



Impact of Income Tax on Saving and Investment: A Case Study of Assesses In Jammu

KEYWORDS

Assesses, Incentives, Structure, Reforms, Affluence.

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ABSTRACT

In the present paper an attempt has been made to analyses the economic impact of personal income tax on different types of assesses. Paper further high lights how high income tax rates reduces the incentive to work on the one hand and reduces the incentive to save and invest on the other. In the end , researcher concludes that their is still a need to bring more reforms in the personal income tax structure so that people could feel encouraged for investments which is the vital tool not only for their personal affluence but also for economic development of the nation.

INTRODUCTION : Taxes, in whatever form have a bearing on the every citizen of the country. The ability and willingness of the citizen to save and invest, in return give shape to the prosperity index of the nation otherwise country growth story gets standstill. The point here is what encourage or discourage savings and investments. If the income tax rate are high, it may discourage savings and investments circle. However it mainly depends on whether tax falls on average income or marginal income.

RATIONALE FOR THE STUDY: The basic premises underlying the economic impact income tax are:

1. Saving play a key role in developing individual and national economy but marginal propensity to save gets effected with high tax rates.
2. Magnitude of the tax burden channelize or de-channelize the behaviour of the individual to save and invest.
3. Higher the tax rates, more time people spend on evading the taxes which effect the economic growth of the nation. Hence, there is ample justification to study and suggest that a simplified tax structure helps to revitalize the saving, investment and growth index of the nation.

OBJECTIVES OF THE STUDY : Following are the underlying objectives of the study.

1. To study the socio- economic status of the assesses.
2. To evaluate their knowledge about the tax saving schemes.
3. To analyse whether tax saving schemes are the best way to inculcate the saving habits among the individuals.
4. To study whether they save and invest for future safety or for lessening the tax burden.
5. To suggest suitable measure for better tax structure.

REVIEW OF LITERATURE: Many researchers have done their studies in order to understand the economic impact of taxation especially direct taxes, on common man. The major contribution to the study is by Richard & Gallaway, 1999. They concluded that There is considerable evidence that taxes impose a deadweight loss or burden on the member of the society. Reduction in taxes then reduce this burden and increase their propensity to save and invest and thus improve the economic welfare of the people living in society. Ankita 2009, in her study propounded that a small attempt to rationalize the personal income tax structure can bring benefits to the govt as well as to the people in the form of (i) increase in the number of assesses (ii) more compliance to the tax laws (iii) high rate of GDP and (iv) better well being of the individuals. Peter et al ,2001 investigated that taxation in its various form affect the ability and willingness of a individual to work , save and invest but the effect gets vary according to the base of tax, rate of tax and level of tax burden. VD Lall 1982, in his paper tried to find out the economic implication

of direct taxes on individual and business. His study exposed that both average rate of tax and marginal rate of tax have bearing on mind set of the tax paper so there is need to give professional look to the present tax system of the country. Nirmala dorasamy,2011 provided an overview of personal income tax administration reforms as a mechanism to enhance collection of revenue on the one hand and availability of more pool of fund for welfare of the public on the other. The author found that a comprehensive tax policy encourage the individual to compliance tax law otherwise they adopt unfair mean to lessen their tax burden.

RESEARCH METHODOLOGY: In this study primary data along with secondary data had been used to carry out research work. Primary data had been collected through questionnaire based on five points Likert scale for knowing the views of the assesses about pre-tax saving scheme, in the Jammu alone. Secondary data had been collected from journals, magazines, various internet sites and from various research reports.

DATA ANALYSIS AND INTERPRETATION : Present study is based on the information collected from 85 respondents selected on the basis of convenient random sampling. Table 1 depicts the socio-economic status of the respondents. It is clear from the table that out of 85 respondents, 59 percent respondents were male and 41 percent were female. Table further exhibits that those who were service class amounted to 65 percent and those who belong to business class are 35 percent of total sample. It is also inferred from table1 under reference that 41 percent of the respondents had annual income between ₹200,000 to ₹300,000. Those whose annual income fall between ₹300,000 to ₹500,000 and between 500,000 to ₹800,000 amounted to 29 percent and 18 percent respectively.(Researcher has formed the income group by keeping in view prevailing tax slabs and tax rates). There was only 11 percent of the respondents whose income was more than ₹800,000. Last component of the table depicts number of time the respondent had paid the tax. Table shows that only 20 respondents who count to 24 percent of the sample size, had to pay tax for the first time whereas 29 percent came into the tax bracket between 2nd to 5th times. Only 29 percent had bear the tax burden for more than 5th time.

Table 1. Socio- Economic status of the respondents

| S. No. | Status | Number of respondents | Percentage to total |
|-------------------|----------------|-----------------------|---------------------|
| GENDER | | | |
| 1. | Male | 50 | 58.82 |
| 2. | Female | 35 | 41.17 |
| | Total | 85 | 100 |
| OCCUPATION | | | |
| 1. | Salary class | 55 | 64.70 |
| 2. | Business class | 30 | 35.29 |
| | Total | 85 | 100 |

| INCOME | | | |
|-----------|-------------------|----|-------|
| 1. | ₹200,000-₹300,000 | 35 | 41.17 |
| 2. | ₹300,000-₹500,000 | 25 | 29.41 |
| 3. | ₹500,000-₹800,000 | 15 | 17.64 |
| 4. | Above ₹800,000 | 10 | 11.76 |
| | Total | 85 | 100 |
| FREQUENCY | | | |
| 1. | First time | 20 | 23.52 |
| 2. | 2nd to 5th time | 40 | 47.05 |
| 3. | More than 5 times | 25 | 29.41 |
| | Total | 85 | 100 |

Table 2. Awareness of the respondents about various components of taxable income.

| S.No. | Components | Level of awareness. | | | Total |
|-------|--|---------------------|----------|------|-------|
| | | Low | Moderate | High | |
| 1. | Computation of taxable income | 50 | 25 | 10 | 85 |
| 2. | Income forming part of total income and subject to tax | 45 | 30 | 10 | 85 |
| 3. | Income forming part of total income but entitled to rebate or relief | 40 | 30 | 15 | 85 |
| 4. | Income exempted from tax | 35 | 30 | 20 | 85 |
| 5. | Investments qualifying for deduction | 30 | 30 | 25 | 85 |
| | Average | 40 | 29 | 16 | |

Though knowledge about computation of taxable income do not have any direct link with saving habit etc. but of course this could help him out to be aware and be serious about tax related matter. Table 2 under reference depicts that on an average 16 respondent which counts 20 percent of the sample knew almost all the tax related issues. Surprisingly , 40 respondents which count 50% of the sample have little knowledge about the subject.

Table 3. Preferred mode of investment

| S.No. | Mode of investment | Number of respondents | % to total |
|-------|-----------------------------|-----------------------|------------|
| 1. | Post office | 15 | 18 |
| 2. | Insurance | 60 | 71 |
| 3. | Govt securities | 2 | 2 |
| 4. | Tax saving certificates | 6 | 7 |
| 5. | Term deposit. | 1 | 1 |
| 6. | Contribution toward GPF/PPF | 1 | 1 |

Researcher has presented only those components of the mode of investment in the table which had been marked by respondents in the questionnaire. Surprisingly, study reflects that about 71 percent of respondents had inclination toward insurance as ideal mode for investment whereas term deposit and GPF/PPF is least favourable choice of investment for them. After collecting the data, it has been summarised into

| Degree of Freedom | Level of Significance | Table Value. | Calculated Value | Result | Conclusion |
|-------------------|-----------------------|--------------|------------------|---------------|---|
| 1 | 5% | 3.84 | 12.43 | H0: Rejected | Assesses invest for lessening the income tax burden. |
| 1 | 5% | 3.84 | 1.07 | H1: Accepted. | Investment for tax concession only |
| 1 | 5% | 3.84 | 2.48 | H2: Accepted. | Income tax rate are very high. |
| 1 | 5% | 3.84 | 0.14 | H3: Accepted | Low income should be taxed with low tax rates |
| 1 | 5% | 3.84 | 0.15 | H4: Accepted | Burden of taxes effect the ability of the tax payers. |

Conclusion:

A sound and rational tax structure of a country plays key role in developing saving and investment habits among the tax pay-

ers. If the tax liability is lower, people have more disposable income which they can use for saving and investment. With high tax rates, which results into high tax burden , chance of tax evasion gets multiplied which is not a healthy sign for growth of a nation as well as for an individual. Albeit, pre tax saving schemes is also tool for inculcating the saving and investment habit and a way of channelizing the resource for

productive purposes but it is not very encouraging attempt because people don't save with intention for making productive investment but save for lessening the tax burden.

Table 4. Collected data has been categorized into 5 main headings

| S. No. | Statements | Agreed | Not agreed | Total |
|--------|--|--------|------------|-------|
| 1. | Pre Tax saving schemes are the best tool to develop saving habit. | 35 | 50 | 85 |
| 2. | Pre tax savings and investments are merely for reducing the tax liability. | 75 | 10 | 85 |
| 3. | Personal income tax rates are not fair. | 65 | 20 | 85 |
| 4. | Small income should have lower tax liability. | 60 | 25 | 85 |
| 5. | High income tax rates effects ability and willingness to save and invest. | 45 | 40 | 85 |

HYPOTHESES OF THE STUDY: In the light of the above information, the study attempts to test the following hypotheses.

H0: The proportion of investment does not have any association with purpose of availing the tax rebate. (investment with intention of future saving not for lessening the tax burden.)

H1: The proportion of investment is directly correlated with lessening the tax burden . (investment not for future saving but with intention of getting the tax concession.)

H2: Personal income tax rate are not reasonable.

H3: People in low income bracket should have low tax liability.

H4: High income tax rate adversely effects ability as well as willingness to save and invest.

First hypotheses has been tested by applying the chi- square test.

Table 5. Opinion of the respondents that they invest in tax saving schemes merely for making their future safe

| S. No. | Type of respondents | Not agreed | Agreed | Total |
|--------|---------------------------|------------|--------|-------|
| 1. | Service class. | 40 | 15 | 55 |
| 2. | Other than service class. | 10 | 20 | 30 |
| | Total | 50 | 35 | 85 |

Table 6. Application of chi-square test

| O | E | (O-E)2 | |
|----|-------|--------|-------|
| 40 | 32.35 | 58.42 | 1.81 |
| 10 | 17.64 | 58.42 | 3.31 |
| 15 | 22.64 | 58.42 | 2.58 |
| 20 | 12.35 | 58.42 | 4.73 |
| | | | 12.43 |

All the hypothesis are tested in this way and a brief summary is presented in the following table.

Table 7. Summary of Result.

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