

# Role of Demographics on the impact of tax saving schemes on investment behaviour

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## ABSTRACT

*Investment and taxes are the two important facets of an economy, on one hand the taxes constitute an important component for the revenue generation of the exchequer and the other hand investment in tax saving schemes reduce the tax liability of an assessee however is an important wheel of economic development. In this paper an attempt has been made to examine the role of demographic variables on the investment behaviour considering various tax saving schemes, The data has been primarily collected using a well structured questionnaire. The results portray Gender, Age and income all influence the decision of investing in various tax saving schemes.*

**Keywords:** *Facets, Exchequer, Assessee, Demographic, Investment Behaviour*

## INTRODUCTION

Investment involves making a sacrifice of present consumption with the hope of deriving future benefits. Investment has many meanings and facets. The two most important features of an investment are current sacrifice and future benefits. Some of the main investment attributes which envelope the investment decisions are risk and return, liquidity, convenience and tax advantages. Tax is one of the important factors that should be taken into consideration. An individual invests or postpones current consumption only in response to a rate of return which may be suitably adjusted for inflation and risk. Investment decisions are premised on an important assumption that investors prefer certainty. The Investors would prefer to invest in instruments which save them tax and provide good returns. Taxes directly adds to the revenues of the exchequer thus contributes to the growth of economy while as investment has a dual effect- contribution to the economy in general and enhances the savings of an individual in particular. Since 1970s, in India, the tax revenue/GDP ratio has remained in the band of 6-10 percent of GDP.

## LITERATURE REVIEW

The Taxpayers in India are the elite group and contribute tax purely in the economic growth and development of the economy. Many researchers have done their studies in order to understand the economic impact of taxation on common man. The diverse reviews by researchers are as under:

Rajitha et al. 2014, found gender being an influencing factor in deciding whether to save or pay tax where it was observed 62% of males prefer to save tax compared to 60% of females respectively, they also observed age

being an influential factor in the opinion making of saving or paying, also socio-economic status plays an important role in deciding about the tax options. They suggested that the tax payers before choosing any tax saving options need to search out the benefits of the schemes available and lookout from one's perspective and decide on the basis of risk-return profile and also take into consideration the liquidity and flexibility

The tax saving schemes is a 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, She further added that a sound and rational tax structure of a country plays key role in developing saving and investment habits among the tax payers. Gupta, 2012

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. He found that a comprehensive tax policy encourage the individual to compliance tax law otherwise they adopt unfair mean to lessen their tax burden.

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 (a) increase in the number of assesses (b) high rate of GDP (c) more compliance to the tax laws and (d) better well being of the individuals.

Every effort should be made to ensure that incentives are: *Affordable*—should not undermine government revenue streams. *Targeted*—will benefit the country in ways that would not have been possible if there were no incentives, thereby reducing revenue costs. *Simple*—the incentive administration should permit easy accessibility and determination of eligibility. *Reviewed periodically*—the investment incentives should be regularly reviewed to determine their relevance and economic benefit relative to their budgetary and other costs. James, 2009

Sarkar, 2004, propounded that the basic premise to provide tax incentives in India was to drive the Tax payers to Invest and save more; the study evaluated and critically examined the liberal policy of different tax exemptions to hasten the economic growth.

The taxation in its various form affect the ability and willingness of a individual to work , save and invest but the effect varies according to the base of tax, rate of tax and level of tax burden. Peter et al., 2001

There is considerable evidence that taxes impose a deadweight loss or burden on the member of the society. Reductions 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. Richard & Gallaway, 1999

The relation between the Assesses age and the tax planning awareness is positive, though the employees are aware of different tax planning measures, they seldom implement in actual. Neither the Tax administration nor the Employer imparts training or education to the salaried people regarding effective Tax planning. Thomas, 1998

Mani, 1994 concluded that the different Tax exemptions provided by the Law are beneficial to the Assesses in the higher income groups though the deductions claimed by them form a lower percentage of the total deductions as compared to the share of their income.

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 payer so there is need to give professional look to the present tax system of the country.

### OBJECTIVE:

To examine the role of gender, age and income on investment in different tax saving schemes

### RESEARCH METHODOLOGY:

Primary data has been collected from the teaching faculty at Sher-e-Kashmir University of Agriculture Science and Technology (SKUAST, Shalimar Campus) using a well structured questionnaire based on a 5 point Likert Scale, secondary data collected from various journals, Newspapers and various internet sites have also been used along with primary data. The total population of the branch studied is 52 and a sample of 46 respondents was calculated using online calculator using formula as:

$$SS = \frac{Z^2 * (p) * (1-p)}{c^2}$$

Where:

Z = Z value (1.96, 95% confidence level)

p = percentage picking a choice (.5 used for the sample needed)

c = confidence interval, expressed as decimal (.05 = ± 5)

### HYPOTHESES

H1: The Gender of an Assessee influences the Investment decision

H2: The Age of an of an Assessee influences the Investment decision

H3: The Income of an Assessee influences the Investment decision

### DATA ANALYSIS AND INTERPRETATION:

The study is based on the information collected from 46 respondents using random sampling method; table 1 represents the gender and age of the respondents while Socio-Economic status is depicted in table 2.

**TABLE 1: DEMOGRAPHIC DATA**

	No of Respondents	% of total
Gender		
Male	26	56.52
Female	20	43.48
Total	46	100
Age		
26-30	13	28.26
31-35	12	26.08
35 & above	21	45.66

Total	46	100
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**TABLE 2: SOCIO-ECONOMIC STATUS**

	No of Respondents	Percentage of total
Income		
5 Lakhs- 10 Lakhs	28	60.87
10 Lakhs and above	18	39.13
Total	46	100

The sample proportion is 56.52% of males and 43.48% of females, the categories of age as observed has been divided into three groups having proportion of 28.26%, 26.08 % and 45.66 % from groups of 26-30 years, 31-35 years and 35 years and above respectively. The income observed has been classified into two groups i.e. 5 Lakhs-10 Lakhs (60.87%) and 10 Lakhs and above (39.13%). The information collected from respondents is assimilated and the same is shown in table 3 below.

**TABLE 3**

Opinion	No of Respondents	Percentage of total
I would like to pay tax than investing in different schemes to reduce my taxable income.	19	41.30
I would like to invest in different Tax saving schemes to reduce my taxable income.	27	58.70
Total	46	100

It was found that 41.30% of the respondents were in favour of paying their taxes while 58.70% preferred to invest in various tax saving schemes to reduce the tax liability. Chi square test was applied to test the influence of Gender, age and income on investment in different tax saving schemes and same is depicted in table 4, 5 and 6 respectively.

**TABLE 4: APPLICATION OF CHI SQUARE FOR GENDER BASED CLASSIFICATION**

Gender	Save Tax	Pay Tax	Total	Chi Square			
				O	E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
				16	15.26	0.5476	0.03588
10	10.74	0.5476	0.00050				
Male	16	10	26	11	11.74	0.5476	0.04664
Female	11	9	20	9	8.26	0.5476	0.06629
Total	27	19	46	Total			0.14931

**TABLE 5: APPLICATION OF CHI SQUARE FOR AGE WISE CLASSIFICATION**

Age	Save Tax	Pay Tax	Total	Chi Square			
				O	E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
				7	7.63	0.3969	0.05201
				6	5.37	0.3969	0.07391
				7	7.04	0.0016	0.00022
26-30	7	6	13	5	4.96	0.0016	0.00032
31-35	7	5	12	13	12.33	0.4489	0.03640
35 and above	13	8	21	8	8.68	0.4624	0.05327
Total	27	19	46	Total			0.21613

**TABLE 6: APPLICATION OF CHI SQUARE FOR INCOME WISE CLASSIFICATION**

Income	Save Tax	Pay Tax	Total	Chi Square			
				O	E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
				16	17.02	1.0404	0.06113
				12	11.56	0.1936	0.01675
5-10	16	12	28	11	10.56	0.1936	0.01833
10 and above	11	7	18	7	7.43	0.1849	0.02489
Total	27	19	46	Total			0.1211

**RESULTS AND DISCUSSIONS:**

The categorised data reflects that 61.54% of males and 55% of females prefer to invest in tax saving schemes; it was also observed that 53.85%, 58.33% and 61.90% from age groups of 26-30 years, 31-35 years and 35 years and above respectively preferred the same. 57.14% and 61.11% having annual income of 5-10 lakhs and above 10 lakhs respectively also preferred to save tax, the chi square values obtained for gender, age and income were observed to be 0.14931, 0.21613, and 0.1211 respectively which are very less than the tabulated values at 5% level of significance (Table 7) which depicts that the Gender, Age and Income all have an influence with regard to the Investment in various Tax saving schemes. All three hypothesis are thereby accepted, the results found are in line with that found by Rajitha, Shivram and Yashika (2014).

**TABLE 7: SUMMARY OF RESULTS**

Hypotheses	Degrees of Freedom	Level of Significance	Calculated Value	Table Value	Result	Conclusion
H1	1	5%	0.14931	3.84	Accepted	Gender is an influencing factor
H2	2	5%	0.21613	5.99	Accepted	Age is an influencing factor

H3	1	5%	0.1211	3.84	Accepted	Income is an influencing factor
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## CONCLUSION:

Tax saving schemes is a vital tool policy makers use to direct investment for the growth of economy. A sound tax structure always helps the cause; it not only channelizes investment but also helps in developing a habit of investment among tax payers. The analysed data suggests that it is not only income that affects the decision for investment in tax saving schemes but age and gender also influence the same.

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