



A Study on Tax Incentives and Investment Behavior Of Individuals

* Dr. G. Sakthivel ** P. Arumugasamy

* Head and Assit. Prof., Dept. of Commerce (CA), K S G College of Arts and Science, Coimbatore

** Head and Assit. Prof., Dept. of Commerce, K S G College of Arts and Science, Coimbatore

ABSTRACT

This paper analyzes the role of Tax Incentives in promoting investment Behaviour of Individual, their effectiveness and their revenue and other costs and political economy. This is striking because it broadly supports country experience with incentives having been used successfully to encourage investment in some countries while failing in others. Very recent evidence suggests that governance has a similar effect with low tax rates being more effective in attracting foreign investments in better governed countries. These point to the importance a strong Investment Climate as well as strong institutions as a pre-requisite for the effectiveness of any investment promotion scheme using Incentives. The policy implications for a sound Incentive policy as well as the management and administration of Incentives are discussed.

Keywords : Effective Tax Rates, Individuals Tax, Tax Incentives, Tax Policy, Tax Systems

Introduction

Taxation is a key tool of economic policy. It has significant effects on savings and investment, on the allocation of resources between alternative sectors of economy and efficiency with which resources are utilized. Tax reform in a country includes broad issues of economic policy as well as specific problems of tax structure, design and administration. In view of various changes within and outside, developing countries implemented a series of economic reforms during 1980s and 1990s. During these decades, re-assessment of the role of the government in economic development took place, which led to a shift in favour of assigning a greater role to the private sector including foreign enterprises. This necessarily required re-examination of the structure of tax systems. The impetus for reform in tax systems came primarily from the need to raise additional revenues to deal with the problem of continuing and in some cases, rising deficits, but since structural reform of the real sector of the economy was also being attempted, efficiency considerations were also an important cause. While it was felt that there is a need to raise revenues to fund the activities of the government, economists were also tasked with figuring out how to design a revenue system that is both efficient and equitable. In brief the study explains clearly the various tax incentives and the limits available for every individual and also the behaviour pattern of individuals on tax incentives. The study mainly explains deductions under section 80C to 80U. In computing the total income of an assessee, the deductions specified here under (sections 80C to 80U) shall be allowed from his gross total income. Gross total income means the total income computed in accordance with the provisions of the act, before making any deduction given. However, the brought forward losses shall be deducted from the income to arrive at the gross total income.

Objectives

Keeping the above question in mind, the purpose of this study is to gain knowledge about the tax incentives and investment behaviour of individuals specifically in respect of payments of individuals. Therefore this study deals with the following objectives.

- Comprehensive discussion about tax incentives.
- To measure the extent of the investments behaviour of individuals.
- To examine the rules and regulations of central government in relation with tax incentives and investment behaviour.
- To find out the effectiveness of the tax incentives and investment behaviour.
- To study the various reasons for the need of investment.
- To offer the suggestion on the basis of the study results as to how the investments can be made among the public.

Review Of Literature

It was in July 1969, when *James E. long wrote a paper on "The Effect of the 1986 Tax Act on Personal Interest Deductions" that for most taxpayers who itemize deductions, the 1986 tax act will increase the after-tax cost of interest paid to purchase homes, automobiles, other consumer items, and personal investment assets. Individual tax-return data are used to estimate the elasticity of interest deductions, both home mortgage and other, with respect to the marginal tax rate and disposable income. Based on these estimates, we show that the lower tax rates and increased standard deductions in the new law can be expected to reduce interest deductions, especially among upper-income taxpayers. The findings suggest that outlays on owner-occupied housing will be more affected by the 1986 tax reform than will other types of expenditures financed with consumer credit.

Methodology

Methodology is an essential aspect of any research. It enables the investigator to look at the research problem in a systematic, meaningful and orderly way. Methodology comprises of the sources of data collection, sampling design, hypothesis and techniques used for analyzing the data. The researcher used interview schedule for the collection of data. A preliminary study was made to pretest the interview schedule with few respondents. The secondary data related to the present study have been collected from the magazines, newspapers, income tax act, income tax rules, income tax reports, income tax journals, periodicals, websites and the like. A research design is purely and implies the frame work or plan for the study that guides the collection and analyze of data. It is the blue print that is followed in a completing research study. Samples of 100 respondents according to convenience were supplied with questionnaires for filling the answers. Depending upon the respondents questionnaires was corrected and after that information was accumulated. The study concentrated through analysis of tabulation, comparative percentages, bar diagrams, chi-square is used in the appropriate places.

Analysis

Opinion about the deductions

The following table shown that a number of statements were given to the respondents in order to opinion about the deductions.

S.no	Deductions	Aware	Not Aware	Fully availed	Partly availed	Not availed	% of score	Rank
1.	Housing loan.	88(440)	12(48)	40(120)	28(56)	32(32)	99.4	I
2.	LIC Premium.	96(480)	4(16)	44(132)	32(64)	24(24)	98.3	II
3.	Contribution to pension fund.	84(120)	16(64)	28(84)	20(40)	52(52)	94.2	V
4.	Contribution to pension scheme notified by the central government	76(380)	24(96)	8(24)	8(16)	84(84)	85.7	X
5.	Investment made in infrastructure bonds.	76(380)	24(96)	36(108)	8(16)	56(56)	93.7	VI
6.	Health insurance premium.	84(420)	16(64)	28(84)	20(40)	52(52)	94.4	IV
7.	Medical insurance to disable dependent.	88(440)	12(48)	16(48)	20(40)	64(64)	81.4	VIII
8.	Medical treatment.	68(340)	32(128)	1(3)	4(8)	96(96)	82.1	XII
9.	Loan taken for higher education.	96(480)	4(16)	20(60)	16(32)	64(64)	93.1	VII
10.	Donations to charitable institutions.	72(360)	28(112)	12(36)	28(56)	60(60)	89.1	IX
11.	Rents paid.	88(440)	12(48)	48(144)	20(40)	52(52)	95.3	III
12.	Severe disability.	72(360)	28(112)	8(24)	8(16)	84(84)	85.1	XI

The above table shows that deductions under housing loan as high score 99.4% and then the second score of 98.3% goes to LIC Premium, and then third score reveals 95.3% rents paid, and the fourth score exhibits 94.4% Health insurance premium, and then fifth score find out 94.2% Contribution to pension fund and the last score (clear the above table) goes to medical insurance premium.

Findings

- It is observed that gender wise classification of sample respondents does not have any influence in taking LIC premium.
- It is observed that gender wise classification of sample respondents has an effect over the individual investment on housing loan.
- It is observed that gender wise classification of sample respondents has no effect over the individual investment behaviour on pension fund.
- It depicts that 68% of the respondents are aware of the medical treatment.

Suggestions

A general discussion on investment behaviour of tax individuals of persons working with various sectors several some significant expectation sought by few.

- Tax structure if it is based on the per capita expenditure per family, it may be a sound principle.
- More tax concession may be given on National savings-with reference to infrastructure development funding.
- Senior citizen and women employees are to be given meaningful tax concessions.
- While considering tax form proposals, government should consider the inflation indices, changes in general price level index and also consumer price indices which indirectly affect the real value of money.

Conclusion

Government planners should not use poor tax administration as a shield for poor design of tax policy. To be successful, reforms need to be well planned and holistic, addressing overall strategy, organization and job design. It is desirable that taxmen must be involved in all economic initiatives and plans.

Design of a good tax system is a central problem in managing a country's public finance. One of the canons of taxation is stability. Therefore, too frequent changes in tax structure may be avoided since they are a source of uncertainty, which has the potential of discouraging tax compliance and creating difficulties for effective tax administration. Major steps have been taken towards reforms in direct tax structure in India as it has been recognized that an effective system of direct taxation is vital in mobilization of resources for the purpose of accelerated economic development.

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