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A Study on Role of Financial Literacy in Navigating Tax Beneficial Investment Strategies for Salaried Individuals (with special reference to Indore)

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Abstract

The present study concerned with the financial literacy as it plays a crucial role in enabling individuals to take tax benefits by navigating investment strategies and optimize their tax liabilities. To know the level of financial literacy, study enables that as it getting higher, the investors were more likely to invest in tax efficient instruments resulting they get better equipped to navigate the complexities of tax code. Whereas, in contrast, individuals with lower levels of financial literacy tended to rely on traditional savings instruments which often resulted in higher tax liabilities. The study also identified a significant research gap among salaried individuals having lack of basic understanding of tax concepts and investment strategies with the level of financial literacy. This research paper based on the qualitative and quantitative techniques collects the data from the salaried individuals to seek the financial level of respondents. The purpose of the paper is to identify the financial literacy thereof and associated navigating tax beneficial investment strategies. The findings have significant implications for policymakers, financial institutions and individuals to tailored the strategies and optimize their decisions to reduce or minimize the tax liabilities. The research aims to conclude whether a higher level of financial literacy improves the ability of salaried individuals to make informed tax-planning and investment decisions.

Keywords: *Financial Literacy, Tax Knowledge, Tax Benefits, Investment Decisions, Investment Strategies, Tax Liabilities, Salaried Persons.*

1. Introduction

In today's complex financial landscape, financial literacy has emerged as a critical skill for individuals seeking to maximize their economic bucket. For salaried employees, application of intricacies of tax beneficial investment strategies is essential not only for effective financial planning but also for building long-term wealth. Taxation policies offers various incentives like, deductions, credits, rebate, exemption and tax-advantaged accounts, which, when properly leveraged, investors can get significantly benefit in their financial stability. In the absence of necessary knowledge or lack of tax compatibility to navigate tax relieving

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benefits effectively, potentially resulting they get missed opportunities for savings and investment. Financial literacy encompasses the ability to understand the use of various financial skills and managing the investment bucket to get the benefits of navigating tax, budgeting, investing, and adopting the long-term taxation strategies. A solid grasp of these concepts empowers salaried employees to make informed decisions that align with their financial goals.

Financial literacy directly relates with the core and command on the investment. Role of financial literacy is pivotal in enabling salaried individuals to effectively utilize tax beneficial investment strategies in their portfolio after calculating all the advantages of tax saving and risk and return associated. In the absence of low tax saving efficiency, salaried individuals face high tax on the saved amount, although they save a huge amount but it not appreciates the capital amount. By investing through the best strategies salaried individuals enhances the amount and also get the tax relief advantages like, tax exemption, rebate, deduction and benefits. Financial literacy fosters the ability of financially secure future and financially strong wellbeing for salaried workers. Economic environment continues to evolve and equipping individuals with the tools to navigate their financial landscape becomes increasingly important. The interplay between tax beneficial investment strategies through financial knowledge is not just beneficial, it is as important and essential for achieving financial stability and growth in an ever-changing world.

2. Literature Review

This review of research elaborates the importance of financial literacy for salaried individuals to achieve their goal and awareness. Study founds that the financial literacy was low as compared to other developed countries. There was urgent need was demanded to create financial literacy so that investors could invest confidently. Return on investment was favorite factor to consider while making investment decision and there was no significance relation of demographic factor like, age, gender, income and so forth on the level of financial literacy and hence, the financial literacy should be achieved at all level (Savaliya, 2023). The study found that the financial attitude and financial literacy positively impact the retirement planning as investment strategies. Study also analyzed that the financial advisers are play an important role in managing financial attitude, financial literacy and financial retirement planning. (Mustafa et. al., 2023).

Financial literacy highlights the positive impact employees' personal finance management, which in resulting demands more diversification of savings, application of reasonable expenditure practices, sound practices of money management and investment (Mekonnen, 2023). Findings of the study underscore the crucial role of financial literacy in shaping prudent financial decisions regarding savings and investment and also to tailored financial well-being. In conclusion, this study delved into the intricate dynamics influences like risk tolerance, education level and work experience have great role in financial literacy and investment strategies for tax beneficial investment. education level, work experience, knowledge and professional background impacts the navigation of investment strategies.

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Risk tolerance factor significantly demands further investigation (Khadka and Khadka, 2024). knowledge, awareness, and financial decision-making provides intriguing insights on navigation of investment strategies. Higher levels of financial literacy enhanced more informed and diverse investing decisions adopted by the salaried professionals while investing from basic options to more complicated instruments. Study demanded financial literacy programmers and activities to empower more strategic and informed investing decisions which will help in cultivating a more resilient and competent investment base. post office savings is an investment avenue gets the low financial literacy. Study concluded that respondents invest less in financial avenues that are comparatively riskier but provides higher returns. Financial literacy effects awareness and investment preferences for financial products (Gupta and Bansal, 2022).

3. Research Gap

On the basis of literature review, research gap was found in financial literacy and in navigation of tax beneficial investment strategies. Lack of financial literacy enhances lost savings, missed tax benefits, and inadequate investment growth.

4. Statement of the Problem

Operation of tax policies and implications of various investment vehicles on investment strategies becomes a statement of problem. As a result, salaried employees may not take full advantage of available tax deductions, credits, or retirement savings plans, which could enhance their overall financial health. This study aims to investigate the relationship between financial literacy, tax benefit utilization, and investment decision-making among salaried individuals.

5. Need of the Study

Increasing complexity of financial landscapes that salaried individuals had faced, raise the need of the study, particularly regarding tax beneficial investment strategies. Many lacks the financial literacy among the salaried persons is necessary to maximize tax benefits opportunities, which will lead to suboptimal financial decisions and exacerbating economic inequalities. By exploring the relationship between financial literacy, knowledge and their decision-making behavior towards investment strategies. This research aims to empower salaried individuals to make informed choices and improve their tax benefiting investment strategies. Financial literacy enhancement is crucial for salaried employees to navigate their financial futures and achieve long-term stability in tax benefits effectively.

6. Objective of the Study

1. To examine the impact of financial literacy on the effective utilization of tax beneficial investment strategies among salaried individuals.

7. Hypothesis of the Study

H_{01}: There is no association between financial literacy and utilization of tax benefits through investment strategies among salaried individuals.

8. Research Methodology of the Study

8.1. Research Design

This research has employed the descriptive and analytical research design. A quantitative approach was adopted to examine the relationship exists between financial literacy and its impact on the effective utilization of tax beneficial investment strategies among salaried individuals. A survey research was conducted to collect primary data from the respondents of Indore.

8.2. Sampling Design

In this research, Salaried individuals across the Indore city was the sample of the study. Simple random sampling was used to ensure representation from different groups, like, income levels, educational backgrounds, and literacy awareness.

8.3. Sample Size

Total 150 respondents were surveyed during the study. This number for the survey respondents was selected to ensure statistical significance and sufficient variability across the different profile of demographics. Out of this, 148 responses were in accurate form for the study.

8.4. Data Collection Tool of the Study

8.4.1. Primary Data

Primary data was collected through structured questionnaires, personal talks and interviews.

8.4.2. Secondary Data

Secondary data was collected and gathered through magazines, thesis, synopsis, research papers journal and articles.

8.5. Data Analysis Techniques

The data of the study was analyzed by using the statistical tools descriptive statistics, mean, median, standard deviation, Chi-square and ANOVA analysis to determine the relationship between financial literacy and investment strategies.

8.6. Ethical Consideration

This study has considered ethical implications ensuring informed consent from participants, maintaining confidentiality and avoiding conflicts of interest. Study aiming to empower salaried individuals with unbiased information to make informed investment decisions.

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8.7. Limitations of the Study

Responses may be subject to biases or inaccuracies as it relies on self-reported responses through questionnaires and interviews. The study is limited to Indore. Hence, the financial literacy and investment strategies of salaried individuals may differ according to salaried individuals of other towns, village and city. Findings of the study might not be generalizable to other groups. Short time frame, frequent changes in tax regulations, technology-driven bias are the limitations of the study.

9. Analysis and Interpretation

9.1. Chi-square Test on Financial Literacy and Gender

Association between financial literacy and gender was conducted through Chi-square Test. Table 1. depicts Cross Tabulation of Financial Literacy and Gender, which is as follows:

Table 1. Cross Tabulation of Financial Literacy and Gender

			Financial Literacy		**Total**
			Yes	**No**	
Gender	**Male**	Count	46	26	72
		% within gender	63.9%	36.1%	100.0%
		% within literacy	49.5%	47.3%	48.6%
		% of Total	31.1%	17.6%	48.6%
	Female	Count	47	29	76

		% within gender	61.8%	38.2%	100.0%
		% within literacy	50.5%	52.7%	51.4%
		% of Total	31.8%	19.6%	51.4%
Total		Count	93	55	148
		% within gender	62.8%	37.2%	100.0%
		% within literacy	100.0%	100.0%	100.0%
		% of Total	62.8%	37.2%	100.0%

(Source: Primary Data)

Chi Square Test was conducted to test the significance of financial literacy and gender. Table 2. depicts Chi-square Test for Financial Literacy and Gender, which is as follows:

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Table 2. Chi-Square Tests for Financial Literacy and Gender

	Value	**Df**	**Asymp. Sig. (2-sided)**	**Exact Sig. (2-sided)**	**Exact Sig. (1-sided)**
Pearson Chi-Square	.066a	1	.797		
Continuity Correction[b]	.008	1	.930		
Likelihood Ratio	.066	1	.797		
Fisher's Exact Test				.865	.465
Linear-by-Linear Association	.066	1	.797		
N of Valid Cases[b]	148				
a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 26.76.					
b. Computed only for a 2x2 table					

(Source: Primary Data)

The Table 2. indicated that Pearson's Chi-square Test significance value .797 at 1 degree of freedom inferred that p-value (.797) was greater than 0.05 (5% level of significance). A computed Chi-square value .066 was equal to Linear-by-Linear Association value .066. So, it was determined from the results that there was insignificant association between financial literacy and gender.

The Table 2. indicated that financial literacy and gender were not related with each other. So, the Null Hypothesis H_{01}: There is no association between financial literacy and utilization of tax benefits through investment strategies among salaried individuals was accepted and the Alternative Hypothesis was rejected. Hence, concluded that Financial Literacy and Gender

have insignificant association with each other.

Table 3. depicts Symmetric Measures for Financial Literacy and Gender, which is as follows:

Table 3. Symmetric Measures for Financial Literacy and Gender

		Value	**Asymp. Std. Error[a]**	**Approx. T[b]**	**Approx. Sig.**
Interval by Interval	Pearson's R	.021	.082	.256	.798c
Ordinal by Ordinal	Spearman Correlation	.021	.082	.256	.798c
N of Valid Cases		**148**			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

(Source: Primary Data)

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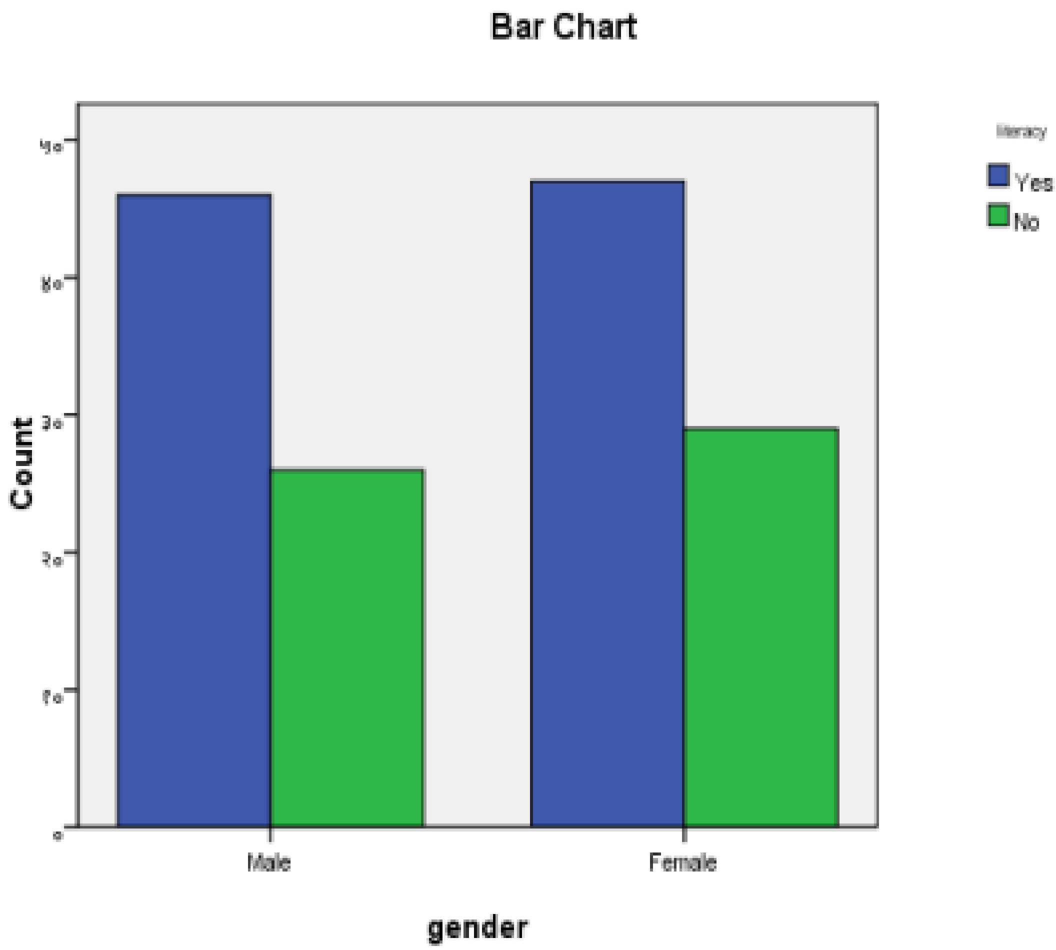
The Table 3. indicated that Pearson's R significance value is 0.021 ($p < 0.05$), and Spearman Correlation value is 0.021, so, it was concluded that financial literacy and gender have insignificant association with each other.

It was also depicted through Figure 1. Chi-square Test between Financial Literacy and Gender, which is as follows:

Figure 1. Chi-Square Tests between Financial Literacy and Gender



(Source: Primary Data)

9.2. ANOVA for Investment Strategies based on the Financial Literacy ANOVA analysis was conducted on the investment strategies based on the financial literacy. Table 4. depicted the ANOVA for Investment Strategies based on the Financial Literacy, which is as follows:

Table 4. ANOVA for Investment Strategies based on the Financial Literacy

		Sum of Squares	Df	Mean Square	F	Sig.
Invest in Mutual Funds	Between Groups	3.623	1	3.623	2.952	.088
	Within Groups	179.188	146	1.227		
	Total	182.811	147			
Utilize Tax Loss Harvesting	Between Groups	.910	1	.910	.718	.398
	Within Groups	185.171	146	1.268		
	Total	186.081	147			
Invest in Tax Deferred Retirement Accounts	Between Groups	1.225	1	1.225	1.008	.317
	Within Groups	177.498	146	1.216		
	Total	178.723	147			
Take Advantage of Tax Credits	Between Groups	1.581	1	1.581	1.238	.268
	Within Groups	186.500	146	1.277		
	Total	188.081	147			
Invest in Municipal Bonds	Between Groups	.170	1	.170	.115	.735
	Within Groups	215.309	146	1.475	2.952	.088
	Total	215.480	147			
Utilize Charitable Donations	Between Groups	.117	1	.117	.081	.777
	Within Groups	210.606	146	1.443		
	Total	210.723	147			
Invest in Real Estate Investment Trusts (REITs)	Between Groups	.148	1	.148	.095	.758
	Within Groups	227.494	146	1.558		
	Total	227.642	147			

Utilize a Tax Efficient Withdrawal Strategy	Between Groups	2.174	1	2.174	1.656	.200
	Within Groups	191.684	146	1.313		
	Total	193.858	147			
Invest in Index Funds or ETFs	Between Groups	3.566	1	3.566	2.813	.096
	Within Groups	185.103	146	1.268		
	Total	188.669	147			
Consider a Tax Efficient Investment Portfolio	Between Groups	3.036	1	3.036	2.879	.092
	Within Groups	153.937	146	1.054		
	Total	156.973	147			

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(Source: Primary Data)

The Table 4. indicated that $p > 0.05$ for all the investment strategies. It showed that all the investment strategies are not varied statistically and significantly with financial literacy at 5% level of significance. So, it is concluded that the Null Hypothesis H_{01}: There is no association between financial literacy and utilization of tax benefits through investment strategies among salaried individuals was accepted.

10. Conclusion

On the basis of the analysis it is concluded that the financial literacy and gender were not correlates to each other. No relation was found between them. Lack of financial literacy is not only affecting individual's financial outcomes but can also contribute to broader economic inequalities. Different types of investment strategies are not varied with the financial literacy to get the navigating tax benefits through investment. Without the necessary skills, salaried individuals are at risk to make informed financial decisions. In the absence of navigating investment strategies, they will fall behind their peers who possess a better understanding of financial matters.

11. Scope for Future Studies

The limitations of the study highlight the areas where further research could be done. Future research could focus on conducting longitudinal studies, changes can provide insights into the long-term effects of financial literacy. Comparative studies among different segments of salaried individuals, revealing specific challenges and opportunities could be done. Studies could be conducted on effectiveness of interactive tools in enhancing understanding of tax beneficial investment strategies. Psychological aspects, cognitive biases cultural attitudes toward money, savings, and investment affect the salaried individuals' perceptions will help to develop strategies to overcome these biases. Adaption of new policies can mitigate confusion during periods of significant regulatory change could be assessed. Research on higher financial literacy correlates with an increasing investment and tax implications.

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