

A Study on Tax Planning Pattern of Salaried Assessee

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Abstract

The word "Tax" is derived from the Latin word called Taxove and Taxo means to estimate, appreciate or value. The word Income Tax itself implies it is a tax on earnings. It plays vital role in the national economy. The ever increasing functions of the government have naturally lead to increasing expenditure for instance achieving the social and economic objectives laid down in the constitution, reducing the inequality of income, removing the concentration of economic power in few hands, balancing regional economic growth and so on.

Keywords: Assessee, Tax Planning, Income

1.1 ORIGIN OF INCOME – "TAX LAW"

The term Income tax was first introduced in India on 31st July 1860 by the British Government for five years to overcome the financial difficulties experienced by the Government. The act imposing the tax was modeled on the English Act. This act was revived in 1867 in the form of "License Tax" that tax is imposed on trades and profession based on annual income. This license tax was replaced by "Certificate Tax" in the year 1868.

In the year 1886 a new Act was passed whose basic scheme has been preserved in all subsequent enactments. This act on Income Tax imposed tax on income at flat rate and the Agriculture income was excluded.

During the First World War the expenditure of the Government has increased and hence graduated scale of Income Tax was introduced in 1916. In 1918, a new Income Tax Act was passed repeating all previous acts. It brought about drastic changes in the manner of computation of income and levy of tax. Income from all sources was to be aggregated and the tax was levied on the aggregate income in the year itself. This act remained in force up to the year of 1922. Many defects were noticed in the practice of this act. So, it was felt necessary to amend the act.

Government of India appointed All India Tax Enquiry Committee (AITEC) to suggest suitable remedies for improving and effective implementation of the act. His on the recommendations of the committee, the act of 1918 was replaced by the Income Tax Act 1922 which remained in force for forty years. Under this act administration of Income Tax was vested in the hands of Central Government. This act was modeled on the lines of the British Income Tax act. It introduced changes in the method of assessment and collection of taxes. It is provided that the assessment of tax would be determined by the Finance Act, which would be passed by the parliament before 31st March every year instead of being fixed by the Income Tax Act. Apart from that, as a result of this Act the Central Board of Revenue [CBR] was established in 1924.

The Income Tax Act 1922 was materially revived by the Income Tax (Amendment) Act, 1939. This act was passed based on the recommendations of the Income Tax committee. The classification of residential status into resident, Not -ordinarily resident, non-resident was introduced only by this Amendment Act. The scheme of "Advance payment of Tax" was introduced by the Income Tax (Amendment) Act, 1944. In 1948 the scheme of provisional assessment was introduced.

To simplify the Act of 1922 which become complicated as a result of too many amendments between 1939 and 1956, the law commission was appointed in 1956. Apart from that, Government of India invited Professor Nicholas Koldor, a distinguished professor of Economics of Cambridge University to review the existing Indian Income Tax system. After reviving the structure a report called "The Indian Tax Reforms" in the 1957. His report paved the way for introduction of an annual wealth act, capital gain tax etc, to minimize the inconveniences caused by the assesses the Direct Taxes Administrative Enquiry Committee was set up 1958 under the chairmanship of Mahabir Tyagi.

The present law of income tax is contained in the income tax year 1961 as amended up to date almost every year. This act contains nearly sections. The provisions regarding computation of total income, procedure for assessment, appeal, penalties, prosecution, refund powers of Income Tax authorities etc. are governed by this Act. Every year the parliament passes a finance act. This finance act introduces amendment of direct tax laws. 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 are fixed by this Finance Act.

2.1 OBJECTIVES:

- To identify the elements of income and savings of the selected respondents of the study.
- To study the pattern of tax planning by individual.
- To make appropriate suggestion and conclusion.

3.1 STATEMENT OF THE PROBLEM:

All the relevant information for the study has been obtained from the representative samples of the salaried section and without referring to any records. As the study is for current and also a short period, those data seen to be reliable.

4.1 SCOPE OF THE STUDY:

For assessing their groups total income basic pay, allowance and income through employment and taxable perquisite were included. Further efforts have been made for to find out the extent of other sources of incomes of the salaried assessee.

In the analysis the respondents were divided into different sub-group such as income group, age group, department group, service group. In ascertaining the tax liability their potential tax payment is computed without taking tax saving investment, the samples were collected from the assessee in Coimbatore city only.

5.1 RESEARCH METHODOLOGY

It deals with the definition of Research Problem, Research Design, Methods of Data Collection, Sampling Design and Interpretation of Data.

6.1 TAX PLANNING:

The planning is the arrangement of one's financial affairs in such a way that without violating in any way the legal provisions, full advantage is taken to allow tax exemptions, deductions, concessions, rebates, allowances and other reliefs or benefits permitted under the Income Tax Act.

"Tax planning is not a post time of a few but it is necessity for all honest tax payers. A wrong decision can mean an unbearable burden while a right step in the right direction after proper tax planning can mean a lot of tax saving"- S.P.Metha.

Tax planning is nothing but tax avoiding formulates, it is a great art, which does not break law, yet, its bonafide. It helps in saving the tax, the salient aspect to so call good tax planning is,

- i) Bonafide nature of arrangements
- ii) Provision that laws are not violated

Effective tax planning requires one to loan one's income and affairs even prior to actually earnings the income. It is better to plan before than latter. A salaried person should be aware of the income- tax laws as it related to income, the deduction and reliefs that are available. It is intended that on becoming conversant with the details the people would be able to plan the affairs in the manner where by it maximize to take home pay.

7. ANALYSIS:

Table : 7.1
SEX COMPOSITION AND TAX PAID

HYPOTHESIS

THE SEX OF THE RESPONDENTS HAS NO INFLUENCE OVER THE AMOUNT OF TAX PAID

Sex	Below 15000	15000-30000	30000-45000	45000-60000	Above 60000	Total
Male	7	14	16	14	5	56
Female	7	13	6	8	-	34
Total	14	27	22	22	5	90

Source: Primary Data

Calculated value: 1.695

Degrees of Freedom – 5

Table value: 11.1@ 5% level.

Since the calculated value of Chi-square (1.695) is less than the tabulated value of chi-square (11.1) at 5% level of significance, the hypothesis is **accepted**. Hence, it can be suggested that, the sex has no significant influence over the amount of tax paid.

Table : 7.2
AGE AND TAX PAID

HYPOTHESIS

AGE OF THE RESPONDENTS AND AMOUNT OF TAX PAID ARE INDEPENDENTS.

Age	Below 15000	15000-30000	30000-45000	45000-60000	Above 60000	Total
25-35	8	10	3	3	3	25
36-45	3	15	10	5	-	33
46-55	4	5	6	15	-	30
55 and above	1	-	-	-	1	2
Total	16	30	19	23	2	90

Source: Primary Data

Calculated value: 58.585

Degrees of Freedom – 5

Table value: 21.003@ 5% level.

The hypothesis is **rejected** because of the fact that the calculated value of the chi-square (21.003) of 5% level of significance. In other words, age has significant influence over the amount of tax paid.

Table – 7.3
RELATIONSHIP BETWEEN INCOME AND TAX PAID

Savings Income	Below 15000	15000-30000	30000-45000	45000-60000	Above 60000	Total
120000-180000	10	4	-	-	-	14
180000-240000	4	10	10	-	-	24
240000-300000	5	10	9	5	2	31
300000-360000	-	10	5	1	1	17
360000-420000	1	-	1	1	11	14
Total	20	34	25	7	4	90

Source: Primary Data

Correlation Co-efficient = 0.7684

Result:

The above correlation co-efficient shows that there is positive relationship between the income and tax paid. It can be concluded that there is a high relationship between income and tax paid.

8. FINDINGS

The Chi-square analysis suggests that sex have influence over the amount of tax paid ,where as the age of respondents has low influence over the amount of tax paid. It is evident from the study that experienced employees are willing to pay tax because of several personal factors. Further, the level of awareness of the respondents is significantly higher over the different tax savings scheme. To eradicate that the govt. agency should come forward to highlight the features of tax savings schemes. It can also be concluded that the senior employees are diverting a portion of their income to other non-governmental schemes, which give very high returns.

a) The correlation analysis has revealed that there is a moderate high degree of correlation existing between income of the respondents and savings, amount of tax paid, savings on tax savings scheme. It can be concluded that, the respondents are diverting a portion of their income to some other non-government schemes which gives them high returns and hence they are willing to pay high tax.

9. SUGGESTION

Most of the professionals like Doctors, Lawyers and Business men earn more than the other employees. But,

their payment of tax is very less or completely nil when compared to other employees. This is because there is no material evidence for the receipt of their income and their employers cannot deduct tax payment from their income.

i) Since the tax is the main source of income for the govt., and the salaried class paying their tax regularly (tax deduct at source), the government can come forward to implement some of the welfare scheme by way of:

1. Housing loans
2. Loans for purchasing domestic appliance
3. Loan for marriage etc., with moderate rate of interest
4. Loan for the education

In the tax calculation, the amount of DD and CCA can excluded from the net taxable income.

10. CONCLUSION

It is found that on overwhelming majority of the salaried employee's opinion regarding direct tax imposed is high and very high. It is concluded that the salaried employees are reducing the tax liability.

11. REFERENCE

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