

# FACTORS INFLUENCING THE INVESTORS AWARENESS ON SECURITIES TRANSACTION TAX IN COIMBATORE CITY

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**Abstract:** A financial market is the vertebrae of an economic scheme. It helps the allotment of share capital crosswise in the productive sectors of the economy. The globalization of financial markets has been increasing the size of the community of retail investors' over the past two decades by providing a wide variety of market and investment options. Hence, it makes their investment decisions process more complex. The factors influencing investor's awareness are return on investment, market trend or risk, short term profitability, price of the share, dividend policy, past financial performance, company reputation, reputation of the board, current earnings of the company and expert opinion. Investors are the backbone of capital market. A developing economy, like India, needs a growing amount of savings to flow to corporate enterprises. The level of equity market participation of the retail investors has been increasing over the past few years. Tax awareness means awareness level of tax laws and its provisions among the investors, whereas STT has been the most controversial topics in financial markets regulation during the last decades. Politicians argue that this tax would dampen speculative trading activity, leading to increased financial market integrity. Opponents posit that an STT would not only impair financial markets' quality but also unnecessarily burden the economy by biasing investors' capital allocation. STT has become compulsory to pay while buying or selling the securities in the market, whereas the study is made to analyse the factors that are influencing the investors to create an awareness on securities transaction tax are very suitable for the individual investors considering their lack of knowledge and expertise in financial market.

**Keywords:** *STT, Investors, Awareness, Capital Market and Regulations*

## Introduction

Many developing countries have gone aboard on tax reforms in recent years. Such reforms were goaded both by local factors as well as by swift internationalization of economic activities. The necessity to appropriate fiscal discrepancy and the changeover from a centralized plan to a market cutback were the imperative local factors speeding up tax reforms. Obscurities in constricting expenditures necessitated that tax system reform take an important role in fiscal adjustment strategy. The transition from plan to market required the substitution of administered prices with market determined prices, the replacement of physical controls with financial controls, and the substitution of public enterprise profits with tax revenues. Likewise, tax reforms become imperative in a globalizing environment.. Enhancing competitiveness and attracting foreign investment require minimizing both efficiency and compliance costs of the tax system. Globalization also involves loss of revenue from customs, which needs to be replaced with domestic taxes. Income tax was first introduced in India on 31st July 1860 by the British for five years to overcome financial crunch experienced by the Government. In India, there is three tier systems which is based between the Central government, State Governments and the Local government organizations. India has a well-developed tax structure with clearly separated authority between Central and State Governments and local bodies. According to the Constitution of India, the government has the right to levy taxes on organizations and individuals. The CBDT functions as per the Central Board of Revenue Act of 1963. Securities Transaction Tax have been under discussion since early 1987. Securities Transaction Tax (referred to STT later) is a tax levied on every transaction in the stock market, irrespective of the fact

whether it is a profit earning or a loss making transaction. STT is levied on the gross amount traded and not on the profit or loss. Tax knowledge and awareness are an important aspects in a voluntary compliance with the tax system particularly in determining an accurate tax liability and understanding the tax laws (Kasippilai, 2000). Eriksen and Fallan (1996) also argue that 'knowledge about tax law is assumed to be important for tax compliance and attitudes towards taxation. They suggested that tax knowledge correlates with attitudes towards taxation and tax compliance behavior can be improved by a better understanding of tax laws.

## Review of Literature

**Adimasu and Daare (2017)**, in their study examined the tax awareness and perception of tax payer's and their influence on voluntary tax compliance decision. The study used descriptive research design. Category A tax payers were the target population of this study. A sample of 377 individual Category A tax payers were randomly taken from selected cities. The study used primary and secondary data sources. Primary data were collected through questionnaire and secondary data were collected from reports and manuals of Ethiopian Revenue and Customs Authority (ERCA) branches. Descriptive statistics such as tables and percentages have been used for data analysis. The result of this study revealed that tax awareness was the major problem for voluntary tax compliance attitude and most tax payers viewed the current tax rate and penalty rate is high and they also believed that existing tax system is unfair. Finally, the study showed the tax payer's positive perception towards the tax system and government spending also encourages voluntarily tax compliance.

**Goel and Khatik (2017)**, in their article they found that the current scenario is of modernization. People are becoming modern and more aware and literate day by day in every aspects whether that is of shifting towards cashless, using smart phones for banking, shopping etc, getting independent or if it the case of selection of Investment options. In terms of investment earlier Bank fixed deposits and saving account, PPF used to be favorites investment avenues among investors. But investors are now understanding that to beat inflation investment in these traditional avenues is not enough and one has to adopt diversification to meet out the different goals of their life. In the present scenario mutual funds are the most vivacious investment avenue among all the various available options. One can explore investment in mutual funds which in turn will offer them exposure to various asset classes according to their selection on the basis of various parameters like their age, financial position, risk tolerance and return expectations. Mutual Funds provides liquidity, professional management, tax advantage and better returns and having plethora of schemes according to the need of investors to meet their financial goals. The objective of the research paper is to know the Investors' awareness and preference towards Mutual Funds as an Investment option. Primary data using judgment sampling through questionnaire method as well as secondary data from wide range of literature from various journal publications had been utilized. The findings shows that majority of investors have heard about mutual funds but still a important fraction of them have not initiated to investment because of having lacking in full knowledge of mutual funds. The data further revealed that majority of respondents showed preference towards investment in mutual funds in near future as to get better returns. The paper suggested that companies and government should come forward in getting investors more literate and train their advisors in a way so to build more confidence among investors for taking initiative to invest in mutual funds.

**Shah and Baser (2012)** carried out a survey in Ahmadabad with an objective to study the investor's preference in selection of mutual funds. They have taken two variables: Age and occupation and tried to find the impact of these two variables on investors preference towards mutual funds and concluded that occupation is a variable that affect the investors preference but age does not play any important role.

**Soumyasaha and Munmun Day (2011)** in their article concluded that consumer behavior is an important area of research studies. Investors expectation is a very important factor in this regard that needs to be analysed by all alternative investment avenues. The success of any mutual fund a popular means of investment depends on how efficiently it has been able to meet the investor's expectation. MF industry in

India has a large untapped market. Electronic sale of financial products is gaining volumes with the widespread acceptability of e-buying.

**Singh J. and S. Chander. (2006)** in their article pointed out that since interest rates on investments like public provident fund, national saving certificate, bank deposits, etc., are falling, the question to be answered is: What Investment alternative should a small investor adopt? Direct investment in capital market is an expensive proposal, and keeping money in saving schemes is not advisable. One of the alternatives is to invest in capital markets through mutual funds. This helps the investor avoid the risks involved in direct investment. Considering the state of mind of the general investor, this article figured out the preference attached to different Investment avenues by the investors; the preference of mutual funds schemes over others for investment; the source from which the investor gets information about mutual funds; and the experience with regard to returns from mutual funds. The results showed that the investors considered gold to be the most preferred form of investment, followed by NSC and Post Office schemes. Hence, the basic psyche of an Indian investor, who still prefers to keep his savings in the form of yellow metal, is indicated. Investors belonging to the salaried category, and in the age group of 20-35, years showed inclination towards close-ended growth (equity-oriented) schemes over the other scheme types. A majority of the investors based their investment decision on the advice of brokers, professionals and financial advisors. The findings also revealed the varied experiences of respondents regarding the returns received from investments made in mutual funds

### Research Problem

Securities Transaction Taxes (STT) have received much attention over the last few years with countries and global organizations trying to control the level of speculations, especially since the Global Financial Crisis. Tax awareness means awareness level of tax laws and its provisions among the investors, whereas STT has been the most is one of the most controversial topics in financial markets regulation during the last decades. Politicians argue that this tax would dampen speculative trading activity, leading to increased financial market integrity (e.g. Summers and Summers, 1989; Stiglitz, 1989). Opponents posit that an STT would not only impair financial markets' quality but also unnecessarily burden the economy by biasing investors' capital allocation (e.g. Matheson, 2011; Habermeier and Kirilenko, 2001). Every investor should be aware of the tax laws prevailing in their country, especially, the taxes charged in the stock market for trading in securities. Economic literature suggests that the average investor will not be taxed directly when they buy or sell securities. The securities that invest customer funds will still themselves have to pay the STT and their own cost will almost certainly be passed along to the other investors. STTs have the potential to slow price discovery in financial markets, primarily reducing liquidity. Assets are priced on old or outdated information because the transaction costs are imposed by the STT make it unprofitable for the market participants to act on a small disequilibria. Short term traders are important suppliers of liquidity to the market, which, at certain times, stabilizing role. An investor should be aware of the transaction tax as it will only increase, not decrease the volatility. In general, all investment avenues differ from one another and hence all are not equally attractive or distractive. In addition, investors are facing a problem in choosing the best alternative from the available investment options in the financial market. It is so because of lack of necessary information with regard to market fluctuations, time to analyze the market and expertise in the investment decisions. This has increased the necessity for tailor made instruments (investment options) that provide safety and security to investors. Hence complying with the tax laws and regulations means reporting of the correct tax bases, timely filing of tax returns and payment of the amount payable to concerned tax authority and correct determination of the tax burden (Andreoni, Erard & Feinstein, 1998). Tax non compliance might be intentional or unintentional. due to lack of knowledge and poor awareness on the tax may lead to non-compliance of tax, but STT has become compulsory to pay while buying or selling the securities in the market, whereas the study is made to analyse the factors that are influencing the investors to create an awareness on securities transaction tax are very suitable for the individual investors considering their lack of knowledge and expertise in financial market.

## Research Design

In order to achieve the objective of the study, descriptive research design was employed. This design helps to describe the data at hand.

## Sample Size and Sampling Method

The study used Purposive sampling techniques for collecting data from the investors. Individual tax payers were purposely selected equally in each cities using purposive sampling technique. The number of tax payers were obtained from the securities trading companies in coimbatore city. In year 2018, there were about 4930 investors in and around Coimbatore city. The sample size was determined using (Yemane, 1967) formula. Hence, samples of 325 individual investors were selected.

## Data sources and Method of Collection

Both primary and secondary sources of data were used. Primary data were collected through close and open ended questionnaires. Close ended questionnaires were prepared in the form of Likert-Scale in the form of “Agree” and “Disagree” and “Yes” and “No” form.

## Results and Discussions

The study presents the results of the field survey that was conducted in Coimbatore city. Accordingly, a total of 325 questionnaires were distributed to individual investors, of which 300 filled completely and returned. This made the return rate around 90 %, indicating good response rate. After the data were collected, checked for errors and completeness, it was analyzed using descriptive research techniques.

**Table 1**  
**Demographic Profile of the Respondents**

Variables	No.of Respondents	Percentage
<b>Age</b>		
25-35	83	27.67%
36 – 45	53	17.67%
46 – 55	94	31.33%
Above 55	70	23.33%
<b>Total</b>	<b>300</b>	<b>100.0%</b>
<b>Gender</b>		
Male	175	58.33%
Female	125	41.67%
<b>Total</b>	<b>300</b>	<b>100.0%</b>
<b>Occupation</b>		
Private Employee	27	9.00%
Government Employee	75	25.00%
Professors	58	19.33%
Doctors	60	20.00%
Bank Employees	62	20.67%
Housewife	16	5.33%
<b>Total</b>	<b>300</b>	<b>100.0%</b>
<b>Source of Awareness</b>		
Media	<b>69</b>	<b>23.00%</b>
Tax Consultant	<b>79</b>	<b>26.33%</b>
Auditor	85	28.33%
Person dealing with stocks	67	22.33%
<b>Total</b>	<b>300</b>	<b>100.00</b>
<b>Regular Payment of Tax</b>		
Yes	170	56.67%
No	130	43.33%



<b>Total</b>	<b>300</b>	<b>100.0%</b>
<b>Trading</b>		
Full Time	130	43.33%
Part Time	170	56.67%
<b>Total</b>	<b>300</b>	<b>100.0%</b>
<b>Years of Association</b>		
Less than 1 year	<b>54</b>	<b>18.00%</b>
Between 1-3 years	95	31.67%
Between 3-5 years	83	27.67%
More than 5 years	<b>68</b>	<b>22.66%</b>
<b>Total</b>	<b>300</b>	<b>100.0%</b>

Source: Primary Data

Table 1 found that majority of the respondents belong to 46-55 years of age group are aware of the taxation procedures. 58.33 per cent of the respondents are male and 41.67 per cent of the respondents are female. 25 per cent of the government employees, are aware of the taxation procedures followed around. 28.33 per cent of the respondents acquired knowledge from their auditors, 56.67 per cent are regular tax payers and 45 per cent of them are not. Therefore majority of the respondents are regular tax payers. 43.33 per cent of the respondents trade stocks at full time and 56.67 per cent of the respondents are part time traders. 31.67 per cent of the respondents are between 1-3 years of association in trading.

### Factor Analysis on Awareness towards Securities Transaction Tax

From Table 2, KMO's test varies between 0 and 1 and a value of 0 shows that the sum of partial correlations is large relative to the sum of correlations meaning factor analysis is likely to be irrelevant while a value close to 1, shows that patterns of correlations are relatively compact and factor analysis yield distinct and reliable factors (Field, 2005). For our case, the value is 0.817, which indicates that factor analysis is relevant for our study.

**Table 2**  
**KMO Bartlett's Test of Sphericity**

Test	Value
KMO Bartlett's Test of Sphericity	0.817

Source: Primary Data

Table 3

## Total Variance Explained

Components	Initial Eigen Values			Extraction of Sum of Squares Loading			Rotation of Sum of Squares Loadings
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	21.437	48.154	40.139	21.437	48.154	34.139	9.567
2	18.109	7.189	45.939	18.109	7.189	45.939	8.460
3	16.257	6.356	55.308	16.257	6.356	51.308	5.139
4	14.546	5.487	56.298	14.546	5.487	55.298	3.936
5	12.955	4.563	61.809	12.955	4.563	57.809	1.846
6	8.476	4.325	62.615				
7	5.487	4.119	66.858				
8	3.156	4.031	70.480				
9	2.117	4.007	72.898				
10	1.974	3.685	73.961				
11	1.874	3.414	75.147				
12	1.547	3.117	76.854				
13	1.354	2.894	79.445				
14	1.189	2.561	81.943				
15	1.057	2.247	84.374				
16	1.006	2.174	86.621				
17	0.874	2.072	88.731				

18	0.785	1.894	90.776			
19	0.755	1.851	90.994			
20	0.654	1.783	91.116			
21	0.557	1.761	91.682			
22	0.458	1.756	92.592			
23	0.356	1.547	94.135			
24	0.201	0.997	95.619			
25	0.111	0.713	96.922			
26	0.105	0.326	98.126			
27	0.057	0.067	99.265			
28	0.035	0.026	99.974			
29	0.002	0.003	99.997			
30	0.001	0.001	100.000			

Source: Primary Data

Extraction Method: Principal Component Analysis

When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Table 3 denotes how much of the total data fit into the five factors and this is carried using variance. The total variance percentage accumulated in the five factors is 61.809% and the factor 1 carries 34.139% of data indicating that most of the data fits into that factor. The other four factors carry below 10% each and show relatively low fit of data in the factors.

This analysis is based on the Common Factor Model, which proposes that each observed response is influenced by underlying common factors (factor 1, 2, 3, 4, 5). This factor is defined as the natural affinity of an item for a group (Wal et al., 2002, p.329). The strength of the link between each factor and each measure varies in that a factor could influence some dimensions more than others (DeCoster, 1998, p.1). Score below 0.45 indicate a weak loading and are therefore of little or no significance.

Factor loadings are the weights and correlations between each variable and the factor. The higher the load, the more important it is in defining the factor's dimensionality. A negative value indicates an inverse impact on the factor.

**Table 4**  
**Factor Analysis (Rotated Component Matrix)**

Items	Components					Cronbach Alpha	Factor Name
	1	2	3	4	5		
Awareness of IT	0.856					0.879	Managerial Aspect
Deductions from 80 C to 80 U	0.847						
Rebate	0.715						
Awareness of penalty for non-payment	0.668						
TDS	0.648						
Knowledge of loopholes	0.524						
Tax saving techniques		0.794				0.813	Disciplinary Aspect
Penalty and interest charged		0.745					
Standard deductions		0.768					
Significant Influence On Securities Transaction Tax Revenue Generation		0.657					
Tax payers have knowledge on what and how to compute report and pay their tax		0.687					
Tax payers level of understanding of the securities transaction tax Laws influence their paying attitude		0.545					
Regularly organize workshops to enlighten the concept of securities transaction tax			0.647			0.784	Prospective Aspect
Enlightenment can discourage capital gains tax avoidance and tax evasion			0.623				
Securities Transaction Tax Awareness increases savings			0.617				



Securities Transaction Tax Awareness increases Wealth			0.639				
Securities Transaction Tax Awareness leads to build efficient portfolio of Investments			0.546				
Securities Transaction Tax Awareness enhances effective Investments opportunities			0.747				
Securities Transaction Tax Awareness increases Wealth and safe guards retired life				0.856			
Securities Transaction Tax Awareness increases Wealth and in turn higher standard of living.				0.775			
Securities Transaction Taxation Procedure is Complex and Difficult to Understand				0.746			
Filing of Return is very complex.				0.689			
Need for improvement in Tax Payer Service to reduce compliance cost				0.675			
Building Proper Information System is necessary.				0.521			
Rationalization and simplification of Tax Laws are inevitable.					0.691		
Detecting and Penalizing non-compliance is necessary for effective Tax Enforcement .					0.682		
Quick and time bound refund of excess tax paid.					0.634		
Always deduct tax at source on all income.					0.616		
Prefer uniform tax rate to progressive tax rate .					0.591		
Favoring the system of tax imposed without basic exemption to tax imposed after basic exemption.					0.570		

**Extraction Method: Principal Component Analysis.**

**Rotation Method: Varimax with Kaiser Normalization.**

Table 4 shows the factor loadings for each item in relation to the various factors. These values in the table show the weight and correlation each item has to a factor or component. All values below 0.45 are cut off from this table because they are not significant for analysis. From the above table, it can be realized that items from different dimensions are regrouped under the same factor, therefore the factor analysis proves that this model is a good measure of awareness among the investors because it is expected to see the similar items fall under the same factor showing that they measure the same thing.

The factor loadings for the five factors extracted were rearranged in the order of the loadings for each of the factors. The table has indicated that the first six variables belonged to the factor managerial aspect, the next six factors converged as disciplinary aspect, the next six variables converged as prospective aspect, the next six variables converged as monetary aspect and the last variable fell under the category compliance aspect.

Cronbach Alpha test was performed in order to test the internal consistency of the variables under each factor. If the value of alpha is closer to 1, higher will be the consistency and reliability. The alpha value of managerial aspect has been 0.879, disciplinary aspect being 0.879, prospective aspect being 0.816, monetary aspect being 0.776 and compliance aspect being 0.729 which was quite high in explaining the internal consistency and reliability of the variables in each factors.

## Conclusion

From the research, it can be concluded that: Firstly, the knowledge and understanding of tax regulation in the society will increase if the government conduct more socialization about the regulation and legislation of taxation and its amendments. Secondly, the research proves that the knowledge and understanding of tax regulation and taxpayer awareness has a significant direct effect on tax compliance, both individually and simultaneously. Finally, it was also found that the direct effect of knowledge and understanding of tax regulation on tax compliance is greater than the indirect effect. This implies that the knowledge and understanding of tax regulation through taxpayer awareness does not have a significant influence on tax compliance.

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