

## STUDY ON FINANCIAL INSTRUMENTS AS A TAX SAVING TOOL FOR GOVERNMENT EMPLOYEES IN GORAKHPUR

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### ABSTRACT

Planning of taxes is the most necessary thing which every tax payer should do. Effective tax planning is very important as it reduces the stress of tax liability to the minimum. This should be done legitimately taking advantage of all the exemptions, deductions and rebates etc. Whereas investment is also an activity which engages people in savings. We can say that people invest their saving or they save in their investment. There are variety of financial instruments which helps the investor in making investment decision. There are variety of financial instruments which helps the tax payer in reducing tax liability. There are plenty of other reasons of investment such as profit, security, appreciations, income stability, future contingencies etc. Various financial instruments such as mutual funds, National pension system, fixed deposits, life insurance, ELSS, ULIP, Health Insurance Premium, Senior Citizen Saving Scheme(SCSS), SukanyaSamridhiYojana(SSY) etc. which provides deduction in tax liability upto certain limit. The purpose of the study is to know the awareness level of tax saving instrument among the government employees in Gorakhpur and also to know the most preferred tax saving instrument, and then their post investment views about the instruments and returns. This study is done with the help of structured questionnaires filled by government employees in Gorakhpur. After analyzing the data it is found that investors consider good safety and good return both at the same time. Also respondents are well aware about the tax saving instruments.

**Keywords:** Tax, Savings, Investment, Tax saving instruments, Government Employees.

### Introduction:

Income-tax is the most significant direct tax. In this material, we would be introducing the Income-tax law in India. – Income-tax Act, 1961: The levy of income-tax in India is governed by the Income-tax Act, 1961. In this book we shall briefly refer to this as the Act. This Act came



into force on 1st April 1962. The Act contains 298 sections and XIV schedules. These undergo change every year with additions and deletions brought about by the annual Finance Act passed by Parliament. In pursuance of the power given by the Income-tax Act, 1961 rules have been framed to facilitate proper administration of the Income-tax Act, 1961. – Income-tax Rules: The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT). The CBDT is empowered to make rules for carrying out the purposes of the Act. For the proper administration of the Income-tax Act, 1961, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962. It is important to keep in mind that along with the Income-tax Act, 1961, these rules should also be studied.

Now, taxes saving tools are the schemes and policies provided by the Government to individual taxation where investments are not subjected to tax liability. Such schemes and policies are made by government and liable to change over time. And the benefits of every scheme would vary schemes to schemes and its policies. These options allow for wide range of exemptions and deductions which helps in limiting the tax overall.

However, using shady techniques to save tax put the person into trouble. Tax saving practices includes tax avoidance, tax evasion and tax planning.

**Tax Practices in India** :-following are four kinds of tax saving practices are given:-

1. Tax evasion
2. Tax avoidance
3. Tax planning
4. Tax management

**Tax Evasion:-**

It is a situation where an individual tries to reduce his taxes liability by misrepresentation of his income or by showing lower of his income than the actual income by using various types of manipulating practices.



An assessee, who dishonestly claims the benefit under the statute by making false statements, would be guilty of tax evasion.

### **Tax Avoidance:-**

It refers to the arrangement of financial affairs to minimize the tax liability within the law. It uses the legal methods to arrange the financial affairs. It is done by mainly claiming deductions and exemptions.

### **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.

### **Tax management:**

Tax planning is a broader term which requires management of affairs in such a way that results in the reduction in minimization of tax liability. Tax planning is not possible without tax management. Tax management is an internal part of the tax planning. It takes necessary



precautions to comply with the legal formalities to avail the tax exemption/ deductions, rebates or relief as are contempt's in the scheme of tax planning. Tax management plays a vital role in calming allowance, deductions and tax exemptions by complying with the required conditions. For example, Where an assessee follows mercantile system of accounting, the claim of expenses should be made, subject to the provisions of section 43B, on accrual bases, if the assessee fails to make such a claim, such expenses cannot be deducted in subsequent years. Similarly, the specified deductions under section 80IA, section 80JJA, etc. Tax management also protects an assessee against penalty and prosecution by discharging tax obligations in time. Thus, the study of tax planning is incomplete without tax management. Tax planning without the study of tax management is like knowing the medicine without knowing how to administer it.

### **TAX SAVING FINANCIAL INSTRUMENTS :-**

Following are the tax saving financial instrument which comes under 80C act, used by government employees to manage and plan their taxes:-

1. Mutual Fund (ELSS)
2. Life Insurance(ULIP)
3. Public Provident Fund(PPF)
4. Senior Citizen Saving Scheme (SCSS)
5. SukanyaSamridhiYojna(SSY)
6. Fixed Deposit(FD)
7. National Saving Certificate(NSC)

### **Review of the Literature:**

1. (gautam, 2013)Aimed to study the tax planning of an individual to study tax saving instrument of individuals, he found that respondents rank the tax saving instruments according to their priority of tax saving and its benefits. He found that life insurance policy got the first rank to save the tax. He ranked provident fund on the second. He ranked educational loans, home loan, national saving certificates, unit linked insurance



plans, health insurance plans and equity linked saving schemes. He made this rank by analyzing various age groups survey.

2. (vasanthi, 2015) aimed to study on tax planning pattern of salaried assessee found that 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. He also found that tax is the main source of government revenue and the salaried class paying their tax regularly, the government come forward to implement some of the self are scheme by way of housing loans, loans for purchasing domestic appliance, loans for marriage, loan for education etc. He concluded that the salaried employees are reducing tax liability.
3. Ansari (1993) in his article singled out the various innovative schemes of mutual funds which are responsible for mobilizing heavy funds from the small investors and argued for a separate legislation for mutual funds as in the case of UTI. In his opinion the operating mutual funds have successfully launched various innovative schemes tailored to the diversified saving and investment motives and have managed to mobilize massive funds from the investors, particularly the smaller over. However, he alleged that in-spite of the valuable services being rendered by mutual funds; their working is not free from certain short comings. Therefore, he suggest that to overcome them there should also be a separate regulatory body as the SEBI is already overburdened with many other functions, as such it may not effectively supervise the working of each mutual fund.
4. (dr.kalpananandawar, 2014) aimed to study the preferred investment avenues among salaried people with reference to Pune, India and he finds that investors are aware of all the investment avenues available India but still investors have some particular preferences about the investment avenues, they majorly chose or prefers to invest in metals(gold), real estate, bank deposit. According to the data analysis, it was observed that risk n safety was the main issue while making preferences about the investments. So, while investment rest of the options are less considerable due to safety purposes.



5. (; PROF. CS CHARUL Y. PATEL, 2012) aimed to study the investment perspective of the salaried people, he finds that job market is on booming stage and salaries are touching new high. The new breed of India is intelligent and has their pocket full, they do not get afraid of taking risk. According to the research, it was observed that fixed deposits, post office schemes are only used by the senior citizens. Saving tax is one of the main reason behind the investment of youth generation. They are not opting the safety tools and they prefers to take high risk high return and saving of taxes. Their most favorite option of investment tool is Mutual funds.
6. (C)Aimed to study Investor's Perception towards Tax Saving Mutual Funds, the research was carried forward with the objective of finding various parameters that governs the investor's perception towards tax saving Mutual fund and had identified the following major parameters that is liquidity, rate of return and market share
7. (K. Saravanan, 2017)aimed to study the individual income tax and tax saving instruments of individual income tax and found that tax structure plays a key role in maintaining investment habits of the tax payers and developing savings. It is said that do not invest in useless life insurance policies or in any financial products and plan your tax base on your financial goals at the beginning of the financial year itself. But don't invest just to save taxes but to make profits also. It gives the statement tax planning is not a way it's a tool an important tool.
8. (Bharathraj ShettyM. Muthu Gopalakrishnan, 2013) has conducted research on an analysis of investors attitude towards various tax saving scheme and this research concludes that tax is always a concern for the individuals for many reasons and its solution is tax planning. Further it said that tax planning is a very complex and standard process which makes an individual deal with the trouble due to several policies and schemes and its litigations. So, it requires precise and transparent passing of information about the policies and relaxations. It made a statement that more is the amount and quality of information better will be the decision quality of the investor.



**Objective of the study:**

1. To study the awareness level about tax saving tools among government employees in Gorakhpur.
2. To study the most preferred tax saving financial instrument by the government employees in Gorakhpur.
3. Post investment views of the employees.

**Research Methodology**

Research is a process of systematic inquiry that entails collection of data; documentation of critical information and analysis and interpretation of that data/information, in accordance with suitable methodologies set by specific professional fields and academic disciplines.

**Data Analysis Tools**

- Excel is used for analysis purpose.
- Graphical representation interpretation is done with the help of pie charts.

**RESEARCH METHODOLOGY USED IN THE  
RESEARCH**

- ❖ Type of research design selected : Descriptive Research Design
- ❖ Data collection method for primary data : Questionnaire
- ❖ Research Approach : Direct Method
- ❖ Research Instrument : Questionnaire
- ❖ Sampling Area : Gorakhpur
- ❖ Sample unit : Government Employees
- ❖ Sample Size : 100 employees
- ❖ Sampling technique/method : Simple random



### Findings of the Study

Following are the finding drawn according to the set objectives and relevant questionnaire:-

#### **1. To study the awareness level about tax saving tools among government employees in Gorakhpur –**

- This when study done on 100 government employees and it was found that all of them were aware of tax saving schemes run by the government and private sectors.
- It was found that 83% people aware about Mutual Fund, 84% people aware about fixed deposit, 79% people aware about public provident fund, 35% people aware about senior citizen saving scheme, 91% people aware about life insurance, 20% people aware about Sukanya Samridhi Yojna and 30% people aware about National Saving Certificate.
- When they were asked about their source of information, it was found that 58% employees get to know about this through brokers, 70% through advertisement, 84% through relatives and friends, 4% through prospects, 29% through newspapers, 12% through annual reports, 14% through magazines.
- When they were asked about their current investment, it was found that 60% people invested in mutual funds, 70% people invested in fixed deposit, 81% people invested in public provident fund, 19% invested in senior citizen saving scheme, 1% in sukanyasamridhiyojna, 4% in National saving scheme.
- When they were asked about the reason behind investment, it was found that the maximum people like 77% invested because of tax saving, and the second reason is retirement planning and then asset appreciation and contingency planning.

#### **2. To study the most preferred tax saving financial instrument by the government employees in Gorakhpur.**

- According to the above objective, when they were asked about the returns they expect, it was found that 61% people expect 10% to 15% return behind every investment and 4% people expect 15% to 20% , only 2% people expect 20% and above.



- When they were asked about the satisfaction they get with the return, it was found that 64% people are satisfied with the return, 28% people said can't say about it, 7% people Highly satisfied and only 1% not satisfied.
- To know their nature about risk and return it was found that 67% people cannot deal with high risk they are moderate in nature and 18% people are low risk oriented and only 15% people are high risk oriented.
- When they were asked to rate the risk of the instruments it was found that mutual fund is selected by the highest no. of employee as the riskiest instrument, and then sukanyasamridhiyojna and NSC, and then in last Fixed deposit.
- When they were asked to rate the instruments in terms of safety, it was found that 49% people say mutual fund is not safe, and 67% people say provident fund is highly safe.

### 3. Post investment views of the employees.

- According to the above objective, when respondents were asked about their favorableness of the instruments, it was found that highly favorable instrument is public provident fund as it is voted by 44% people, and then 37% people voted fixed deposit as favorable instrument and 33% people voted life insurance as favorable one, only 27% people voted mutual fund as highly favorable and favorable. The least favored instrument is NSC, Sukanyasamridhiyojna and senior citizen saving scheme.
- When respondents were asked about to rate the level of satisfaction of the instruments in which they have invested in 43% people voted PPF as satisfied one and 35% people voted this as highly satisfied instrument, 41% people voted fixed deposit as the satisfied one, 38% people voted Life insurance as satisfied one and then 33% people mutual fund as a satisfied one.
- 67% people said yes they are satisfied by the services of financial instruments while 8% is highly satisfied.
- 71% people said yes they will recommend to invest in tax saving instrument to their friends and family in future.



### Conclusion

With this whole study on Gorakhpur government employees, the following conclusion is drawn:-

- With the findings it is proven that there are lots of people are not well aware of every instrument because of that they are unable to take the correct decision behind the investment.
- Very less people are investor in Mutual fund because they are not well aware with its benefit; they only consider it as the riskiest instrument.
- Highest investors are found in PPF, FD and LIC because it has no risk of loss.
- Very least people are investirs in NSC and SukanyaSamridhiYojna.
- Also according to this study very less people are aware about sukanyasamridhiyojna and NSC.

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