allotted accordingly.

Table No. 4: Selection of safe investment option

	Public Provident Fund	Life Insurance Scheme	Equity Linked Saving Scheme	5 Year Bank Fixed Deposits	National Saving Certificate	5 Year Post Office Time Deposit Scheme
Frequency	13	18	5	16	0	1
Percentage	24.5	34.0	9.4	30.2	0	1.9
Rank	3	1	4	2	6	5

The Table No. 4 elucidates that **Life Insurance Schemes** are the safest investment option according to investor which is immediately followed by 5 Year Bank Fixed Deposit. Public provident fund considered as the 3rd safest investment option while Equity Linked Saving Scheme came on 4th position and 5 Year Post Office Time Deposit Scheme came on 5th position. Investors did not consider National Saving Certificate as a safe investment option because of the limited information they have about National saving Certificate.

4. Preferred factor for investment- To recognize the most preferable factor required for investment, respondents were asked to opt the available factor i.e. return, risk, maturity period and reputation of a company and frequency table is used to analyze the results.

Table No. 5: Preferred factor for investment

	Frequency	Percentage	Cumulative Percentage
Maturity Period	8	15.1	15.1
Return	22	41.5	56.6
Low Risk	16	30.2	86.8
Company Reputation	7	13.2	100.0
Total	53	100.0	

The Table No. 5 clarifies that 42% investor considers **return** as the most significant factor for the investment while 30% investor choose low risk as an preferable factor for the investment. Maturity period opt by only 15% investor while only 13% investor choose company reputation as an investment factor. It means maturity period and company reputation is slight factor for investment.

5. Mode of Investment- To know the most preferable mode of investment among monthly, quarterly, yearly and one time, respondents were asked to choose one option from these available options and the data is analyzed on the basis of frequency table.

Table No. 6: Preferable mode of investment

	Frequency	Percentage	Cumulative Percentage
Monthly	16	30.2	30.2
Quarterly	15	28.3	58.5
Yearly	18	34	92.5
One Time	4	7.5	100.0
Total	53	100.0	

The Table No. 6 shows that 34% investor gives preference to **yearly mode** of investment while 30% and 28% investor chooses monthly and quarterly investment respectively. Only 8% investor made investment one time only.

6. Awareness of deduction specified under Section 80C of Income Tax Act 1961- To know how many investors are aware of deductions that come under Section 80C and if their investment decision is based on these deductions. These results are measured through the frequency table.

Table No. 7: Awareness of deduction specified under Section 80C of Income Tax Act 1961

	Frequency	Percentage	Cumulative Percentage
Yes	31	58.5	58.5
No	22	41.5	100
Total	53	100	

The Table No. 7 shows that 59% investors are aware with the deductions under Section 80C while 41% investors are not aware about the various deductions and important information related to Section 80C.

a. Qualification and awareness of deductions specified under Section 80C of Income Tax Act 1961 are dependent or not:

-To identify the significance between qualification and awareness of deductions specified under Section 80C of Income Tax Act 1961, Chi-test is applied.

Table No. 8: χ^2 test of awareness of deduction specified under Section 80C

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.415	3	.220
Likelihood Ratio	4.637	3	.195
Linear-by-Linear Association	3.459	1	.063
N of Valid Cases	53		

The Table No. 8 clarifies that χ^2 (3, N=53) = 4.415. The calculated p value is .220 at significance level 0.05 which shows that qualification and the awareness of deductions specified under Section 80C of Income Tax Act 1961 are not dependent.

In other words, investors who are aware with the deduction specified under section 80C, their awareness are not based on their qualification.

b. Income and awareness of deductions specified under Section 80C of Income Tax Act 1961 are dependent or not:

-To identify the significance between income and awareness of deductions specified under Section 80C of Income Tax Act 1961, Chi-test is applied.

Table No. 9: χ^2 test of awareness of deduction specified under Section 80C

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.256	3	.064
Likelihood Ratio	8.050	3	.045
Linear-by-Linear Association	6.781	1	.009
N of Valid Cases	53		

The Table No. 9 clarifies that χ^2 (3, N=53) = 7.256. The calculated p value is .064 at significance level 0.05 which shows that income and the awareness of deductions specified under Section 80C of Income Tax Act 1961 are not dependent.

In other words, investors invest in different tax saving options that come under section 80 C but their investment is not dependent on their income.

Conclusion and Suggestions

In the existing scenario, investors irrespective of their gender and their occupation are very well versed with the investment options except National Saving Certificate and they give priority according to their investment objective without giving much attention to purchase of assets. The investors' motive behind investment is to only get return. Therefore, they consider Life Insurance Scheme as the safest investment option where they get a sum assured after the maturity period and an adequate amount in case of causality. The investors prefer yearly option for investment. Only three-fifth investors contain familiarity with the deduction specified under section 80C but their knowledge is independent of their qualification and income.

There are some suggestions concerning for investors that they should increase their knowledge for the new investment opportunities like National Saving Certificate which is easily accessible in recent time as its interest rate is higher than Life Insurance Scheme, 5 Year Post Office Time Deposit Scheme and 5 Year Bank Fixed Deposits with the same lock in period. One more suggestion is that in existing scenario, investors do not require a huge amount of money for investment. It is possible to make an investment with the small amount of money in order to get the benefit of compound interest that is why investors should prefer monthly and quarterly mode of investment rather than yearly mode. Also it is strongly suggested that investors should be aware of the specified deductions that come under Section 80C of Income Tax Act 1961, which make their decision effective and profitable as they can avail tax benefit which will directly assist them to increase their earnings. The information related to Section 80C is readily and easily available in books, newspaper, television and internet. Hence before making an investment, investors should analyze risk, return, tax benefit, lock in period and mode of payment.

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