

Impact of Income and Occupation on Selection of Tax Saving Instruments

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Abstract

In India, disparity in income due to the occupation persuade by the individual led to different tax saving instruments coming into existence. Occupations having high inflow of money fall into high tax bracket and require hybrid and modern tax saving instruments. The current study attempts to understand whether there is any significant association between the occupation and income level of the individuals in Delhi and their level of awareness of various tax saving instruments like bank deposits, mutual funds, ELSS, provident fund etc. Further, the research also attempts to find association between occupation, income level of the individuals and which tax saving instruments they select. The primary data is collected through a structured questionnaire, and is analyzed using software SPSS and Ms. Excel and statistical tools like Chi- square, Karl Pearson's Correlation Coefficient, Cronbach's Alpha. The study has ranked different tax saving instruments in terms of awareness and selection.

Key words: Tax Planning, Occupation, Income level, Tax saving instruments, Chi square.

Introduction

The Indian households have the reputation of being the biggest savers on earth. The average household investment has been around 10% of GDP of India. Increase in household investments, increases net financial savings of the country. There are many factors which affect the investment pattern of the household like fiscal policy, level of interest rates, financial reforms, effects of taxation etc. But there are different studies on behavioral finance which proves that there are some other factors which affects the household investments, like the demographic profile of the investor, level of knowledge about the various investments etc. The demographic profile of the investor includes the age, gender, education qualification, domicile, family background, risk tolerance, income level, and the occupation of the investor. Another important factor which affects the investment pattern of the investor is their knowledge of different investment avenues.

Traditional economic theory has been predicted on the basic assumption that the investors are rational and invest rationally. Rational investor is one who has self-control over him/ her and is impassive by emotions and influence. Behavioral finance argues that in reality the investor does not behave rationally and the psychology and emotions also play an important role in the investment decisions. The current study attempts

to find out the effect, occupation and income level, being part of demographic profile, have on the investment decisions and on the selection of various tax saving instruments.

Occupation can be defined as an activity in which a person is engaged or occupied to earn a living. Occupation can broadly be categorized into three classes, salaried class, professional class and business class or self-employed or entrepreneurs. Individuals in different occupation have different levels of income and different ways to reduce their tax liability. India sees a huge disparity in incomes of individuals with only 10% of Indians owning over 3/4th of the wealth in India. Assesseees in different occupations and income range different risk tolerance. A businessman has a high-risk tolerance in compared to a government salaried assessee or an entrepreneur. Variation in the level of risk tolerance makes assesseees choose various kinds of tax saving instruments. Also, assesseees in different occupations of with such variations in the income level of the individual different tax saving instruments are adopted to reduce their income tax liability.

Literature Review

Mehran, N. and Muhammad, N. (2009) in their study found that emotions and psychological biases affected the decision making of the investor. The research also showed that investors were also affected by over confidence which also influences their investment decisions. *Chaturvedi, M. and Khare, S. (2012)* studied the “Saving Pattern and Investment Preferences of Individual Household in India” observed that level of awareness among full time salaried person is significantly different from the other occupational categories namely, retired hence, there is significant difference in the level of awareness of the investors of different occupations.

Bhola, S. Shah B.V, Zanwar S.P(2012) in their study found that professionals, entrepreneurs preferred traditional tax saving instruments like insurance, Provident Fund, Bank Deposits. But instruments like Unit linked insurance policies were not preferred that much. Health insurance is preferred by professionals and executives but not as much by entrepreneurs. The study also indicated that executives considered return, security as main factors for selection of tax saving instruments but entrepreneurs consider liquidity factors.

Amaraveni, P. and Archana, M. (2017) concluded that there is a significant relationship between the income level of the assessee and their investment preferences. Majority of the assesseees having annual income less than 3,00,000 invested in investment avenues with steady returns whereas assesseees having income more than 7,00,000 preferred investments having future benefits and tax saving. *Gautam, S. (20130)*, the researcher in the study found that assesseees with income up to Rs 2,00,000 have tax savings less than Rs 10,000. But as the income increases from Rs 2,00,000 to Rs 5,00,000 - Rs 7,00,000 the tax saving increased from Rs 10,000 to Rs 70,000 to Rs 1,00,000.

Bendigeri, M. and Gorantli, S. (2013) studied the investment choices of the assesseees working in banking financial services and insurance in Ranebennuru, Karnataka as salaried class or as professionals or brokers in

self-employed class. The study found that there is no significant relationship between the occupation of the assessee and selection of tax saving instruments. *Bishnoi, S. (2014)* conducted a research on a sample of 400 respondents taken from Delhi and Faridabad. In her research paper attempted to find out the relationship between the investment objectives and the demographic profile of the investor. The study showed a significant association between the occupation and income level and the selection of tax saving instruments. The occupation has a significant impact on investment decision. The study found out that Insurance is the most favored investment followed by NSC and PPF.

Patel, B. and Modi, V. (2017) collected data with the help of a structured questionnaire from 100 respondents in the region of south Gujrat, to study the impact of demographic factors on the investment decisions. The study propounded that there is no significant association between the occupation of the assessee and selection of an investment. The research also provided that investment decisions are not only dependent on demographic variables. *Sathiyamoorthi, C. and Krishnamurthy, K. (2015)* in their study attempted to understand the investment pattern and awareness of salaried investors in Tamilnadu. The study was conducted on a sample of 960 respondents. The study found that there is a significant association between occupation and selection of instruments like post office, government bonds, life insurance scheme provident fund.

Sadiq, M.N and Ishaq, H.M (2014) attempted to evaluate the effect of the demographic variables on the behavior of investors for selection of tax saving instruments. The sample of 100 respondents was taken from Rawalpindi and Islamabad (Pakistan). The study found out that there is no significant relationship between the occupation of the investor and selection of a tax saving instrument. Further the study found there is a negative correlation between the occupation and risk tolerance. *Chaurasia, P (2017)* studied the investment preferences of investors. A sample of 229 respondents was taken from the area of Indore district in Madhya Pradesh. The study propounded that fixed deposit is the most preferred investment. The study found that there is no significant relation between the qualification and various tax saving instruments.

Objectives of the Study

1. To study the demographic profile of the assessee.
2. To study the level of awareness of the assessee in various occupations and having different level of income, regarding various tax saving instruments.
3. To find the association if any between the occupation, income level of the assessee and selection of a tax saving instrument by the assessee.

Research Methodology

The study is based on both primary and secondary data. The primary data is collected from administering a questionnaire on 54 respondents in Delhi. The secondary data is collected from the research journals, websites and books etc.

Analysis of Data

The data has been collected through a structured questionnaire based on a five-point Likert scale and the analysis of the data has been conducted through SPSS software and using microsoft excel.

Reliability Test

As the study has used a five- point Likert scale, a reliability test is essential. One of the most used reliability tests is Cronbach's Alpha.

Table 1: Reliability Test

Cronbach's Alpha	No. of Items
.843	52

The Cronbach's Alpha for the sample is 0.843, which suggests a very preferable internal consistency reliability.

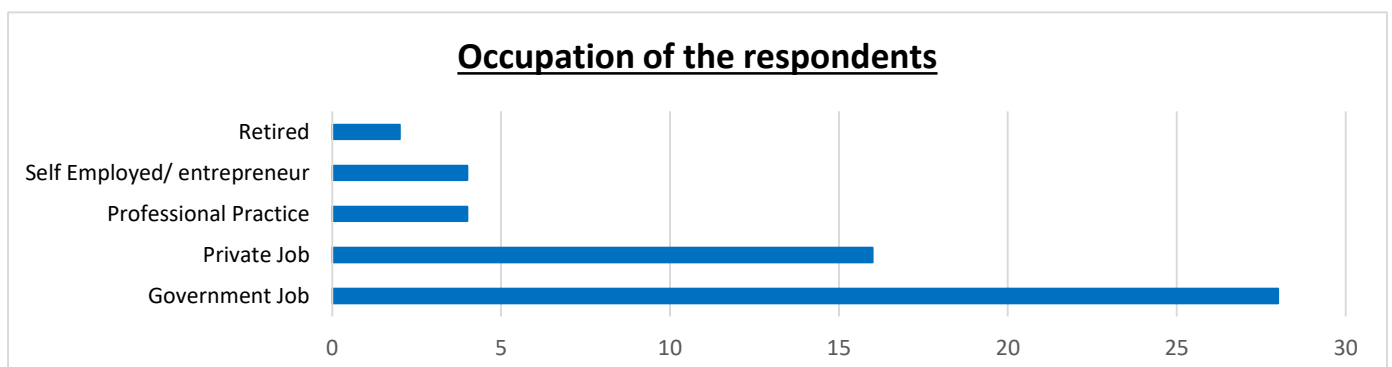
Occupation of the respondents

Table 2: Occupation of the respondents

Particulars	Frequency	Percent
Government Job	28	51.9
Private Job	16	29.6
Professional Practice	4	7.4
Self Employed/ entrepreneur	4	7.4
Retired	2	3.7
Total	54	100.0

(Source: Primary data)

Majority of the respondents are from government job with almost 52% and private jobs with 29.6%. That means majority of the respondents are from salaried class. Some respondents are also self-employed with 11.1%.

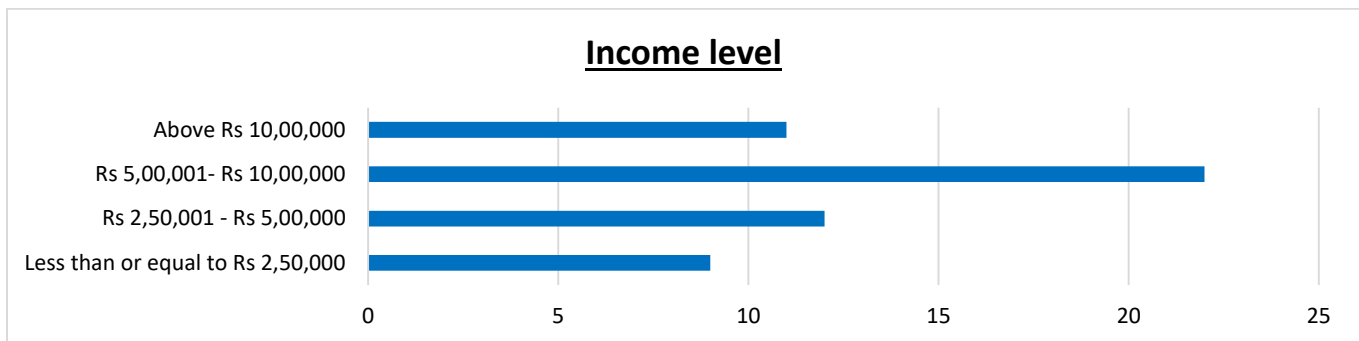


Income Level of the respondents

Table 3: Income level of the respondents

Particulars	Frequency	Percentage
Less than or equal to Rs 2,50,000	9	16.7
Rs 2,50,001 - Rs 5,00,000	12	22.2
Rs 5,00,001- Rs 10,00,000	22	40.7
Above Rs 10,00,000	11	20.4
Total	54	100.0

Majority of the respondents have their income in the range of five lakhs to ten lakhs with 40.7%. Majority of the respondents are in the tax paying groups having income in the range of 2,50,000 and above.



Cross classification of investors: Occupation and income level

Table 4: Cross classification of investors: Occupation and Income level of the assessee

			Select the range for your level of income				Total	
			Less than or equal to Rs 2,50,000	Rs 2,50,001 - Rs 5,00,000	Rs 5,00,001- Rs 10,00,000	Above Rs 10,00,000		
Occupation of the respondents	Government Job	Count	3	3	16	6	28	
		% of Total	5.6%	5.6%	29.6%	11.1%	51.9%	
	Private Job	Count	4	5	4	3	16	
		% of Total	7.4%	9.3%	7.4%	5.6%	29.6%	
	Professional Practice	Count	0	4	0	0	4	
		% of Total	0.0%	7.4%	0.0%	0.0%	7.4%	
	Self Employed/entrepreneur	Count	2	0	1	1	4	
		% of Total	3.7%	0.0%	1.9%	1.9%	7.4%	
	Retired	Count	0	0	1	1	2	
		% of Total	0.0%	0.0%	1.9%	1.9%	3.7%	
	Total		Count	9	12	22	11	54
			% of Total	16.7%	22.2%	40.7%	20.4%	100.0%

Investment is necessary

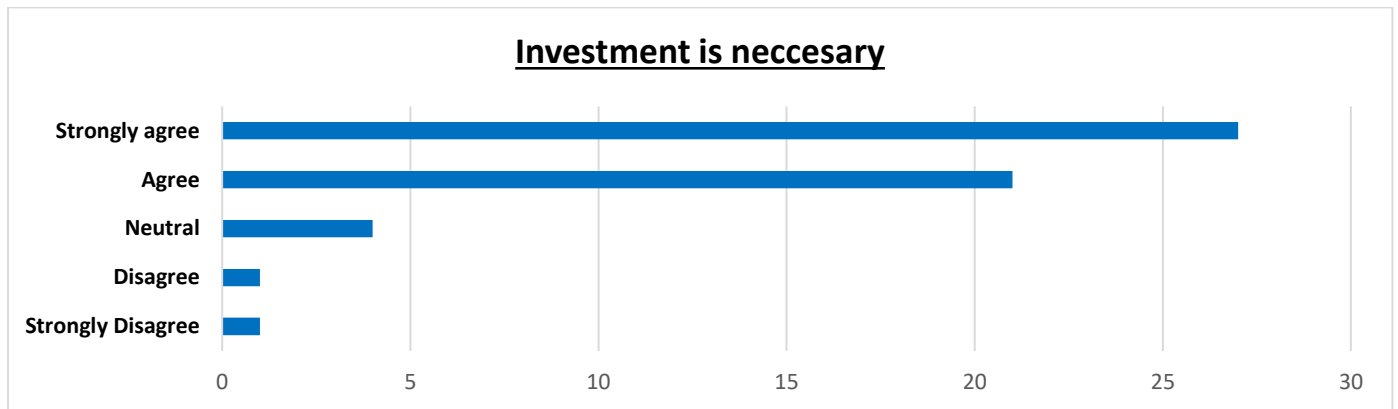
Table 5: Investment is necessary

Particulars	Frequency	Percentage
Strongly Disagree	1	1.9
Disagree	1	1.9
Neutral	4	7.4
Agree	21	38.9
Strongly agree	27	50.0

Total	54	100.0
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(Source: Primary data)

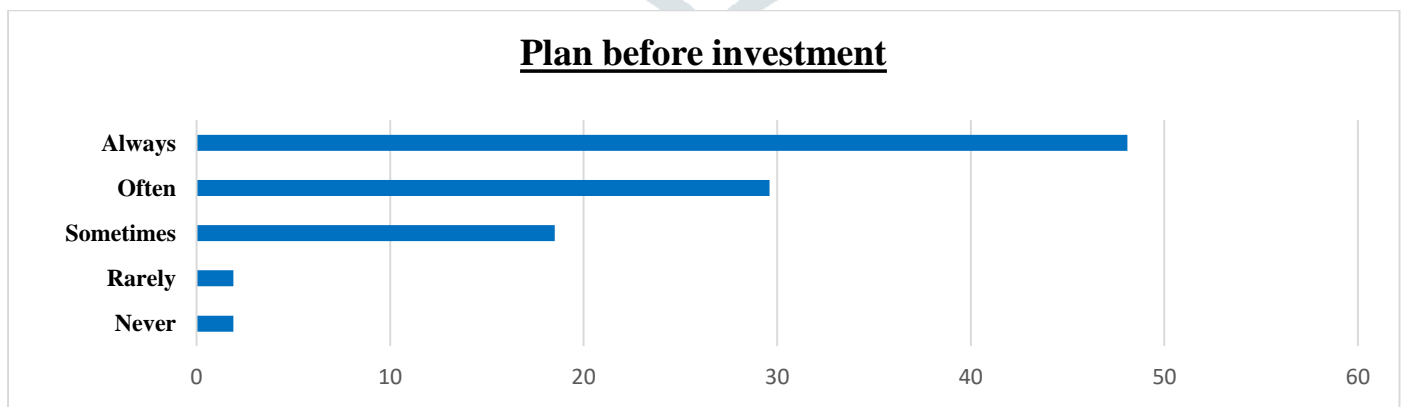
More than half of the respondents agreed that investment is an important factor and is very necessary factor for the household and for the economy. 50% of the respondents strongly agree that investment is necessary and everyone should invest their money in one or more investment avenues. 7.4% of the respondents are neutral on the topic and are not sure whether investment is necessary or not.



Plan before investment and the concept of tax planning

Table 6: Planning before investment

Particulars	Percentage
Never	1.9
Rarely	1.9
Sometimes	18.5
Often	29.6
Always	48.1
Total	100.0



Planning before the investment is the most effective way to reduce the tax liability and to secure the future. Almost half of the respondents in Delhi always plan where to invest their money.

Relationship between Occupation of the assessee and awareness about tax planning

Table 7: Cross tabulation between occupation and awareness of tax planning

Correlations		Occupation of the respondents	Are you aware with the concept of Tax Planning
Occupation of the respondents	Pearson Correlation	1	-.311*
	Sig. (2-tailed)		.022
	N	54	54
Are you aware with the concept of Tax Planning	Pearson Correlation	-.311*	1
	Sig. (2-tailed)	.022	
	N	54	54

*. Correlation is significant at the 0.05 level (2-tailed).

(Source: Primary data)

From the above table we can clearly observe that there is a significant correlation between the occupation of the respondent and the level of awareness of the tax planning of the assessee. People in different occupation have different level of awareness about tax planning.

Relationship between Level of income and Investment during the year.

Table 8: Cross tabulation between level of income and investment

		Select the range for your level of income	How much you invest during a year?
Select the range for your level of income	Pearson Correlation	1	.657**
	Sig. (2-tailed)		.000
	N	54	54
How much you invest during a year?	Pearson Correlation	.657**	1
	Sig. (2-tailed)	.000	
	N	54	54

** . Correlation is significant at the 0.01 level (2-tailed).

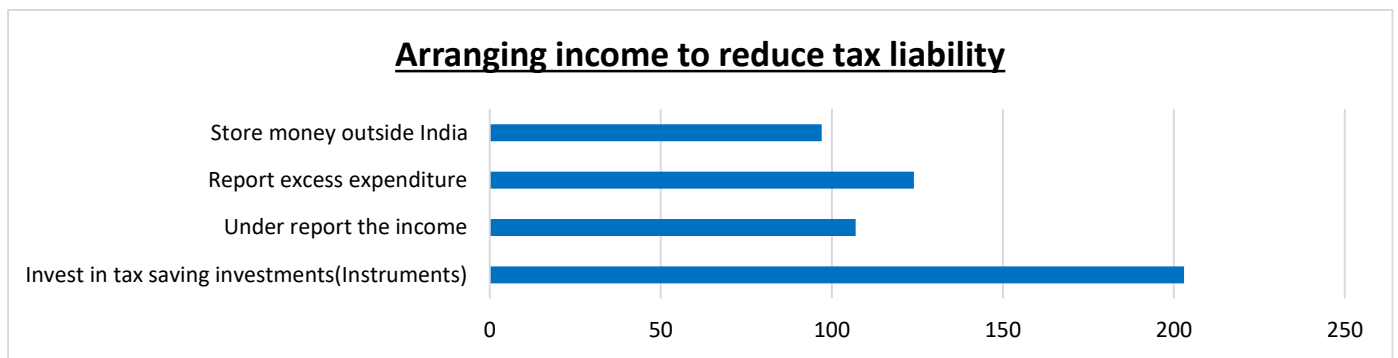
(Source: Primary data)

There is a clear significant correlation between the level of income of the assessee and the amount invested by the assessee. Now this is clear that the selection of a particular tax saving instrument depends upon the level of income of the assessee.

Arranging income to reduce tax liability

Table 9: Arranging income

	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Total	Rank
Invest in tax saving investments (Instruments)	9	2	6	13	24	203	1
Under report the income	29	9	7	6	3	107	3
Report excess expenditure	20	15	7	7	5	124	2
Store money outside India	28	16	5	3	2	97	4



(Source: Primary data)

The above table deals with the arrangements the assessee do to reduce their tax liability. Majority of the assessee invest their money in tax saving instruments. But some respondents are of the view to report excess expenditure or under report income to reduce their income tax liability. Majority of the assessee strongly agree that one should invest in tax saving instruments, also majority of the assessee strongly disagree to mis-report income or expenses or even to put money outside India to reduce tax liability. From the above table we can observe that assessee prefer to invest their money in the tax saving instruments and not in tax evasion that is under reporting income or over reporting expenses.

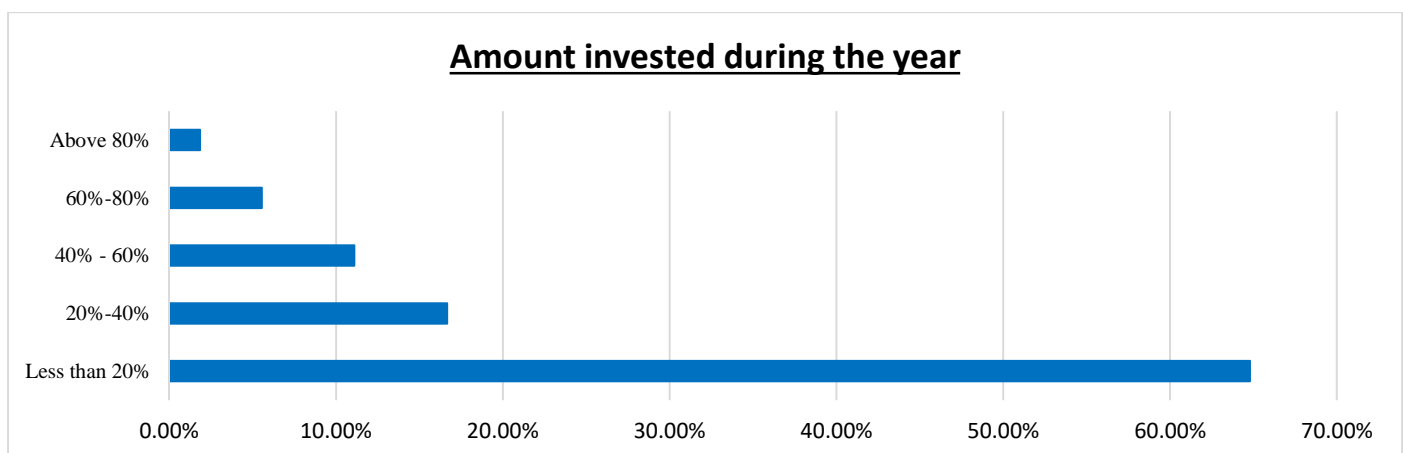
Amount of investment during the year

Table 10: Amount of investment

Particular	Frequency	Percentage
Less than 20%	35	64.8%
20%-40%	9	16.67%
40% - 60%	6	11.11%
60%-80%	3	5.55%
Above 80%	1	1.85%
Total	54	100%

(Source: Primary data)

As the data shows that majority of the respondents are investing less than 20% of the of their income in the tax saving instruments. This show people in Delhi are not that keen on investments, or are not aware of different tax saving instruments available.



Factors affecting selection of tax saving instruments

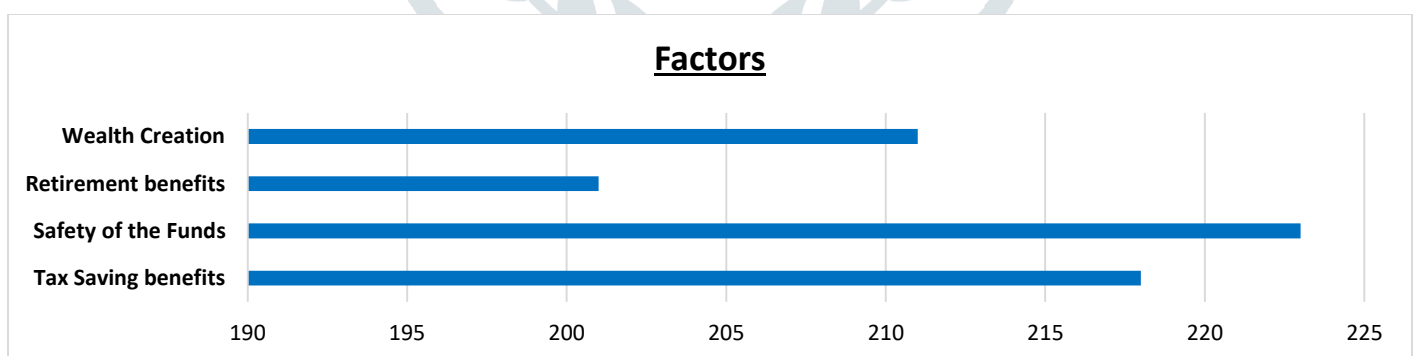
The structured questionnaire asked the respondents the factors which affect the awareness of various tax saving instruments. Several factors affecting the level of awareness are the age of the person, education qualification of the respondents, occupation of the respondents, income level of the respondents, and family background of the respondents.

Majority of the respondents agree that the demographic factors like age, education, occupation, income level and family background affect the level of awareness of various tax saving instruments. Occupation being the most significant factor affecting the level of awareness of the assesseees. Despite the common consensus some assesseees do not think education qualification have any effect on the level of awareness.

Table 12: Factors affecting selection of tax saving instruments

Factors	Definitely Not	Probably Not	Maybe	probably	Definitely	Total	Ranking
Tax Saving benefits	1	5	11	11	26	218	2
Safety of the Funds	3	3	8	10	30	223	1
Retirement benefits	3	6	12	15	18	201	4
Wealth Creation	2	3	12	18	19	211	3

The factor that affects selection of tax saving instruments the most is safety of funds, majority of the respondents go for the tax saving instruments which provide safety of their funds. After safety of funds, tax saving is the next thing the investor look in a tax saving instrument is tax saving benefits. Respondents after safety of funds and tax saving benefits go for retirement benefits and wealth creation.



Level of awareness of various tax saving instruments

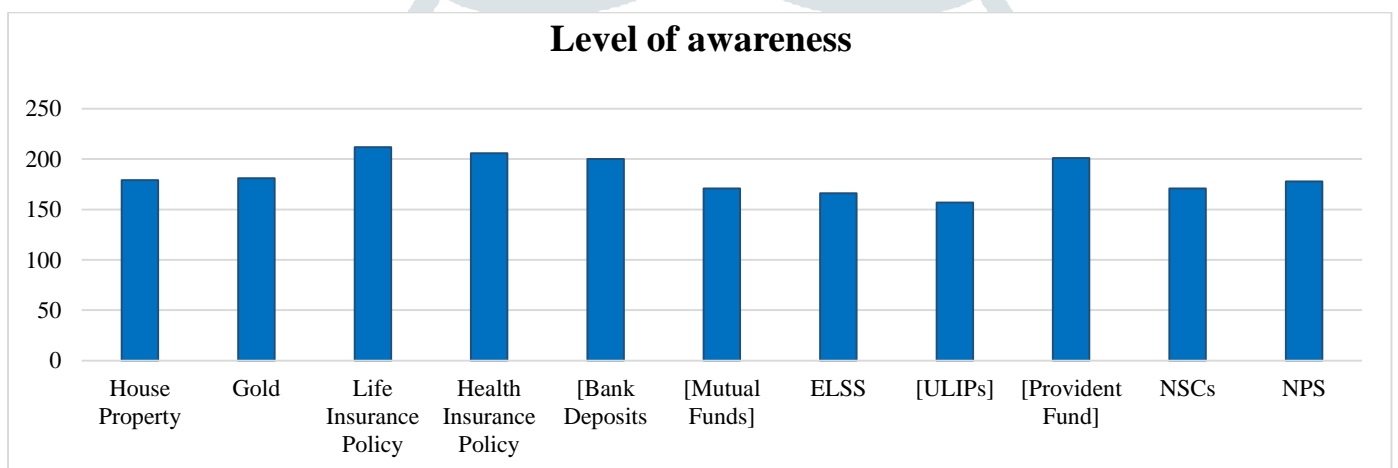
Table 11: Level of awareness

Factors	Not all aware	Slightly aware	Somewhat aware	Moderately aware	Extremely aware	Total	Rank
House Property	4	14	10	13	13	179	6
Gold	4	7	18	16	9	181	5
Life Insurance Policy	3	4	10	14	23	212	1
Health Insurance Policy	2	8	10	12	22	206	2
[Bank Deposits (FDs and RDs)]	3	8	9	16	18	200	4

[Mutual Funds]	7	9	15	14	9	171	9
[Equity Linked Saving Schemes]	8	8	18	12	8	166	10
[ULIPs]	12	7	16	12	7	157	11
[Provident Fund]	2	11	8	12	21	201	3
[National Saving certificate]	9	12	8	11	14	171	8
[New Pension Scheme]	7	6	16	14	11	178	7

(Source: Primary data)

The above table deals with the level of awareness of various tax saving instruments. Rankings has been given to all the tax saving instruments as per the level of awareness. Life insurance policy at rank 1 indicates that respondents are most aware about life insurance policy. Second tax saving instrument of which the assessee are most aware is on second rank health insurance policy.



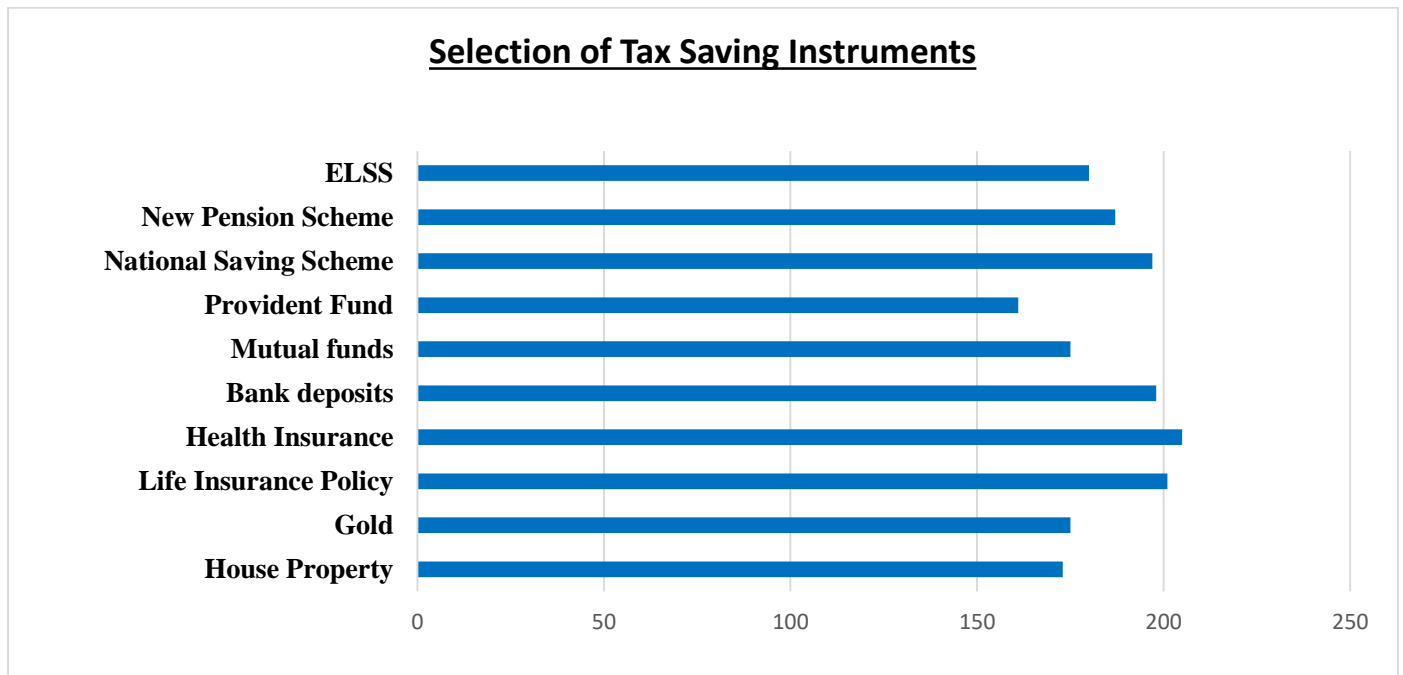
Investment preference in tax saving instruments in Tax Saving Instruments

Table 13 : Ranking of investment preference in tax saving instruments

Tax saving instruments	Very Unlikely	Unlikely	Neutral	Likely	Very Likely	Total	Rank
House Property	10	7	9	18	10	173	9
Gold	3	9	21	14	7	175	7
Life Insurance Policy	1	7	15	14	17	201	2
Health Insurance	1	3	15	22	13	205	1
Bank deposits	2	5	11	27	9	198	3
Mutual funds	4	12	13	17	8	175	8
Provident Fund	4	13	20	14	3	161	10
National Saving Scheme	3	8	8	21	14	197	4
New Pension Scheme	3	7	17	16	11	187	5
ELSS	3	8	18	18	7	180	6

(Source: Primary Data)

The above table indicates the tax saving instruments in which the assessee invest the most. Health Insurance policy and life insurance policy being on the top of the ranking gets the most investments. Assessee are reluctant to invest in provident fund and house property as they are long term investments and blockage of funds are for a longer period. Other government tax saving instruments like national saving scheme and new pension scheme are also very popular among the instruments with Bank deposits.



Association between income of the assessee and selection of a tax saving instruments

Table 14: Correlation between income and tax saving instruments

Tax Saving Instruments	Spearmen Correlation Coefficient	Range of Income
House Property	Correlation Coefficient	.221
	Sig. (2-tailed)	.109
	N	54
Gold	Correlation Coefficient	.092
	Sig. (2-tailed)	.509
	N	54
Life Insurance Policy	Correlation Coefficient	.344*
	Sig. (2-tailed)	.011
	N	54
Health Insurance Policy	Correlation Coefficient	.255
	Sig. (2-tailed)	.062
	N	54
Bank Deposits (FDs and RDs)	Correlation Coefficient	.120
	Sig. (2-tailed)	.386
	N	54
[Mutual Funds	Correlation Coefficient	.154
	Sig. (2-tailed)	.266
	N	54
Equity Linked Saving Schemes	Correlation Coefficient	.249
	Sig. (2-tailed)	.069

	N	54
ULIPs	Correlation Coefficient	.250
	Sig. (2-tailed)	.068
	N	54
Provident Fund	Correlation Coefficient	.238
	Sig. (2-tailed)	.083
	N	54
National Saving certificate	Correlation Coefficient	.211
	Sig. (2-tailed)	.125
	N	54

(Source: Primary data)

The above table shows correlation between the level of income of the assessee and selection of different tax saving instruments. Spearman Correlation coefficient is used to find the association between income level and selection of tax saving instruments. From the above table we can clearly understand that there is a significant association between Income levels affects the selection of life insurance policy. LIC policy being the most preferred tax saving instrument, gets affected by the level of income of the assessee. Level of Income does not have impact selection of other tax saving instruments like mutual funds, ELSS, NPS and national saving certificate.

Association between level of income and selection of a tax saving instrument

Table 15: Chi- Square tests

Chi-Square Tests	HP	Gold	LIP	Health	Deposits	MF	ELSS	NPS	NSC	PF
	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)	Asymp. Sig. (2-sided)
Pearson Chi-Square	0.459	0.014	0.765	0.797	0.296	0.909	0.452	0.834	0.829	0.258
Likelihood Ratio	0.235	0.002	0.782	0.731	0.242	0.782	0.348	0.682	0.654	0.168
Linear-by-Linear Association	0.543	0.175	0.734	0.985	0.545	0.946	0.19	0.965	0.23	0.186
No. of Valid Cases	54	54	54	54	54	54	54	54	54	54

The above table clearly states that income level of the assessee does have impact on selection of gold as an investment avenue. Other than gold, there is no association between income of the assessee and what tax saving instruments they select.

Conclusions

1. Majority of the respondents are in a government job. Also, majority of the respondents are in the range of Rs 2,50,000-Rs 5,00,000.

2. Majority of the respondents is of the opinion that investment is necessary. Also, majority of the respondents always plan before investing in tax saving instruments.
3. 64.8% of the respondents invest less than 20% of their income. And 17% of the investors invest only 20% - 40%.
4. There is a significant correlation between the income level of the assessee and amount invested.
5. There is a negative correlation between the occupation of the assessee and level of awareness. That means assessees in government job and private job have the most awareness about different tax saving instruments. Whereas assessee in business and self employed have less awareness about the various tax saving instruments.
6. The respondents agree that investment in tax saving instruments is the best way to reduce the tax liability, by ranking it as number 1.
7. The respondents considered safety of funds as number one factor which influence selection of a tax saving instrument accompanied with tax savings.
8. In terms of level of awareness assessees are most aware about the life insurance policy, health insurance policy, provident funds and bank deposits. Assesseees are least aware about mutual funds, ELSS and ULIPs.
9. The respondents are preferred to invest in health insurance and life insurance the most. Whereas ELSS and Ulips are the least preferred tax saving instruments.
10. There is an association between income level and gold as investment. Other than that, there is no significant association between income and selection of a tax saving instruments.

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