An Investigation on the Direct Tax Literacy of Indian Citizens in the Present Scenario

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Abstract
The primary intent of any country is its overall evolution and development. The Government who aims to do welfare and developmental activities call for finance. Revenue source for any Government is the earnings through tax and Indian Government is no exemption. The taxes are obtained from the citizens who are liable under the tax laws of the country. This inquiry inspect the direct tax literacy rate of Indian citizens by giving specific reference to inhabitants of Palakkad District, Kerala, India. The study examines the direct tax literacy rate of Indian citizens and also suggests certain measures to propagate its ideas to all parts of the population. Data has been collected from secondary sources namely journals, magazines and research papers and from primary sources through questionnaires, direct interviews. The researcher has used percentage and weighted average tools for analysis. The study reveals that even though a major proportion of the population are regular taxpayers, they lack proper literacy in terms of tax and its laws. Thus, it is necessary that they are well educated on this front so as to make a tax literate society.

Keywords: direct tax, citizens, government, literacy

Introduction
From an angle, tax may be considered as a pecuniary burden placed upon individuals or firms so that it becomes major revenue to the Government. It can be stated as an enforced contribution from the public to the legislative authority and not a voluntary contribution or donation. It is also considered to be the cost of living in a society. The incidence of tax in Indian society has been in place since many decades. The tax collector of the present times is the Government of the country whereas it was the rulers and landlords during those days in forms not followed today. The constitution of the India in Article 265 lays down the power of the Government and only the Government to levy taxes. In today’s time, the taxes are being collected in two forms: Direct taxes and Indirect taxes under three tier tax formations where taxes are levied by Central Government, State Government and Local Authorities. Direct Taxes namely Income Tax and Corporate Tax are the taxes on the income earned by a person while Indirect taxes like GST, Customs Duty etc. are the taxes on goods and services. The taxes collected from the tax payers constitute the major amount of revenue to the Government. Revenue so raised is utilised for meeting expenditures on account of defence, provision of health care, education and infrastructure facilities. It is also important for raising resources for development and welfare programmes and to bring about economic equality by imposing tax to income earners and improving the socioeconomic condition of the general people. The provisions of tax get amended each year with respect to the Finance bill, Income Tax Rules and the circulars and notifications of CBDT. This study aims at analysing the literacy of citizens in regards with Direct tax provisions relevant in the Country.
History of Taxation in India

Evolution of the word “tax” is from the Latin term “taxare” or otherwise termed as “taxo” mean “to assess the worth of something”. It is usually levied by the government that are used for the welfare of the concerned state. It assures revenue to the state and is therefore one of the most prominent aspects of any system of administration by any form of government. The efficient working of tax system depicts the strength of its economy. A smooth flow of taxation norms is utmost necessary for GDP growth, infrastructural development, increased standard of living and in overall stabilization of the economy.

Taxes are mainly divided into two categories namely direct and indirect tax were the first one is collected directly from the citizens of the country in the form of income and property taxes, whereas the latter is collected in the form of service tax, sales tax, customs duty and the like that too through third parties.

The important characteristics of any tax imposed by the government (Central, state or local) are:

- **Mandatory**: It is compulsory for all the citizens to pay their respective taxes if they fall under varying tax slabs as the same is executed by the government for the welfare of the country.
- **Contribution**: It is form of contribution to the government by citizens for the betterment of their country that assures basic infrastructure, defence, healthcare etc.
- **Public benefit**: The main objective of collecting taxes is overall upliftment of the society in all aspects and not supposed to be in favour of specific individuals.
- **Paid out of income earned or wealth**: Payment of tax is applicable only to those individuals who earn for their livelihood and is above the threshold limit stipulated by the government. Otherwise it is not essential to pay taxes unnecessarily.
- **Boosts economy**: Tax revenue is mainly utilized for the welfare of the state in form of infrastructure like roads, trains, power stations, dams, etc. The government utilizes the tax revenue for economic growth of the nation.

History of Income tax in India

History of income dates back from the year 1860 when Sir James Wilson collected necessary amenities from the public in order to overcome the loss suffered by the Government on account of the Military Revolt occurred in the year 1857. Subsequently, numerous amendments were brought out in these norms with the passage of time. Yet another separate income tax act was passed in the year 1886 which remained in force with varying amendments from time to time. A new income tax act was approved in the year 1918 which was later replaced in 1922 that remained in force for the assessment year 1961-1962 with frequent amendments. And finally the present Income Tax Act 1961 came into force with effect from 1 April 1962 that applies to the whole of India including Jammu and Kashmir. This act remains in force throughout the country with several amendments with the passage of time.

Brief History of Palakkad District

Palakkad is one of the 14 districts in Kerala known as Palakkattussery in earlier times. The district headquarters is situated in the city itself. It is bordered on the northwest by Malappuram District, on the southwest by Thrissur District, on the northeast by Nilgiris District and on to the east by Coimbatore district of Tamilnadu. The district is nicknamed as “the Granary of Kerala” and “Rice bowl of Kerala”. It is the gateway to Kerala due to the presence of the Palakkad Gap, in the Western Ghats. The total area of the district is 4,480 km2 (1,730 sq. mi) which is 11.5% of the state's area. The climate is pleasant for most part of the year; exception is on the summer months. Palakkad is the first paperless revenue district by computerizing the Collectorate, five Taluks and 156 village offices. There are 163 villages in Palakkad district. It is the one of the most agrarian districts in Kerala and is particularly known for paddy cultivation. According to the 2011 census Palakkad district has a population of 2,810,892 and is urbanised up to 24.4%. The district has a population density of 627 inhabitants per square kilometre (1,620/sq. mi). The sex ratio is 1067 females for every 1000 males, and has a literacy rate of 89.32%. Palakkad city has a literacy rate of 94.20%. The official
language Malayalam is predominantly and widely spoken in the district, while Tamil forms the main language of over 6% of the district's population.

Statement of the problem
Since 1st of April 1862 Income tax and its provisions stands applicable to the whole of India. But the majority of the population remain ignorant on these matters and the literate proportion of citizens in a handful number. This study aims at analysing the literacy of people in the matter of direct tax mainly income tax and to evaluate the relationship of economic situation and the literacy rate.

Objectives of the study
➢ To analyse the literacy rate of people with regard to Direct tax system of India
➢ To observe the percentage of regular tax payers
➢ To detect the portion of taxpayers who are perceptive of the tax provisions
➢ To evaluate how the tax literacy enables a citizen to invest in tax saving schemes

Significance of the study
Indisputably the most important source of revenue for the Indian Government is tax of which a key part is played by Income tax. It is established as an inevitable obligation on the citizens in order to raise funds for fulfilling the development and defence needs of the country. But the factor to ponder upon is what portion of the actual taxpayers is cognizant about the provisions of the tax. This inquiry sheds light on the literacy of citizens with reference to people at Palakkad in view of direct tax and its provisions.

Scope of the study
This study is limited to Palakkad district of Kerala. The intention of the study is to understand the direct tax literacy rate of the residents of Palakkad. The present study attempts to assess their knowledge on tax laws and its implications and also to analyse the proportion of regular tax payers and their understanding of tax schemes prevailing in the country.

Methodology
Descriptive research is applied throughout the study in order to collect the data mainly by interviewing the citizens of Palakkad district. Secondary data related to this study were collected from journals, research papers and websites. Primary Data were collected through questionnaires from citizens of Palakkad.

Tools Used
Data collected for the study is quantitative in nature as the researcher visited the place directly to gather essential information. Data collection tool applied used is the questionnaire method. Percentage and weighted average are also used throughout the study.

Sampling Technique
The unit of sample is residents of Palakkad under different economic strata and also fall under a span of age group. Non probability technique of sampling namely convenience sampling is used in the study with a sample size of 100 persons who live in Palakkad District

Data analysis and Interpretation
Data analysis is a process of inspecting, purging, transforming and organising data in order to derive useful information and facilitate decision making procedure. The process of data analysis uses logical and analytical reasoning to draw beneficial suppositions from the data. The interpretation of data assigns a meaning to the information analysed and determines its connotation and implications.

The data for this study was collected through 25 questions furnished to the 100 respondents of the survey. The questions focused on deriving the knowledge of respondents in matters of Income tax and provisions.

Methods Used For Data Analysis
1. Simple Percentage Analysis is used here for data analysis and interpretation.
2. Weighted Average analysis for data collected in the form of Rensis Likert’s Scale
Findings

- In the age ordering of individuals, it was understood that 42% of the respondents belonged to the age group of 48-52 which constitutes a huge part of the earning community who later are liable to pay tax on their respective incomes and the group of 73-77 had nil responses.

- Majority of the individuals who replied (i.e. 56%) were males and females were only 46%.

- In the educational level classification, it was found that most 36% of the individuals were post graduates and the least was found to be in 10+2 category i.e. 5%.

- It was inferred that 40% of the sample population belonged to salaried class and 30% were students and other 30% were unemployed individuals.

- In the family type of individuals, it was analysed that 79% fit to nuclear family type and 21% into joint family type.

- In the classification of earning members in the family, it was inferred that 44% has only a single earning member in the family while there were 5 & 6 earning members in families pertaining to only 1% each of the population.

- It was found that 33% each earned below ₹5,00,000 and between ₹5,00,000 and ₹10,00,000 respectively. From which, it can also be inferred that more than half of the population come under the slab rate of 5% and 20%.

- 84% were found to be regular tax payers and 98% with the possession of Pan Card.

- In the sorting method adopted for filing returns, 40% file their returns through Chartered Accountants and the least adopted method ID through authorized return preparers.

In the classification on the basis of awareness regarding current income tax provisions, 80% fall into the category of highly aware.

70% of the respondents adopt ways for tax planning, which also showcase their tax behaviour.
In the classification showing knowledge on computation of taxable income 77% are well aware of how taxable income is computed.

On account of comprehension on the various types of taxable income, it was found that 76% have familiarity in the types of taxable income.

From the data showing comprehension on the various types of exempted income, it was understood that 62% have familiarity in the types of exempted income.

In the classification of sources of information regarding taxation schemes, it was inferred that major source is from Auditors/Chartered Accountants (32%) while least prefer self-learning.

**SOURCES OF INFORMATION REGARDING TAXATION SCHEMES**

- Auditors/Chartered Accountant 32%
- Website 23%
- Social media 12%
- Tax practitioners 9%
- Friends/Relatives 16%
- Books/Journals/Newspaper 5%
- Self-Learning 3%
- Other 8%

In the classification of responses on the basis of understanding of provisions regarding clubbing of other’s income in the hands of the assessee, 47% were unaware of the provisions and its implications in the tax liability.

In the data showing understanding of respondents on the changes made to the Income Tax Act every year through the alterations made in finance act, 90% showed a positive response to the query.

With regard to understanding of respondents about utilization of tax revenue by Government, it was found that 61% knew how the tax were being utilised by the Government.

In the classification of responses on the basis of awareness of respondents on the personal income tax rates for the financial year 2020-21, it was found that 81% are familiar with the current tax rates.

In the category of responses made on the basis of awareness of respondents on the income tax basic limit for a person [age 18-60] to be liable under the income tax act, it was analysed that 81% of the population are accustomed with the provisions.

The data showing awareness of senior citizen respondents (age above 60) on the special schemes applicable to them under income tax act showed that out of the 9 Senior citizen respondents, 6 were aware about the provisions.

From the data collected through Liker’s scale out of the respondents 70% agreed that it is necessary for every taxable person to know about the provisions of the tax.
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- 65% of the respondents opined that public should be educated on the matters of tax.
- 45% of the population agreed that tax provisions are complicated while 20% strongly agreed to it and with a disagreement of 20%.

**Suggestions**
- Tax laws and provisions should be simplified.
- Awareness regarding taxes and its implications should be brought into the notice of the citizens.
- Most of the taxpaying individuals consider tax as a burden and find ways to elude taxes, hence to reduce such tax evasion the individuals should be educated about tax savings schemes.
- Authorities should take initiatives to bring more persons under the purview of assessment and thereby increase the rate of tax paying assesses in the country. Through such cause assesse base in the country can be enhanced.
- Tax literacy programmes should be initiated at educational institutions to educate both students and their guardians.
- The Income tax department of India should take all possible steps to propagate the tax laws and provisions and also convey its importance to the general public.

**Conclusion**

Tax is an inevitable part of the society’s spending and revenue for the Government. It is important that every person who is liable to pay tax under the provisions of the act come forward to remit their dues, on the contrary it is also significant that the public needs to be educated about Income tax. The tax is always considered as a burden and a thing which is not required for basic living but it is necessary that the society understands taxes can be saved by investing in tax saving schemes and this law is made for the people of the country and it is essential that they should have a basic understanding of it.

For the knowledge made through this study, data was collected from the inhabitants of Palakkad through means of questionnaire. The summary of the findings can be deduced as though a major proportion of the data populated are regular taxpayers; but they lack proper literacy in terms of Tax and its laws. Therefore it is suggested that public must be educated about tax in basic level and complications in its procedures should be reduced. It should be approachable to people coming from all walks of life. To conclude, it can be anticipated that the perception of citizens towards tax change for a better cause and that the authorities make effort in making tax laws more accessible.
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