

Saving, Investment and Tax Planning by Government Employees

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Abstract:

Savings are the amount of money that people save after paying for various expenses. An investment is a strategy that involves putting capital to work to increase its value in the future. Every individual has a right to avail of all the tax incentives that the Government provides.

Planning and keeping accounts in a safe and secure government scheme will help minimize one's tax liability and provide a better future. The study's objective is to determine the level of awareness among the employees of the Assam Government regarding the various tax planning provisions available to them and to compare the tax planning provision used by Teaching and Nonteaching employees.

The study finds that both Teaching and Nonteaching employees are highly concerned about Saving. Overall, the awareness level of nonteaching employees is very high. The study finds that employees are unaware of the various provisions that can help them reduce their tax liability. The study revealed that seventy-two percent of the respondents formulate their tax plans at the end of their financial year. Seventy-nine percent of the respondents do seek the services of tax consultants for filing their tax returns. People were reluctant to disclose details related to their savings and investments. Therefore, generalizations of the findings will require further investigation.

Keywords: *Saving, Investment, Tax Planning, Tax Avoidance, Tax Evasion, Tax Management, Income Tax Act 1961.*

Introduction:

Savings are the amount of money that people save after paying for various expenses. They can be used for multiple goals or aspirations. A savings is a portion of a person's total income that

they can use after paying all of their expenses. It is typically kept in the form of a cash deposit or a cash equivalent. It comes with minimal risk and is generally invested in low-risk strategies.

An investment is a strategy that involves putting capital to work to increase its value in the future. It can be done in various forms, such as investing in stocks, real estate, and bonds. A tax is a charge that a public authority levies on an individual, a legal entity, or services or products. It is computed as the income that is chargeable under the provisions of the income tax act 1961.

Proper tax planning is an essential requirement that every individual should carry out on their own. It involves carefully analyzing and planning our various investments. Generally, we do not change our approach when it comes to planning our tax-saving investments. Every individual has a right to avail of all the tax incentives that the Government provides. Planning and keeping accounts in a safe and secure government scheme will help minimize one's tax liability and provide a better future. Different types of investments are available to investors. Investors should consider all the factors while making their decisions.

Every individual should know that planning for tax purposes is legal. This study explores the basic details of the Income Tax Act 1961 and other related laws to help people save and invest more effectively.

Tax Planning Concepts:

- **Tax Planning** - Tax planning is a process utilized to reduce a person's tax liability. This procedure involves taking advantage of all the benefits of the tax laws and various deductions and concessions.
- **Tax Avoidance**- Tax avoidance is the art of avoiding paying the tax. While staying within the law, a citizen arranges his affairs to avoid paying the tax. This strategy works as long as the law is followed.
- **Tax Evasion** - Tax evasion refers to intentionally not paying taxes as per the law. It can be achieved by hiding income or inflating expenses, falsification of accounts, or by willfully violating the law.
- **Tax Management**- Tax management is an expression that refers to the actual implementation of a tax planning scheme or an idea. While tax planning is only an idea, the reality of the final result is the ultimate action.

Review of Earlier Research Works:

The study (R.SreePriya and D.Gurusamay, 2013) analyzes salaried class investors' savings and investment patterns in the Coimbatore district. It is done to identify the factors that influence the investors' decisions and provide suggestions on improving the situation. His study (L. Pandiyan and T.Arangarathan,2012) was conducted to study the savings and investment attitude of the salaried class in the Cuddalore district. The investment climate must be favorable for the people to save their income when they cannot enjoy luxuries.

The authors finds that despite the increasing awareness about the importance of savings, people are not aware of the various investment opportunities. Lack of understanding of the various investment options was the main reasons—Joseph Anbarasu D, Clifford Paul S, and Annette B , (2011). The study (Parol S.,2006) focused on the tax policy and the taxation of the salaried class during the colonial period. It revealed that the policy shift from soft to the complex is because of the various factors that have not changed their circumstances. The study also stated that the salaried class deserves special treatment due to multiple tax policies and procedures.

The primary objective of tax incentives in India is to encourage Saving and investment in the country. This study critically evaluated the various aspects of the country's tax policy. It also provided an overview of the multiple aspects of the tax incentive system in India. ChittaRanjan Sarkar (2004). S. Narayan Rao (2003) analyzed the performance of Indian tax Saving mutual funds during a bear market. It focused on the relative performance index, Sharpe's ratio, risk-free returns, and Fama's measure. The results indicate that most of the funds were able to meet the expectations of their investors.

The study (Muneer, 2002) revealed that among the respondents, college and university teachers were very aware of the various tax planning measures available under the income tax act. However, there was a variation in their level of awareness regarding specific tax planning techniques. Vijay.L.Kelkar (2002), The Task Force on Direct Taxes was set up to improve taxpayers' quality of services and education. A cross-country survey conducted by the Task Force revealed that the level of taxpayer service in India is relatively high compared to other

countries. It was noted that the lack of adequate budgetary support and sufficient policy initiative affected the taxpayer service in India.

The study (Thomas S, 1998) focused on the tax planning practices of Kerala's salaried people. It revealed that the tax administration and the employers did not have a common framework for training salaried people on effective tax planning. It also found that the employees of different establishments were not implementing the tax planning schemes in their actual life.

K. E. Job (1995) analyzed the relationship between employees' income and savings plans in the Palakkad district. It revealed that the employees prefer to save for the future and do it due to various reasons such as profitability, safety, tax concession, and appreciation. A. N. Shambhag (1993) provided various information about investing in India, including the country's tax structure and various investment plans. He also explained how investors select their investment plans and their risk tolerance. Rathnavel (1992) evaluated the various tax-saving investment schemes and found that mutual funds and provident funds were the most popular options.

Alagarwamy (1989) analyzed the various tax savings schemes used by the Employees of Madurai Kamarajar University under sec 80C, 80CC, 80G, 80CCA, 80GG, and 80 L of Income Tax Act 1961. Ronald. C. Gable(1983) noted that financial planning is only done by those responsible for their decisions. Only those who are motivated and committed to achieving goals can truly implement financial planning.

Lall (1982) conducted a study on the impact of various taxes on individual and business income in the year 1982 - 1983. It was revealed that the average tax rate for assesseees with different tax brackets increased with the income level. The study also showed the discriminatory treatment of employees of the Government and private sector. Kapadia. M. B. (1981) member of the Institute of Chartered Accountants of India, conducted a study on Tax Planning through the public provident fund. He discussed the various tax provisions in the Income Tax Act and explained how an investor could avail of maximum tax benefits through proper planning.

Objectives:

- To study the tax savings avenues available under the income tax act.

- To study the status of Tax planning investment by the employees of the Assam government.
- To compare the tax planning provision used by Teaching and Non- Teaching Employees under Assam Government.

Methodology:

Data were collected from 50 Teaching Employees and 50 Nonteaching employees. Primary data were collected using a structured questionnaire. Secondary data were gathered from websites and concerned offices. The researcher also interacted with officials of different departments. Descriptive statistics were used to analyze the using Microsoft Excel.

Significance and limitations of the study:

The salaried employees are taxpayers who contribute to the Government's total revenue by way of income tax. This class of taxpayers has special importance in view of the increasing cost of living and their strict responsibilities to tax compliance. It is the responsibility of taxpayer to know their obligations and the various measures available to them so that they may use their earnings more effectively. This is why they must understand the tax laws in place.

Despite the efforts of the assessee, many taxpayers fail to plan their savings and investments to minimize their tax liability. Various compliance formalities creates such complexity. The real issue is that employees are not aware of the various provisions that can help them reduce their tax liability.

Findings of the study:

(1) Tax savings avenues available under the income tax act.

- **Deduction under section 80C:** In the Financial Year 2005-06, Section 80C of the Income Tax Act was introduced. This new section provides various tax deductions for various payments.

Some of the popular investments avenues eligible for tax deduction are-

- Premium paid for life insurance policies (for self, spouse, or children)

- Payment for superannuation/provident fund
 - Tuition fees paid for educating upto two children
 - Payments for purchase of residential house
 - Investment in fixed deposit with a minimum tenure of 5 years
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- **Section 80 CCC:** This section of the I.T. Act allows deduction of up to Rs 1.5 lakh for investments in pension funds.
 - **Section 80 C.C.D.:** Section 80C C.C.D. encourages the saving habit among individuals by incentivizing them to invest in pension plans notified by the Central Government.
 - **Section 80 C.C.F.:** Section 80 C.C.F. offers tax deductions for the subscription of long-term bonds issued by the Government. This section applies to both Hindu Undivided Family and Individuals
 - **Section 80 CCG:** Under Section 80 CCG of the Income Tax Act, a maximum deduction of Rs 25,000 is permitted per year. Equity savings schemes are allowed for deductions.
 - **Deductions under Section 80D:** This Section allows individuals to claim deductions on the amounts they spent on availing of a health insurance policy. An amount of Rs 15,000 is eligible for deduction when paid towards the Insurance for a spouse, dependent children, or self, while this amount is Rs 20,000 if the person is over the age of 60 years.
 - **Section 80DD:** In cases of severe disability, a tax deduction of Rs 1.25 lakh may be claimed. For normal disability, the limit is Rs 75,000
 - **Section 80DDB:** Section 80DDB allows individuals to claim the expenses incurred for the treatment of certain diseases. Both H.U.F.s and residents can utilize this benefit.
 - **Deductions under Section 80E:** Under Section 80E of the income tax act, taxpayers can claim the interest payment on the loan they take out to pursue higher education. This benefit is only available to individuals and does not apply to the loan taken by a ward or child.
 - **Section 80EE:** Taxpayers who have borrowed money to purchase a residential property are not eligible for deductions under section 80EE.
 - **Deductions under Section 80G:** Section 80G encourages taxpayers to donate to funds and charitable institutions. 100% deductions are granted to donations made to certain

government institutions, such as the National Defence Fund, the Prime Minister's Relief Fund, and the National Illness Assistance Fund.

- **Tax Deduction under Section 80U:** Taxpayers with a disability can claim tax deductions under Section 80U. However, individuals with severe disabilities can only claim a maximum deduction of 1.25 lakh.

Popular Tax Planning Tools

- **Equity Linked Saving Schemes:** equity-oriented mutual fund ELSS is tax-free and invests in stocks. There is a lock-in period of 3 years and is subject to the income tax Act
- **Employee Provident Fund:** Most of the employees contribute to the employee provident fund (E.P.F.). This tax-saving investment can be claimed up to Rs.1 lakh annually. If you work for a company with more than 20 employees, you should contribute 12% of your salary to E.P.F.
- **Public Provident Fund:** P.P.F. can be opened through Post Office branches, 24 Nationalized Banks, and ICICI Bank. It has a lock-up period of 15 years and can be extended up to 5 years.
- **Tax Saving Fd From Banks/ Post Offices:** Like other fixed deposits with banks, these are tax-saving accounts with a minimum tenure of five years. Some banks also offer higher interest rates for longer terms.
- **Sukanya Samriddhi Account:** Samriddhi Account is a government scheme that aims to promote the development of Girl Child. It is open for children below ten years of age.
- **Life Insurance Policies:** Premium paid on Life insurance products are eligible deductions.
- **Rajiv Gandhi Equity Savings Schemes:** In Budget 2012, the Government introduced the RIGNESS to encourage first-time investors to save in the stock market. It provides a tax deduction of 50% on the amount invested.
- **National Saving Certificate:** This tax-saving scheme is available for five years. It has an interest rate of 8.5% per year. It is linked to the market and changes every year

- **Senior Citizens Saving Certificate:** Section 80C of the Indian Postal Code provides various facilities to senior citizens. These include availing a savings scheme, which can be extended up to 3 years after maturity.
- **National Pension Scheme:** N.P.S. was introduced in April 2009. The two types of accounts that N.P.S. offers are Tier 1 and Tier 2. The accounts are available with different terms and conditions. Tier 1 accounts are tax-free and can be opened for salaried employees
- **Pension Plans From Insurance Companies:** Pension Plans of insurance companies are eligible for deduction under section 80CCC.

(2) **Status of Tax planning investment by the employees of the Assam government.**

Details of investment made by the respondents under section 80C:

| Name of The Scheme | Yes |
|--|------------|
| Life insurance Policies | 95% |
| Tax Saving Fixed Deposits | 80% |
| SukanyaSamriddhi Account | 47% |
| Equity Linked Saving Certificate | 71% |
| Employee Provident fund(EPF/VPF) | 17% |
| Public provident Fund(PPF) | 15% |
| National Saving Certificate | 12% |
| Senior Citizens Saving Certificate | 9% |
| Rajiv Gandhi equity savings schemes | 5% |
| National pension scheme | 39% |
| Pension plans from insurance companies | 23% |

Major

Findings are:

- The study revealed that 72% of the respondents formulate their tax plans at the end of their financial year.

- Almost 79% of the respondents do seek the services of tax consultants for filing their tax returns.
- They are also not fully aware (with details) of all the various tax breaks and deductions available under the 1961 income tax act.
- The study finds that 63% of respondents are aware of tax deductions section 80C.

(3) Comparison of tax planning provisions used by Teaching and Non- Teaching Employees under Assam Government.

- Both Teaching and Nonteaching employees are highly concerned about Saving.
- Overall, the awareness level of nonteaching employees is very high.
- The study revealed that the Nonteaching respondents formulate their tax plans at the beginning of the financial year against Teaching.
- Nonteaching respondents provide the services of tax consultants for filing their tax returns to Teaching respondents.
- Nonteaching respondents are also fully aware(At least Names of Sections or Schemes) of all the various tax breaks and deductions
- Nonteaching respondents keep on searching tax-saving avenues and attend the discussion.
- Teaching employees follow the advice given by their clerical staff in a different office.
- Teaching employees to purchase tax-saving schemes on the recommendation of Insurance agents, sales executives.
- Teaching employees are reluctant about financial planning except purchasing insurance products.
- Both Teaching and nonteaching consider Insurance as an Investment vehicle instead of life protection.

Conclusion and recommendations:

Although the employees are aware of the various tax measures and procedures, they are not fully utilizing them to minimize their tax liability. This mistake is common to many individuals. Taxpayers often make the mistake of not planning for their financial affairs well in advance.

There are various tax-saving avenues that individuals can use to minimize their tax liability. It is wise for the employees to prepare a comprehensive tax plan to claim the benefits of the Government under the income tax Act. Individuals should consider various investment avenues in order to meet their different life goals. Individuals should plan their investments so that they consider the safety and liquidity of their investments.

Overall, the awareness level of nonteaching employees is very high. The study revealed that the Nonteaching respondents formulate their tax plans at the beginning of the financial year as against Teaching. Nonteaching respondents provide the services of tax consultants for filing their tax returns to Teaching respondents.

Generalizations of the findings will not be free from limitations. People were sensitive and reluctant to disclose details related to their savings and investments. This made the collection of the data challenge.

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