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## TAX AWARENESS AND TAX PLANNING OF INCOME TAX ASSESSEES IN KUMBAKONAM- A STUDY

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### ABSTRACT

Tax planning is the efficient and effective way of financial planning for an Income tax assessee. By way of tax planning the assessee is able to pay his /her tax in a proper time and in proper way. It doesn't mean avoidance of tax or evasion of tax. It is the genuine way of using the provisions of Income Tax Law. It is assessing the financial status of an Individual in an efficient manner. It involves planning an individual's income in a statutory manner in order to avail certain exemptions and deductions. Tax planning helps the assessee to get benefit of deductions, rebates, relief and exemptions. Reducing liability and increasing the ability to make contributions towards retirement plans are critical for success. With effective tax planning, an income tax Assessee is able to streamline his \her, tax payments which will help him\her, to get adequate returns once a specific period of time with less risk. As every tax assessee who has an annual income exceed the taxable limit prescribed by the IT Act, has to pay tax, he\she should have full understanding of tax rules. Therefore to have full understanding of efficient tax planning, awareness of tax rules and laws are inevitable. Therefore objective of this paper is to study the tax awareness and tax planning of income tax Assessee in Kumbakonam.

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### Introduction:

Income tax a direct tax levied during the assessment year for the income earned during the previous year. It plays an important role in the national economy. It acts as an important revenue to the Government. As laid down in the Constitution, it acts as a tool for achieving the social and economic objectives. Therefore income -tax become an effective instrument to ensure balanced socio-economic growth.

### **Scheme of Income Tax Act, 1961:**

Important features of the scheme of Income Tax Act,1961 are:

Every person who has taxable income in a previous year, has to pay tax on the total income in excess a certain limit prescribed by the finance act every year.

### **Deductions U/S 80(C) –80(U):**

The assessee who is liable to pay tax during the Assessment year can claim decuctions in order to reduce his tax liability. Important deductions are:

**Section-80C:** It allows tax payers to reduce taxable income by way of investment in savings scheme, PPF/SPF/RPF payments and maximum limit nis Rs.1,50,000.

**Section- 80(D):** Premium paid on health insurance in a particular financial year and the maximum deduction is Rs. 25,000.

**Section-80TTA:** This deduction is allowed for interest on savings account held by individuals.

### **Tax awareness:**

Awareness of tax denotes that the tax payer sensitivity with regard to the taxation aspect is strongly influenced by perceptions of the tax itself.

### **Tax Planning:**

It is the genuine wayof using the provisions of Income Tax Law. It is assessing the financial status of an individual in an efficient manner. It involves planning an individual's income in a statutory manner in order to avail certain exemptions and deductions. Tax planning helps the assesseees to avail benefit of deductions, rebates, relief and exemptions. It is a significant component of a financial plan. Reducing liability and increasing the ability to make contributions towards retirement plans are difficult

for success. With effective planning, an Income tax assessee is able to streamline his/her tax payments which will help him/her to get adequate returns over a specific period of time.

### **Tax planning strategies:**

- Understand tax bracket: It is the tax planning that helps to find out what federal tax bracket that the assessee is. It assists him to plan for the future.
- To maximise tax deductions: It is the deductions from taxable income, by way of savings and investments made by an assessee.
- To claim tax credit: It is the D of money that the tax payers can deduct from taxes he has to pay. It is favourable compared to tax deductions. Tax credit can be either refundable or non-refundable.
- Standard deductions: It is the income tax exemption that helps the assessee in terms of reduction in tax.
- Retirement contribution:

As every tax assessee having an annual income exceeding taxable limit prescribed by the Income Tax Act 1961, is liable to pay tax, he/she should have full understanding of tax rules. Therefore to have full understanding of efficient tax planning, awareness of tax rules and laws are inevitable. Hence, this study is undertaken to assess the tax awareness and tax planning of Income Tax assessee in Kumbakonam.

### **Scope of the Study**

Income tax is the most important aspect that affects the financial planning of the Income tax Assessee. Therefore the scope of this study is to analyse the extent of awareness of Income tax Assessee towards tax awareness and the strategies adopted by them towards tax planning.

### **Objectives of the Study**

- To analyse the Demographic features of Income tax assesses in Kumbakonam.
- To analyse the relationship of demographic features and tax awareness and tax planning strategies of the Assessee in Kumbakonam.

### **Methodology of the study**

This study is based on primary data. For collection of data questionnaire is used. Convenience sampling technique is applied and 75 income tax Assessee in Kumbakonam town is selected for the

purpose of analysis. The Assessee selected are Salaried employees, Businessmen, Professionals and Others. Statistical tool Chi-square test is applied to analyse whether the Occupation of the income tax Assessee influences the Tax awareness.

**Review of Literature**

**Palil M. Rizol** (2010), analysed how SAS knowledge influenced tax compliance behaviour in Malaysia. He found that knowledge drives significantly to tax compliance even though there were various levels of tax knowledge.

**Randolph N.A** (2015), in his study stated that there are two things that make taxpayers not to be obedient. First, because of the inaccuracy in payment. Second, the discrepancies’ in the amount of paid tax due to the low knowledge and understanding of tax regulations. Third, the minimal awareness of taxpayers with regard to the meaning of paying taxes to the state.

**Chitta Ranjan Sarkar** (2004), found that the basic purpose of tax incentives in India was to motivate the tax payers to save and invest more, particularly in rural and backward area of the country. The study critically evaluated the policy of liberal income tax exemptions and concessions to accelerate the pace of economic growth in India. It examined various theoretical issues related to the operations of tax incentives.

**Results and Discussion**

**Table No. 1.1**  
**Demographic features**

<b>Gender wise classification:</b>		
<b>Gender</b>	<b>No.of Respondents</b>	<b>%</b>
Male	34	45
Female	41	55
Total	75	100
<b>Age of the Respondents</b>		
<b>Age</b>	<b>No. of Respondents</b>	<b>%</b>
Less than 30	15	20
30-40	18	24
40-50	23	31

50-60	19	25
Total	75	100
<b>Occupation of the Respondents:</b>		
<b>Occupation</b>	<b>No. of Respondents</b>	<b>%</b>
Salaried Employees	29	39
Business Man	20	27
Professionals	16	21
Others	10	13
Total	75	100
<b>Annual income of the Respondents:</b>		
<b>Annual Income (Rs)</b>	<b>No.of Respondents</b>	<b>%</b>
Less than 2,50,000	09	12
2,50,000-5,00,000	11	15
5,00,000-10,00,000	24	32
More than 10,00,000	31	41
Total	75	100

Source: Primary Data

It is found from the above table, that in the case of gender wise classification, maximum of 55% of the respondents are in the category of female and 45% of them belong to the category of male.

With regard to age, out of the total respondents of 75, maximum of 31% of them are in the age group of 40-50 and the least of 20% of the respondents are in the age group of less than 30.

When Occupation of the respondents are analysed, 39% of the respondents are salaried employees, 27% of them belong to the category of Businessmen, 21% of the respondents are Professionals and only 10% of them are in the category of others.

In the case of Annual income of the respondents, out of the total of 75, 41% of them are in the scale of more than Rs.10,00,000, 32% of them are in the scale of Rs.5,00,000-Rs.10,00,000 and only 125 of them are in the scale of less than Rs.2,50,000.

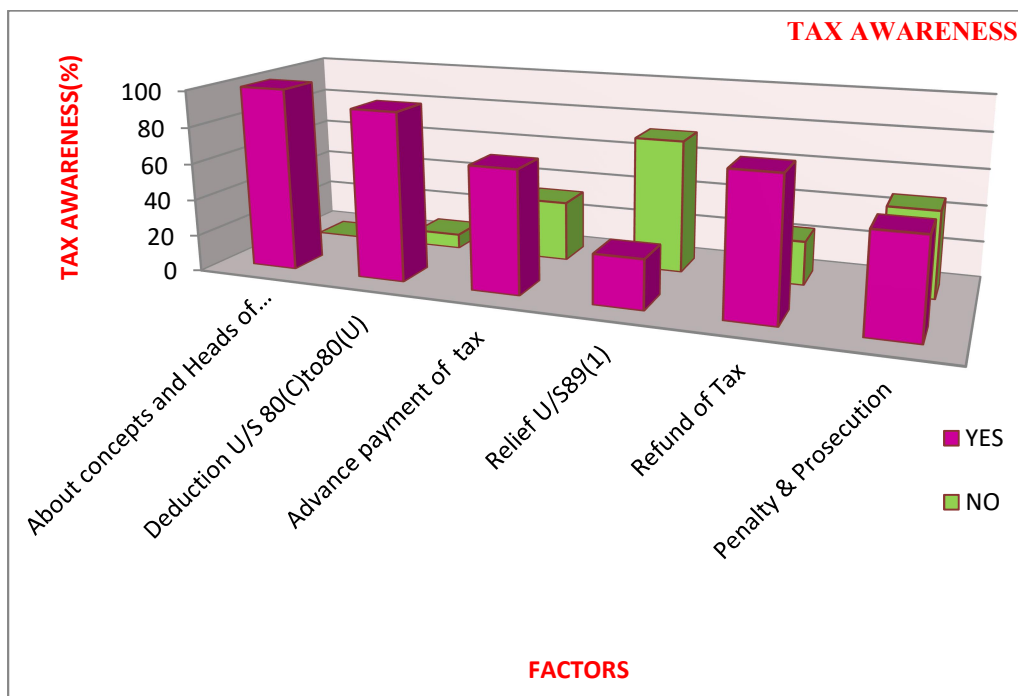
**Table No. 1.2**  
**Awareness about Income tax**

Tax Awareness	Yes		No	
	No.of	%	No.of	%

	Respondents		respondents	
About concepts and Heads of Income	75	100	0	0
Deduction U/S 80(C) to 80(U)	69	92	06	8
Advance payment of tax	50	67	25	33
Relief U/S89(1)	20	27	55	73
Refund of Tax	57	76	18	24
Penalty & Prosecution	40	53	35	47

Source: Primary Data

It is inferred from the table 1.2 in the case tax awareness out of 75 respondents nearly all of them (i.e) 100% of the respondents are aware of the concepts and different heads of income, 92% of them are aware of deductions u/s 80(C) to 80(U), 76% and 53% of the respondents are aware of refund of tax and penalty & prosecutions respectively. Finally, maximum of 73% of the respondents are not aware of relief/s 89(1), as most of them are salaried employees.



**Table No. 2.2**  
**Age Group and Tax awareness of Income tax Assesseees**

Awareness/Age group	Less than30	30-40	40-50	50-60
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	No	%	No	%	No	%	No	%
About concepts and Heads of Income	15	20	18	24	23	31	19	25
Deduction U/S 80(C)to80(U)	14	20	17	25	20	29	18	26
Relief U/S89(1)	04	20	05	25	05	25	06	30
Advance payment of tax	09	19	12	24	19	38	10	20
Refund of Tax	12	21	11	19	19	33	15	26
Penalty & Prosecution	10	25	09	23	11	28	10	25

Source: Primary Data

It is found from the above table that in the case of awareness of concepts and different heads of income, maximum of 31% of the respondents are in the age group of 40-50, and only 20% of them are less than 30. In the of deduction u/s 80C to 80U, out of 69 respondents, 29% of them are in the category of 40-50. With regard to Advance payment of tax, Refund of tax and Penalty & prosecution also highest percentage falls in the age group of 40-50. In the of Relief U/S 89(1), most of the respondents are in the age category of 50-60.

**Table No. 2.3**  
**Occupation and Tax awareness of Income tax assesses**

Awareness/ Occupation	Salaried employees		Businessman		Professionals		Others	
	No	%	No	%	No	%	No	%
About concepts and Heads of Income	29	39	20	27	16	21	10	13
DeductionU/S 80(C)to80(U)	27	39	18	26	15	21	09	13
Relief U/S89(1)	20	100	--		--		--	
Advance payment of tax	20	40	16	32	09	18	05	10
Refund of Tax	23	40	17	30	11	19	06	11
Penalty & Prosecution	05	13	11	28	10	25	14	35

Source: Primary Data.

In the clear from the table 2.3, out of the total respondents of 20, 100% of them are salaried employees showing that they have enjoyed the relief. In other tax awareness category also maximum percentage are only salaried employees, followed by businessmen. Least percentage (10%) is found in the category of Others.

**Chi-square test:**

Hypothesis:

H<sub>0</sub>: Occupation of the Income tax Assesseees in Kumbakonam do not have significant influence on tax awareness.

H<sub>1</sub>: Occupation of the Income tax Assesseees in Kumbakonam have significant influence on tax awareness

**Table: 2.3(A)**  
**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	53.468 <sup>a</sup>	15	.000
Likelihood Ratio	59.150	15	.000
Linear-by-Linear Association	4.136	1	.042
N of Valid Cases	308		

It is inferred from table 2.3(A) as the chi-square value 0.000, is less than p-value 0.05, the null hypothesis is rejected and alternate hypothesis is accepted. That is occupation of the income tax assesseees in Kumbakonam have significant influence on Tax awareness.

**Table No. 2.4**

**Annual Income and Tax awareness of Income tax assesseees**

Awareness/ Annual Income(Rs)	Less than 2,50,000		2,50,000-5,00,000		5,00,000-10,00,000		More than 10,00,000	
	No	%	No	%	No	%	No	%
About concepts and Heads of Income	09	12	11	15	24	32	31	41
Deduction U/S 80(C)to80(U)	09	13	09	13	22	32	29	42
Relief U/S89(1)	04	08	07	14	17	34	22	44
Advance payment of tax	01	05	03	15	07	35	09	45
Refund of Tax	07	12	10	18	18	32	22	39
Penalty & Prosecution	05	13	06	15	11	28	18	45

Source: Primary Data.

From the table 2.4, in the case of awareness about DeductionU/S 80c-80U, highest of 42% is with the annual income of more than Rs.10,00,000 and 13% is with the annual income of less than Rs.2,50,000 and Rs.2,50,000 –Rs.5,00,000. In the case of awareness of Relief U/S 89(1), Maximum of



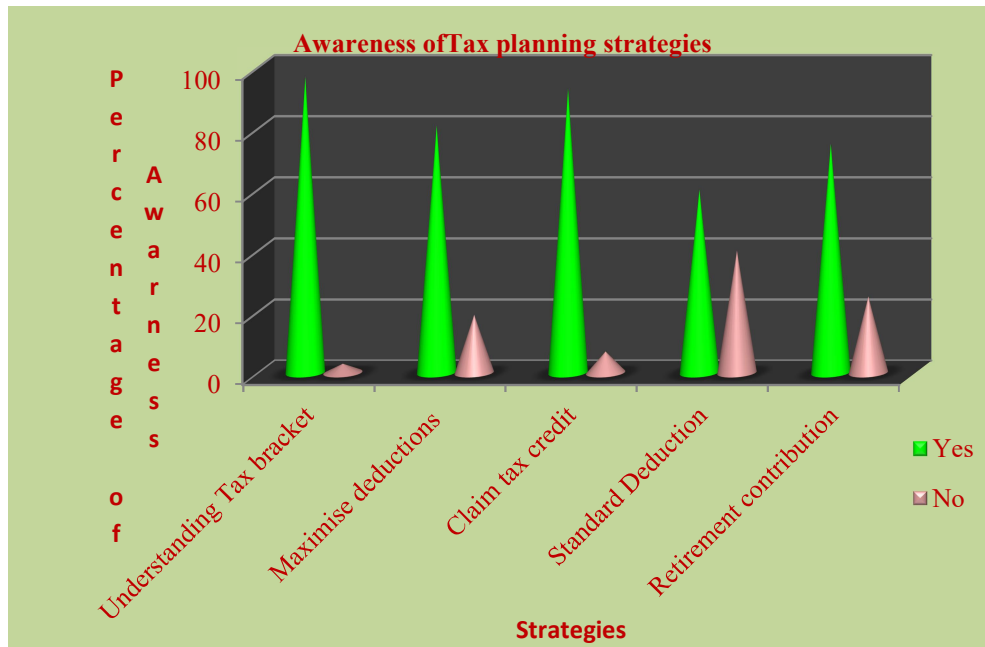
44% is with the annual income of ,more than Rs.10,00,000 and only 8% is in the lowest income of less than Rs.2,50,000

**Table: 3.1**  
**Awareness about Tax planning strategies**

Tax planning Strategies.	Yes	No	No	
	No. of respondents	%	No. of respondents	%
Understanding Tax bracket	73	97	02	03
Maximise deductions (Savings & Investments)	61	81	14	19
Claim tax credit	70	93	05	07
Standard Deduction	45	60	30	40
Retirement contribution	56	75	19	25

Source: Primary Data.

Table 3.1 shows that out of 75 respondents 97% of them apply of tax planning strategies for tax bracket. 81% of them use the strategy to maximise deductions, 70% of them apply tax planning for claiming tax credit, 56% of them apply it for retirement contribution and only 45% of them use the strategy for standard deduction.



**Table No. 3.2**  
**Age and Tax planning strategies**

Tax planning strategies/Age	Less than 30		30-40		40-50		50-60	
	No	%	No	%	No	%	No	%
Understanding Tax bracket	15	20	18	24	21	28	19	25
Maximise deductions	20	33	14	23	16	26	11	18
Claim tax credit	24	34	15	21	16	23	15	21
Standard Deduction	10	22	08	17	18	40	09	18
Retirement contribution	21	38	13	23	14	25	08	14

Source: Primary Data.

Table 3.2 reveals that in the case of understanding of tax bracket out of 75 respondents highest of 28% are in the age group of 40-50, followed by 25% of them are in the age group of 50-60. With regard to maximise deductions, out of 61 respondents, 33% of them are in age group of less than 30 and only 18% are between 50-60. In the case of to claim tax credit, out of 70 respondents, 34% of them are in the age group of less than 30 and lowest of 21% each in the age group of 30-40 and 50-60 respectively. With regard to retirement contribution, out of 56 respondents 38% of them are in the age category of less than 30 and lowest is shown at 14% in the category of 50-60.

**Table No. 3.3**  
**Occupation and Tax planning strategies**

Tax planning strategies/ Occupation	Salaried employees		Businessmen		Professionals		Others	
	No	%	No	%	No	%	No	%
Understanding Tax bracket	29	39	20	27	16	21	08	11
Maximise deductions	25	41	17	28	13	21	06	10
Claim tax credit	26	37	20	29	16	23	08	11
Standard Deduction	24	53	09	20	08	18	05	11
Retirement contribution	28	50	10	18	14	25	04	07

Source: Primary Data.

It is understood from table 3.3, that when Occupation and tax planning strategies are analysed in the case of understanding tax bracket, 39% of the respondents are salaried employees, 27% of them are Businessmen and only 11% belongs to other category. With regard to maximise deductions highest of 41% are salaried employees, and only 10% of the total of 61 are in the category of others. In the case of standard deductions out of 45 respondents, 53% of them are salaried employees, and 20% of them are Businessmen and 18% of them are Professionals. When retirement contribution is assessed out of 56 respondents, 50% of them are salaried employees and only 7% of them are others.

**Table No. 3.4**  
**Annual Income and Tax planning strategies**

Tax Awareness/ Annual Income(Rs)	Less than 2,50,000		2,50,000-5,00,000		5,00,000-10,00,000		More than 10,00,000	
	No	%	No	%	No	%	No	%
Understanding Tax bracket	09	12	09	12	24	33	31	43
Maximise deductions	06	10	07	11	19	31	29	48
Claim tax credit	07	10	10	14	24	34	29	41
Standard Deduction	01	02	05	11	16	36	23	51
Retirement contribution	08	14	09	16	12	21	27	48

Source: Primary Data.

Table 3.4 reveals that in the case of understanding of tax bracket out of 73 respondents highest of 43% are having an annual income of more than Rs.10,00,000, followed by 21% with an annual income between Rs.5,00,000-Rs.10,00,000. With regard to maximise deductions, out of 61 respondents, 48% of them are in the income category of more than Rs.10,00,000 and only 10% are in the income of less than Rs.2,50,000. When claim tax credit strategy is assessed, out of 70 respondents, 56% of them are having an annual income of more than Rs.10,00,000 and lowest of 10% of them are having an annual income of less than Rs.2,50,000. With regard to retirement contribution, out of 56 respondents 48% of them are in the annual income category of more than Rs.10,00,000 and lowest is shown at 12% in the category of Rs.2,50,000-Rs.5,00,000.

### Findings and Conclusion

From the analysis made, it is found that:

In the case of Demographic features, when gender wise classification is made maximum of 55% of the respondents are in the category of female. With regard to age, out of the total respondents of 75, maximum of 31% of them are in the age group of 40-50. When Occupation of the respondents are analysed, 39% of the respondents are salaried employees, only 10% of them are in the category of others. In the case of Annual income of the respondents, out of the total of 75, 41% of them are in the scale of more than Rs.10,00,000.

When tax awareness is analysed , in the case of awareness of concepts and different heads of income, maximum of 31% of the respondents are in the age group of 40-50. In the case of Deduction U/S 80c-80U, highest of 42% is with the annual income of more than Rs.10,00,000. With regard to relief out of total respondents of 20, 100% of them are salaried employees showing that they have enjoyed the relief.

In the case tax planning strategies such as maximise tax deductions, to claim tax credit, and retirement contributions most of the respondents are salaried employees and in the annual income of more than Rs,10,00,000.

Therefore, it can be concluded that as major portion of assesseees who are aware of tax and tax planning strategies are salaried employees, age group of 40-50 and with an annual income of more than Rs.10,00,000, stepd to be undertaken to create awareness among other persons.

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