A Study on the Tax Literacy of Salaried Individuals with Special Reference to Pathanamthitta District

ALPHIN BABY

Assistant Professor, St. Joseph's Academy of Higher Education and Research, Idukki, Kerala, India.

ABSTRACT- A financial charge or other levy imposed upon a tax payer (individual or legal entity) is termed as Tax, collected by a state or the functional equivalent of the same, such that failure to pay, or evasion of or resistance to collection of tax, is punishable by law. Tax consist of direct or indirect taxed and as a norm are paid in money. Tax literacy is a specialized branch of financial literacy. Tax literacy may be defined as the knowledge which an individual should possess in order to manage the issues concerning personal taxation effectively. It is the ability of an individual to understand the concepts of personal taxation and to apply these concepts for calculating tax liability and filing of tax returns independently. In order to have effective tax planning, a person should be tax-literate so as to minimize his/her tax liability through the best use of all beneficial provisions in the tax laws by claiming allowances, deductions, exclusions, exemptions, etc. A tax-literate person will make investments wisely in such a way that he /she can avail the maximum deduction allowed by Income Tax laws. The study attempts to examine the tax literacy of salaried individuals with special reference to Pathanamthitta District. For this study 138 respondents were selected from Pathanamthitta District. The study reveals that overall tax literacy level of salaried individuals is low.

Key words – Tax literacy, Socio-Demographic factors.

1. INTRODUCTION

One of the important components of financial planning is tax management. Tax management refers to tax payer's ability to manage personal taxation issues such as computation of tax liability, tax savings, and payment of taxes on time and timely filing of tax return. In order to handle the issues relating to tax management, tax payer must be aware as well as knowledgeable about basic concepts of personal taxation. In this context tax literacy of an individual plays an important role. An attempt has been made through this study to determine tax literacy level of one class of the society, i.e., salaried individuals, based on various demographic and socio-economic factors. Assessing the level of tax knowledge amongst salaried individuals will help us to know the actual level of tax knowledge possessed by them.

2. STATEMENT OF THE PROBLEM

Tax literacy of an individual plays a key role in managing personal taxes effectively. Hence, an individual's ability to manage his/her personal taxation issues needs to be examined and the socio-economic and

demographic factors that affects tax literacy has to be identified. Along with this, the preference for various tax saving instruments among the taxpayers has to be analyzed. This project deals with a study conducted to understand the tax literacy of salaried individuals with special reference to Pathanamthitta District in Kerala.

3. SIGNIFICANCE OF THE STUDY

It is commonly believed that Indian taxation system is difficult to understand. Tax payer's find it difficult to understand and comprehend the issues related to determination of tax liability, tax filling and tax saving as most of them do not undergo any formal course on taxation. A government needs taxes because, in the long run, taxation is the most efficient way of funding the goods and services which people want the government to provide. After reviewing the relevant literature on tax literacy, it was found that studies related to tax literacy were mainly carried out in countries other than India. Only few studies of such kind which determined tax literacy level has been undertaken in India. Thus, the present study is an attempt to bridge this gap.

4. OBJECTIEVES

1. To determine the level of tax literacy (tax knowledge, tax attitudes and tax management behavior) of salaried individuals.
2. To find out the relationship between tax literacy of salaried individuals and socio – demographic factors.
3. To identify various sources that help salaried individuals to manage personal taxation.

5. RESEARCH METHODOLOGY

5.1 DESIGN

The study was descriptive in nature.

5.2 DATA BASE DESIGN

The population of the study consist of people in Pathanamthitta: A total of 138 respondents constitute the sample for this study. The data for this study has been collected by administering a self-designed structured questionnaire. Data collection has been done through both online (through Google Forms – 76 respondents) and offline (62 respondents) modes.

Both primary data and secondary data were collected for the study

5.2.1 PRIMARY DATA

Primary data related to this study was collected through conducting interviews, schedules by using a structured questionnaire

5.2.2 SECONDARY DATA

The secondary data has been collected from text books, journals, statistical reports published by Govt. Departments, websites etc.

5.3 SAMPLE DESIGN

Snowball sampling technique has been adopted in order to get representative sample of the universe. Here the universe of the study was salaried persons in Pathanamthitta District.

5.4 ANALYTICAL TOOLS

Data collected for the study are properly tabulated and presented through Percentage analysis. Both simple and cross tabulation are used in the study. For analysing the data and testing the hypotheses, Karl Pearson's Chi-Square test and One-Way ANOVA were used.

6. HYPOTHESIS

Hypothesis 1:

H_0:   There is no association between gender and tax literacy level of salaried individuals.

H_A: There is an association between gender and tax literacy level of salaried individual.

Hypothesis 2:

H_0:   There is no association between education and tax literacy level of salaried individuals.

H_A: There is an association between education and tax literacy level of salaried individuals

7. LIMITATIONS OF THE STUDY

Primary data were collected from salaried individuals in Pathanamthitta District. Hence the findings can't be generalised to people belonging to another area.

8. REVIEW OF LITERATURE

Kasipillai and Jabbar (2002) commented that tax knowledge is an essential element in voluntary compliance tax system. Without tax knowledge, it becomes difficult for taxpayers to comply with tax laws.

Kamaluddin and Madi (2010) measured the level of tax literacy among salaried taxpayers in Sabah and

Sarawak states of Malaysia. The results of the study indicate that tax literacy level was not quite satisfactory in both states.

Coolins, Milliron and Toy (1992) in their study found that tax knowledge as well as the level of education was negatively correlated with tax compliance behavior. They also found that knowledge about tax laws is important for preferences and attitudes towards taxation.

Eriksen and Fallan (1996) through their study claimed that preferences and attitudes towards taxation are dependent upon tax knowledge about tax laws. They suggested that there is a correlation between fiscal knowledge and attitudes towards taxation and tax behaviour. They also pointed out that tax compliance and tax ethics can be improved by a better understanding of tax laws.

Chattopadhaya and Das-Gupta (2002) in their study focused on the influence of compliance costs on compliance behaviour of individual taxpayers in India. The study found that there appears to be a relationship between some components of compliance costs, including bribes, and compliance which have a negative effect on tax revenue. The compliance costs may positively affect compliance whereas bribes and use of tax advisor may adversely affect compliance.
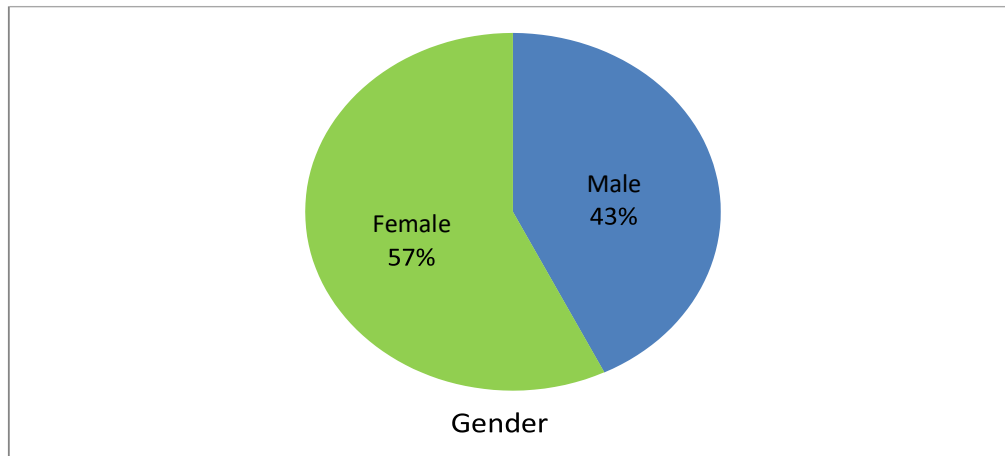
## 9. ANALYSIS AND INTERPRETATION

9.1 RESPONDENTS' PROFILE

Table 9.1

Demographic and Socioeconomic Details of the Respondents

		Frequency	Percentage
Gender	Male	59	42.8
	Female	79	57.2
Educational Qualification	SSLC / 10	4	2.9
	Pre-Degree / +2	15	10.9
	Degree	29	21
	Post-Graduation	81	58.7
	Ph.D.	9	6.5

Graph 9.1 Gender of Respondents

Graph 9.2 Educational Qualification of Respondents
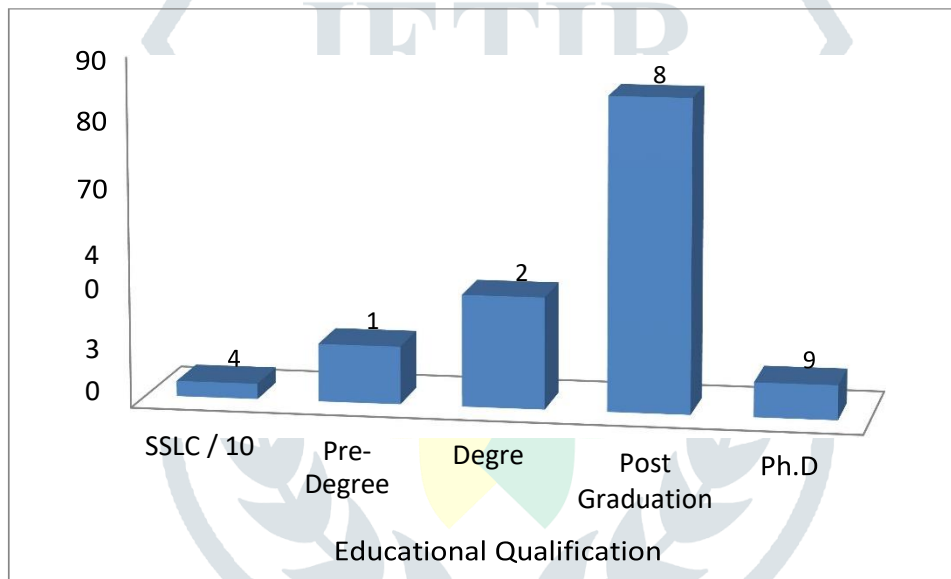
INFERANCE: Table 9.1 shows the characteristics of the sample used for the purpose of this study. Sample for this study constitute 42.8% males whereas females constitute 57.2% of the total respondents.

As per Table 9.1, 2.9% respondents are those who studied up to SSLC/10 and 10.9% respondents are those who studied up to Pre-Degree/+2. Graduates constitute 21% of the total respondents and 58.7% respondents are post graduates. Also 6.5% respondents are PhD holders.

9.2 ABILITY TO MANAGE PERSONAL TAXATION ISSUES

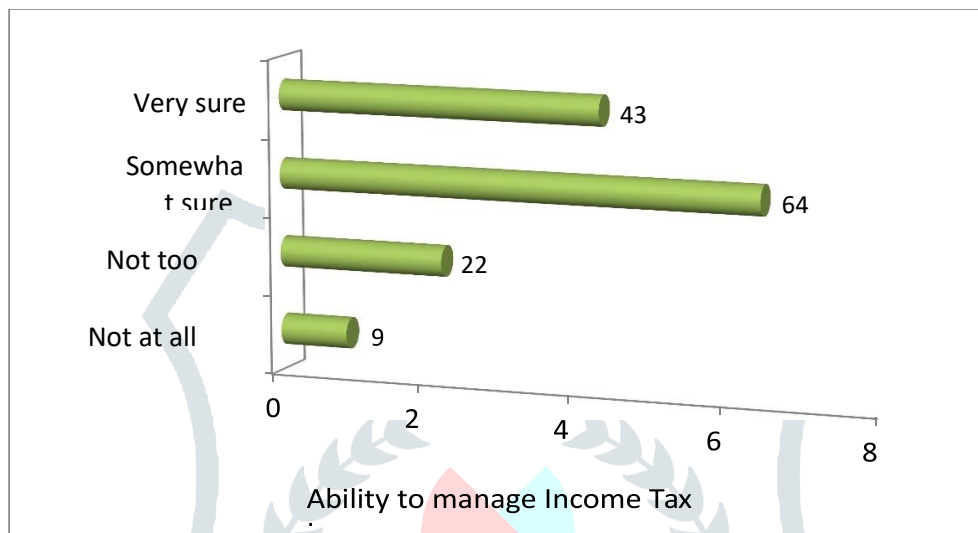### Table 9.2

Ability to manage Income Tax Issues

Ability to manage Income Tax Issues	Frequency	Percentage
Not at all sure	9	6.5
Not too sure	22	15.9

Somewhat sure	64	46.4
Very sure	43	31.2
Total	138	100

Source: Primary Data

Graph 9.3

Ability of Respondents to manage Income Tax Issues

INFERANCE: Respondents were asked about their ability to manage their income tax related issues. Results of the survey (Table 9.2) show that 6.5% respondents were 'Not at all sure' about their ability to manage their income tax related issues. 15.9% respondents were 'Not too sure', 46.4% respondents were 'Somewhat sure' and 31.2% respondents were 'Very sure' about their ability to manage their income tax related issues.

Table 9.3

Cross tabulation of Ability to manage Income Tax Issues with Socio-demographic Factors

		Ability to manage Taxation				Pearson Chi-Square	Sig.
		Not at all sure	Not too sure	Somewhat sure	Very sure		
Gender	Male	2 (3.4)	12 (20.3)	26 (44.1)	19 (32.2)	2.954	0.399
	Female	7 (8.9)	10 (12.7)	38 (48.1)	24 (30.3)		
	Married	6 (5.1)	19 (16.1)	54 (45.8)	39 (33)		
Education	SSLC/10	0 (0)	2 (50)	2 (50)	0 (0)	13.883	0.308
	Pre-Degree/+2	2 (13.3)	3 (20)	7 (46.7)	3 (20)		
	Degree	2 (6.9)	6 (20.7)	11 (37.9)	10 (34.5)		
	Post-Graduation	5 (6.2)	11 (13.6)	41 (50.6)	24 (29.6)		
	Ph.D.	0 (0)	0 (0)	3 (33.3)	6 (66.7)		

Source: Primary Data

INFERANCE: Results suggest that majority of the respondents were somewhat sure or very sure about their ability to manage their income tax related issues.

On further analysis, i.e., by carrying out a crosstab between the question "How sure do you feel about your ability to manage your income tax related issues?" with various socio-demographic factors (Table 9.3), it can be said that ability of females in managing their income tax related issues was much less than that of males. 8.9% females answered 'not at all sure' as their ability to manage their income tax related issues as compared to 3.4% male respondents. Also 32.2% males answered 'very sure' as their ability to manage their income tax related issues as compared to 30.3% females. Pearson's chi-square value is 2.954 and it is not statistically significant.

On studying the relationship between education and ability to manage income tax related issues, it was found that education level and ability in managing income tax related issues were positively correlated. More education level means more ability to manage income tax related issues. Pearson's chi-square value is 13.883 and is not statistically significant

9.3 TAX KNOWLEDGE

Table 9.4

Tax Knowledge Score

		Tax Knowledge Score (%)	F Value	Significance
	Total Sample	52.5362		
Gender	Male	54.9153	1.08	0.300
	Female	50.7595		
	Married	50.7627		
Educational Qualification	SSLC / 10	37.5	5.418	0.000
	Pre-Degree / +2	32.6667		
	Degree	47.5862		
	Post-Graduation	57.9012		
	Ph.D.	60		

Source: Primary Data

INFERANCE: Tax knowledge score of males was more than that of females, but the F-value was not statistically significant

There was a statistically significant difference at 1% level in the mean taxation knowledge scores based on educational qualification. Respondents who are Ph.D. holders scored highest on tax knowledge score. The result shows that the tax knowledge is positively correlated with the level of education.

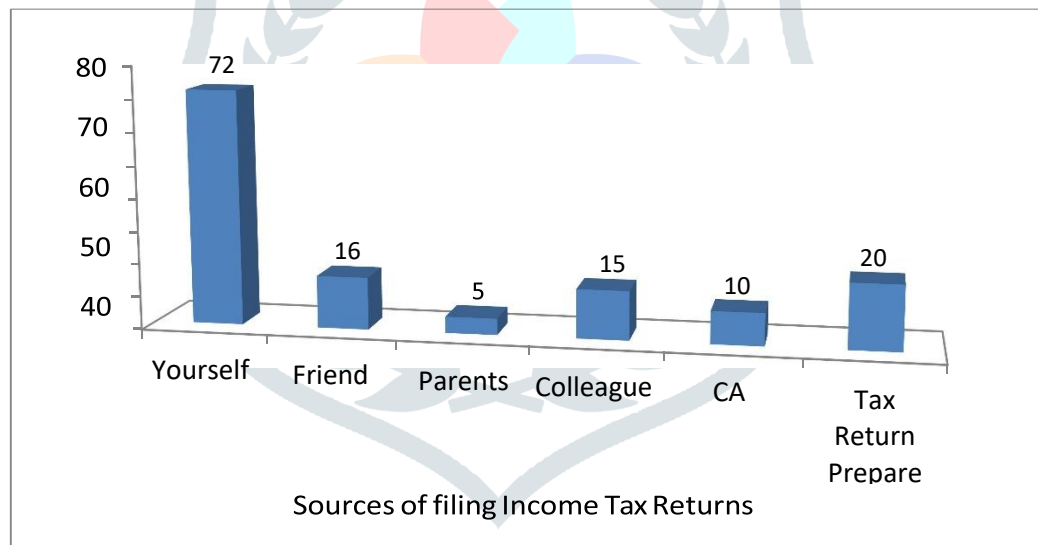## 9.4 SOURCES HELPED IN MANAGING PERSONAL TAXATION

Table 9.5

Sources of filing Income Tax Return

Sources	Frequency	Percentage
Yourself	72	52.2
Friend	16	11.6
Parents	5	3.6
Colleague	15	10.9
CA	10	7.2
Tax Return Preparer	20	14.5
Total	138	100

Source: Primary Data

Graph 9.4 Sources of filing Income Tax Returns

INFERANCE: Table 9.5 shows that, out of the 138 respondents, 52.2% respondents themselves filed their income tax return followed by 14.5% who took the help of tax return preparer. Also 11.6% respondents took help of their friends in filing the return, while 10.9% respondents out of the entire sample sought the help of their colleagues to file their returns.

10 ANALYSIS OF HYPOTHESIS

Table 10.1

Tax Literacy Composite Score

		Mean Tax Literacy Score (out of 15)	Mean Tax Literacy Score (in %)	F Value	Sig.
Gender	Male	10.2032	68.018	0.377	0.540
	Female	9.9959	66.6358		
	Married	10.0214	66.8061		
Educational Qualification	SSLC / 10	8.145	54.305	7.686	0.000
	Pre-Degree / +2	8.442	56.278		
	Degree	9.4341	62.8931		
	Post-Graduation	10.611	70.7346		
	Ph.D.	11.0422	73.6111		

Source: Primary Data

10.1 Association between gender and tax literacy level

Table 10.1 shows the mean score of tax literacy level of males and females. The results indicate that tax literacy of males was more than that of females. The mean score of males was found to be 10.2032 (68.02%) and that of females was found to be 9.9959 (66.64%). From the Table, it can be seen that F value is not statistically significant; hence H_0 of Hypothesis 1 - There is no association between gender and tax literacy level - does not get rejected. Thus it can be concluded that there is no significant difference between male and female respondents in terms of tax literacy level. Hence it can be said that tax literacy level is not associated with gender.

10.2 Association between education and tax literacy level

Table 10.1 shows that tax literacy level is positively correlated with the level of education. More the education level more is the level of tax literacy. Table shows that tax literacy level was highest for respondents who have PhD degree [11.0422 (73.61%)] followed by those respondents who have post-graduate degree [10.611(70.73%)]. From the Table 4.11, it can be seen that F value is statistically significant at 1% significance level. Hence H_0 of Hypothesis 2 - There is no association between education level and tax literacy level - gets rejected. Thus it can be concluded that tax literacy level depends on the education level.

5.1   FINDINGS

1. Out of the 138 respondents, 52.2% respondents themselves filed their income tax return followed by 14.5% who took the help of tax return preparer. Also 11.6% respondents took help of their friends in filing the return, while 10.9% respondents out of the entire sample sought the help of their colleagues to file their returns.

2. The results indicate that tax literacy of males was more than that of females. The mean score of males was found to be 10.2032 (68.02%) and that of females was found to be 9.9959 (66.64%). From the Table, it can be seen that F value is not statistically significant; hence H_0 of Hypothesis 1 - There is no association between gender and tax literacy level - does not get rejected. Thus it can be concluded that there is no significant difference between male and female respondents in terms of tax literacy level. Hence it can be said that tax literacy level is not associated with gender.

3. More the education level more is the level of tax literacy. Table shows that tax literacy level was highest for respondents who have PhD degree [11.0422 (73.61%)] followed by those respondents who have post-graduate degree [10.611(70.73%)]. From the Table 4.11, it can be seen that F value is statistically significant at 1% significance level. Hence H_0 of Hypothesis 2 - There is no association between education level and tax literacy level - gets rejected. Thus it can be concluded that tax literacy level depends on the education level.

5.2   CONCLUSION

From the results of the study, it can be concluded that overall tax literacy level of salaried individuals is not encouraging. The results also suggest that level of tax literacy varies significantly among respondents on the basis of various demographic and socio-economic factors. Moreover, the study put forwards the scope for a further study covering a wider geographic area, including other individuals - such as businessmen and professionals - and considering other socio-demographic determinants of tax literacy. This will help in judging the tax literacy level of more sections of the society and a more comprehensive view of tax literacy can be obtained.

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AUTHOR PROFILE

ALPHIN BABY, M.Com, Assistant Professor , St. Joseph Academy of Higher Education and Research, Moolamattom, Idukki, Kerala, India,