

A study on Tax Incentives and Investment behavior of tax payers

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Abstract

The paper is an attempt to study the level of awareness and thereby correlating it with the pattern of investment in tax saving schemes taken up by the assesseees. The study proposes to find influence of tax having bearing on the investment decisions that an investor looks upon while making an investment decision. The data was gathered using a well-structured questionnaire comprising of statements related to the awareness and Investment. The questionnaire also included the questions relating to the demographics of the investors.

1. Introduction

Investing has become a basic requirement for everyone. Investment in India is continuously expanding. A growing number of investors are putting their money into various types of investment opportunities. Investing properly is a result of the investor's specific requirements and priorities. Depending on their age, income, and risk tolerance, each investor has different goals to attain. To determine which investments are right for them, investors must work with their investment profile and consider important factors such as personal status, plans, and constraints.

The salaried class usually invest their savings in most avenues of liquid and security investment, and bank deposits and government bonds are their preferred investment option in this respect (Reddy, 2010). According to the recent RBI Survey, most people in India have a strong appetite for depositing their hard-earned money into banks, and have done so since time immemorial, considering stability, liquidity and profitability. But in recent times, as seen in their investment actions in stock markets and other risky financial instruments, people are risk-takers, expecting more returns than they would have earned if they chosen banks (Bhide, 2013). In other words, today's wage class is more risk-takers, defying conservatism expectations and venturing their funds in equity markets and in those investment avenues that offer them better returns over time, recognising the rationale that more returns are correlated with higher risk.

Of all the factors which materialise investment decision of a salaried individual, the tax benefits are linked to various investment opportunities ranging from bank deposits to share market. The Government of India offers its citizens tax sops by way of tax incentives if an individual deposits his / her investment in some investment avenues to attract capital and at the same time reducing an individual's tax burden. Such government incentives have led the nation's citizens, especially the salaried class, to go for tax planning to reduce tax liability (Vasanthi, 2015).

Statement of the problem

Most Jammu & Kashmir investors are believed to be irrational when investing; this people's trait can be directly contributing to the lack of adequate knowledge of the various financial instruments that can optimise their savings and lower the tax burden thereby enhancing returns. The investment in Jammu & Kashmir can be seen through a relatively narrow lens in which investors are mainly drawn to real estate, although it is considered a safe investment path, but is not profitable for economic development.

Of late, a notable portion of people from Jammu & Kashmir are being attracted towards the capital markets. There are a range of resources where investors can save their capital for future use. By keeping in mind the tax incentives available for investments, investors will boost net returns. This research has been carried out to empirically find out the investment behaviour of the Jammu & Kashmir people ascertaining how tax-saving incentives decide their investment behaviour.

Objectives

1. To gauge the investments carried out by assesses in the selected tax saving schemes.
2. To examine the level of awareness possessed by assesseees with regard to selected tax saving schemes.
3. To examine the impact of demographic characteristics on the investment decisions of different class of investors.

2. Literature Review

Nisha.S and Kumar Nair.S in their study titled “A study on Risk Appetite of Investors in Kerala” (2003) examined the appetite of investors towards Risk and found out that that the respondents

invest in one or more than one Investment Avenue and are neither Risk Averse nor Risk takers but have moderate risk-taking nature. The term risk means different to different people and the perception of different aspects of risk is dependent on age though it is not dependent on gender and occupation. The study also proposed that as people grow old, their risk perception and urge to take risk changes.

Dr V.LShobhana and J. Javalakshmi in their study titled “Investor Awareness and Preferences-A Study” (2005) examined the awareness level of investor awareness with regards to the different investment avenues and their associated risks. The respondents were found to be favouring the investment in physical assets with the bank deposits being favoured in financial assets. The highly educated respondents, professionals and the aged ones were found to having more risk-taking appetite and so the awareness.

Shobhana and Jayalakshmi (2005) have examined the awareness level of the investors towards the investment risks and investment avenues. They have identified that most of the respondents preferred to invest in physical assets and made investment in bank deposits compared to other investment avenues. The study found that only the old-aged, highly educated and professionals possessed high level of awareness about various investment options and market risks.

S. Gill and Y.P. Davar (2007) have analysed explanatory facets of investors decision making process and their perception. They have investigated the underlying dimensions of familiarity, opinion and influence of demographic factors in the selection of different available investment avenues. The results revealed the relationship significant between the investment decision making process with age and also to that to education. The study suggested that investment decision of the investors should be based on the actual performance of investment.

Krishnamoorthy (2008) has analysed tax planning and the Investment pattern of salaried people in Nilgris district. The study examined that the attitude and satisfaction of Investors towards their Investment decisions besides exploring the level of awareness of salaried class investors possess. The study found that the tax benefits motivated the salaried people to make an investment. The study also found that the investors’ objectives and the choice of investment avenues were not matched. There was a lack of knowledge on managing finance and lack of tax planning among the salaried people.

Yasmeen Ansari and Dhamija (2011) found out that the different demographic variables such as age, education, gender, occupation and income significantly influence the investment pattern of individual investors

Meenakshi Chaturvedi and Shruti Khare (2012) in their study examined the investment pattern and awareness with regards to the different Investment avenues available. The study identified that the investors possessed moderate level of awareness with regards to different investment avenues. The study also identified that demographic profile of the investors such as age, education, occupation and income level strongly influenced on the investment pattern of the individual investors.

3. Methodology

The study is carried out on the primary data and secondary data. The primary data is collected from a sample around 400 respondents. The sample size is determined using the Population-sample dispersion tolerance limit formula, since the population for the present analysis is uncertain (Whitley, E., & Ball, J., 2002, 335-341). Data is collected through a well-structured questionnaire. Secondary data is also used.

4. Data Analysis and Interpretation

The different demographic characteristics of an assessee play an important role when it comes to making investment decisions. The role of gender, age, domicile, marital status, qualification and income have been analyzed in relation to the different constructs of the study. The awareness level of respondents with regards to the different eligible investments is one of the important constructs. The focus has been kept on the deductions that can be claimed for investments, deductions that can be availed for expenditure have purposely been left out. Tax saving schemes, are those schemes, which are made by the salaried employees to reduce their tax liability. Investing in tax saving schemes is one of the tax planning measures of the salaried assesseees.

Table 4.1: Gender vis –a-vis Awareness and Investment

Construct	Gender	N	Mean Value	T Value	P Value
Awareness	Male	276	2.67	.117	.758
	Female	108	2.61		
Investment in Tax Saving Schemes	Male	276	3.82	.181	.076
	Female	108	3.78		

The level of awareness and the Investment in Tax Saving Schemes were not found to be significantly different between males and females. The level of awareness and Investment in Tax saving schemes were found slightly higher among male respondents as their gender. This signifies that higher awareness among males might be a factor responsible for higher score of Investment in tax saving schemes.

Investment decisions are highly dependent on the level of awareness. However, it has been observed that investing becomes serious with people who have entered into marital bond. As a person is married, he or she becomes conscious about the reasonability's with regard to the requirements of a married life. Such responsibilities usually include the purchase of real assets like land, construction of house, buying of conveyance and planning for the education of children. As such the relationship between investment and marital status becomes holistic and the level of awareness with it makes it more appropriate for analysis.

Keeping the variables under purview, the respondents were administered questions with regard to these and the following have been observed.

Table 4.2: Respondents: Marital Status vis –a-vis Awareness and Investment

Construct	Children	N	Mean Value	T Value/ MW Standardized Test Static	P Value/Asymptotic Significance
Awareness	Yes	230	3.0	.816	.021
	No	154	2.14		
Investment in Tax Saving Schemes	Yes	230	3.87	1.251	.178
	No	154	3.72		
Construct	Marital Status	N	Mean Value	T Value/ MW Standardized Test Static	P Value/Asymptotic Significance
Awareness	Single	114	2.4	-1.68	.024
	Married	270	2.8		
Investment in Tax Saving Schemes	Single	114	3.85	2.296	.852
	Married	270	3.79		

The married respondents were found to be more aware about the deductions that can be claimed to reduce one's taxable income, the mean value of those not married were found to be 2.4 and differed significantly than those who had already tied the knot (Mean 2.8). The results, however, revealed no bigger difference as far as the investment in Tax saving schemes is considered.

Table 4.3: Respondents: Children vis –a-vis Awareness and Investment

Respondents with children have more commitment towards savings and investment. A married couple with children are more curious for securing the future of their children in terms of education and properties. As such, a triangular analysis has been attempted to gauge the relationship between

respondents with children towards investment while taking the level of awareness as another factor. The following analytical table elucidates the relationship

Table 4.4: Respondents: Income *vis-a-vis* Awareness and Investment

Construct	Income(Lacs)	N	Mean Value	F Value	Significance
Awareness	250000-500000	113	2.49	5.45	.000
	500000-1000000	200	2.58		
	1000000 and Above	71	3.1		
Investment in Tax Saving Schemes	250000-500000	113	3.73	6.78	.263
	500000-1000000	200	3.83		
	1000000 and Above	71	3.87		

The awareness was found more among the respondents having children as a significant difference was revealed with the level of awareness of those who are yet to marry or not having children. The investment in tax saving schemes was also more among the respondents with children, though the difference with the assessee without children was not found significant enough.

Income is an important determinant for an investment decision. While analysing the investment decisions, respondents belonging to different income groups behave differently. An analysis was done to examine the impact of income levels on investment decision while the levels of awareness formulates a moderating role.

It was revealed that the level of income of respondents were directly proportional to the level of awareness of respondents, more the income more the awareness was revealed. The awareness level

of assesseees in the lowest slab (2.5-5.0 Lacs) differed significantly with those in the highest slab (10 Lacs and above). The investment in tax saving schemes was also found to be increasing with the income of assesseees, the mean of assesseees belonging to the different slabs of income however had not much of the difference.

Table 4.5: Respondents: Qualification *vis-a-vis* Awareness and Investment

Construct	Qualification	N	Mean Value	F Value	Significance
Awareness	Up to 12 th	20	2.35	8.23	.014
	Graduation	158	2.60		
	PG	182	2.71		
	Above PG	24	2.83		
Investment in Tax Saving Schemes	Up to 12 th	20	3.72	4.36	.251
	Graduation	158	3.79		
	PG	182	3.84		
	Above PG	24	3.78		

The qualification of the respondents may impact the quality and level of the job profile, it is a general belief that the respondents with higher qualifications will have high positions across different organizations. Though the tax laws are not taught across different academic streams nor the knowledge about the same is imparted at school level, the individuals with higher qualifications are expected to have more knowledge and vice-versa.

The education Qualification of respondents were found to be directly proportional with the awareness level of respondents, the respondents having 12th as their qualification differed significantly with those having Graduation, PG or Above PG as their qualifications. The Investment in tax saving schemes were not much different except that in case of respondents having 12th as their qualification with those possessing Post Graduation.

The age of the respondents cannot be just a number as far as the experience, promotions and income are concerned. Not only the Investments made might differ across age groups but the level of awareness of respondents may also be influenced with age.

Table 4.6: Age *vis-a-vis* Awareness and Investment

Construct	Age(Years)	N	Mean Value	F Value	Significance
Awareness	20-25	60	2.52	9.981	.052
	26-30	92	2.50		
	31-35	94	2.90		
	Above 35	138	2.64		
Investment in Tax Saving Schemes	20-25	60	3.87	5.328	.917
	26-30	92	3.85		
	31-35	94	3.77		
	Above 35	138	3.79		

The difference in awareness was found to be significant between the age group of (26-30) & (31-35), and again the age-group of (26-30) & (35-Above) have reported significant difference in awareness and the same is true with the age-group of (31-35) & (35-Above) No significant difference was found as far as the Investment in Tax saving schemes is considered.

The occupation of an individual can determine the risk appetite and thereby the choice of assets an individual chooses to invest in. Many professions have more proximities towards learning opportunity than others and thus can influence the level of awareness with regard to different Deductions available u/s 80C-80U of the income tax act of 1961.

The level of awareness was found to be highest among the Government employees followed by private employees. There is a significant difference in the level of awareness of different classes of respondents. However, there was insignificant difference in the level of awareness of private employees when compared with government employees. Further, the level of awareness was observed as insignificant of private employees when compared with that of other employees except government employees, students and retired employees

The investment also exhibits the pattern of Government employees being the highest investors in tax saving schemes followed by the private employees.

Table 4.7: Respondents: Occupation *vis-a-vis* Awareness and Investment

Construct	Occupation	N	Mean Value	F Value	Significance
Awareness	Student	18	2.05	7.438	.026
	Self employed	36	1.36		
	Govt. Employee	208	2.93		
	Private Employee	94	2.91		
	Unemployed	12	1.13		
	Retired	16	2.25		
Investment in Tax Saving Schemes	Student	18	2.36	8.864	.003
	Self employed	36	3.11		
	Govt. Employee	208	4.17		
	Private Employee	94	4.07		
	Unemployed	12	1.99		
	Retired	16	2.25		

5. Conclusion

The findings of the study have been compartmentalised on the basis of the 'level of awareness about tax saving schemes', 'investment in tax saving schemes' and 'correlation between level of awareness and 'investment in tax saving schemes'.

5.1 Findings with respect to the level of awareness

- a. **Marital Status and Awareness:** The married Assesseees were found out to be having high level of awareness as compared to those assesseees who are still single. The difference between the same was found out to be statistically significant.
- b. **Assesseees bearing Children and Awareness:** The results also revealed that the assesseees having children are more aware about the selected tax saving schemes. The difference again was found out to be statistically significant.
- c. **Income Proportionality and Awareness about Tax Saving Scheme:** More the income, more the awareness was the pattern revealed through the analysis. The Assesseees falling in the income bracket of Rs. 2,50,000-50,00,000 differ significantly with relate to their level of awareness to those whose annual income was Rs 10,00,000 or above.
- d. **Education Qualification and Awareness about Tax Saving Schemes:** The education qualification as expected too was found out to be directly proportional to the level of awareness. More the education qualification of the assessee, more he/she scored on awareness.
- e. **Level of Awareness varies across different Age-Groups:** The level of awareness was found highest among the respondents belonging to the age group of 31-35 years, the awareness was not much different among the rest three age groups (20-25), (26-30) and (35-Above)
- f. **Service class more aware than others:** The service class (Both Government & Private) were found out to be adequately aware of tax saving schemes as compared to the respondents like students, self-employed, unemployed or retired.

5.2 Findings with respect to the investment in Tax saving Schemes

- a. **No gender difference was observed vis-à-vis investment:** There was no difference in investment pattern while investing in tax saving schemes for both among males as well as females. Their behaviour of investment was quite similar.

- b. Married respondents not different from unmarried vis-a-vis their investment pattern:** No significant difference was observed between the married respondents and those who were single when it comes investing in tax saving schemes.
- c. Respondents bearing children not significantly different than counterparts:** The assesseees having children were found out to be slightly more inclined towards investing in tax saving schemes than those who do not have children. The difference, however, was not found out to be statistically significant.
- d. Income proportional to investment:** The level of income seem to have some bearing upon investment in tax saving schemes, the investment pattern was seen to be on increasing spree with the level of income.
- e. Education and investment:** The qualification level too seem to spurt investment in tax saving schemes except for respondents having their qualification as “Above PG” wherein there was not any increase or significant decrease when compared to the respondents having their qualification as “PG”.
- f. Age not a decisive factor for Investment in Tax Saving schemes:** The age of the assesseees was not found to have any significant bearing on the investment in tax saving schemes. In other words, respondents of all age groups were having similar investing inclinations when it comes to investing in tax saving schemes.
- g. Occupation of respondents playing a role:** The service class respondents were found to be more inclined towards investment in tax saving schemes as compared to other classes of respondents like self-employed, students and retirees.

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