



A CRITICAL STUDY ON TAX PLANNING TECHNIQUES ADOPTED BY ASSESSEES TAXABLE UNDER THE HEAD 'INCOME FROM SALARIES

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Abstract

Taxes are a significant source of revenue to the country. This study aims at the understanding the level of tax compliance prevalent among the assesseees taxable under the head "Income from Salary". E-filing of returns is a relatively new mode of filing returns and it has been a welcome change and this study attempts to gauge the efficiency and effectiveness of the electronic mode of filing returns. Furthermore, the study helps find if the assesseees are aware of the various tax provisions that are available to them and whether they have made use of them efficiently in order to plan their taxes efficiently. The research has been conducted with help of primary data, where questionnaires are distributed to salaried employees spread across different age groups and income levels. Analysis and findings have thrown to light several interesting findings on the tax planning patterns of assesseees who are taxable under the head 'Income from Salaries'. The paper concludes with suggestions to the government in the area of improving tax compliance for assesseees, who are taxable under the head 'Income from Salaries'

Introduction

As per Income Tax Act 1961, every person, which includes an individual, company, HUF, firm, Association of Persons, Body of Individuals or artificial judicial person whose total income exceeds maximum exemption limit is liable to pay income tax at the rates prescribed by the act. It is not a voluntary payment rather it is an enforced contribution that is mandatory for all persons who fall under the bracket and this is the reason why it is known as a levy. Despite the fact that the money collected through taxation is used to carry out many activities that are for the welfare of the society, it gives a feeling of displeasure to the tax payers to part with their hard earned money.

This research paper focuses on the assesseees taxable under the head, 'Income from Salaries' to study the level of tax compliance and tax planning that exists among them. This paper also attempts to understand the taxpayers' opinion about the effectiveness and efficiency of the electronic mode of filing tax returns.

Statement of Problem

Income tax is an important source of direct tax revenue for the Government and the assesseees' taxable under the head 'Income from Salaries' contribute a significant share to the government. After the IT boom in India that occurred during the late 1990's there has been a considerable increase in the quantum of salaries earned by the employees. However the tax provisions that is available for the salaried class for tax planning purposes has not been widened in its scope. This gives arise to a need to understand the taxpayers' perception of taxation in general, income tax in particular and the various tax planning measures that are commonly resorted to by them.

Objectives of the Study

This paper proposes to study the following objectives: (1) To study the level of tax compliance existing among assesseees taxable under the head "Income from salaries" (2) To study the efficiency and effectiveness of e-filing measures initiated by the government (3) To critically analyze the tax planning measures adopted by assesseees taxable under the head "Income from salaries"

Research Methodology

Data collection: Both primary and secondary data has been collected.

Primary Data: Primary data was collected by using the questionnaire technique. The prepared questionnaire was administered on 100 respondents belonging to the salaried class of individuals. The sample of 100 respondents was chosen by using the random sampling technique from a population of respondents belonging to different age groups, different income levels and different sectors of employment.

Questionnaire Design: The questionnaire was designed in a manner that facilitates the respondents to answer it with ease and with minimum amount of time and effort. The questions were direct and to extract maximum information from them. The respondents were requested to provide the correct information to the best of their ability. The questionnaire consisted of close-ended questions.



Secondary Data: Major portion of the research was carried out using the primary data that was collected through questionnaires. Secondary data from various websites were used to form a base for the study and to understand the various concepts and theoretical aspects of taxation, which was necessary to carry out the research.

Empirical Results and Discussion

- Findings reveal that a majority (88%) of the respondents were filing their returns regularly every year. An overwhelming 52 % also revealed that they were not only aware but also kept themselves abreast of the tax provision changes each year and planned their taxes accordingly.
- A further analysis of the 12% of respondents who did not comply with tax provisions and file returns, it was ascertained that the reason for non compliance of tax obligations was due to the complex tax provisions available making it difficult for assesseees to decode the tax provisions.
- It has been an interesting finding that despite the complexity of the tax provisions, most of the assesseees did not require the services of a tax consultant neither to plan their taxes nor to file their returns.
- This study has further revealed that a small percentage (6%) did not disclose certain areas of their incomes while an impressive majority disclosed all information while filing their returns.
- An encouraging majority (68%) of the respondents felt that e-filing of returns was a safe, secure and easy mode of filing returns. A further analysis of the reasons motivating assesseees to use e filing revealed the following as top reasons: quick processing, security, lesser constraints of time and place, accuracy and access to past data.
- Study has revealed that 25% of assesseees plan their investments in advance to take full advantage of the tax benefits that come along with the investments.
- Most of the tax planning options that salaried class of assesseees preferred was under Sec 80c of the Income Tax Act. Maximum number of respondents invested in Life insurance Premium (41%) the second most highly preferred tax savings investment is Public Provident Fund with 21%. And the next highly preferred investment option was in 5years Fixed Deposits with banks and post office, which had 17% of the total responses. Other common investment options were Equity Linked Savings Schemes, National Savings Certificate and Tuition fees paid for children's education. (8%, 7% and 6% respectively).
- Of the various other provisions that an assessee could adopt, the most popular ones were as below: 35% of respondents opted for tax savings by resorting to home loans, 31% used House Rent Allowance as a tool for tax planning. Salary restructuring and investing in spouse's name etc received equal attention as tax planning measures (15%) and the remaining 4% of the responses resorted to Leave Travel Allowance and other lesser known ways of tax planning.
- When asked if TDS has been deducted regularly and Form 16 been issued on time, 65% of respondents also confirmed that the employer deducted TDS regularly and issued certificates too.
- Study revealed that assesseees having a younger age profile, preferred, the electronic mode of filing returns as they were well acquainted with using computers.

Suggestions

- Several more e-processes can be introduced by the Government in various areas, as e – filing is the most sought after way of filing returns by assesseees.
- “Help Kendras” could be set up for those tax payers who are still reluctant to resort to e-filing due to their inadequate knowledge about computers.
- It was strongly suggested by assesseees that the threshold limit of Sec 80 D for Medical insurance available for the assessee and his/her parents could be increased beyond the existing limit.
- Several assesseees did not resort to the following sections for tax planning at all, it has been recommended here that the IT act look at ways of making the following sections more attractive and popular. The sections are: **Section 80 G (Donations)**, **Section 80GG (deduction on rent paid)**, **Section 80DD (Expenditure on disabled dependent)**, Section. 80E (deduction on loan for higher education).

Conclusion

The study proved that the level of tax compliance is very high among the salaried assesseees. Reasons for high tax compliance is the keen interest of the assessee and efforts made by them to understand the various tax provisions that are provided by the tax department.

The findings of this research have helped to conclude that Electronic mode of filing returns has been a welcome change in the area of taxation. It has been resorted to by most of the taxpayers for its simplicity and quickness'-filing of returns is believed to be efficient and effective.



The most common source of information about various investment options is through friends and family. The highly preferred option is Life Insurance Premium and Public Provident Fund.

The study has observed that investing for the purpose of tax planning is common among the assessee taxable under the head "Income from Salary" as they make efficient use of the deductions available under Chapter VI A for planning their taxes effectively.

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