

A Study on the Tax Planning Practices of Employees in Manufacturing sector with special reference to Bangalore

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ABSTRACT

The analysis of a financial situation or a planning made from a tax perspective constitutes tax planning. Tax efficiency is the foremost purpose of tax planning. Various Exemptions, deductions and benefits can be adopted by the employees to minimize their tax liability over a financial year. The legal way of reducing the tax liabilities is tax planning. This study focuses on determining the level of awareness of employees in various tax aspects, to look into the measures adopted by the employees, to know the attitude of employees towards various tax facets and to identify the issues and challenges faced by them. The researcher collected data from 80 employees in manufacturing sector using questionnaires and the analysis was obtained using various tools such as percentage analysis, descriptive statistics, rank correlation and factor analysis. This study revealed that most of the employees are unaware about the tax planning measures and deductions available in Indian tax system.

1. Introduction

A compulsory charge imposed by the government is known as tax. It is a payment or a contribution made by the people to the government with no expectation of direct benefit. It is a personal obligation for the people to pay taxes in case they are liable to do so. It is nothing but formulates to avoid taxes, which is an art and does not break the law but yet its bonafied. The general public is always taxed in terms of the income they earn and their ability to pay. In order to have a proper and effective tax plan an assessee must be well aware about the various tax laws and should also be up to date with the same. It is better to plan before rather than keeping it for later. It is necessary for them to know their tax obligations and also the various tax planning measures that can be adopted by them so that they can make best use of their earnings by reducing the incidence of tax. The present law of income tax is contained in the year 1961 and is amended almost every year. The Finance Act specifies the rates of income tax for a current assessment year, rates for reduction of tax at source and advance payment tax for the said financial year.

2. Review of Literature

Ankita Gupta (2009) the study aimed at analyzing the movements and response of personal income tax during the liberalization era. It showed that the tax reforms have an impact on the growth of income tax and the main factors responsible for this is the reduction in top marginal rate of personal income tax, reduction in the number of tax slabs, and high rate in GDP. Simplification of the tax rates and widening of the tax base are the significant reforms that should be looked into for restructuring the tax system and increasing its responsiveness.

Navjot Dhingra (2005) studied the issues related to tax rate structures, incentives, deductions and inflation indexation. The study shows that on yearly basis there is a frequent variation in the income tax structure which violates the

principles of stability and created complications for the tax administration. After eighties it shows that the tax rates were quite stable.

Muneer (2002) studied the tax planning measures adopted by the college and university teachers as well as their investment pattern followed by them in order to avail the tax benefits under the Income Tax Act. The study shows that there were variations in the awareness level among the respondents regarding tax planning measures

3. Importance of the Study

The study will be significant to know the awareness and the various tax planning measures followed by the employees in manufacturing sectors. Therefore, this study can put forward suggestions in order to improve the awareness level of the employees and also to identify the challenges they have regarding various tax aspects.

4. Objective

1. To study the awareness level of the employees towards various tax aspects in the manufacturing sector.
2. To study the tax planning measures adopted by the employees
3. To study the issues and challenges faced by the employees regarding tax aspects.
4. To study the attitude of employees towards the taxation system in India

5. Methodology

The study is based on primary and secondary data. Primary data collected from 80 employees from manufacturing sector through questionnaires. Secondary data was collected from various books, journals and websites. The researchers used percentiles, mean, factor analysis and rank correlation to analyze and interpret the results.

6. Data Analysis and Interpretation

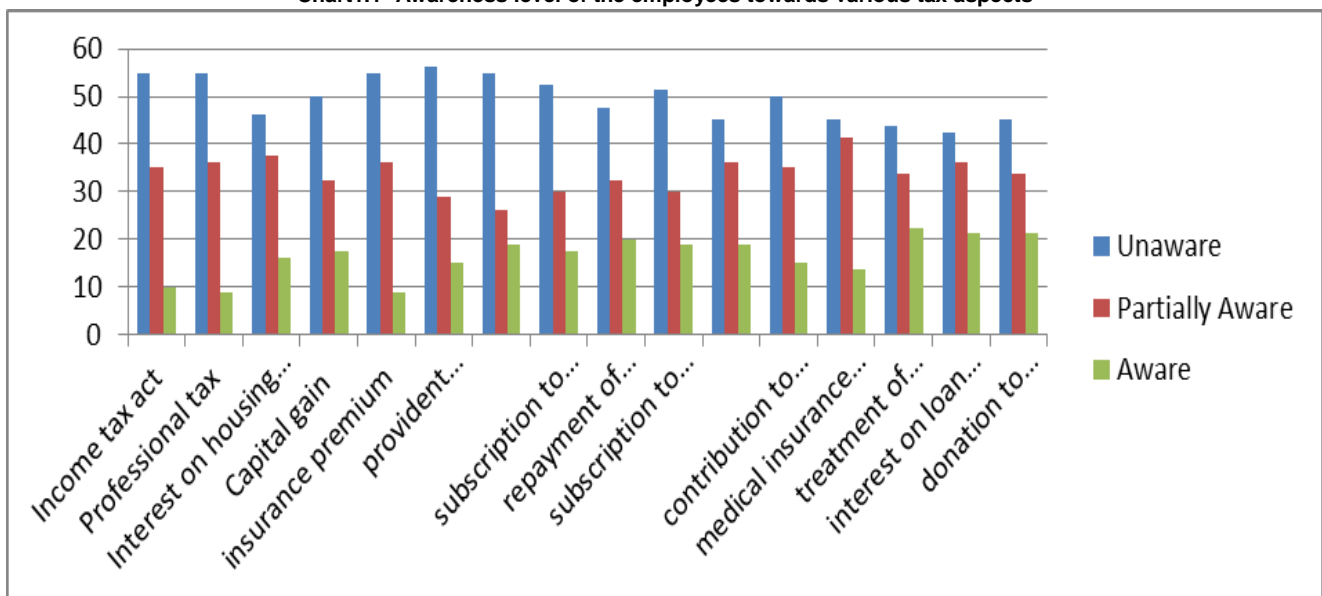
To analyze the awareness level of the employees towards various tax aspects the researchers used percentage analysis.

Table 1.1- Awareness level of the employees towards various tax aspects

Components	Unaware	%	Partially Aware	%	Aware	%
Income tax act	44	55	28	35	8	10
Professional tax	44	55	29	36.25	7	8.75
Interest on housing loan	37	46.25	30	37.5	13	16.25
Capital gain arising from the transfer of property used for residence	40	50	26	32.5	14	17.5
Deductions related to insurance premium	44	55	29	36.25	7	8.75
Deductions related to contribution to provident fund/public provident fund	45	56.25	23	28.75	12	15
Deductions related to investment in national savings certificate and post office savings bank deposits	44	55	21	26.25	15	18.75
Deductions related to subscription to mutual fund	42	52.5	24	30	14	17.5
Deductions related to repayment of housing loan (principal amount)	38	47.5	26	32.5	16	20
Deductions related to subscription to approved infrastructure bonds	41	51.25	24	30	15	18.75
Deductions related to fixed deposits in scheduled banks/housing fin.corp. For not less than 5 years	36	45	29	36.25	15	18.75
Deductions related to contribution to pension fund (u/s 80ccc)	40	50	28	35	12	15
Deductions related to medical insurance policy (u/s 80d)	36	45	33	41.25	11	13.75
Deductions related to treatment of handicapped dependents (u/s 80dd)	35	43.75	27	33.75	18	22.5
Deductions related to interest on loan taken for higher education (u/s 80e)	34	42.5	29	36.25	17	21.25
Deductions related to donation to charitable fund (u/s 80g)	36	45	27	33.75	17	21.25

Source: Primary Data

Chart1.1- Awareness level of the employees towards various tax aspects



With the awareness aspect, most of the respondents are unaware about the tax laws and various deductions available in the taxation system of India.

To analyze the tax planning measures adopted by the employees of manufacturing sector, the researchers used percentage analysis.

Table1.2- Tax planning measures

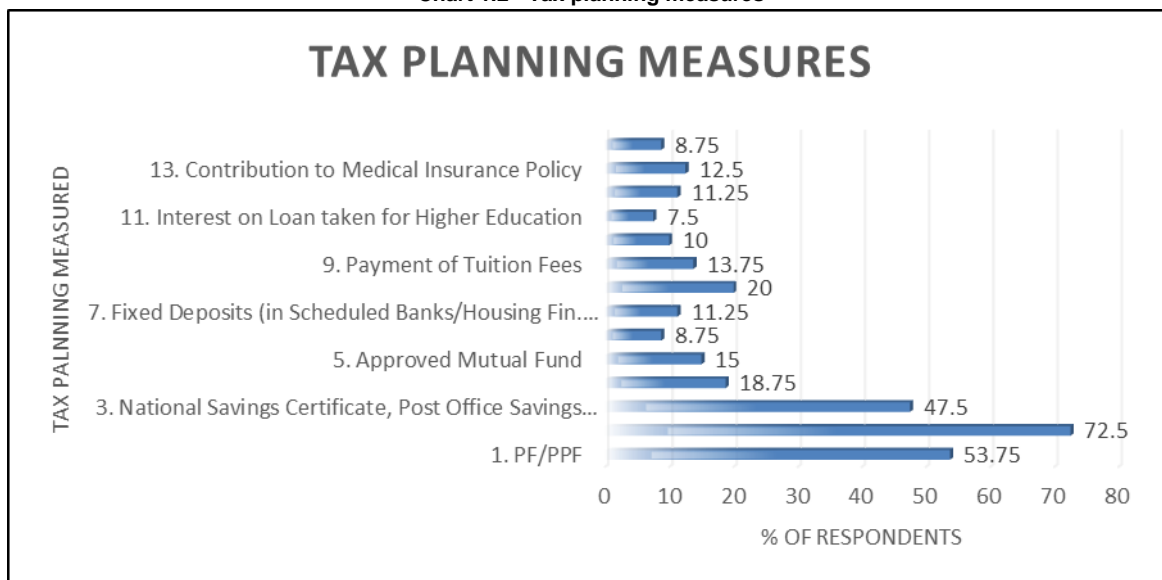
Tax planning measures	No. of responses	%of responses
1. PF/PPF	43	53.75
2. Life insurance policy	58	72.5
3. National Savings Certificate, Post Office Savings Bank A/c	38	47.5
4. UTI, ULIP	15	18.75
5. Approved mutual fund	12	15
6. Approved pension fund	7	8.75
7. Fixed Deposits (in Scheduled Banks/Housing Fin. Corp. For not less than 5 years)	9	11.25
8. Repayment of Housing Loan (Principal Amount)	16	20
9. Payment of Tuition Fees	11	13.75
10. Approved Infrastructure bonds	8	10
11. Interest on Loan taken for Higher Education	6	7.5
12. Interest on Housing Loan	9	11.25
13. Contribution to Medical Insurance Policy	10	12.5
14. Donations to Charitable Fund	7	8.75

Source: Primary Data

From the above figures it is evident that most of the employees have invested in life insurance policy (72.5%) followed by investments in PF/PPF that is 53.75% and these

two are the only measures which gives 50% or more. Payments towards interest on loan taken for higher education are the least which is 7.5% of total respondents.

Chart 1.2 - Tax planning measures



To analyze the issues and challenges faced by the employees regarding tax aspects the researchers used descriptive statistics and rank correlation.

Table 1.3- Descriptive Statistics

	N	Minimum	Maximum	Mean
unsuccessful attempts in filing	80	1	5	2.56
lack of knowledge about tax laws	80	1	5	2.51
Mismatch in details of TDS	80	1	5	2.46
Lack of experience and technical aspects about tax	80	1	5	2.59
Forget deductions during preparations of taxable income	80	1	5	2.525
Valid N (listwise)	80			

Table 1.4 – Rank Analysis

Point	Column1	Rank	Percent
Lack of experience and technical aspects about tax	2.59	1	100.00%
unsuccessful attempts in filing	2.56	2	75.00%
Forget deductions during preparations of taxable income	2.525	3	50.00%
lack of knowledge about tax laws	2.51	4	25.00%
Mismatch in details of TDS	2.46	5	0.00%

From the above table, the maximum respondents face difficulties with Lack of experience and technical aspects about tax followed by unsuccessful attempts in filing, forgets deductions during preparations of taxable income, lack of knowledge about tax laws and they have least difficulty with mismatch with details in TDS.

An attempt was made to ascertain how the employees who are income tax assesses views the provisions under the Income Tax Act which have been revised from time to time. The provisions identified for this purpose were:

1. Income tax rates.
2. Tax exemption limit.
3. Surcharge should be avoided during calculation of tax.

4. Taxation procedure is complex.
5. Filing of return is complex.
6. Need for improvement in tax paying system.
7. More tax schemes are needed

The seven variables are to be analyzed by the tool factor analysis, **which is the most common data reduction technique using principle component analysis (PCA)**. This helps to classify the variables in to groups which share a common character,

Variables with less than 0.4 as communality are not going to significantly contribute to the entire data. Hence, we discard such variables. Here the table of communalities is above 0.4, which shows that all variables are contributing significantly to the study.

Test of adequacy

The value of KMO and bartlette’s test of sphericity indicates if factor analysis can be done for the given data

Table 1.5 - KMO and Bartlett’s Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.674
	Approx. Chi-Square	214.805
Bartlett’s Test of Sphericity	Df	21
	Sig.	.000

From the table, KMO value is more than 0.6. Hence the data is adequate to carry out Factor Analysis.

Table 1.6 - ROTATED COMPONENT MATRIX

FACTORS	Rotated Component Matrix ^a			
		Component		
		1	2	3
Perception	Favour increase in tax exemption limit.	0.883		
	Income tax rates are high in India.	0.816		
	Surcharge should be avoided during calculation of tax.	0.793		
Complexity	Filing of return is complex.		0.914	
	Taxation procedure is complex.		0.809	
Prerequisites	More tax schemes are needed			0.842
	Need for improvement in tax paying system.			0.801

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization

a. Rotation converged in 5 iterations

Naming of Extracted Factors

The three extracted factors have been given the appropriate names on the basis of variables represented in each case. The names of the extracted factors, the statement labels and factor loadings have been summarized in Table4.27.

Factor 1: Perception

This factor has emerged as the most important factor explaining 44.502% out of the total variance. This factor has an eigenvalue of 3.115. In total, three statements load on to this factor. The highest loading has been found for the statement “favour increase in tax exemption limit (0.883)”. Followed by, “income tax rates are high in India.(0.816)”, “Surcharge should be avoided during calculation of tax(0.793)”.

Factor 2: Complexity

This factor has emerged as the second most important factor explaining 18.124% out of the total variance. This factor has an eigenvalue of 1.269. In total, two statements are load on to this factor. The highest loading has been found for the statement "Filing of return is complex. (0.914)". Followed by, "Taxation procedure is complex (0.809)."

Factor 3: Prerequisites

This factor has emerged as the third most important factor explaining 15.308% out of the total variance. This factor has an eigenvalue of 1.072. In total, two statements are load on to this factor. The highest loading has been found for the statement

"More tax schemes are needed (0.842)". Followed by, "Need for improvement in tax paying system (0.801)."

7. Conclusion

The aim of the study was to understand the tax planning practices of the employees of manufacturing sector. This study reveals that most of the respondents are unaware about the various tax aspects. Tax planning has a wide philosophy and is directly associated with what the salaried assesses earn and their capacity to consume. The whole process relates to view income tax as a revenue for the government and fair disposable income for the assesses. We would like to have a more rationalized, simplified and operational tax system where an assesses does not feel exploited.

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