A STUDY ON TAX PLANNING MEASURES ADOPTED BY THE SALARIED CLASS IN GOA

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COMMERCE

By

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DECLARATION

I, Ms. Priya A. Prabhu Verlekar, declare that the thesis titled "A Study on Tax Planning measures adopted by the Salaried Class in Goa" submitted to Goa University, Goa for the award of the degree of Doctor of Philosophy in Commerce is the outcome of original and independent work undertaken by me under the supervision and guidance of Prof. Y.V. Reddy, Senior Professor, Goa Business School, Goa University.

This research work has not previously formed the basis for the award of any Degree, Diploma, Certificate, or any such similar title to the candidate of this university or any other universities. I have duly acknowledged all the sources used by me in the preparation of this thesis.

Date: 22.07.2021 Ms. Priya A. Prabhu Verlekar,
Place: Goa University, Taleigao, Goa.

CERTIFICATE

This is to certify that the thesis titled "A Study on Tax Planning measures adopted by the Salaried Class in Goa" for the award of Ph.D. Degree in Commerce is the bonafide record of original work done by Ms. Priya A. Prabhu Verlekar under my guidance and supervision. This thesis has not formed the basis for an award of any Degree/ Diploma/ Certificate/ Associateship/ Fellowship or any such similar title to the candidates of this university or any other universities.

Date: 22.07.2021 Prof. Y.V. Reddy
Place: Goa University, Taleigao, Goa

(Research Guide)

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My research work titled ' A study on tax planning measures adopted by salaried class in Goa' has been a process of learning and discovery for me both at a professional as well as personal level. Being a mother of two young children and teaching in college I had my doubts whether I had it in me to pursue doctorate studies given the amount of time and effort required to research, give paper presentations, publish articles, conduct surveys etc. despite the fact that I have done my MCom and Intermediate Chartered Accountancy. It has been much more challenging than I thought but that has made this journey all the more satisfying. Also the context of the subject of my research in relation to the unique positioning of Goa and Goans in light of the applicability of the Portuguese civil code encapsulated in section 5A of the Income Tax Act 961 made this study unique and different.

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MS. PRIYA A. PRABHU VERLEKAR

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List of Abbreviations

GDP	Gross Domestic Product
EEE	Exempt-exempt-exempt
ELSS	Equity Linked Savings Scheme
NSC	National Savings Certificate
GPF	General Provident Fund
LIC	Life Insurance Corporation
PPF	Public Provident Fund
ULIP	Unit Linked Insurance Plan
CPF	Central Provident Fund
PF	Provident Fund
NPS	National Pension Scheme
DA	Dearness Allowance
FD	Fixed Deposit
TDS	Tax Deducted at Source
TARC	Tax Administration Reforms Commission
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
ICT	Information and Communication Technology
IRS	Indian Revenue Service
PAN	Permanent Account Number
CBIN	Common Business Identification Number
IDS	Income Disclosure Scheme
PMGKY	Pradhan Mantri Garib Kalyan Yojana
GST	Goods and Service Tax
SFT	Specified Financial Transactions
INR	Indian Rupees
F.Y	Financial Year
OED	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
POSB	Post Office Savings Bank
UTI	Unit Trust of India

AY	Assessment Year
HRA	House rent Allowance
LTA	Leave Travel Allowance
TRC	Tax Reforms Committee
C & AG	Comptroller and Auditor General

Chapter I

Introduction

1.1 Introduction to Tax Planning

Planning is nothing but thinking before the action takes place. It helps us to take a peep into the future and decide in advance the way to deal with the situations, which we are going to encounter in future. It involves logical thinking and rational decision making. India's commitment to planned economic development is a reflection of our society's determination to improve the economic conditions of our people and an affirmation of the role of the government in bringing about the growth performance through a variety of social, economic and institutional means. The ultimate objective of the Indian planning is to achieve broad based improvement in the standard of living of society at large. Rapid growth is essential for expanding incomes and employment. It provides the required resources to finance programmes of social uplift.

Tax planning is the art of arranging your affairs in ways that postpone or avoid taxes. By employing effective tax planning strategies, you can have more money to save and invest or more money to spend or both. Put in an another way, it means deferring and minimising taxes by taking advantage of beneficial tax-law provisions, increasing and taking advantage of exemptions and deductions with simple methods to minimise your tax liability during a financial year. One can indulge in smart tax planning by taking benefit from the components of one's salary; the perks, perquisites or tangible benefits that one is entitled to can be claimed up to some amount as a deduction or is exempt in some cases; investments in deductible options and filing of tax returns well in advance; simple management and strategic decisions at the right time is all you need for smart tax planning. Tax planning is a way to find out how much money you are paying on tax and also a way to help minimise the tax liability (the amount owed to tax authorities) through the use of allowances, deductions, exclusions and exemptions and hence can be used in a number of ways; for example for retirement, businesses, wills, and properties.

1.2 Review of Literature

The aim of any literature review is to summarise and synthesize the arguments and ideas of existing knowledge in a particular field. This provides the researcher with profound knowledge

and the direction to be headed for the success of their research. It is the nucleus around which a study is based. Unless one needs to reinvent the wheel, precise awareness on the extent of knowledge on a topic is important to hold on analysis that adds work to the sphere.

The review of literature on existing subject reveals that many researchers have directed their efforts to study various aspects of income tax system mainly with regard to tax structure, tax incentives and income tax structure such as personal income tax, savings and investment options etc.

Ankita Gupta (2009) suggested that simplifying tax structure, broadening tax slabs, and reducing personal income tax rates, would result in a positive influence on the growth of individual income tax and hence considerably larger number of tax payers would be bought under the tax net. She felt that individual income tax greatly contributes to direct tax revenue in India; hence lesser tax slabs, lower rates, and simplifying rates and tax base are some of the major reforms that would contribute to higher GDP growth.

Priya Gupta and Munish Gupta (2013) studied personal income tax reforms for a period of ten financial years from 2003-04 to 2012-13 and felt that tax burden seems to be higher on low and medium income group as against higher income groups. This mainly happens due to high compliance costs and a poorly designed cost structure, reorganisation of existing tax slabs and reduction in tax rates.

Priyanka Rani (2005) was of the opinion that application of higher rates at lower levels, narrow slabs, disallowance of dependent allowance, absence of social security measures, denial of certain employment related expenses, anomalies in spreading of arrears, discrepancies in allowing rebates are violating the equity of taxation and expose the salaried class to progressive rates.

Parol Sathyavathi (2006) suggests that the current progressive tax rate is flat at a higher level and increases steeply from the lower middle-class range and then flattens out over higher incomes; and as such suggested indexation of tax brackets to creep up to inflation in a progressive tax rate schedule.

Rajni Bedi (2007) conducted a detailed study on the various changes that have taken place specially with respect to individual income tax structure over a period of 9 years from FY 1992-93 to FY 2001-2002. She highlighted the various changes under different heads of income. The study also observed that changes in the tax laws should be made to the minimum extent to

reduce complexity in tax laws. It was suggested that the Government should give up the practice of introducing changes and concessions in each year's budget.

Ria Sinha (2010) conducted a comparative study between India and some western countries to study the tax structure and found that the progressivity of tax structure in India was much less than those of the western countries and a huge amount of tax revenue was foregone due to numerous tax exemption provided by the Central Government. Although India had already followed progressivity of tax rates, yet huge revenue was lost due to discrepancies in tax laws.

Rajan (2010) studied the growth of individual income tax and examined the burden of personal income tax on income distribution of salaried tax payers.

Amaresh Bagchi and Govinda Rao (1983) have stated that by modifying tax administration and tax compliance, income tax revenue can be generated in relation to income growth. They felt that growth in tax revenue is not proportionate to growth in income.

Arindam Das-Gupta and Dilip Mookherjee (1995) have recommended measures to improve the declining performance of income tax in India. The measures suggested are with respect to changes in tax laws, penalties and prosecution. The opinion was formed after a comparative study of income tax in India and abroad.

Arindam Das-Gupta (2000) concluded that although the initial Indian tax reforms resulted in tax gains, they could not be sustained over a period of time due to tax evasion, and the tax structure prevailing in India. He suggested a method of reducing the gap between actual and potential growth in tax collection by making significant changes in the structure of tax.

Ahmad, Entisham and Nicholas Stern (1991) studied tax reforms prevailing in Pakistan and developed guidelines for tax policy, and a practical tax package for the benefit of household government and producers.

Choksi Committee (1977) made an attempt to study whether the merger of four direct taxes that is wealth tax, income tax, gift tax and surtax would help in simplification of tax system prevailing in the country and was of the opinion of bringing agricultural income under the tax net.

Radha Gupta (2013) makes out a case of bringing more assesses under the tax net by arguing in favour of further rationalization by way of increasing the effective income slabs for levy of taxes and by further reducing tax rates for each slab.

Khatik and Amit Nag (2012) did a thorough study on the Direct Tax Code of 2011 and its influence on individual tax payers. He suggested important changes to provide stability in the tax structure with more stress on personal income tax.

Sopan Kasinath (2014) was of the opinion that majority of the tax payers in India were the upper middle class and suggested means of availing deduction to minimise tax liability, through avoidance rather than evasion.

Eric Engen and William Gale (1997) were American researchers who suggested a combination of income and consumption tax to increase savings and output. This could be achieved by marginal tax notes to sustain the increased tax revenue.

Hassan (1998) examined tax reforms in Bulgaria and felt that although tax reforms are initiated with good intentions, political factors end up changing the reforms to the disadvantage of tax payers.

Indujain (2005) compared income tax provisions in India with six other countries and concluded that high tax rates are payable by tax payers who have moderate income, the income tax base in India is low and the provisions are not administratively convenient. It was found that majority of personal income tax collection is paid by moderate income group.

Kiranjit Sett (2016) studied factors affecting growth of tax revenue like rates of taxes, corporate profits/incomes, deductions, inequality in income distribution. He revealed that growth rates in manufacturing and service sector are not proportionate to growth in taxes and the growth of tax revenue depends on the growth of taxes in the manufacturing and service sector.

Kelkar Task Force (2002) analysed the reforms that Indian tax system needed and proposed an agenda of reform for direct and indirect taxes. They were of the opinion that following reforms must be addressed a) Elimination of exemption and replacement of allowances b) Indirect tax system needs overhauling c) Direct tax rates must be moderate.

Govinda Rao and Kavita Rao (2005) opined that administration cost of taxation can be reduced considerably by making tax filing online, this would reduce distortions, improve equity and reduce cost of compliance. The tax system could be made more efficient, user friendly and cost effective.

Nidheesh (2010) did a study on a Direct Tax Code of 2009 and concluded that it proposed to improve efficiency and equity of Indian tax system by eliminating distortion in the tax structure by introducing a moderate level of taxation and expanding the tax base.

Priyesh Sharma and Siddharth Dang (2011) evaluated the difference between avoidance of tax and evasion of tax and felt that with the direct tax code coming into force the difference between the two has been blurred to such an extent so as to restrict not only tax evasion but also tax avoidance and as such the scope of tax planning is also included therein.

Pawan Agarwal (1991) came forward with a system to estimate the elasticity of taxation due to changes in personal income and concluded that tax elasticity changes with every change in income distribution.

Raja Chelliah (1986) was of the view that due to the close relationship between changes in tax structure and economy, every change in tax structure would directly affect the economy.

Stiglitz (1997) was of the opinion that the disadvantages of tax policies, tax reforms are an integral part of economic reforms and developing countries are striving to change their tax systems.

Thirwk (1997) suggested reduction of tax rates on both personal and corporate incomes, enlargement of tax base and computerisation of tax records for improving efficiency of tax compliance.

Chitta Ranjan Sarkar (2004) critically studied the income tax exemptions, tax incentives and bought forth the theory that the main purpose of tax incentives was to motivate the tax payers to save and invest wisely, more so in the rural and semi urban parts of the country.

Srivastava (1986) revealed in his study that success of any tax system depends on how it is administered and it should have four features no delays, quick disposal, minimum chances of evasion and avoidance. He felt that quick refunds, faster assessments and appeals would reduce chances of avoidance and evasion.

Thimmaiah (1984) studied the theoretical background of reforms in tax structure and suggested that direct and indirect taxies play an important role in the Indian tax structure.

Raina (2005) in his study strongly felt that simplicity, certainty and clarity in tax laws were the most important principles for levying taxes. He felt the need to design a new code that would have better tax administration and compliance.

Kantawala (1998) The study revealed that the increase in average rate of tax for individual income for the associate level was highest whereas the top-level managers showed a declining average rate of tax indicating that progression of income tax had declined over the period under study. The number of assessees also increased, resulting in an increase in the revenue for the Government.

Kumar (1998) after observing administrative problems relating to tax evasion and tax avoidance made a few suggestions like initiating innovative search and seizure proceedings, withdrawing certain exemptions, extending income tax cover and increasing staff so as to make tax administration more revenue elastic and effective. He suggested that "family" should be taxed as an independent taxable entity and cover agricultural income under the tax net.

Lall (1982) focused on direct taxes and its impact on personal income tax and felt that there is no preferential treatment given to individuals belonging to the low-income groups this was mainly due to discrimination in the composition of salary income and treatment of tax provision. His study was based on employees of Central Government State Government and Private Sector, he highlighted the difference in tax rates applicable to them and the reason for such a difference.

Om Prakash (2015) the study found that inspite of large-scale reforms introduced by the Government to enhance its tax revenues from direct taxes, the performance of reforms has not been satisfactory even after more than 20 years. There is a need to relook at the overall reforms initiative to ensure higher level of direct tax revenue, to provide indexed tax base and to ensure better tax compliance.

Pillarisetti (2003) came to the conclusion that tax burden is the highest in low-income countries as compared to moderate- and high-income countries. His research suggested a narrow base of tax from income under capital gains, whereby by it would lead to better standard of living.

Rao (2004) suggested the need of establishing a better development of taxes on trade to improve productivity reduce distortions and thereby improve equity. He felt that should be a better balance and coordination between the various domestic taxes on trade.

Raj (1990) studied the role of tax structure in the Indian economy, growth rate and rate structure of personal income tax. The study concluded that rationalization of tax structure is must to promote the objectives of economic growth, equity and built-in revenue raising capacity of

personal taxation and other direct taxes. It was also suggested to make tax law simpler so that it will be easier to understand for tax payers and less difficult to administrators.

Robert Barro and Chaipat Sahasakul (1983) made it clear that explicit marginal rate from the tax schedule for individual taxation is the right direction for better economic development of the nation.

Sidhu (2003) came to the conclusion that direct tax reforms in the post liberalization era had failed to solve the fiscal deficit even though the share of direct taxes to GDP increased. There was no much increase in government revenue although number of assesses increased.

Singh and Sharma (2007) studied the individual assessees responsiveness towards tax rate changes in India during the post liberalization scenario using correlation and regression analysis. The study suggested bringing agriculture income under tax net, removing unnecessary allowances and deductions, and making the Indian tax system simple and transparent.

Shome (2000) suggested that in the case of personal income tax, tax incentives for savings should be given in the form of tax credit. Incentives under Section 80L should be removed and those under Section10 should be streamlined.

Sreekantaradhya (2000) studied personal income tax for a period of 8 years from financial year 1990-1991 and revealed major discrepancies in the tax laws and provisions.

Sandhu (1987) studied tax structure over a period of 34 years and revealed that corporate tax collection contributed more to the tax revenue as compared to personal income tax, in spite of progression in individual tax rates to promote savings and investments. The study showed that large number of exemptions were introduced to encourage individual savings and investments.

Satya Narayan Mittal (1986) evaluated income tax laws since 1951 and made concrete suggestions to nationalize the structure of direct taxes in India.

Chitale (1978) insisted on focusing on savings. After doing an in-depth study on personal income tax he found that tax benefit is more dependent on income level than savings and hence suggested progressive rate of tax benefits for individuals.

Kamal Pant and Ashish Arya (2012) studied the Direct Tax Code (2011) and was of the opinion that it gives more tax relief to individuals, eliminates unnecessary exemptions, has made return filing easier and has helped in improving tax collection. This would help in reducing the complexities of the Income Tax Act.

Mitra and Stern (2003) observed that tax payers were unaware of the general concepts of taxation and required help to comply voluntarily. This would also help to improve tax administration.

Raikhy and Om Prakash (2000) in their study suggested that Indian tax structure is more biased towards indirect taxes. Direct taxes structure has to be made more scientific by withdrawing unwanted deduction and widening the tax base further. They studied the changes in the share of direct taxes and observed the loopholes which needed to be withdrawn.

Suman (1974) noticed that tax evasion mostly took place in the higher income groups and highlighted that exemption of agriculture income, gradual increase in exemption limits, were some of the few reasons for evasion and avoidance of tax. Hence frequent changes in tax laws should be avoided. It was also noticed that evasion generally took place in the higher income group.

Singh and Srinivasan (2004) revealed that the main focus of reforms should be in critical areas of tax administration and enforcement, this would help in promoting growth and raising collection and increasing tax revenue.

Surekhen Kali and Lalit Kumar Joshi (2011) focused on changes proposed by the new Direct Tax Code (2011) and its effect on individual income tax and were in favour of EEE (exempt-exempt-exempt) method of taxation for schemes like provident funds and pensions. The code proposed to merge laws on direct taxes i.e., income tax, dividend distribution and wealth tax.

The Standing Committee on Finance (2004) suggested a strong will on the part of the Government to stop evasion of tax and control tax avoidance. This would help in stopping creation of black money and the prevalence of a parallel economy.

Upendar (2002) studied the relation between tax rates and tax revenue with the help of Laffer curve and revealed negative elasticity of income tax revenue with respect to maximum marginal tax rates.

Vaish and Panadiker (1978) in their study showed that more the tax rates more the temptation of tax evasion. This could be solved by widening of tax slabs and reduction in tax rates.

Borkar (1971) offered many constructive methods to frame fiscal policies and proposed a new tax structure for the salaried tax payers with a stable income who are the most vulnerable to changes in tax laws, with a direct impact on their savings and investments. Salaried class have

a regular and stable income and hence are most anxious about the effect of personal income tax reforms on their savings.

Geetha (2014) was of the view that salaried employees still display less awareness with respect to deduction under chapter VIA of the Income Tax Act 1961, although they have more knowledge about investments in provident fund, housing loans and insurance.

Nero Madi, Jalan Meranek, Amrizah Kamaluddin, Tamoi Janggu, Muliati Binti Aba Ibrahim, Aizimah Binti Abu Samah, (2010) studied tax literacy of employees in private and public sector undertakings and evaluated the self-assessment system operating in Malaysia. The study focused on making best use of deductions, reliefs and rebates.

Puneet Bhushan (2014) observed that lack of confidence in making financial decisions is due to lack of financial knowledge. Poor awareness of financial products leads to poor investments decisions. Common man is generally unable to interpret tax laws and provisions, this results in lack of confidence in tax planning.

Puneet Bhushan and Yajulu Medury (2013) studied the behavior of salaried employees as regards tax provisions and found that they are not well informed about various provisions and deduction available to them which results in difficulty in computation of tax liability. Salaried assesses have only the basic knowledge of compulsory savings which are reflected in their salary certificates but not otherwise.

Meenakshi Chaturvedi and Shruti Khare (2012) did a study on the savings and investments choices of Indian households and found that they displayed maximum awareness as regards bank deposit, real estate, and insurance while shares, securities and mutual funds remained much unexplored. The researchers also found that age, gender, education and income also had a bearing on the choice of investment made.

Mugdha Shailendra Kulkarni (2014) conducted a study to help the investment managers to understand the context of their client (individual investor) better and thereby be better placed to help the clients make conscious positive change in their investments. This study attempts to find changes in investment decision with age, gender, income, education level, occupation, annual income, number of dependents. It was recommended that investment managers can suggest to their clients a balanced approach towards equities and bonds.

Puneet Bhushan and Yajulu Medury (2014) opined that financial knowledge and financial attitude go hand in hand. In order to improve financial literacy individuals should be trained with better education programs on investment planning, savings and tax planning. This in turn would result in positive and favorable financial attitude among individuals.

Pandey (2000) did a comparison between tax relief provision in India and USA and reported that India has distinct number of tax incentives, deductions and exemptions. Study revealed that tax laws in India were open ended and more realistic as compared to the USA.

Bhawana Bhardwaj (2013) observed the investment pattern of individuals in Solan District and realized that there is a need to spread awareness amongst individuals regarding investments through electronic and print media to motivate them to invest in the right direction.

Dhiraj Jain and Ruhika Kothari (2012) attempts to identify the awareness, preference, problems and attitudes of investors towards various deposit schemes offered by post office among 100 respondents of Udaipur District. From the study it is found that majority of the respondents invest in post office deposit schemes for the purpose of safety and security. The researchers collected the primary data by means of a questionnaire and the responses were analysed using the chi-square tests.

Parimala Kanthi and Ashok Kumar (2003) The paper studied the personality type of the individual investor and analysed the investment holding behavior of individual investors across their personality type. Investors prefer less risk investment like post office deposits and fixed deposits etc. and avoid risky investments such as mutual funds, corporate securities. This behaviour may be because of lack of awareness, poor investment climate, and lack of confidence.

Pandiyan and Aranganathan (2012) evaluated the investment attitude of salaried tax payers and realized that top priority while investing are security of life, education, retirement and health.

Ledid Bin Abdul Khader (2017) examined tax awareness amongst college teachers and concluded that they were unaware of the new exemptions, deductions and reliefs provided to salaried assesses and still followed traditional ways of savings and investments.

Mohd Rizat Palil (2013) used three factors namely tax awareness, compliance and religiosity to study the relation between tax deduction and tax knowledge and found that tax compliance

was low when compared to knowledge towards tax laws. His study was conducted on 70 working adults in Malaysia. Pearson's correlation technique was used for analysis to achieve the results.

Preeti Kalgutkar (2018) argues that in order to increase the net wealth of an individual by increasing the rate of return on their investment, knowledge of various deductions and exemptions plays an extremely important role.

Rini Hastuti (2014) in her study felt that tax payers belonging to different income groups have no relation with the knowledge they possess about tax provisions and tax laws.

Suchitra and Vidya (2019) felt that Chapter VIA deduction were the most popular tax saving instrument among the salaried class.

Sanjeeb Kumar Dey and Verma (2016) concluded that tax awareness and tax planning depend on demographic factors like age, education, gender, etc. Tax planning alternatives should be such that they give good returns as well as tax benefits, these investments are mostly preferred by salaried individuals.

Zankhana Atodaria and Sharma (2018) the study revealed that most people are aware only about investing in bank deposits and insurance policies. The most important factor taken into consideration by salaried individuals is regular returns and reductions in tax liability.

Dhanorkar and Sanket (2014) suggests best ways to make use of the additional deduction of Rs. 50000. Young investors should especially use the additional investment limit to enhance their exposure to equities through ELSS funds, since they offer maximum flexibility. For tax payers who need money sooner, NSC and five-year tax saving bank fixed deposits would be useful options.

Dey Sanjeeb Kumar (2015) observed that about 60% of the salaried assesses in Odisha do not have sound knowledge about the various income tax provisions, and as such the tax planning measures adopted by them are uniform.

Haythorne and Angela (2012) were of the opinion that individuals should consider the investment opportunities available to them, to minimize their taxes and make the best use of allowances with their investments.

Jackson and George (2008) believed that different tax payers have different investments needs depending on their incomes and savings. What is ideal for one individual may not be so for the other.

Michael Calegiri (1998) suggested three tax planning principles, cash method of accounting, exclusion of non-business income and progressive rate of taxes for individuals with more liberty on the retirement plans and savings.

Navjot Dhingra (2005) studied the problems and issues relating to direct tax rate structure, deductions, incentives and inflation indexation. The study revealed that income tax rate structure has been changed more frequently and in many cases on year-to-year basis, which violated the principles of stability. It was suggested to frame income tax rate structure on scientific and rational basis and then indexing these for inflation.

Umamaheshwari and Ashok Kumar (2003) felt that socio economic factors like age, gender, income, employment also have an impact on savings and investments.

Thulasipriya (2014) concluded in her study that deposits with bank were still found to be the most popular savings option chosen by salaried individuals belonging to the lower income groups while the higher income groups preferred investing in the share market, mutual funds and other securities.

Baligatti (2013) found that the burden of tax shall be minimized through proper tax planning. Home loans are attractive as they are safe and carrying higher returns with hidden appreciation. Investment in home loan has a strong favourable impact on the tax liability of individuals and it is a lucrative incentive to save the tax of salaried employees.

Kalavathi (2009) in her study concluded that domestic savings are influenced by interest rates, per capital income, banking facilities and inflation rate.

Meenakshi Rohella (2012) found that every taxpayer wants to decrease the tax liability and to do this he or she invests in various tax saving instruments. The study revealed that maximum number of taxpayers wanted to save in GPF, followed by LIC, PPF and ULIP. It was found that majority of taxpayers prefer GPF/CPF due to safety, return and ease of purchase.

Nanavati Nihar (2012) was of the opinion that salaried tax payers focus on safe, secure and tax saving investments more than high returns. In order to achieve a better standard of living, a good portfolio is a necessity.

Parihar and Sharma (2012) in their paper analyzed the investment preference of salaried employees and concluded that along with safety, security, liquidity and returns, demographic factors like age, gender, education also have bearing on investment choices. They studied 200 salaried employees in the city of Agra.

Pandiyan and Aranganathan (2012) revealed that investments in bank deposits, house property, insurance is more amongst the salaried class as compared to other taxpayers.

Somasundaran (1998) was of the opinion that risk, return and perception are the three main factors which influence the level of investment. This results in deciding the level of satisfaction the employees achieve from their savings.

Sree Priya and Gurusamy (2013) did a study on the mode of investments chosen by salaried respondents in Coimbatore District, by using tools like chi square tests, ranking tables to understand their preference and also factors influencing the investments pattern.

Sabat Kumar Digal and Suman Chakraborty (2012) did a comparison between male and female investors and brought out the fact that gender also plays a significant role in the choice of investments along with other factors like age, education etc.

Alice Mani (1994) argued that it was only the upper middle class that benefit from the savings incentives even though the deductions and exemption claimed by them are much less compared to their income share.

Kapadia (1981) conducted a study on how public provident fund would give maximum benefit to a salaried individual if done through better tax planning. His study brought out other features of investment in provident funds like loan, interest rates and the incentives therefrom.

Muneer (2002) studied tax planning measures adopted by teachers for AY 2001-02 and came to the fact that they displayed varying level of awareness with respect to investment choices and the tax incentives in relation to the investments made. As such although the level of income may be the same the choices made may be different.

Yasaswy (1979) discussed the impact of inflation on the purchasing power of investments. He was of the view that all the tax implications must be provided in order to build a diversified investment portfolio.

Ronald Gable (1983) laid emphasis on investments and tax planning and said that only those individuals who do financial planning will achieve the goals of minimizing taxes, savings smartly and investing wisely.

Sunnykutty Thomas (1998) did a study on salaried employees in Kerala to judge their awareness and compliance of tax laws. He found that salaried individuals do not understand the benefits of tax planning and hence do not implement it in their actual life, this brings about the needs to provide training on effective tax planning. He also felt that different employees prefer varying tax planning schemes

Srinivas Madhur (1984) conducted a study on savings of Indian household and found out that domestic savings mostly go into banks, and hence reduction in interest rates on fixed deposits have a significant impact on domestic savings.

Viramini, Aravind (1997) insisted on the need to withdraw a few exemptions, simplify filing of returns, reduction in rates of taxes and suggested a comprehensive approach to increase the number of tax payers.

Job (1995) did a study on Government employees in Palakkad District of Kerala to identify the relation between income and savings, analyse the reasons for choosing a particular investment and found out that government employees look at liquidity safety and returns while choosing an investment. Savings are made with the intention of profit, liquidity, safety and tax reliefs.

Reshma Mathew (2016) conducted a study on working women and felt that Indian tax structure is complex which makes it essential to plan investments well in advance. With an increase in the number of working women and financial independence sought by them, it is important to have thorough knowledge of various provisions and exemptions to select the most tax savvy investment.

Radha (1995) conducted a study of individuals investing in corporate securities. She found that it was the top management level employees were generally the ones who preferred investing in the share market as they are well educated, well read and well paid, however their primary objective is capital appreciation. An interesting observation made by the author was that only surplus savings after contractual investments are directed into the share market.

Sonali Patil and Kalpana Nandawar (2014) were of the view that salaried individuals invest with different objectives like profit, security, appreciation and income stability. Correlation

coefficient and chi square tests were used to analyse the choice of investments. Data was collected using a structured questionnaire. The study was conducted in Pune city and the conclusion derived was that although most are aware of various investments options and their tax benefits, safety still plays an exceptionally important role for salaried investors

Murugan (2012) conducted a study on salaried investors in Nellore District of Andhra Pradesh. The study was basically undertaken with respect to investments in the securities market, whereby it was found that their knowledge in the share market was limited as it was the general opinion that share market investments involves high returns but with equally high risks. Hence bank deposits, real estate, life insurance was still considered safe and reliable.

Yogesh Patil and Charul Patel (2012) evaluated the investment behavioral pattern of private sector employees and tried to analyse the perception of the employees with different investment alternatives. The study revealed that the private sector employees are much more flexible with their investment behavior and are ready to explore better investments options as compared to other employees.

Vasanti (2015) The study highlighted the fact that salaried employees feel that they have to bear the primary burden of income tax and that owing to the high tax rates their take home salaries after tax deduction at source is greatly reduced. As such Government should expand the quantum and nature of deductions for salaried employees which will help in their welfare.

Savita and Lokesh Gautam (2013) stated that tax planning enables a tax payer to minimize their tax liability to the maximum, while doing a study it was found that although various investments options offer security, liquidity and returns the most popular choice among salaried tax payers is life insurance. It was also found that life insurance, medical insurance, provident funds were mostly satisfying options chosen by people in the age group of 20-30 years.

Monika Arora and Gupta (2017) felt the need to come up with new investment opportunities which are more tax savvy and create a balance between risk and returns. They also suggested that there is a need to have more deductions under chapter VIA which would exclusively benefit salaried individuals.

Dowlath Ahammad and Lakshmana (2017) conducted a study on salaried employees in Kurnool city with the help of a questionnaire to find out their commitment towards investments and their knowledge of the options available to them. It was found that high returns, low risk and security of funds are some of the factors that influence investments decision making.

Ashly Lynn Joseph and Prakash (2014) were of the opinion that investment is a big decision for a salaried individual. Hence every investment option is anticipated with positive returns low risk and safety. The study also provides information to salaried individuals about the various investment avenues which will help them in their financial goals.

Shanthi and Murugesan (2016) felt that there are numerous investment avenues to park one's savings however the risk and returns attached with each are different. In this regard taking professional advice from tax consultants, financial planners would be of great help. The study was conducted on 60 employees in Namakkal District in Tamil Nadu, using a structured questionnaire and analyzed using chi square tests.

Shilpa Vasant Bhide (2013) was of the opinion that benefits of tax planning are best achieved with professional advice. She stressed on the need of taking help of chartered accountants, tax consultants and investment planners, with which best results can be achieved by choosing the best investment option and results in minimizing tax liability.

Geethu Gopi and Priyanka (2018) were of the opinion that investment is an activity confined to specific financial aims of investors. The study attempts to understand the investment preference of salaried group of people working in the private sector in shipping industries. The findings suggest that most of the employee's savings are directed to their personal expenses like childrens education and marriage.

Ananthapadhmanabha Achar (2012) studied the saving pattern of high school and university teachers in Udipi District of Karnataka and observed that age, gender lifestyles and mutual status also influence investments decision making.

Mathivannan and Selvakumar (2011) conducted a study on teachers in Sivakashi District of Tamil Nadu and found out that they usually prepare a budget of their expenses and savings compare them with actuals and accordingly decide the quantum of investments.

Vasagadekar Priya (2014) studied the investment behavior of women employees in Pune and found that women prefer to invest in banks deposits and gold as they consider them safe in the long run.

Palanivelu and Chandrakumar (2013) studied the investment preferences of salaried class in Namakkal District of Tamil Nadu and found that socio economic factors like education, age and financial knowledge also influence investments decision making

Varsha Virani (2012) studied investments choices of school teachers in Gujarat and found that all their savings are directed into bank deposits and Government securities. It is safety and security of funds which was given utmost priority.

Krishnamurthy (2015) found that long run safety and security is all that is considered while investing by salaried individuals, therefore fixed deposits still remain the most popular choice despite the low interest rate on deposits.

Prashant Chajer (2013) revealed that salaried individuals have shallow investment knowledge, they do not seek professional help and do not review their investment portfolios frequently. The purpose of his study was to assess the investment planning and objectives.

Pinal Barot (2016) divided salaried tax payers into three age groups young, middle and old. The study found that while young investors look at life insurance and provident funds; middle age group look for investment in terms of real estate, health and children education while the older groups look for bank's deposits and medical insurance.

1.3 Research Gap

From the literature review it is evident that there have been numerous studies on tax planning and tax reforms. However, studies pertaining to personal income tax planning especially for salaried tax payers are few. This provided the opportunity to take up a comprehensive study to assess the level of awareness, investment preferences and tax planning measures adopted by salaried tax payers.

- In India, particularly in a small State like Goa, there has been no study undertaken on tax planning of salaried individuals. The present study made an attempt to understand the investment preferences, literacy levels of tax provisions and tax planning measures adopted by salaried individuals employed in public and private sector undertaking across major towns and cities in Goa.
- Salaried employees have a fixed flow of income and hence their investment patterns are different. The present study throws light on investment preferences in financial assets and physical assets in the State of Goa and how tax provisions play a vital role in investment choices.
- Section 5A of the Income Tax Act 1961, which provides for equal division of income from all sources except salary is exclusively applicable to the State of Goa and Union Territories of Dadra and Nagar Haveli. Very few articles are available on Section 5A and the

Portuguese Civil Code of 1860. The present study makes an attempt to better understand the tax implications on Goan couples, whereby all their incomes (except salary) gets divided equally between them and pros and cons of such division on their incomes with respect to their tax liability. This specially has significance when Goan has other sources of income besides salary.

1.4 Statement of the Problem

Saving taxes can be a complicated process if not planned well in advance. Planning your taxes at the last moment leaves little time for you to study different investment options. It may also become a burden to invest a lump sum amount to save tax. Investing, not just to save taxes, but also to fulfil your goals, can prove beneficial in tax planning. Effective tax planning involves early and regular investments. Studying one's salary slip should also be a part of one's tax planning checklist.

In order to manage finances by saving money on taxes, planning plays a vital role. It is important to develop certain strategies to shrink off the taxes. There are various sharp-witted strategies to keep away from paying excess taxes. Tax planning is crucial for employees who draw a salary and require extensive planning and discipline on their part. Each year the tax filing season leaves salaried tax payers scurrying around to calculate the taxes they have to pay for that particular financial year. It is vital for them to understand the different components involved and prioritize tax planning at the commencement of the financial year. Furthermore, it is also important to understand the tax slab one belongs to and get a better insight into the components of salary while being prudent helps in building wealth, adhering to certain guidelines and following a few tips contribute to tax savings for salaried employees.

By making investments in selected financial products and claiming deductions under certain allowances one can reduce the taxable income. This research provides an insight into the tax saving strategies followed by salaried assesses employed in public and private sector undertakings in the State of Goa and throws light on various exemptions, allowances and deductions that can be opted for by the salaried tax payers to reduce their tax burden. After all, saving money is equally as important as earning money and that's something which is achievable through proper planning. The truth of the matter is that tax planning is an integral part of one's investment plan along with managing of finances.

1.5 Scope of the Study

The scope of the current study is limited to the salaried assesses in the State of Goa. The study evaluates and analyses the tax planning strategies and awareness thereof, saving habits, investment choices, outflow of liabilities adopted by the salaried assesses in Goa for the period covered under study. The income in the study encompasses salary income, income/loss from house property and income from other sources viz interest on bank deposits etc. For the purpose of the study, employees from private sector and public sector were covered. In the private sector multinational corporations and Indian companies across diverse industries ranging from manufacturing to service industry in areas such as telecom, information technology, pharmaceutical, composites etc. were included. In the public sector Central and State Government employees, employees with Government companies and corporations and employees of State Government, aided colleges and schools were included.

The salaries assesses were classified under four categories based on their levels of income in conjunction with the income tax slabs for individuals. The study also captured the age group and gender of the salaried assesses for better understanding of their risk profile, savings and investment habits.

The uniqueness of this study is that it covers the implications and impact of Section 5A of the Income Tax Act 1961 as applicable to only Goans governed by Portuguese Act 1960.

1.6 Objectives

1. To assess the impact of income tax reforms on salaried tax payers in India.
2. To determine the level of awareness of salaried class with respect to tax planning in Goa.
3. To analyse tax planning measures adopted by different segments of salaried class in public and private sector in Goa.
4. To assess the impact of section 5A of the Income Tax act on the total taxable income of eligible salaried class of Goa.

1.7 Research Hypothesis

The research was based on the hypothesis stated below

H_1: There is no significant difference between private sector and the public sector salaried assesses with respect to their savings habits.

H_2: There is no significant difference between private sector and the public sector salaried assesses with respect to their investment choices in financial assets.

H_3: There is no significant difference between private sector and the public sector salaried assesses with respect of their investment choices in physical assets.

H_4: There is no significant difference between private sector and the public sector salaried assesses with respect to their outflow of liabilities.

H_5: There is no significant difference between private sector and the public sector salaried assesses with respect to their awareness level on tax provisions and laws.

H_6: There is no significant difference between private sector and the public sector salaried assesses with respect to tax planning strategies adopted for AY 2018-19.

H_7: There is no significant difference between private sector and the public sector salaried assesses with respect to their agreement on specific provisions under the Income Tax Act 1961.

1.8 Research Methodology and Sample Design

Collection of Secondary Data

Sources include Income Tax Act 1961 and rules thereon, Central Board of Direct taxes circular/notifications, Journals of Institute of Chartered Accountants of India, Statistics from Department of Economic affairs and Tax reports published online and on websites also form part of the secondary data.

Secondary data pertaining to direct tax reforms was collected for a period of 12 years from FY 2005-06 to 2017-2018.

Collection of Primary Data

Primary data was gathered through a well-designed questionnaire to collect information relating to saving habits, investment choices and tax planning strategies followed by the salaried assessees of the State. Assessment Year 2018- 19 was chosen as the base year for collecting primary data. A pilot study was conducted on 100 assesssees to test the original questionnaire which helped to meticulously frame the final questionnaire.

Sampling Design

Salaried assesses employed in the State of Goa constituted the population for the study. Sample selection was done on a purposive basis. The sample comprised of employees engaged in public

and private sectors in the State of Goa totaling 400 tax return filers for assessment year 2018 - 19. In order to ensure an equitable distribution 400 respondents were equally divided 200 each between North Goa District and South Goa District on the basis of their employment. The employment was further categorised into private and public sector and equal weightage allotted to both. The North Goa District included the main cities of Panaji and Mapusa while South Goa District included the main cities of Margao, Ponda and Vasco.

The Table 1.1 below shows the sample division on the basis of employment.

Table 1.1: Sample Size-Type of Undertaking

Type of Undertaking	Districts		Total
	North Goa (Panaji/Mapusa)	South Goa (Margao/Vasco/Ponda)	
Public	100	100	200
Private	100	100	200
	200	200	400

Source: Sample Design

The sample includes a wide spectrum of public and private sector employees. Public sector employees included employees of Central Government, State Government and public sector undertakings. The private sector employees included those working in the pharmaceutical sector, information technology, multinational corporations in telecommunication and aeronautical structures, media and publicity and other manufacturing limits.

After determining the level of salary and other incomes, the surveyed tax assesses were classified into four categories. Assesses having annual salary income of below Rs. 2.5 lakh classified as 'Associate level'. Assesses having annual salary income of Rs.2.5 lakh to Rs. 5 lakhs classified as 'First level managers' and assesses having annual salary income of Rs. 5 lakhs to Rs.10 lakhs classified as 'Middle level managers. The Top-level managers consisted of assesses having annual salary income above Rs.10 lakhs.

The sample size classified into above categories on the basis level of income is presented in Table 1.2.

Table 1.2: Sample Size- Level of Income

Type of undertaking	Associate level Below 2,50,000	First level Manager 2,50,000 to 5,00,000	Middle level Manger 5,00,000 to 10,00,000	Top level Manager Above 10,00,000
Private Sector	8	59	72	61
Public Sector	15	49	75	61
Total	23	108	147	122

Source: Survey Data

Basis of selecting the sample size

Category and Income Range Wise filing count for current Financial Year **FY 2017-18 (Returns filed up to March 2019**

S.No.	Category	Range1	Range2	Range3	Range4	Range5	Range6	
1	Association Of Persons	1,77,940	4,974	2,824	1,882	934	1,766	
2	Body Of Individuals	5,644	215	102	60	38	59	
3	Company	6,99,180	40,504	40,376	45,528	27,618	54,523	
4	Firm	11,27,002	84,481	57,698	44,618	20,682	18,152	
5	Government	298	2	2	-	-	5	
6	Hindu Un-divided Family	9,74,393	1,48,054	43,174	12,606	2,579	1,344	
7	Artificial Juridical Person	9,362	224	133	98	53	161	
8	Local Authority	3,219	44	38	34	18	81	
9	Individual	4,58,52,470	1,02,69,396	29,66,222	11,16,771	2,05,704	1,02,637	=6,05,13,200
10	Trust	2,59,502	4,478	1,911	1,330	588	1,443	
	Total	**4,91,09,010**	**1,05,52,372**	**31,12,480**	**12,22,927**	**2,58,214**	**1,80,171**	=6,44,35,174

Range1 => Up to ₹5,00,000, Range2 => ₹5,00,001 - ₹10,00,000, Range3 => ₹10,00,001 - ₹20,00,000, Range4 => ₹20,00,001 - ₹50,00,000

Range5 => ₹50,00,001 - ₹1,00,00,000, Range6 => Above ₹1,00,00,000

Source:www.incometaxindiaefiling.com

$$\frac{\text{Total of Individuals taxpayers}}{\text{Total taxpayers}} = \frac{60513200}{64435174} \times 100 = 93.91\%$$

Basis of selecting the sample size

Statistics of 2019 March

State wise filing count for current Financial Year

S.No.	State	Count
1	Andaman And Nicobar Islands (UT)	40,818
2	Andhra Pradesh	22,10,878
3	Arunachal Pradesh	23,065
4	Assam	8,47,417
5	Bihar	17,08,091
6	Chandigarh (UT)	2,72,594
7	Chhattisgarh	10,65,714
8	Dadra & Nagar Haveli (UT)	35,970
9	Daman & Diu (UT)	21,839
10	Delhi (UT)	36,43,349
11	Goa	2,32,948
12	Gujarat	66,04,451
13	Haryana	24,81,249
14	Himachal Pradesh	5,25,045
15	Jammu & Kashmir	4,59,613

X93.91% =218760

Size of population of individual taxpayers for the State of Goa

Source: www.incometaxindiaefiling.gov.in

Sample Size Calculator

This software was used to compute the minimum number of necessary samples to meet the desired statistical constraints.

Result of Sample size calculator: 384

This means 384 or more measurements/surveys are needed to have a confidence level of 95% that the real value is within ±5% of the measured/surveyed value.

Confidence Level:	99.999%	
Margin of Error:	5	
Population Proportion:	50	Use 50% if not sure
Population Size:	218760	Leave blank if unlimited population size.

Statistical Tools

Statistical knowledge helps one to use proper methods to collect the data, employ the correct analysis, and effectively present the results. Various statistical tools are used in analyzing data, for the purpose of this study the following tools were used for representing and analyzing data.

Data Representation

- Tables
- Percentages
- Diagrams

The data was analysed by using the under mentioned techniques

- Chi square test and T-test analysis
- Person Correlation coefficient

Correlation was used to assess the recommendations for improvement in tax planning strategies between employees in the private sector and in the public sector.

Ranking table was used to prioritise tax reforms, investments in physical and financial assets and outflow of liabilities.

1.9 Variables identified for the study

The study was based on the following variables

- Saving habits of assesses
- Investment choices of assesses in financial and physical assets.
- Outflow of liabilities.
- Awareness levels and tax planning strategies
- Tax planning strategies adopted for AY 2018-19.

1.10 Limitations of the Study

Following are the limitations and constraints of the present research.

- The present study is confined to the State of Goa and hence the findings of the present study cannot be generalized for the entire nation.
- The study was entirely about the individual financial planning of the salaried assesses, there may be a possibility of biasness in the responses given by them.

- There were abundant literatures available in the area of financial planning and awareness of investment avenues but there was an absence of studies specifically in the area of awareness of tax knowledge.
- Some of the findings of the study suggest that there may be chance of lack of understanding of some of the concepts by individuals.

1.11 Organization of the study

Chapter one focuses on introduction, review of literature, research gap, statement of the problem, objectives, research hypotheses, research methodology and sample design, variables identified for the study and limitations of the study.

Chapter two is an overview of taxation of income from salaries with respect to AY 2018-19.

Chapter three studies the direct tax reforms introduced during the last 12 years from F.Y. 2005-6 to F.Y. 2017-18 and its impact on the tax liability of the salaried assessees of the State during the period under study.

Chapter four covers the analysis done with respect to saving habits and investment choices of the salaried assessees of the State.

Chapter five reveals the study of awareness level of the employees on tax planning strategies adopted for AY 2018-19 by the respondents under the various income levels and their comparative analysis.

Chapter six studies the impact of Section 5A on salaried individuals in Goa, meaning of the Portuguese Civil Code, introduction of Section 5A in the IT Act 1961, background and evolution, critical analysis and analyses the survey results of salaried individuals having income from sources besides salary.

The final chapter seven gives the summary of results, observations and suggestions based on the study and the scope for future research.

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Chapter II

Overview of Taxation of Income from Salaries

2.1 Concept of salary

Employer-Employee relationship is the foundation for taxing income under the head "Salaries". Any payment made by an employer to an employee for the services rendered by him is chargeable to tax as salary and envisages a "contract of employment". The employer - employee relationship is an essential ingredient of a "contract of employment" as against a "contract for employment".

The distinguishing feature of a "contract of employment" that differentiates it from a "contract for employment" is that the employer has the right to supervise and control the work done by the employee and not only directs what and when the work is to be done, but also how it should be done, and the employee is bound to carry out the said instructions. On the other hand, under a contract for employment, the employer merely directs what is to be done, while the methodology for carrying out the work is left to the discretion of the servant e.g. any fees received by a part-time consultant will not be assessed as salary but will be taxed as income from business or profession, or as income from other sources. The primary components of salary include basic salary, dearness allowances, bonus, perquisites & allowances.

2.2 Basis of charge

As per Section 15 of the Income Tax Act 1961, salary consists of the following

- Any salary due from an employer or a former employer to an assessee in the previous year, whether actually paid or not;
- Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, though not due or before it became due;
- Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

As such salary is taxable in the hands of employee at the first point of incidence i.e., when the salary is payable to him or when he is paid the salary.

2.3 Tax treatment of different forms of salaries

Type of salary	Taxability
Advance salary	Taxable on receipt basis, in the year in which it is received. Relief under section 89 (for salary received in arrears) available.
Arrears of salary	Taxable on receipt basis if the same is not taxed earlier on due basis.
Salary in lieu of notice period	Taxable under section 15
Salary to a partner of Partnership firm	Salary paid to a partner is an appropriation of profits. It is therefore not taxable under the head "Salaries" but is taxable under head "profit and gains of business or profession"
Fees and commission	Taxable as salary irrespective of the fact that they are paid in addition to or in lieu of salary
Salary paid tax free	Taxable amount includes the salary as well as the tax borne by the employer
Salary forgone	Application of salary already due; hence taxable

2.4 Scope of Salary, Perquisites and Profits in Lieu of Salary

[Section 17 of Income Tax Act 1961]

Section 17 provides inclusive definition of 'salary', 'perquisites' and 'profits in lieu of salary'. Hence, the scope of these terms cannot be restricted to and can extend beyond the specific components listed in the definitions.

Salary	Perquisite	Profit in lieu of salary
• Wages • Annuity or pension • Gratuity • Fees, commission, perquisites or profits in lieu of or in addition to any salary or wages • Advance salary • Leave encashment • Employer contributions to Provident Fund and interest in excess of the prescribed limits • Taxable portion of the balance transferred to a	• Rent-free accommodation • Accommodation provided at concessional rates • Benefit or amenity granted free of cost or at concessional rates to specified employees • Obligation of employee met by the employer • Sum payable by the employer to effect an assurance on the life of the employee or to effect a contract for annuity	• Compensation from the employer or former employer at or in connection with termination of employment or modification of the terms and conditions of employment • Any payment from the employer or former employer or from a PF or other fund, to the extent it does not consist of employee's contribution or interest thereon

newly recognized provident fund • Employer's contributions to (NPS)	except through a recognised PF, Approved Superannuation Fund and Deposit Linked Insurance Fund • Securities and Stock Awards • Employers contribution to approved Superannuation Fund exceeding Rs. 1,50,000 • Any other fringe benefit or amenity as prescribed in Rule 3 of the Income Tax Rules, 1962	• Any sum received under a Keyman insurance policy including bonus on such policy • Any amount received in lumpsum or otherwise from any person before joining or after cessation of employment

Perquisites

Perquisites, for the purposes of taxation, are to be valued on the basis of valuation methodology as prescribed in Rule 3 of the Income Tax Rules. It is pertinent to note that the cost of the perquisite to the employer may be different from the taxable value of the perquisite. The taxable value of the perquisite provided by the employer is chargeable to tax whether or not expressly agreed in the contract of employment. A perquisite may be provided to the employee or any member of his household and may be provided before, during or after the employment by virtue of the employer- employee relationship.

Perquisites could include

- Rent free accommodation
- Motor Car
- Domestic Servants
- Gas, Electricity or water supplied by employer
- Education facilities
- Sweat Equity Shares allotted (ESOPs)
- Medical Expenses.
- Interest free loan.
- Use of movable Assets

2.5 Deductions from salaries [Section 16 of Income Tax Act 1961]

Entertainment Allowance [Section 16(ii)]

Entertainment allowance is a taxable allowance and forms a part of the taxable salary. However, Government employees who are in receipt of such an allowance are eligible for a deduction in respect of the entertainment allowance received by them to the extent of the least of the following

- ₹ 5,000/-
- 1/5th of salary excluding allowances or benefits or perquisite
- Actual entertainment allowance received

The actual expenditure incurred for the purposes of entertainment is not relevant to the calculation of the deduction. No such deduction is available to employees other than Government employees.

Tax on employment [Section 16(iii)]

- Certain Indian states levy a tax on employment commonly known as profession tax which is required to be recovered by the employer from the salary paid to the employee and deposited into the treasury. Such tax paid by an employee is allowed as deduction from his salary.
- Deduction is available in the year in which profession tax is actually paid, regardless of which year the profession tax pertains to.
- If profession tax is reimbursed/borne by the employer, then such profession Tax reimbursed/borne by the employer is first included in the taxable income as a perquisite & then allowed as deduction under section 16(iii).
- There is no profession tax in the state of Goa.
- Section 16(i) provided for standard deduction from salary which was reintroduced only in financial year 2018-19.

2.6 Taxability of allowances/exemptions/reimbursement to employees under income from salary (applicable for Assessment Year 2018-19)

Allowances

An allowance is an additional fixed component of salary paid to employee for specific stated purposes. As a general rule, any fixed allowance received by an employee forms part of his taxable salary unless specifically exempted. Section 10(14) read with rule 2BB provides for

exemptions for certain types of allowances. The taxability of various important allowances an employee could receive is summarized in the table below.

Allowances	Taxability/Limits
Allowance granted to Government Employees outside India	Fully Exempt
Uniform Allowance	Exempt from tax, to the extent it is provided to meet actual expenditure on purchase or maintenance of uniform
Academic, research and training allowance	Exempt from tax, to the extent it is actually expended by the employee for the purpose of academic, research and training pursuits in educational and research institutions
Travel allowance	Exempt from tax, to the extent it is actually expended by the employee to meet cost of travel on tour or on transfer.
Conveyance allowance (official duties)	Exempt from tax, to the extent it is actually expended by the employee to meet expenditure incurred on conveyance in performance of duties of an office or employment of profit.
Helper Allowance (For official duties)	Exempt from tax, to the extent it is actually expended to meet the expenditure incurred on a helper.
Children Education allowance	upto 2 children Rs. 100 per month
House Rent Allowance (HRA)	The least of the following is exempt • 40% of salary [50% if house situated at Mumbai, Kolkata, Delhi or Chennai] • HRA actually received in respect of the period during which the accommodation is occupied on rent. • Rent Paid - (Salary x 10%) [Salary = Basic + Dearness Allowance (if provided by the terms of employment) + commission based on fixed % of turnover]
Conveyance allowance (between residence & Office)	₹ 1600 per month (₹ 3,200 per month for blind/handicapped)
Tribal area allowance	₹ 200 per month in specified areas
Compensatory field area allowance	Maximum ₹ 2,600 per month in specified areas
Compensatory modified hill area allowance	Maximum ₹ 1,000 per month in specified areas

Special Compensatory hill area or high altitude	₹ 300 per month to ₹ 7,000 per month in specified areas
Border area, remote area, Difficult/disturbed area allowance	₹ 200 per month to ₹ 1,300 per month for specified areas
High altitude allowances (Non-congenial climate)	₹ 1,060 per month (Altitude for 9,000 ft. to 15,000 ft.), ₹ 1,600 per month (above 15,000 ft.)
Special compensatory for highly active field area allowance to member of armed force	Limit is ₹ 4,200 per month allowance in specified areas
Island allowance to member of armed force	Limit is to ₹ 3,250 per month in specified areas.
Counter Insurgency Allowance	Limit is ₹ 3,900 per month
Leave Travel Allowance (LTA)	Assessee who incurs expenditure for • Travel for assessee and his family (up to 2 children) • On leave to any destination in India Subject to limits prescribed four journey by air, rail and by mode other than rail. Exemption only in 2 out of a block of 4 years (current block: 1st January 2014 to 31st December 2017) with option to claim exemption for 1 journey (out of the 2) in the calendar year immediately following the end of the block.
Dearness allowance	Fully Taxable
Overtime allowance	Fully Taxable
Fixed Medical allowance	Fully Taxable
City Compensatory allowance	Fully Taxable
Interim allowance	Fully Taxable
Servant allowance	Fully Taxable
Project allowance	Fully Taxable
Tiffin/Lunch/Dinner allowance	Fully Taxable
Warden allowance	Fully Taxable
Any other cash allowance	Fully Taxable

2.7 Specific exemptions

Gratuity [Section 10(10)]

Gratuity is exempt only when it is received on - (a) retirement, or (b) becoming incapacitated prior to such retirement; or (c) resignation; or (d) termination of services.

Exemption is also available for gratuity received by the widow, children or dependents of the employee on his death.

Particulars	Amount of exemption
Gratuity received by Government & Local Authority Employees	Fully exempt under section 10(10)(i)
Gratuity in case of employees covered by Payment of Gratuity Act, 1972	Lower of following amount is exempt: a. [15/26] x Salary last drawn x completed years of service or part thereof in excess of 6 months b. Maximum amount 10,00,000 c. Actually received [Salary = Basic Pay + Dearness Allowance]
Gratuity in respect of any other employee	Lower of following amount is exempt: a. 1/2 x average salary x completed years of service (ignore fraction) b. Maximum amount 10,00,000 c. Actually received [Salary = Basic Pay + Dearness Allowance + Commission based on the % of Turnover

Notes

1. Average Salary = Average salary drawn for last 10 months preceding month of retirement.
2. Gratuity received during continuation of service is not exempt under this section.
3. The aggregate exemption allowable to an employee in one or more previous years should not exceed the maximum amount (currently 10 lakh)
4. Completed years of service include period of service under current employer as well as previous employer (if no gratuity has been received from the former employers at that time)

Pension [Section 10(10A)]

Particulars	Government Employee	Non-Government Employee receiving gratuity	Non-Government Employee not receiving gratuity	From approved pension fund of LIC or other Insurer
Uncommuted Pension	Fully Taxable	Fully Taxable	Fully Taxable	Fully Taxable
Commuted Pension	Fully Exempt [section 10(10A) (i)]	1/3rd of full value will be exempt [section 10(10A) (ii)]	1/2 of full value will be exempt [section 10(10A(iii)]	Fully Exempt

Leave salary (encashment): [Section 10(10AA)]

Particulars	Central or State Government Employee	For any other employee
Encashment of leave during service	Fully Taxable. However, relief can be taken under section 89	Fully Taxable. However, relief can be taken under section 89
Encashment of leave during retirement	Fully Exempt	Amount exempt shall be lower of following: • Earned leave in months' x Average Salary; • Average monthly Salary x 10; • Maximum Amount 3,00,000; • Actual amount received
Average monthly salary for this purpose means average salary drawn in last 10 months immediately preceding the retirement. The aggregate exemption allowable to an employee in one or more previous years should not exceed the maximum amount (currently 3 lakh) Salary = Basic Pay + Dearness Allowance (forming part of retirement benefits) + Commission based on the % of turnover		

2.8 Reimbursements of medical expenses

Certain medical expenses borne/reimbursed by the employer are not considered to be a perquisite and are specifically exempted under section 17(1). Such expenses are:

- Cost of medical treatment incurred in hospital maintained by employer or Government or approved hospitals for employee/family of employee.
- Premium paid/borne by the employer in respect of health insurance of employee or a member of his family under a scheme approved by the Central Government or the IRDA;
- Reimbursement of medical expenses incurred by the employee on medical treatment for himself and his family upto 15,000 per annum.
- In case of an employee whose gross total income does not exceed 2 lakhs, any expenditure incurred outside India on the medical treatment of an employee or member of his family including travel and stay abroad for the patient and one attendant, subject to limits prescribed by Reserve Bank of India.

2.9 Set off of interest on housing loan of self-occupied residential unit home

The annual value / rental value of self-occupied residential home upto one house is nil. As such, if any housing loan has been availed for purchase/construction thereof, interest on such loan subject to a maximum Rs 2 lacs pa, is deductible under the head house property. The said loss under house property on account of such interest on housing loan will be reduced from taxable income from salary and other sources. In case of pre-construction period, the interest deduction can be availed in 5 equal installments from acquisition or construction of house property.

2.10 Summary of important deductions from gross taxable income under Chapter VIA available for individuals

Type of Claims	Section	Amount	Remarks	Comments
1. A. Deduction for payments towards • Life Insurance premium (subject to conditions) • Public Provident fund (PPF) • Sukanya Samriddhi Account Scheme • National Savings Certificate • Housing Loan Principal Repayment • Education expenditure for maximum of 2 children • Infrastructure bonds • Specified mutual funds(ELSS) • Notified fixed deposits with schedule Banks for 5 years' term. • Post Office 5 Years Deposit • Senior Citizen Savings Scheme, etc. B. Contribution to annuity plan of LIC or Other approved insurers C. Contribution to National pension scheme upto 10% of salary or 20% of Gross Total Income)	80C, 80CCC & 80CCD (1)	Rs. 150,000/-	Deducted from Gross Total Income	
2. Medical Insurance Premium	80D	Rs.25,000/-	Deducted from Gross Total Income	Rs.30, 000/- for senior citizens
3. Payment for preventive health check up	80D	Rs 5,000/-	~do~	
4.Medical Expenditure	80D	Rs 30,000/-	~do~	For super senior citizens, without health insurance

2.11 Tax rates for financial year 2017-18 for individuals, senior citizens and super senior citizens

Tax Rates (Including Surcharge and Education Cess) for Assessment Year 2018-19	
Income	Rate of Tax (including education cess)
Individuals (Other than covered below) HUF/AOP/BOI	
Upto Rs 2,50,000	Nil
Rs 2,50,001 to Rs 500,000	5.5
Rs 500,001 to Rs 10,00,000	20.60
Rs 10,00,001 and above	30.90
For Resident Senior Citizens above – 60 years but below 80 years of Age	
Upto Rs. 3,00,000	Nil
Rs.3,00, 001 to 500,000	5.15
Rs.500, 001 to 10,00,000	20.60
Rs. 10,00,001and above	30.90
For Resident Senior Citizens (above 80 Years)	
Upto Rs. 5,00,000	Nil
Rs.500, 001 to 10,00,000	20.60
Rs. 10,00,001 and above	30.90

Notes

- There shall be levied a surcharge of 10% of tax on taxable income in excess of Rs.50 lacs upto Rs. 100 lacs and surcharge of 15% of tax on taxable income in excess of Rs. 100 lacs.
- Tax rebate upto Rs. 2,500 or 100% of tax whichever is less available to resident individuals having total income below INR 3.5 lakhs.

2.12 Conclusion

Employer - Employee relationship is fundamental for taxing income under the head 'Salaries'. Salary is taxable on receipt basis or due basis whichever earlier. The various components of salary would include basic salary, dearness allowance, perquisites, allowances etc.

The salary package of an employee after discussions with employer could be structured in a manner to incorporate exemptions, allowances, reimbursements to minimize incidence of tax. For example, employee who is paying rent could have a package which includes house rent allowance in a manner which will reduce his taxable salary income. Further there are certain allowances like conveyance allowance of Rs. 1600 per month for travelling between residence and office which can be availed without proof of expenditure while on the other hand

reimbursement of medical expenditure incurred on medical treatment for employee and his family upto Rs. 15000/- p.a could be availed against production of bills.

The amount of basic salary and dearness allowance in the salary package could also determine the amount of retirement benefits in the nature of provident fund or gratuity that may be received since for computing PF only basic plus DA component of salary is taken into account. Depending upon the age profile and salary received in hand of the employee he or she could decide the quantum of investment to be made for deductions under Section 80C and 80D, since most of the 80C investments like Bank FD or ELSS have lock in period of at least 5 years or more. The same considerations would apply if one is planning on acquiring residential house by availing housing loan which could give deduction of interest on housing loan from salary incomes as well as acquiring an asset in the form of house property on which there is no tax on appreciation.

The employee should plan the investments at the beginning of the financial year depending upon his net cash inflow from salary and submit the proofs of deductions/ exemptions to be availed so as to enable the employer to deduct the correct TDS from salary. The employee has to file his tax return after including salary plus any other income from any other source like interest on bank deposits etc. and after taking credit for taxes paid. It is advisable to file tax return before due date of filing return to avoid interest and penalty for late filing.

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Chapter III

Direct Tax Reforms in the Indian Context

3.1 Introduction to tax reforms

Nation building and direct taxes go hand in hand. And hence it is the duty of every individual to correctly compute his taxable income and pay the applicable taxes on it. However, over the decades there has been a trust deficit between the tax payer and the Government. People perceive taxes to be unfair. The reasons are multifold ranging from misutilisation of collected taxes, high tax rates, complex tax laws etc. Government on the other hand is faced with the need to generate revenues to fund social and infrastructure projects and yet be controlling fiscal deficit.

Over the years Indian Government seems to have ignored the advice Chanakya (author of the ancient Indian political treatise -the Arthashastra) gave regarding taxation; that it should be easy to calculate, convenient to pay, inexpensive to administer and equitable in its burden. Government should collect taxes like a honeybee, which sucks just the right amount of honey from the flower without causing any harm.

Tax reform is the process of changing the way taxes are collected or managed by the government and is usually undertaken to improve tax administration or to provide economic or social benefits.

3.2 Why tax reforms

Patterns of taxation differs from country to country because of economic, cultural, and historical factors. A poorly designed or improperly functioning tax system can lead to the problems which tax reforms seeks to address. The primary issues being the following:

1. Insufficient Revenues: The challenge for a developing country like India is to reduce fiscal deficit and provide adequate social and economic infrastructure. Increasing tax revenue provides is an obvious avenue to address these problems. Since the primary function of a tax system is to generate revenue, an important goal of tax reform must be to ensure that this function is discharged adequately.
2. Distortions that reduce economic welfare and growth: Taxation frequently creates distortions in the economy that reduce the real income of society by more than the

amount of revenue raised by government. The reduction in real income is often referred to as the economic efficiency costs of taxation. Poorly designed and implemented tax systems can also encourage companies and individuals to waste effort on avoiding and evading taxes. As such tax reform is needed to reduce the efficiency costs of taxation.

3. Inequities: The salaried class often bears significant tax burdens. At the same time, many of the better-off pay little in taxes because a large part of non- salary income, self-employment income is excluded by design or by weak administration. As a result, both horizontal equity (treating taxpayers with the same amount of income equally, irrespective of the source of income) and vertical equity (distributing the tax burden among the non-poor in line with their ability to pay) suffer. Lifting the tax burden off the poorest and lower middle-class households and ensuring that actual tax structures become more equitable both horizontally and vertically is a goal of tax reform.
4. Administrative bottlenecks: In India as in most developing countries historically the administration of taxes is weak, and the problems of evasion and corruption are serious. The weakness in tax administration stems from several interacting factors, including complex tax laws and procedures, poor information systems, corruption, and political interference in tax administration. Strengthening tax administration, which will often require simplifying the determination of the tax base is important.

As such the fundamental principle underlying tax reforms should include efficiency, simplicity and equity.

3.3 Objectives of tax reforms

In India, tax reforms could be aimed at achieving the following broad objectives:

a. To broaden the tax base i.e., bringing more people under the tax net so as to divide the burden of tax among larger population thereby reducing per capita tax.
b. To simplify tax laws to International best practices so as to encourage compliance and avoid litigation.
c. To have moderate tax rates which will help increase Government revenues without hurting the tax payer.
d. To direct public savings and investments towards desired avenues by offering tax breaks, deductions and exemptions.

e. To have transparency in tax reform process and proper communication strategy with the tax paying citizen.

When reforming tax systems, Government must try to balance the different goals that tax systems aim to achieve. This implies a need to make difficult tradeoffs. Government will have to balance the efficiency and pro-growth objectives/impact of tax reforms with their distributional objectives/impact, while also taking into account the impact on revenues, tax avoidance and evasion opportunities, and the costs of compliance, administration and enforcement.

3.4 Committees formed by Government for tax reform since financial year 2001-02

The last wave of reforms prior to financial year 2001-02 in personal income taxation was initiated on the basis of the recommendations of the tax reforms Committee (TRC), 1991 chaired by Shri Raja J. Chelliah.

TRC recommended a number of measures to broaden the tax base by minimizing exemptions and concessions, drastically simplifying laws and procedures, building a proper information system and computerizing tax returns, and thoroughly modernizing administrative and enforcement machinery. Under the reforms, there were only three tax brackets, of 20, 30 and 40 percent, starting in 1992–93. Financial assets were excluded from the wealth tax, and the maximum marginal rate was reduced to 1 percent. Further reductions came in 1997–98, when the three rates were brought down further to 10, 20, and 30 percent. Personal income tax rates have remained stable since 1997–98, at 10, 20 and 30 percent. However, later surcharge and cesses were levied to earmark revenues for elementary and higher education.

Post financial year 2001-02

Shome Committee -Tax Administration Reforms Commission: Tax Administrative Reform Committee 2014 chaired by Parthasarthi Shome has comprehensively dealt with the reform of tax administration and emphasized that goal of tax administration is not to maximize revenue but to maximize voluntary compliance and minimize compliance gaps. The Tax Administration Reforms Commission (TARC) (Chairperson: Parthasarathi Shome) submitted its report on May 30, 2014.

Observations: TARC made the following observations:

- The current organizational setup has the Revenue Secretary at the top of the tax administration, above the Central Board of Direct Taxes (CBDT) and the Central Board

of Excise and Customs (CBEC). The revenue secretary is not a tax administration expert, yet he has the final say in terms of tax administration before it reaches the Finance Minister.

- There is an artificial separation between direct and indirect tax administration, and a lack of co-operation between CBDT and CBEC.
- India has one of the highest numbers of disputes between tax administration and taxpayers, with lowest proportion of recovery of tax arrears.
- The selection of CBDT and CBEC members does not consider specialization, policy experience, etc. and is based on seniority.
- There is pressure on tax officers to meet externally imposed revenue targets. In addition, there is a lack of protection for tax officers from the large number of anonymous vigilance complaints.
- There is complete absence of research-based analysis of policy, and lack of impact assessment studies. The benefits of Information and Communication Technology (ICT) systems have not been reaped.

Recommendations: TARC made the following recommendations:

- Consumer Focus:
- There should be a separate vertical for delivery of taxpayer services in each Board. A minimum of 10% of the tax administration's budget must be spent on taxpayer services.
- The decision of the ombudsman with regard to redressing taxpayer grievances should be binding on tax officers.
- Pre-filled tax returns should be provided to all individuals. The taxpayer will have the option of accepting the tax return or modifying it.

Structure and Governance

- CBDT and CBEC should be fully integrated in 10 years. Within the next 5 years, they should move towards a unified management structure under the Central Board of Direct and Indirect Taxes.
- The post of revenue secretary should be abolished and its functions should be assigned to the two boards. A governing council to oversee the working of the two boards, and a tax council to suggest policy and legislation should be set up.

Human resource development

- There should be a focus on specialization, including lateral entry of specialists in the boards. Indian Revenue Service (IRS) officers should specialize in a particular tax administration area.
- The Central Vigilance Commission should have a member who has been an IRS officer. The policy of not taking cognizance of anonymous complaints should be strictly followed.

Dispute resolution and management

- Retrospective legislation should be avoided.
- Both boards should start a special drive for review and liquidation of cases currently clogging the system by setting up dedicated task forces.
- A separate dispute management vertical should be set up in each board. In addition, the process of pre-dispute consultation before issuing a tax demand notice should be put into practice.

Internal Processes**:** The Permanent Account Number (PAN) should be developed as a Common Business Identification Number (CBIN), to be used by other departments such as customs, excise, etc.

Justice R. V. Easwar Committee Report 2016

Efforts have also been made to simplify the Income Tax Act. A ten-member Committee was constituted on 22 October 2015 under the Chairmanship Justice R.V. Easwar (Retired) to study and identify the provisions of phrases in the Act that are leading to litigations due to different interpretations, impacting the ease of doing business, and those that can be simplified.

The Committee made the following significant recommendations:

- Tax refunds to be made faster.
- Deduction from taxable income slab revision.
- Stock market gains up to 5 lacs will be treated as capital gains. These stock market gains are exempt from business income encouraging more retail investments in the stock market.
- Tax payer friendly reforms introduced to align with ease of doing business.
- Simplification in TDS. TDS rates reduced from 10% to 5% for individuals.

- Income tax department transactions to be made in an electronic manner and human interface to be minimized to the core.
- Presumptive scheme for business increased from 1 crore to 2 crores.

3.5 Tax reforms initiated by Government

The significant tax reforms introduced since 2014 based on the recommendations of the above committees include the following:

- Black money & imposition of tax Act 2015 which targeted undisclosed foreign income and assets.
- Income disclosure scheme (IDS) 2016 targeted at undisclosed domestic black money in the form of income or assets.
- Removing high denomination currency notes- Demonetisation of INR 500 and INR 1000 notes on 8th November 2016 representing 86% of the total value of notes in circulation. There was short term costs and private consumption suffered but the shift towards a less cash economy and formalization should however improve the financing of the economy and availability of loans (as a result of the shift from cash to bank deposits) and should promote tax compliance.
- Pradhan Mantri Garib Kalyan Yojana 2016 (PMGKY) targeted at undisclosed cash deposits post demonetisation.
- Agreements with many countries including Switzerland to share bank/financial information.
- Benami Transactions (prohibition) amended Act 2016 w.r.t. properties purchased in the name of others, often used as a mode to route black money earned through corruption. The act gives authorities more teeth to attach and dispose of benami properties.
- The Goods and Service Tax (GST) Act w.e.f. from 1st July, 2017. GST replaced various taxes on goods and services levied by the central government and states by a single tax on value added. It thus reduced tax cascading, facilitate a common national market, encourage voluntary tax compliance, reduced tax collection costs, encouraged investment and improve competitiveness. All taxpayer services, such as registration, returns and payments were made online, which after the initial teething problems has made compliance easy and transparent. A four-rate structure is in place: 6% on

essential items; two standard rates at 12% and 18%; and a higher rate of 26% on luxury goods. A tax over and above 28% is imposed on some luxury, sin and demerit goods (including sodas, tobacco and luxury cars). There are about 100 items exempted (mainly food). petroleum products, alcohol, electricity and real estate are excluded.

GST has ensured trail of all transactions in the supply chain including the details of the manufacturers, distributors, traders and service providers. Introduction of tax withholding provisions (GST/ TDS), E way bill which tracks all transportation, reverse charge mechanism will also enable the Income tax department to identify the tax base that escapes taxation. Further it will help the Income tax department to ascertain profit margins/value adds at each point of supply whether at manufacturers end, distributors end or retailers end.

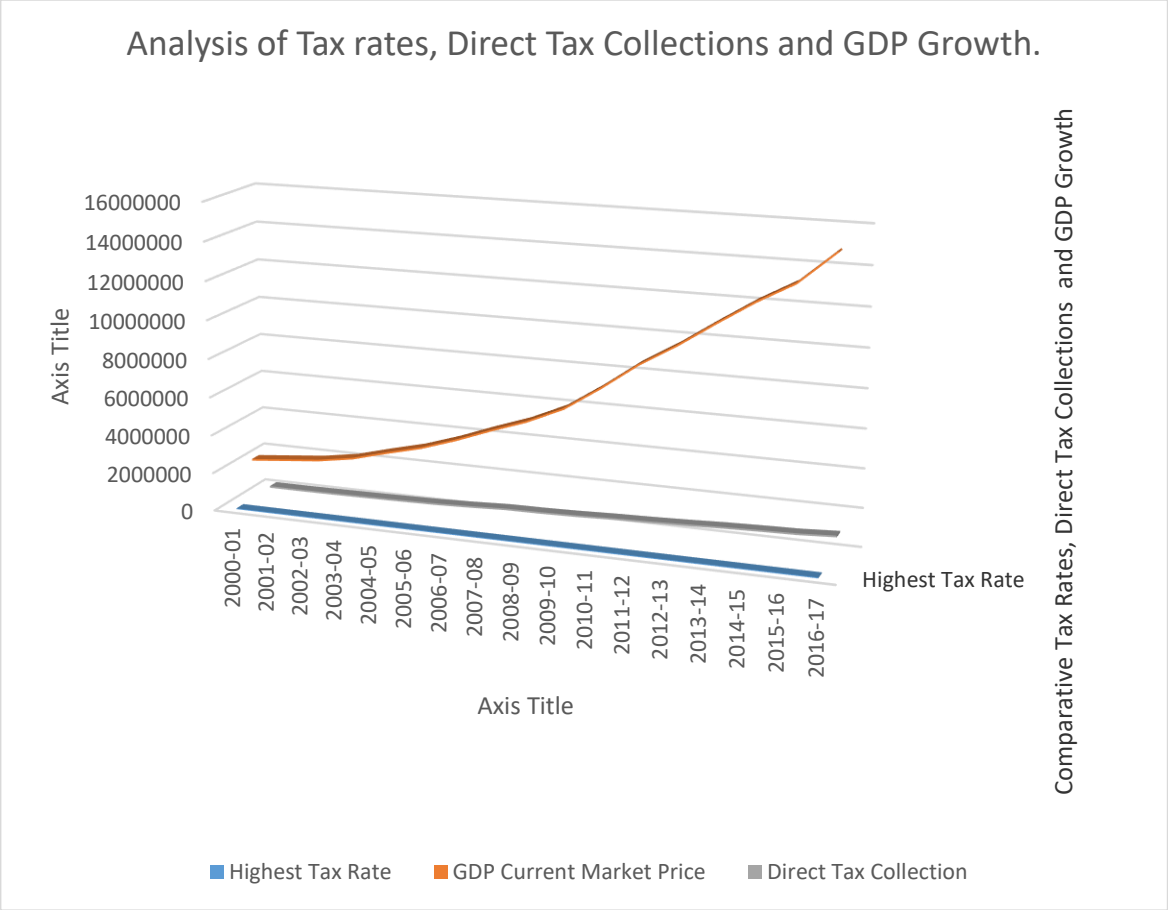
- Amendments in the Income Tax Act and processes directly effecting personal income tax
- Simplification of Income tax forms for filing tax returns.
- All tax returns to be filed electronically.
- Quoting of PAN is made compulsory for wide variety of high value transactions. This in turn gets captured in the Specified Financial Transactions (SFT) report which has to be filed by specified entities. Such specified transactions include high value cash deposits/withdrawals from banks, transactions for purchase/sale of property, transaction for investments in shares/mutual funds, transactions of high value expenditure like credit cards, hotels etc., transactions of loans/deposits etc.
- Progressive income tax structure with a cut in the lowest personal income tax rate from 10 percent to 5 percent and a surcharge for high income earners. Rebate for annual gross income up to INR 500,000 whereby effective tax is nil.
- Electronic processing of tax returns and direct credits of tax refunds to the tax payers bank account.
- Another Important reform in recent year in tax administrative measures taken to expand the tax base includes that every individual living in a large city and covered under any one of the six conditions (ownership of house, ownership of a car, membership in a club, ownership of credit cards, foreign travel, and a subscriber of a telephone connection) is necessarily required to file a tax return. Another initiative is the expansion in the scope of deducting the tax at source beyond salary incomes to

most of the transactions including interest and dividend receipts and payments to contractors

3.6 Personal Income Tax

Tax-GDP ratio is an indicator of fiscal performance. The higher the ratio, the better is the tax collection, higher the tax revenue. If we compare the Personal Income Tax-GDP ratio of India with other countries, India ranks very low.

Fig 3.1 Analysis of tax rates, direct tax collections and GDP growth



Source: Author's Compilation

Fig. 3.1 above depicts the trend analysis of tax rates, direct tax collections and GDP growth. The correlation of the top tax rate and GDP growth shows that the top tax rates for the last seventeen years have remained constant at 30%. However, the GDP has shown a continuous increasing trend. Hence the concept that cut in tax rates spur economic growth is valid. In other words, the disposable surplus with the people have increased which in turn results in increase in demand and consequently increase in GDP. However, the direct tax collections have not increased proportionately as increase in GDP as seen from the table which show that the

buoyancy factor has diminished from 2008-09 which concludes that the compliance with tax laws may not have taken place, there could be a possible tax evasion and there is need to widen the tax base.

Trend of tax rates for individual tax payers for the period under review, the direct tax GDP ratio, growth rate in GDP and the tax growth rate for the period under study is presented in Table 3.1.

Table 3.1: Direct tax collection (Rs. In crore)

Financial Year	Corpor-ate Tax	Personal Income Tax@	Other Direct Tax	Total Direct Taxes	GDP Current Market Price	Direct Tax GDP Ratio	GDP Growth Rate	Tax Growth Rate	Buoyancy Factor
2000-01	35696	31764	845	68305	2102376	3.25%	7.70%	17.85%	2.32
2001-02	36609	32004	585	69198	2281058	3.03%	8.50%	1.31%	0.15
2002-03	46172	36866	50	83088	2458084	3.38%	7.76%	20.07%	2.59
2003-04	63562	41386	140	105088	2754621	3.81%	12.06%	26.48%	2.19
2004-05	82680	49268	823	132771	3242209	4.10%	17.70%	26.34%	1.49
2005-06	101277	63689	250	165216	3693369	4.47%	13.92%	24.44%	1.76
2006-07	144318	85623	240	230181	4294706	5.36%	16.28%	39.32%	2.42
2007-08	193561	120429	340	314330	4987090	6.30%	16.12%	35.56%	2.27
2008-09	213395	120034	389	333818	5630063	5.93%	12.89%	6.20%	0.48
2009-10	244725	132833	505	378063	6457352	5.85%	14.69%	13.25%	0.9
2010-11	298688	146258	1049	445995	7674148	5.81%	18.84%	17.97%	0.95
2011-12	322816	170181	990	493987	9009722	5.48%	17.4%	10.76%	0.62
2012-13	356326	201840	823	558989	10113281	5.53%	12.25%	13.16%	1.07
2013-14	394678	242888	1030	638596	11355073	5.62%	12.28%	14.24%	1.16
2014-15	428925	265772	1095	695792	12541208	5.55%	10.45%	8.96%	0.86
2015-16	453228	287637	1079	741945	13567192	5.47%	8.25%	6.63%	0.80
2016-17	484924	349503	15286	849713	15253714	5.57%	12.43%	14.53%	1.17
2017-18*	571202	419998	11541 #	1002741	16773145 @	5.98%	9.96%	18.03%	1.81

Source: Union Finance Accounts of respective years and reports of C&AG
* Provisional/Unaudited
@ Figures under Personal Income Tax include collections of Securities Transaction Tax.
# Collection under Other Taxes in FY 2016-17 includes collection under IDS -2016 and PMGKY 2016

The analysis of the above table shows that there is a continuous growth in direct taxes collected by the Government. The Direct Tax- GDP ratio indicates the ratio between direct tax collection in the country to the gross domestic product of a country. The Direct Tax-GDP ratio shows a continuous growth from F.Y 2000 to F.Y 2008 and then a declining trend from F.Y 2009 onwards due to economic slowdown and recession. The growth rate of direct taxes is mainly due to reduction in tax rates, widening the tax base etc. Reduction in tax rate is a concept of marginal pricing. It is an incentive given to declare true and fair undisclosed income at a reduced tax rate for an existing tax payer or a person declaring income for the first time. The tax rates of first slab i.e., income from Rs. 2,50,000/- to 5,00,000/- is reduced from 10% to 5%. Hence the tax rate is reduced for first slab marginally and the tax rates for second and third slab is kept the same. Some of the reasons for India's low tax –to-GDP ratio could be.

Tax compliance in India is extremely low.

Low average income and a high poverty rate result in a very small portion of people to pay personal income tax.

a) India has a high number of disputes between tax administration and tax payers with lowest proportion of recovery of tax rates.
b) The exemptions in the taxable income have grown at a much faster rate than the income. As a result, there is less tax buoyancy.

Tax buoyancy is the relative growth of direct taxes to growth in GDP. It is measured by the ratio of percentage change in tax revenues to percentage change in GDP. It is the push in the tax collections as compared to the push in GDP. Tax buoyancy is an indicator to measure efficiency and responsiveness of revenue mobilization in response to growth in the gross domestic product or rational income. A tax is said to be buoyant if the tax revenue increases more than proportionately in response to a rise in national income or output. In the above table tax buoyancy elucidates the growth of tax collections, changes in tax legislations and efficiency of tax administration. Tax buoyancy of less than one indicates that the rate of growth of tax collection has fallen below the rate of GDP. The declining trend of tax buoyancy in the above table implies that the growth in revenue from direct taxes is at a lower rate than the growth in GDP during this period.

The personal income tax collection as a % of GDP is presented in Table 3.2

Table 3.2: Personal income tax collection

Financial Year	Personal Income Tax	GDP Current Market Price	Personal Tax GDP Ratio
2000-01	31764	2102376	1.51%
2001-02	32004	2281058	1.40%
2002-03	36866	2458084	1.50%
2003-04	41386	2754621	1.50%
2004-05	49268	3242209	1.52%
2005-06	63689	3693369	1.72%
2006-07	85623	4294706	1.99%
2007-08	120429	4987090	2.41%
2008-09	120034	5630063	2.13%
2009-10	132833	6457352	2.06%
2010-11	146258	7674148	1.91%
2011-12	170181	9009722	1.89%
2012-13	201840	10113281	2.00%
2013-14	242888	11355073	2.14%
2014-15	265772	12541208	2.12%
2015-16	287637	13567192	2.12%
2016-17	349503	15253714	2.29%
2017-18	419998	16773143	2.50%

Source: Author's Compilation

The table analyses the growth in the personal income tax collection to GDP for the period under review. An analysis of the personal tax –GDP ratio shows that although it shows an increasing trend, it is still much below the average of OECD countries which is at 8.42% (OECD data 2014). When tax revenues grow at a slower rate than the GDP of a Country, the tax to GDP ratio drops, when tax revenue grows faster than GDP, the ratio increases. Tax and GDP are related, since a higher GDP will automatically lead to a higher tax collection. It can be improved further by widening tax base, improving compliance rate of tax laws, fast tracking of disputes etc.

In India, Personal income tax revenue is low and its redistributive impact is limited. As in many emerging economies, the low level of income of most people and a large informal sector pose challenges to raising revenue from this source. Some countries, in particular South Africa, have however been more successful in engaging their population in the tax system. In India, only 53 million individuals paid personal income tax in 2014/15, i.e., about 5.6% of the population, reflecting the very large zero rate tax bracket and the exemption for agricultural income. An individual starts paying taxes when its income reaches 2½ times the average worker income in the organized sector. The personal income tax (PIT) could raise more revenue and better contribute to horizontal and vertical equity. First, efforts to promote tax compliance and improve the ease of paying taxes should be strengthened. Tax compliance could be incentivized, e.g., by securing access to services (such as life insurance) to those filing a tax return for the first time. Second, agricultural income of rich farmers should be brought under the PIT ambit so to promote vertical equity and avoid tax evasion with non-agricultural re-categorized as agricultural income. The political economy of removing this exemption is however challenging. Tax concessions also raise uncertainty for investors, as tax law is often unclear and results in tax disputes. The number of tax disputes is large and about 40% of them go through the court system, resulting in delays and further uncertainty. Tax arrears worth INR 5,80,326 crores in 2012-13 increased to INR 6,74,916 crores in 2013-14.

The study was undertaken for a period of 12 years from FY 2005-06 to FY 2017-18, the tables below highlight the personal income tax reforms in respect of income slabs, tax rates, exemption limits, surcharge and education cess, exemptions under Section 10of IT Act 1961, deductions under Chapter VIA, and other amendments as applicable to individual tax payers.

Table 3.3: Slab rates for individual tax payers

Assessment Year	Basic exemption limit	10% income tax rate	20% income tax rate	30% income tax rate	Surcharge	Education Cess
2005-2006	50,000	50,000 to 60,000	60,000 to 1,50,000	Above 1,50,000	10% of tax where total income exceeds Rs. 8.50 lakh	2% on tax plus surcharge
2006-2007	1,00,000	1,00,000 to 1,50,000	1,50,000 to 2,50,000	above 2,50,000	10% of tax where total income exceeds Rs. 10 lakhs	2% on tax plus surcharge
2007-2008	1,00,000	1,00,000 to 1,50,000	1,50,000 to 2,50,000	above 2,50,000	10% of tax where total income exceeds Rs. 10 lakhs	3% on tax plus surcharge
2008-2009	1,10,000	1,10,000 to 1,50,000	1,50,000 to 2,50,000	above 2,50,000	10% of tax where total income exceeds Rs. 10 lakhs	3% on tax plus surcharge
2009-2010	1,50,000	1,50,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	10% of tax where total income exceeds Rs. 10 lakhs	3% on tax plus surcharge
2010-2011	1,60,000	1,60,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	-	3% on tax
2011-2012	1,60,000	1,60,000 to 5,00,000	5,00,000 to 8,00,000	above 8,00,000	-	3% on tax
2012-2013	1,80,000	1,80,000 to 5,00,000	5,00,000 to 8,00,000	above 8,00,000	-	3% on tax
2013-2014	2,00,000	2,00,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	-	3% on tax
2014-2015	2,00,000	2,00,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	10% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge
2015-2016	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	10% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge
2016-2017	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	12% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge
2017-2018	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	15% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge

Source: Author's Compilation

Table 3.4: Slab rates for resident women tax payers

Assessment Year	Basic exemption limit	10% income tax rate	20% income tax rate	30% income tax rate	**Surcharge**	**Education Cess**
2005-2006	50,000	50,000 to 60,000	60,000 to 1,50,000	Above 1,50,000	10% of tax where total income exceeds Rs. 8.50 lakh	2% on tax plus surcharge
2006-2007	1,35,000	1,35,000 to 1,50,000	1,50,000 to 2,50,000	above 2,50,000	10% of tax where total income exceeds Rs. 10 lakhs	2% on tax plus surcharge
2007-2008	1,35,000	1,35,000 to 1,50,000	1,50,000 to 2,50,000	above 2,50,000	10% of tax where total income exceeds Rs. 10 lakhs	3% on tax plus surcharge
2008-2009	1,45,000	1,45,000 to 1,50,000	1,50,000 to 2,50,000	above 2,50,000	10% of tax where total income exceeds Rs. 10 lakhs	3% on tax plus surcharge
2009-2010	1,80,000	1,80,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	10% of tax where total income exceeds Rs. 10 lakhs	3% on tax plus surcharge
2010-2011	1,90,000	1,90,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	-	3% on tax
2011-2012	1,90,000	1,90,000 to 5,00,000	5,00,000 to 8,00,000	above 8,00,000	-	3% on tax
2012-2013	1,90,000	1,90,000 to 5,00,000	5,00,000 to 8,00,000	above 8,00,000	-	3% on tax
2013-2014	2,00,000	2,00,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	-	3% on tax
2014-2015	2,00,000	2,00,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	10% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge
2015-2016	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	10% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge

2016-2017	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	12% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge
2017-2018	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	15% of tax where total income exceeds Rs. 1 cr.	3% on tax plus surcharge

Source: Author's Compilation

Table 3.5: Slab rates for resident senior citizen tax payers (65 years and above) till AY 2011-12, 60 years and above from AY 2012-13 onwards.

Assessment Year	Basic exemption limit	10% income tax rate	20% income tax rate	30% income tax rate	Surcharge on Income tax	Education Cess on Income tax (including surcharge
2005-2006	50,000	50,000 to 60,000	60,000 to 1,50,000	Above 1,50,000	10% if taxable income exceeds Rs. 8.50 lakh	2%
2006-2007	1,85,000	-	1,85,000 to 2,50,000	above 2,50,000	10% if taxable income exceeds Rs. 10 lakhs	2%
2007-2008	1,85,000	-	1,85,000 to 2,50,000	above 2,50,000	10%if taxable income exceeds Rs. 10 lakhs	3%
2008-2009	1,95,000	-	1,95,000 to 2,50,000	above 2,50,000	10% if taxable income exceeds Rs. 10 lakhs	3%
2009-2010	2,25,000	2,25,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	10% if taxable income exceeds Rs. 10 lakhs	3%
2010-2011	2,40,000	2,40,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	-	3%
2011-2012	2,40,000	2,40,000 to 5,00,000	5,00,000 to 8,00,000	above 8,00,000	-	3%
2012-2013	2,50,000	2,50,000 to 5,00,000	5,00,000 to 8,00,000	above 8,00,000	-	3%
2013-2014	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	-	3%

2014-2015	2,50,000	2,50,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	10% if taxable income exceeds Rs. 1 cr.	3%
2015-2016	3,00,000	3,00,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	10% if taxable income exceeds Rs. 1 cr.	3%
2016-2017	3,00,000	3,00,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	12% if taxable income exceeds Rs. 1 cr.	3%
2017-2018	3,00,000	3,00,000 to 5,00,000	5,00,000 to 10,00,000	above 10,00,000	15% if taxable income exceeds Rs. 1 cr.	3%

Source: Author's Compilation

Table 3.6: Slab rates for resident super senior citizen tax payers (introduced from AY 2012-13 onwards)

Assessment Year	Basic exemption limit	10% income tax rate	20% income tax rate	30% income tax rate	Surcharge on income tax	Education Cess on income tax (including surcharge)
2005-2006	50,000	50,000 to 60,000	60,000 to 1,50,000	Above 1,50,000	10% if taxable income exceeds Rs. 8.50 lakh	2%
2006-2007	1,85,000	-	1,85,000 to 2,50,000	above 2,50,000	10% if taxable income exceeds Rs. 10 lakhs	2%
2007-2008	1,85,000	-	1,85,000 to 2,50,000	above 2,50,000	10% if taxable income exceeds Rs. 10 lakhs	3%
2008-2009	1,95,000	-	1,95,000 to 2,50,000	above 2,50,000	10% if taxable income exceeds Rs. 10 lakhs	3%
2009-2010	2,25,000	2,25,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	10% if taxable income exceeds Rs. 10 lakhs	3%

2010-2011	2,40,000	2,40,000 to 3,00,000	3,00,000 to 5,00,000	above 5,00,000	-	3%
2011-2012	2,40,000	2,40,000 to 5,00,000	5,00,000 to 8,00,000	above 8,00,000	-	3%
2012-2013	5,00,000	-	5,00,000 to 8,00,000	above 8,00,000	-	3%
2013-2014	5,00,000	-	5,00,000 to 10,00,000	above 10,00,000	-	3%
2014-2015	5,00,000	-	5,00,000 to 10,00,000	above 10,00,000	10% if taxable income exceeds Rs. 1 cr.	3%
2015-2016	5,00,000	-	5,00,000 to 10,00,000	above 10,00,000	10% if taxable income exceeds Rs. 1 cr.	3%
2016-2017	5,00,000	-	5,00,000 to 10,00,000	above 10,00,000	12% if taxable income exceeds Rs. 1 cr.	3%
2017-2018	5,00,000	-	5,00,000 to 10,00,000	above 10,00,000	15% if taxable income exceeds Rs. 1 cr.	3%

Source: Author's Compilation

Table 3.7: New relevant exemptions applicable to Individual tax payers

Assessment Year	Section	New/amendment	Particular
2005-2006	10(37)	New section	Gain from transfer of Urban Agricultural land by way of compulsory acquisition
	10(38)	New section	Long term Capital gains arising from transfer of listed equity shares/equity oriented mutual fund units on which STT has been paid
2006-2007	-	-	-
2007-2008	-	-	-
2008-2009	10(10BC)	New section	Disaster/ calamity compensation received from Government
	10(15)	Amendment	Interest on bonds issued by a local authority

			or by a State Pooled Finance Entity
2009-2010	10(26AAA)	New section	In case of an individual, being a Sikkimese, any income which accrues or arises to him from any source in the State of Sikkim; or by way of dividend or interest on securities:
	10(43)	New section	Any amount received as a loan, either in lump sum or in instalment, in a transaction of reverse mortgage.
2010-2011	10(44)	New section	Pension received from Pension Trust setup under Trust Act 1882.
2011-2012	-	-	-
2012-2013	10(45)	New section	any allowance or perquisite, as may be notified by the Central Government in the Official Gazette in this behalf, paid to the Chairman or a retired Chairman or any other member or retired member of the Union Public Service Commission
2013-2014	10(10D)	Amendment	For any sum received under an insurance policy to be exempt, percentage of premium payable to actual capital sum assured has been reduced from 20% to 10% for polices issued after 01/04/2012.
2014-2015	10(34A)	New section	any income arising to an assessee, being a shareholder, on account of buy back of shares (not being listed on a recognised stock exchange) by the company as referred to in section 115QA
	10(35A)	New section	any income by way of distributed income referred to in section 115TA received from a securitization trust by any person being an investor of the said trust
2016-2017	10(11A)	New section	any payment from an account, opened in accordance with the Sukanya Samriddhi Account Rules, 2014
2017-2018	10(12A)	New section	Upto 40% amount withdrawn from Pension Scheme u/s 80CCD by an employee on closing /opting out of scheme.
	10(15)	Amendment	Interest from deposit certificates issued under the Gold Monetization Scheme, 2015
2018-2019	10(12B)	New section	Upto 25% amount withdrawn from Pension Scheme u/s 80CCD by an employee who makes partial withdraw from scheme.

Source: Author's Compilation

Table 3.8: New/amendment in deductions applicable to individual tax payers

Assessment Year	Section	New/ amendment	Particular	Amount of deduction
2005-2006	80CCD	New section	Investment made by Central Government employee in its pension scheme	Contribution as does not exceed ten per cent of his salary in the previous year.
2006-2007	80C	New section	Deduction in respect of life insurance premium, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc.	Whole of the amount paid or deposited in the previous year, being the aggregate of the sums, as does not exceed one lakh rupees.
	80E	New section	Interest on higher education loan taken from financial institution.	Amount of Interest on loan
	80L	Omitted	Deductions in respect of interest on certain securities, dividends	
2007-2008	80C	Amendment	Besides deduction for other 80C investment, bank fixed deposit for minimum period of 5 years with scheduled bank.	whole of the amount paid or deposited in the previous year, being the aggregate of the sums, as does not exceed one lakh rupees
	80CCC	Amendment	Investment in pension funds	Deduction increased from Rs.10,000 to Rs.1,00,000
2008-2009	80C	Amendment	Along with deduction for other 80C investment, new investment as subscription to such bonds issued by the National Bank for Agriculture and Rural Development, as the Central Government may, by notification in the Official Gazette, specify in this behalf clause is inserted	Whole of the amount paid or deposited in the previous year, being the aggregate of the sums, as does not exceed one lakh rupees.

	80CCD	Amendment	Deduction is not restricted to employee of Central Government. With the amendment it is applicable to all employees	The whole of the amount so paid or deposited as does not exceed ten per cent of his salary in the previous year.
	80D	Amendment	Deduction amount has been revised. Deduction in respect of medical insurance premium from existing Rs.10,000/- has been revised to Rs.15,000/- and for Senior Citizen from existing Rs.15,000/- has been revised to Rs.20,000	The whole of the amount so paid or Rs.15,000 (Rs.20,000 in case of senior citizen) whichever is less
2009-2010	80C	Amendment	Besides deduction for other 80C investment, new investment as minimum 5-year deposit in postal office account under the Senior Citizens Savings Scheme Rules, 2004.	Whole of the amount paid or deposited in the previous year, being the aggregate of the sums, as does not exceed one lakh rupees
	80D	Amendment	Additional amount of deduction for payment of medical insurance of parents is inserted	The whole of the amount so paid or Rs.15,000 (Rs.20,000 in case of senior citizen) whichever is less
2010-2011	80CCD	Amendment	Deduction is not restricted to salaried employees. With the amendment, it is applicable to all individual.	The whole of the amount so paid or deposited as does not exceed in the case of an employee, ten per cent of his salary in the previous year; and in any other case, ten per cent of his gross total income in the previous year

	80DD	Amendment	Deduction limit for person with severe disability is increased from Rs.75,000 to Rs.1,00,000	For person with disability Rs.50,000 & For person with severe disability Rs.1,00,000
	80U	Amendment	Deduction limit for person with severe disability is increased from Rs.75,000 to Rs.1,00,000	For person with disability Rs.50,000 & For person with severe disability Rs.1,00,000
2011-2012	80CCF	New section	Deduction in respect of subscription to long-term infrastructure bonds	the whole of the amount, to the extent such amount does not exceed twenty thousand rupees
2012-2013	-	-	-	-
2013-2014	80CCG	New section	Deduction in respect of investment made under an equity savings scheme	Fifty per cent of the amount invested in such equity shares to the extent such deduction does not exceed twenty-five thousand rupees
	80D	Amendment	Deduction in respect of preventive health checkup upto Rs.5,000 be allowed within the exiting limits	The whole of the amount so paid or Rs.15,000 (Rs.20,000 in case of senior citizen) whichever is less
	80G	Amendment	If mode of payment of eligible donation for Rs. 10000 or more is in cash, same will be disallowed	
	80TTA	New section	Savings account interest from banks, post office, Cooperative Society	in a case where the amount of such income does not exceed in the aggregate ten thousand rupees,

				the whole of such amount; and in any other case, ten thousand rupees
2014-2015	80EE	New section	Additional interest on housing loan for affordable housing subject to conditions	Shall not exceed one lakh rupees
2015-2016	80C	Amendment	Deduction limit is revised from Rs.1 lakh to Rs.1.50 lakhs	Whole of the amount paid or deposited in the previous year, being the aggregate of the sums, as does not exceed one lakh fifty thousand rupees.
2016-2017	80CCD	Amendment	Additional deduction in respect of contribution to National Pension Scheme of Rs.50,000 in sub section 1(B)	Whole of the amount paid or deposited in the previous year in his account under a pension scheme notified or as may be notified by the Central Government, which shall not exceed fifty thousand rupees:
	80D	Amendment	Deduction amount has been revised. Deduction in respect of medical insurance premium from existing Rs.15,000/- has been revised to Rs.25,000/- and for Senior Citizen from existing Rs.20,000/- has been revised to Rs.30,000	The whole of the amount so paid or Rs.25,000 (Rs.30,000 in case of senior citizen) whichever is less
	80DD	Amendment	Deduction limit for person with disability is increased from Rs.50,000 to Rs.75,000 and with severe disability is increased from Rs1,00,000 to Rs.1,25,000	For person with disability Rs.75,000 & For person with severe disability Rs.1,25,000

	80DDB	Amendment	Deduction limit for very senior citizen has been increased from Rs.40,000 to Rs.80,000	Very senior citizen Rs.80,000/- & others Rs.40,000
	80U	Amendment	Deduction limit for person with disability is increased from Rs.50,000 to Rs.75,000 and with severe disability is increased from Rs1,00,000 to Rs.1,25,000	For person with disability Rs.75,000 & For person with severe disability Rs.1,25,000
2017-2018	80EE	Substitution	Deduction in respect of interest on loan taken for residential house property subject to stated conditions	Shall not exceed fifty thousand rupees

Source: Author's Compilation

Table 3.9: Other amendments applicable to individual tax payers

Assessment Year	Section	New/amendment	Particular
2005-2006	88E	New section	Deduction on STT from income from business of transacting in shares
2006-2007	80CCE	New section	Limit on total cumulative deductions under sections 80C, 80CCC and 80CCD Rs. 1 lac
	88	Omitted	Section for Rebate on life insurance premia, contribution to provident fund, etc. was omitted as deduction section u/s 80C is introduced.
	88B/88C/88D	Omitted	Section for Rebate on income tax based on age & gender was omitted as different tax slabs for women & senior citizen is introduced
2007-2008	-	-	-
2008-2009	-	-	-
2009-2010	88E	Omitted	
2010-2011	-	-	-
2011-2012	-	-	-
2012-2013	-	-	-
2013-2014	-	-	-
2014-2015	87A	New section	Rebate of income-tax in case of certain individuals. Relief from tax of 100% or Rs 2000/- whichever is less for Resident Individual whose income is less than Rs. 5 lacs
2015-2016	24	Amendment	Interest on housing loan for self-occupied house property limit is revised from

			Rs.1.50 lakhs to Rs.2 lakhs
	80CCE	Amendment	Total cumulative limit on deductions under sections 80C, 80CCC and 80CCD Rs. 1.50 lacs
2016-2017	-	-	-
2017-2018	87A	Amendment	Rebate amount is revised from Rs.2,000 to Rs.5,000
2018-2019	87A	Amendment	Rebate amount is revised from Rs.5,000 to Rs.2,500 whereas the total income limit is reduced from Rs.5 lakhs to Rs.3.50 lakhs

Source: Author's Compilation

3.7 Conclusion

Widening the tax base raises equity, because if all persons liable to pay tax are brought on tax records, the burden on existing taxpayers can be brought down. The overall level of compliance improves when a large number of persons who are legally required to file returns, do so. It also encourages others to comply with their legal obligation to pay their taxes dutifully. The focus has to be on bringing in new taxpayers, rather than putting a heavier burden on payers who are already in the tax net by targeting sectors that are currently untaxed, especially the informal/unorganized sectors. There also has to be a comprehensive review of exemptions, incentives, etc., with a view to rationalizing them, which may require legislative changes. Attention has also to be given to minimization of tax avoidance/evasion by developing a better understanding of the underground economy, both in terms of its size and the economic and behavioral factors that motivate players in the economy, identifying vulnerable areas of tax evasion, and coordination and collaboration with sister departments for exchange of information on a real time basis and its effective utilization. Without impinging upon good taxpayers, tax avoidance needs to be examined very carefully in those identified areas and non-filers and stop-filers need to be targeted to widen the tax base. The tax administration needs to be oriented more towards customers for improving voluntary compliance. This could go a long way in expanding the taxpayer base.

Based on international best practices, other economies have increased their tax to GDP ratio by simplifying tax structures and improving tax administration and not by increasing rates, realizing that voluntary compliance holds the key. On the lines of such trends in developed as well as developing countries, tax rates have been reduced in India both in the case of personal income tax as well as tax on corporations. The existing rates of the former are competitive and are on par with or lower than that of other nations. If tax preferences, which lead to significant revenue loss and economic distortions, are eliminated, then effective tax rates would rise

appropriately. Taxes are vital resources whose maximization and mobilization is of importance to governments to finance, among others, the development needs of the poor and under-privileged sections of society and important sectors of the economy. This is possible through the expansion of the tax base and taxpayer base. While tax administrations have adopted various ways to expand their tax base, the reform relating to tax administration to professionalize the administration and make it taxpayer friendly also needs to be pursued with vigor to improve the administrative efficiency and compliance.

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Chapter IV

Saving Habits and Investment Choices

4.1 Importance of Savings

The importance of saving money is simple. It allows an individual to enjoy greater security in life. It is one of the essential aspects of building wealth and having a secure financial future. There are many things to consider when saving for the future. The most fundamental factors are to save early and save more, starting to save early puts time on your side and keeps more funds in hand. Along with how much and how often you save, what you earn on your funds determines how fast your money grows. While the exact amount that one needs to save may vary as per existing income and financial goals, a simple thumb rule is to save one's age i.e., if you are 25, save 25% of your income. Also, as income increases over the years, one has to save a higher percent of one's income as one gets older. The habit of savings is a great teacher in itself. It teaches virtues like self-restraint, discipline and foresight as saving for future goals involves a trade off in itself since you forego spending and buying things today in order to be financially secure in the future. Learning to save is a prerequisite for wealth creation as one can invest and create wealth only if one is able to save.

The biggest benefit of earning monthly salary is that you can avoid the volatility associated with an unsteady income. Another advantage of a monthly salary is that the tax liability to the government gets deducted at source. All the income earned by salaried employees is subject to taxation. First because the tax is deducted at source it does not mean that the salaried employee need not do any tax planning. As a salaried individual one can easily minimize one's overall tax liability. There are various income tax savings option that are available to salaried employees and deeper knowledge about them will help individuals save tax.

4.2 Relationship between income, savings and investment

Savings and investing are often used interchangeably, while savings is setting aside money, investing is buying assets. Higher savings can help finance higher level of investments and boost productivity in the long run. Investment does not depend significantly upon the level of income, but also on dynamic factors like age, education, employment and gender. Varying levels of income cannot be sustained in any economy unless the amount of savings at these levels of income is offset by an equivalent amount of investments. Investment is always comprehended as a wise decision as it is perceived to be the assurance to one's regular income.

The fantasy for the choice of best investment policies sustains to be a highly progressive curve at all times irrespective of their strata of society. Salaried individuals have different investment requirements than professional and businessmen. They have a fixed monthly cash inflow to meet their expenses and save for various life goals. Tax contribution in India is fueled by that of salaried employees. Paying your taxes on time is commendable but so is looking for the right tax saving schemes. While the tax burden can fall quite heavily on the shoulders of salaried employees, they can invest in a number of instruments to avail of deduction and exemption that help lighten this burden. In our hurry to complete the tax saving exercise before the end of the financial year we end up making expensive mistakes. These include investing in products without weighing the pros and cons properly and not making full use of the various deduction and exemptions.

In this chapter, the saving habits and investment choices of salaried taxpayers working in the private and public sector in the state of Goa for the Assessment Year 2018-19, have been studied and analyzed.

4.3 Demographic Profile of Respondents

The respondents were classified on the basis of their age, gender and place of employment.

Table 4.1: Age of respondents

Age Group	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
below 30 yrs	37	19	30	15	67	17
30 to 45 yrs	117	59	89	45	206	52
above 45 yrs	46	22	81	40	127	31
	200	100	200	100	400	100

Source: Primary Data

4.3.1 Age of Respondents

The results of the survey presented in Table 4.1 above indicates that the age bracket of “30-45” years had the majority of respondents, which was 52%, followed by 31% in the age bracket of “above 45” years.

Further analysis was done on the basis of disaggregation and it was observed that 59% of the private sector and 45% of the public sector respondents were in the age brackets of “30-45”

years. This was followed by 22% of the private sector and 40% of the public sectors of the respondents in the age bracket of "above 45" years.

The presence of respondents in the "below 30 years" age bracket was negligible in both service sectors.

Table 4.2: Gender of respondents

Gender	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Male	145	73	94	47	239	60
Female	55	27	106	53	161	40
	200	100	200	100	400	100

Source: Primary Data

4.3.2 Gender of Respondents

The results of the survey presented in Table 4.2 above states that male respondents dominated the sample whereby the private sector had 73% and the public sector had 47% males. Female respondents were only 27% in the private sector and 53% in the public sector.

The result showed that while there were more men in private sector employment, there were more women employed in the public sector in Goa.

Table 4. 3: Place of employment of the respondents

Place of work	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Rural	28	14	14	7	42	11
Urban	134	67	148	74	282	71
Semi-urban	38	19	38	19	76	18
	200	100	200	100	400	100

Source: Primary Data

4.3.3 Place of Employment

The respondents were classified on the basis of their area of employment into three categories i.e., urban, semi-urban and rural.

The results of the survey as presented in Table 4.3 above show that urban area employed 71% of the sample followed by 18% in the semi-urban and 11% in the rural.

74% of the public sector respondents and 67% of private sector respondents were employed in the urban area. The respondents in the semi-urban and rural areas in either sector constituted a very small size of the sample surveyed. Hence it can be said that the study was mainly based on respondents working in the main cities of Goa.

4.4 Employment Profile of Respondents

The employment profile of respondents was analyzed on the basis of number of years of service, sector of service and annual salary income for the period of study i.e., financial year 2017-18.

Table 4.4: Service completed in years

Years	Private		Public		Total	
of service	Frequency	Percent	Frequency	Percent	Frequency	Percent
Below 10 Years	91	46	66	33	157	39
Between 10 and 20 Years	70	35	73	37	143	36
Between 20 and 30 years	32	16	33	17	65	16
Above 30 Years	7	3	28	13	35	9
	200	100	200	100	400	100

Source: Primary Data

4.4.1 Years of Employment

The results as indicated in Table 4.4 above states that 39% of the sample size had “below 10 years” of employment. This was followed by 36% in “between 10-20 years” 16% in “between 20-30 years” and 9% in “above 30 years”.

In the private sector 46% had less than “10 years of service” while 35% had “between 10-20 years”

In the public sector 33% had less than “10 years of services while 37% had “between “10-20 years of services. It can be said that the sample consisted of younger population of working class mostly having completed around 20 years of service.

Table 4.5: Distribution of public sector employees

Type of Organisation	Frequency	Percent
State Government	121	61
Central Government	23	12
Public Sector Undertaking	56	27
Total	200	100

Source: Primary Data

4.4.2 Sector of service

Equal distribution of the sample was done in private and public sector. Table 4.5 above shows the distribution of public sector employees. It can be observed that majority of the salaried employees were in State Government services i.e., 61% followed by public sector undertaking 27% and Central Government 12%.

Table 4.6: Distribution of private sector employees

Type of Organisation	Frequency	Percent
Manufacturing	35	18
Trading	40	20
Private Banks	34	17
Hospitality/Hotels	22	11
Pharmaceuticals	54	27
Media	15	7
Total	200	100

Source: Primary Data

Table 4.6 above shows the distribution of private sector employees wherein majority of the salaried employees were in the pharmaceuticals sector i.e., 27% followed by trading 20% manufacturing sector 18%, private banks 17% and then hospitality and media.

4.4.3 Annual salary income of respondents

The annual salary income of the salaried assesses was considered taking the year of study i.e., financial year 2017-18. For this purpose, the surveyed tax assesses were classified into four categories; assesses having annual salary income of below Rs 2.5 lakhs as "Associate Level"; between Rs 2.5 – 5 lakhs as "First level Mangers"; between Rs 5-10 lakhs as "Middle Level Managers"; above Rs 10 lakhs "Top Level Managers".

Table 4.7: Annual salary income for the financial year 2017-2018

Annual	Private		Public		Total	
Salary Income	Frequency	Percent	Frequency	Percent	Frequency	Percent
Below 2,50,000	8	4	15	8	23	6
2,50,000 to 5,00,000	59	30	49	25	108	27
5,00,000 to 10,00,000	72	36	75	37	147	37
Above 10,00,000	61	30	61	30	122	30
	200	100	200	100	400	100

Source: Primary Data

It can be seen from the Table 4.7 above that in the private sector only 4% had an annual salary income of below Rs 2.5 lakhs, 30% had an annual salary income between 2.5 - 5 lakhs and above 10 lakhs while 36% had an annual salary between 5-10 lakhs.

In the public sector majority of the salaried assesses had an annual salary between 5-10 lakhs i.e., 37% followed by 30% having above 10 lakhs, 25% having between 2.5-5 lakhs and 8% having below 2.5 lakhs.

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4.5 Yearly Savings

The yearly savings of each category of salaried assesses was analyzed in relation to their level of income and the income saved for the financial year 2017-18

Table 4.8: Savings of Associate Level

Savings	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Up to 10%	4	50	6	40	10	44
10%-20%	1	13	4	27	5	22
20%-30%	2	25	5	33	7	30
30% - 40%	0	0	0	0	0	0
Above 40%	1	12	0	0	1	4
	8	100	15	100	23	100

Source: Primary Data

4.5.1 Savings of Associate Level

The "Associate Level" consisted of salaried assesses having an annual salary of up to Rs. 2.5 lakhs.

Table 4.8 above indicates that their savings was "up to 10%' for 44% of the respondents; "between 20%-30% for 30% of the respondents and between 10%-20% for 22% of the respondents.

Further going by the sector of service, it is observed that 50% of the respondents in the private sector had saved "up to 10% followed by 25% who had saved "between 20%-305".

In the public sector too 40% of the respondents had saved" up to 10% 'followed by 33% who had saved "between 20%-30%".

The associate level generally saves up to 20% of their annual salary.

Table 4.9: Savings of First Level Managers

Savings	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Upto 10%	29	49	12	24	41	38
10%-20%	21	36	22	45	43	40
20%-30%	7	11	4	8	11	10
30% - 40%	1	2	10	19	11	10
Above 40%	1	2	1	2	2	2
	59	100	49	100	108	100

Source: Primary Data

4.5.2 Savings of First Level Managers

The "First Level Managers" consisted of salaried assesses having an annual salary between 2.5-5 lakhs. Table 4.9 above indicates that a similar pattern of savings was noticed among the first level managers where 40% save "between 10%-20%" and 38% save "upto 10%"

In the private sector majority of the savings are made "up to 10%" by 49% of the respondents while in the public sector majority of the savings are made "between 10%-20%" by 43% of the respondents

The first level managers too save up to 20% of their annual salary

Table 4.10: Savings of Middle Level Managers

Savings	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Upto 10%	15	21	18	24	33	22
10%-20%	36	50	27	36	63	43
20%-30%	18	25	20	27	38	26
30% - 40%	3	4	6	8	9	6
Above 40%	0	0	4	5	4	3
	72	100	75	100	147	100

Source: Primary Data

4.5.3 Savings of Middle Level Managers

The “Middle Level Managers" consisted of salaried assesses having an annual salary of between 5-10 lakhs. Table 4.10 above indicates that the income saved by 43% of the respondents in this group was “between 10%-20%” while 26% saved “between 20%-30%” and 22% saved “up to 10%”.

50% of the respondents in the private sector saved “between 10%-20%” followed by 25% “between 20%-30%” and 21% “up to 10%”.

36% of the respondents in the public sector saved between 10%-20% followed by 27% “between 20% - 30% and 24% “upto 10%”.

The middle level managers were saving approximately 30% of the annual salary

Table 4.11: Savings of Top-Level Managers

Savings	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Upto 10%	3	5	11	18	14	11
10%-20%	28	46	21	34	49	40
20%-30%	20	33	13	21	33	28
30% - 40%	4	7	10	17	14	11
Above 40%	6	9	6	10	12	10
	61	100	61	100	122	100

Source: Primary Data

4.5.4 Savings of Top-Level Managers

The “Top Level Managers” consisted of salaried assesses having an annual salary of above 10lakhs

Table 4.11 indicates that 40% of the respondents in this category saved “between 10%-20%” and 28% saved “between 20%-30%”.

46% of the private sector employees saved “between 10%-20%” and 33% saved “between 20%-30%”.

34% of the public sector employees saved “between 10%-20%” and 21% saved between “20%-30%”.

The top-level managers saved a significant amount of their annual salary which was up to 30%

4.5.5 Summary of Savings

Treat savings as expenses. Savings are "Left overs" after spending. Savings are directly related to investment choices, in simple words the more one saves, the more one can invest.

Table 4.12: Pattern of savings habits of employees

Assessee Categories	Savings
Associate level	Up to 20 per cent
First level managers	Up to 20 per cent
Middle level managers	10 – 30 per cent
Top level managers	10 – 30 per cent

Source: Primary Data

Table 4.12 above shows the level of income saved for the four categories of assesses.

It is observed that levels of income determine ability to save. As such, it can be seen that the annual savings of the respondents increases as the category of assessee based on his income increases. The associate level and first level managers showed savings upto 20% of their annual income while the middle level managers and the top-level managers showed savings upto 30% of their annual income.

The following hypothesis was tested

H_1: *"There is no significant difference between private sector and the public sector salaried assesses with regard to their savings habits in relation to annual income".*

The savings were analysed using chi-square test and it was revealed that there was no significant difference in the saving habits of the salaried assessees of both service sectors considering the percentage of savings to annual income with regard to associate level, middle level and top level managers. The hypothesis stands accepted at 5 per cent level of significance. Significant difference existed in the savings habits of the salaried assessees in both sectors of service with respect to first level mangers. The hypothesis stands rejected at 5 per cent level of significance.

Table 4.13: Chi-square analysis of saving habits

	Income Group	Chi–square Value	df	p - value
Pearson's Chi-Square	Associate level	2.024 **	3	0.567
	First level managers	9.040 *	4	0.060
	Middle level managers	5.917 **	4	0.112
	Top level managers	7.906 **	4	0.095

Source: Data Analysis
*Significant
**Not Significant

The test results are reflected in the Table 4.13 above

It can be said that there is a direct relationship between income and savings. If income increases, savings also increases but by less than increase in income. It means as income increases, proportion of income saved increases.

Investment choices

Investment choice of salaried assesses was studied with respect to investment in financial assets and physical assets.

4.6 Financial assets

These consisted of investment in bank deposits, capital markets and others which mainly consisted of provident funds, insurance, pension and other national saving schemes.

4.6.1 Financial assets of Associate Level

Table 4.14: Survey results of financial assets of Associate Level

Financial Assets	Status	Mean Value	t - value	p - value
With Banks	Private	56375.0000	-0.999 *	0.035
	Public	725544.2667		
Capital Market	Private	1250.0000	-0.739 **	0.135
	Public	988466.6667		
Others (lic, other funds)	Private	.0000	-1.115 *	0.021
	Public	10466.6667		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.14 above indicate the mean annual value of investments in financial assets of the associate level. In the private sector, major investments were in the 'banks' Rs. 56,375/-, followed by 'capital market' Rs. 1,250/-. The public sector showed major investments in 'capital markets' Rs. 9,88,467/-, followed by 'banks' Rs. 7,25,544/- and 'others' Rs. 10,467/-

4.6.2 Financial Assets of First Level Managers

Table 4.15: Survey Results of financial assets of First Level Managers

Financial Assets	Status	Mean Value	t - value	p - value
With Banks	Private	73525.4237	-2.240 *	0.001
	Public	374635.2449		
Capital Market	Private	38457.6271	1.012*	0.017
	Public	23813.3061		
Others (lic, other funds)	Private	3389.8305	-1.300 *	0.017
	Public	11040.8163		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.15 above indicate the mean annual value of investments in financial assets of the first level managers. The pattern followed by this category reveals that both private sector and public sector mostly preferred deposits with 'bank' where private sector was Rs. 73,525 and public sector Rs. 3,74,635.

In the private sector the second choice was 'capital markets' Rs. 38,458 followed by 'others' Rs. 33,890. In the public sector the second choice was 'capital markets' Rs. 23,813 followed by 'others' Rs. 11,041.

4.6.3 Financial Assets of Middle Level Managers

Table 4.16: Survey Results of financial assets of Middle Level Managers

Financial Assets	Status	Mean Value	t - value	p - value
With Banks	Private	200881.9444	-1.718 **	0.08
	Public	390455.9867		
Capital Market	Private	62534.7222	-0.265 **	0.546
	Public	69893.3333		
Others (lic, other funds)	Private	16861.1111	-1.020 **	0.083
	Public	74253.3333		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.16 above indicate the mean annual value of investments in financial assets of the middle level managers. The most preferred choice in this category in both private and public sector were 'bank deposits' where the mean value for private sector was Rs. 2,00,881 and for public sector Rs. 3,90,456. This was followed by 'capital markets' for private sector Rs. 62,535 and others Rs. 16,861, and for the public sector it was others Rs. 74,253 and 'capital markets' Rs. 69,893.

4.6.4 Financial Assets of Top-Level Managers

Table 4.17: Survey Results of financial assets of Top-Level Managers

Financial Assets	Status	Mean Value	t - value	p - value
With Banks	Private	507997.4590	-0.319**	0.679
	Public	587092.9508		
Capital Market	Private	126106.5574	-0.919**	0.079
	Public	347213.1148		
Others (lic, other funds)	Private	21721.3115	-1.573*	0.004
	Public	51803.2787		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.17 above indicate the mean annual value of investments in financial assets of the top-level managers. This category of assesses in private sector favoured 'bank deposits' Rs. 5,07,997 the most, followed by 'capital markets' Rs. 1,26,107 and 'others' Rs. 21,721. The public sector preferred 'banks' Rs. 5,87,093, followed by 'others' Rs. 51,803 and 'capital markets' Rs. 3,47,213.

Table 4.18 Priority for investments in financial assets

Priority order	Associate Level		First Level		Middle Level		Top Level	
	Private	Public	Private	Public	Private	Public	Private	Public
1	Banks	Capital Markets	Banks	Banks	Banks	Banks	Banks	Banks
2	Capital Markets	Banks	Capital Markets	Capital Markets	Capital Markets	Others	Capital Markets	Others
3	-	Others	Others	Others	Others	Capital Markets	Others	Capital Markets

Source: Data Analysis

The results shown in Table 4.18 above indicates the priority ranking of preferences in financial assets. It can be seen that bank deposits remain a popular choice of investments in both service sectors and across all categories of assesses. Capital market investments are next in line for the first level managers in both service sectors. Shares and mutual funds are the choices made by the associate level, middle level managers and top-level managers in private sector employment. Provident funds, insurance, pension schemes come as the last choice for a majority of the salaried assesses belonging to all categories in either sector.

The following hypothesis was tested

H2: "There *is no significant difference between private sector and the public sector salaried assesses with regard to their investment choice in financial assets".*

Table 4.19: T-test Analysis - financial assets

Financial Assets	Associate Level		First Level		Middle Level		Top Level	
	t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value
With Banks	-0.999*	0.035	-2.240*	0.001	-1.718**	0.08	-0.319**	0.679
Capital Market	-0.739**	0.135	1.012*	0.017	-0.265**	0.546	0.919**	0.079
Others (lic, other funds)	-1.115*	0.021	-1.300*	0.017	-1.020**	0.083	-1.573*	0.004

Source: Data Analysis
*Significant
**Not Significant

Using the t-test analysis the following results were achieved as can be observed in Table 4.19 above.

There was no significant difference between the salaried assesses in both service sectors with respect to the following. In case of the associate level for investments in capital markets. In case of the middle level managers for all the financial assets. In case top level managers for investments in bank deposits and shares market.

There was a significant difference in case of the associate level for investments in bank deposits and other investments. In case of the first level managers for investments in all financial assets and in case of top-level managers for the other investments in financial assets.

The hypothesis was rejected at 5 per cent level of significance.

4.7 Physical Assets

These consisted of investment in gold, agricultural land, real estate and others which mainly included vehicles.

4.7.1 Physical assets of Associate Level

Table 4.20: Survey Results of physical assets of Associate Level

Physical Assets	Status	Mean Value	t - value	p - value
Real estate	Private	25000.0000	0.964*	0.044
	Public	6000.0000		
Agricultural land	Private	.0000	-	-
	Public	.0000		
Gold	Private	26875.0000	1.156**	0.186
	Public	10000.0000		
Others (vehicles, etc.)	Private	6250.0000	0.454**	0.321
	Public	17333.3333		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.20 above indicate the mean annual value of investments in physical assets of the associate level. In the private sector maximum investment was in 'gold' Rs. 26,875 followed by 'real estate' Rs. 25,000 and 'others' Rs. 6,250. The public sector showed more investment in 'others' Rs. 17,333 gold, Rs. 10,000 and real estate Rs. 6,000.

4.7.2 Physical Assets of First Level Managers

Table 4.21: Survey Results of physical assets of First Level Managers

Physical Assets	Status	Mean Value	t - value	p - value
Real estate	Private	32033.8983	-1.609*	0.001
	Public	177551.0204		
Agricultural land	Private	.0000	-1.098*	0.027
	Public	408.1633		
Gold	Private	31372.8814	-1.829*	0.002
	Public	88877.5510		
Others (vehicles, etc.)	Private	230508.4746	-1.324*	0.010
	Public	.0000		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.21 above indicate the mean annual value of investments in physical assets of the first level managers. For the private sector major investment was in ‘others’ Rs. 2,30,508, ‘real estate’ Rs. 32,034 and ‘gold’ Rs. 31,373. For the public sector it was ‘real estate’ Rs. 1,77,551, ‘gold’ Rs. 88,876 and ‘agriculture’ Rs. 409.

4.7.3 Physical assets of Middle Level Managers

Table 4.22: Survey Results of physical assets of Middle Level Managers

Physical Assets	Status	Mean Value	t - value	p - value
Real estate	Private	393055.5556	-0.817**	0.135
	Public	604800.0000		
Agricultural land	Private	19444.4444	1.649*	0.001
	Public	1333.3333		
Gold	Private	119166.6667	-0.468**	0.479
	Public	167666.6667		
Others (vehicles, etc.)	Private	79444.4444	-0.978**	0.63
	Public	12666.6667		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.22 above indicate the mean annual value of investments in physical assets of the middle level managers. The private sector and public sector both preferred ‘real estate’ Rs. 3,93,056 and Rs. 6,04,800 respectively. This was followed by ‘gold’ Rs. 1,19,167 and ‘others’ Rs. 79,444 in the private sector and in the public sector second choice was ‘gold’ Rs. 1,67,667 and ‘others’ Rs. 12,667.

4.7.4 Physical Assets of Top-Level Managers

Table 4.23: Survey Results of physical assets of Top-Level Managers

Physical Assets	Status	Mean Value	t - value	p - value
Real estate	Private	1170491.8033	-0.300**	0.413
	Public	903278.6885		
Agricultural land	Private	.0000	-1.000*	0.044
	Public	1639.3443		
Gold	Private	114098.3607	-1.805*	0.005
	Public	237704.9180		
Others (vehicles, etc.)	Private	272786.8852	1.438**	0.006
	Public	12295.0820		

Source: Data Analysis
*Significant
**Not Significant

The survey results as presented in Table 4.23 above indicate the mean annual value of investments in physical assets of the top-level managers. In the private sector first option was 'others' Rs.2,72,786 followed by 'real estate' Rs. 11,70,491 and 'gold' Rs. 1,14,098. In the public sector first option was 'real estate' Rs.9,03,279 followed by 'gold' Rs. 2,37,705 and 'others' Rs. 12,296.

Table 4.24: Priority for investments in physical assets

Priority Order	Associate Level		First Level		Middle Level		Top Level	
	Private	Public	Private	Public	Private	Public	Private	Public
1	Gold	Others	Others	Real Estate	Real Estate	Real Estate	Others	Real Estate
2	Real Estate	Gold	Real Estate	Gold	Gold	Gold	Real Estate	Gold
3	Others	Real Estate	Gold	Agri	Others	Others	Gold	Others

Source: Data Analysis

Table 4.24 above indicates the priority ranking of preferences in physical assets. It is observed that real estate topped the list of physical assets in either sector for the middle level managers. It appears that real estate investments existed as one of the top choices for people who are put off by volatility and would like to put an effort to study their investment choice in physical assets. In the public sector the first level and top-level managers have chosen real estate. In the

private sector however, the associate level has chosen gold as a safer option, while the top-level managers have chosen investments in other physical assets.

The following hypothesis was tested

H_3:*" There is no significant difference between the private sector and the public sector salaried assesses with regard to their investment choice in physical assets".*

Table 4.25: T-test Analysis - physical assets

	Associate Level		First Level		Middle Level		Top Level	
Physical Assets	t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value
Real estate	0.964*	0.044	-1.609*	0.001	-0.817**	0.135	-0.300 **	0.413
Agricultural Land	-	-	-1.098*	0.027	1.649*	0.001	-1.000*	0.044
Gold	1.156**	0.186	-1.829*	0.002	-0.468**	0.479	-1.805 *	0.005
Others (vehicles etc.)	0.454**	0.321	-1.324*	0.010	-0.978**	0.63	1.438 **	0.006

Source: Data Analysis
*Significant
**Not Significant

Using the t-test analysis the following results were achieved as can be observed in Table 4.25 above.

There was no significant difference between the salaried assesses in both service sectors with respect to the associate level for investments in gold and other physical assets. In case of middle level managers for investments in gold, real estate and others and in case of top-level managers for real estate and other physical assets. There was a significant difference in case of associate level for real estate investments, for first level managers and middle level managers for investments in agriculture land and for the top-level managers for agriculture land and gold.

The hypothesis was rejected at 5 per cent level of significance.

4.8 Liability repayment

The liabilities consisted of outflow in terms of housing loan, educational loan and others. The 'others' included vehicle loan etc.

Table 4.26: Survey Results of repayment of liabilities of Associate Level

Liabilities	Status	Mean Value	t – value	p - value
Housing loan	Private	.0000	- 0.722**	0.135
	Public	1333.3333		
Education Loan	Private	.0000	-	-
	Public	.0000		
Others	Private	21000.0000	- 0.451**	0.272
	Public	50533.3333		

Source: Data Analysis
*Significant
**Not Significant

4.8.1 Outflow of Associate Level

The survey results as presented in Table 4.26 above indicate the mean annual value of outflow in terms of repayment of liabilities of the associate level. The first outflow for the private sector as well as the public sector was 'others' Rs. 21,000 'and' Rs. 50,533 respectively.

Table 4.27: Survey Results of repayment of liabilities of First Level Managers

Liabilities	Status	Mean Value	t - value	p - value
Housing loan	Private	75423.7288	-0.327**	0.665
	Public	98106.2245		
Education Loan	Private	.0000	-1.098*	0.027
	Public	2040.8163		
Others	Private	55152.5424	1.997*	0.000
	Public	6163.2653		

Source: Data Analysis
*Significant
**Not Significant

4.8.2 Outflow of First Level Managers

The survey results as presented in Table 4.27 above indicate the mean annual value of outflow in terms of repayment of liabilities of the first level managers. In this category for both private and public sector the major repayment first was towards 'housing loan' Rs. 75,423 and Rs. 98,106 respectively. This was followed by 'others' as the second choice Rs. 55,153 and Rs. 6,163 respectively.

Table 4.28: Survey Results of repayment of liabilities of Middle Level Managers

Liabilities	Status	Mean Value	t - value	p - value
Housing loan	Private	324305.5556		
	Public	430803.0800	0.531**	0.297
Education Loan	Private	.0000		
	Public	1333.3333	0.980*	0.049
Others	Private	76530.5556		
	Public	41893.3333	1.175*	0.047

Source: Data Analysis
*Significant
** Not Significant

4.8.3 Outflow of Middle Level Managers

The survey results as presented in Table 4.28 above indicate the mean annual value of outflow in terms of repayment of liabilities of the middle level managers. The middle level managers also preferred to repay 'housing loan' first followed by 'others' next. The mean value was Rs. 3,24,306 and Rs. 4,30,803 for 'housing loan' in private sector and public sector respectively whereas for 'others' it was Rs. 76,531 and Rs. 41,893respectively.

Table 4.29: Survey Results of repayment of liabilities of Top-Level Managers

Liabilities	Status	Mean Value	t - value	p - value
Housing loan	Private	449053.7705		
	Public	451729.2787	0.14**	0.972
Education Loan	Private	1639.3443		
	Public	.0000	1.00*	0.044
Others	Private	54468.8525		
	Public	7377.0492	2.039*	0.000

Source: Data Analysis
*Significant
**Not Significant

4.8.4 Outflow of Top-Level Managers

The survey results as presented in Table 4.29 above indicate the mean annual value of outflow in terms of repayment of liabilities of the top-level managers. The public and private sector employees in this category also preferred to repay 'housing loan' first; Rs. 4,49,054 and Rs. 4,51,729, followed by 'others' Rs. 54,469 and Rs. 7,377 respectively.

Table 4.30: Priority for repayment of liabilities

Priority Order	Associate Level		First Level		Middle Level		Top Level	
	Private	Public	Private	Public		Private	Public	Private
1	Others	Others	Housing Loan	Housing Loan	Housing Loan	Housing Loan	Housing Loan	Housing Loan
2	-	-	Others	Other Liabilities	Other Liabilities	Other Liabilities	Other Liabilities	Others
3	-	-	-	-	-	Education Loan	-	-

Source: Data Analysis

Table 4.30 above indicates priority ranking of preferences for repayment of liabilities. It can be observed that housing loan was the most prominent outflow in terms of liabilities for all salaried employees across all income groups except the associate level. The reason being that home loan comprises of both principal repayment as well as interest. Tax deductions can be claimed under the sector 80C and 24b. Although the housing loan comes with a financial cost using it smartly can greatly help in reducing financial burden and maximizing tax deductions. This justifies why salaried assesses give top priority to the housing sector. The second outflow was in terms of repayments of other loans for assesses in both service sector for all income levels.

The following hypothesis was tested

***H_4**: "There is no significant difference between the private sector and the public sector salaried assesses with regard to their outflow of liabilities".*

Table 4.31: T-test Analysis - repayment of liabilities

Liabilities	Associate Level		First Level		Middle Level		Top Level	
	t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value
Housing loan	-0.722**	-0.135	-0.327**	0.665	0.531**	0.297	0.14**	0.972
Education Loan	-	-	- 1.098*	0.027	0.980*	0.049	1.00*	0.044
Others	- 0.451**	0.272	1.997*	0.000	1.175*	0.047	2.039*	0.000

Source: Data Analysis
*Significant
**Not Significant

Using the t-test analysis the following results were achieved as can be observed in Table 4.31 above. There was a significant difference between the salaried assesses in both service sectors with respect to the associate level for repayments of all liabilities. In case of all four categories of assesses for repayments of housing loan as well as repayments of educational loan.
The hypothesis was rejected at 5 percent level of significance

4.9 Conclusion

After studying the habit of savings and the choice of investments made by salaried assesses working in the private and public sector in Goa it was observed that they had different choices with respect to investments in financial and physical assets depending on their levels of annual income earned and saved.

The savings of "the associate level" and "first level managers" ranged upto 20 per cent while that of the "middle level managers" and "top level mangers" ranged up to 30 per cent.

The choices made with respect to financial assets revealed that private sector employees were in a better position to make investments in financial assets as compared to public sector employees.

Generally, salaried investors look for investment horizon of around 1-5 years. Deposits with banks were mostly preferred considering that they are most beneficial in times of need because of its liquidity.

Considering that bank deposits still remains a popular choice among salaried employees it can be said that safety and liquidity is an important factor while doing investments in financial assets. From the survey it is clear that most of them are considering bank deposits as a safe and low risk investment avenue while comparing other investment avenues. Capital market investments was given the second choice by both the private and public sector employees in

the first level managers and middle level managers; and in the top-level managers only by private sector employees. Shares and mutual funds are considered as high-risk avenue and as an emerging avenue for investment.

As far as the investment choices in physical assets were concerned the study revealed that real estate topped the list of physical assets for assesses in either sector for the middle level managers.

In the public sector, the first level and top-level managers gave their preference to real estate; however, in the private sector the choice was other physical assets for the top level.

The study in respect of outflow of liabilities in terms of loan repayment revealed that home loan remains a top choice for salaried tax payers irrespective of their level of income and sector of employment. A home loan is possibly the biggest tax saving instrument thanks to a number of tax deductions available under Sections 24, 80C and 80EEA of the Income Tax Act. This financing facility comes with a number of benefits to attract aspiring home owners. It is one of the cheapest borrowing tools which comes with a low rate of interest. Unlike other loans, there is zero prepayment penalty on home loans with floating interest rates.

The second outflow was in terms of other loans for all salaried assesses irrespective of their income levels and sector of service.

Chapter V

Awareness level of employees on tax planning strategies

5.1 Awareness level of Chapter VIA deduction

The awareness level of respondents was studied with respect to both, deductions under specific heads of income as well as individual deductions under section 80C. A three-point scale was assigned by giving a three-point weightage to "well informed" two for "partly informed" and one "uninformed". The mean values of the sample respondents in either sector of service was analysed as follows; where the mean value was above 2.5, the awareness level was said to be "very good" while where the mean value was below 2.0 the awareness level was said to be "bad".

Table 5. 1: Awareness level of deductions

Mean Value	Interpreted level of awareness
Above 2.5	very good
2.0 - 2.5	good
Below 2.0	bad

Source: Data Analysis

Table 5.1 above was used to analyse the level of awareness of the four categories of assesses.

Table 5. 2: Response of Associate Level with respect to deductions

Deductions	Status	Score	Well informed	Partly informed	Uninformed	Chi - Square
Professional Tax	Private	2.125	3	1	4	
	Public	1.867	5	7	3	3.320^{b**}
Interest on Housing Loan	Private	2.25	2	2	4	
	Public	2.133	3	7	5	1.056^{b**}
Capital Gain arising from the transfer of Property used for residence	Private	2.125	3	1	4	
	Public	1.867	6	5	4	1.693^{b**}
Insurance Premium	Private	2.625	0	3	5	
	Public	2.4	3	3	9	2.218^{b**}
Contribution to Provident Fund I Public Provident Fund	Private	2.5	0	4	4	
	Public	2.4	2	5	8	1.448^{b**}
Investments in National Savings Certificates and Post Office Savings Bank AIC.	Private	2.125	2	3	3	
	Public	2.2	3	6	6	.077^{b**}

Subscription to Mutual Fund	Private	2.25	2	2	4	
	Public	2.133	3	7	5	1.056[b**]
Repayment of Housing Loan	Private	2.25	2	2	4	
	Public	1.867	6	5	4	1.273[b**]
Subscription to approved infrastructure bonds	Private	2	3	2	3	
	Public	1.933	4	8	3	1.777[b**]
Fixed Deposits in Scheduled Banks I Housing Fin. Corp. for not less than 5 Years	Private	2.25	2	2	4	
	Public	2.133	2	9	4	2.561[b**]
Contribution to Pension Fund	Private	2.375	0	5	3	
	Public	2.4	2	5	8	2.361[b**]
Deduction in Respect of Medical Insurance Policy	Private	2.375	0	5	3	
	Public	2	4	7	4	2.585[b**]
Treatment of Handicapped Dependent	Private	1.875	4	1	3	
	Public	1.733	6	7	2	3.273[b**]
Interest on Loan taken for Higher Education	Private	2.125	2	3	3	
	Public	1.867	4	9	2	1.913[b**]
Donation to Charitable Fund	Private	2.125	2	3	3	
	Public	1.733	6	7	2	1.840[b**]
Relief in respect of Area Salary I Advance	Private	2	3	2	3	
	Public	1.733	6	7	2	2.036[b**]
Tuition Fees	Private	2.25	2	2	4	
	Public	2.133	3	7	5	1.056[b**]
Contribution to NPS	Private	2.25	1	4	3	
	Public	2.267	3	5	7	.640[b]
Interest Income	Private	2.125	3	1	4	
	Public	1.733	7	5	3	2.512[b]

Source: Data Analysis

* Significant

** Not Significant

5.1.1 Response of Associate Level

Table 5.2 above indicates the response of the associate level with respect to their level of awareness on deductions. Observing the private sector, the awareness level was very good on insurance premium (2.62) and contribution to provident fund (2.5). The level of awareness was good on contribution to pension fund and medical insurance policy (2.38) followed by contribution to NPS, fixed deposits in scheduled banks, repayment of housing loan, tuition fees (2.25) professional tax, capital gains, investment in NSC and interest income (2.12). The awareness was bad only with respect to relief in respect of arrear salary (2)

In the public sector there was no very good level of awareness with respect to all the deductions.

However, the level of awareness was good with respect to insurance premium, provident fund and contribution to pension fund (2.4), contribution to NPS (2.26) interest on housing loan, tuition fees, mutual funds, fixed deposits (2.13). The awareness was bad in respect to professional tax, capital gains, repayment of housing loan, infrastructure bonds (1.86) followed by interest income, handicapped dependent, donation and relief (1.73).

Table 5. 3: Response of First Level Managers with respect to deductions

Deductions	Status	Score	Well informed	Partly informed	Uninformed	Chi - Square
Professional Tax	Private	2.2034	13	21	25	
	Public	2.3878	7	16	26	1.583[b**]
Interest on Housing Loan	Private	2.4068	6	23	30	
	Public	2.6122	2	15	32	2.847[b**]
Capital Gain arising from the transfer of Property used for residence	Private	1.8305	25	19	15	
	Public	2.1429	14	14	21	3.968[b**]
Insurance Premium	Private	2.5763	5	15	39	
	Public	2.7143	3	8	38	1.732[b**]
Contribution to Provident Fund I Public Provident Fund	Private	2.6102	1	21	37	
	Public	2.7551	1	10	38	3.016[b**]
Investments in National Savings Certificates and Post Office Savings Bank A/C.	Private	2.3898	10	16	33	
	Public	2.551	4	14	31	1.857[b**]
Subscription to Mutual Fund	Private	2.3559	8	22	29	
	Public	2.5102	4	16	29	1.366[b**]
Repayment of Housing Loan	Private	2.1525	14	22	23	
	Public	2.3061	10	14	25	1.616[b**]
Subscription to approved infrastructure bonds	Private	2.0000	18	23	18	
	Public	2.1224	13	17	19	.815[b**]
Fixed Deposits in Scheduled Banks / Housing Fin. Corp. for not less than 5 Years	Private	2.2034	14	19	26	
	Public	2.4082	7	15	27	1.913[b**]
Contribution to Pension Fund	Private	2.2373	11	23	25	
	Public	2.4694	6	14	29	3.056[b**]

Deduction in Respect of Medical Insurance Policy	Private	2.1695	14	21	24	
	Public	2.4694	8	10	34	5.552[b**]
Treatment of Handicapped Dependent	Private	1.9153	21	22	16	
	Public	1.7959	21	17	11	.647[b**]
Interest on Loan taken for Higher Education	Private	1.9322	23	17	19	
	Public	1.898	18	18	13	.845[b**]
Donation to Charitable Fund	Private	1.8136	27	16	16	
	Public	2.2245	13	12	24	6.199[b*]
Relief in respect of Arrears Salary / Advance	Private	1.7797	26	20	13	
	Public	1.8571	21	14	14	.708[b**]
Tuition Fees	Private	2.3559	10	18	31	
	Public	2.6327	3	12	34	4.218[b]
Contribution to NPS	Private	2.1186	15	22	22	
	Public	2.4898	4	17	28	6.862[b*]
Interest Income	Private	2.0678	19	17	23	
	Public	2.2449	12	13	24	1.220[b**]

Source: Data Analysis
* Significant
** Not Significant

5.1.2 Response of First Level Managers

Table 5.3 above indicates the response of the first level managers with respect to their level of awareness on deductions. Observing the awareness level of the first level managers it was noticed that in the private sector there was a very good level of awareness on contribution to PF/PPF (2.61) and insurance premium (2.57).The level of awareness was good on interest on housing loan(2.40), investment in NSC /POSB (2.38), tuition fees and mutual fund, (2.35), contribution to pension fund(2.23), professional tax and fixed deposits in scheduled banks (2.20) medical insurance policy (2.16), interest income (2.06), contribution to NPS (2.11) and repayment of housing loan(2.15) and infrastructure bonds (2).The awareness level was bad in respect of capital gains(1.83), treatment of handicapped dependent(0.79), interest on educational loan, donation and relief (0.84).

In the public sector the level of awareness was very good on contribution to PF (2.75), insurance premium(2.71) and tuition fees(2.63), interest on housing loan (2.61) investment in NSC/POSB (2.55), contribution to mutual fund (2.51).The level of awareness was good on

professional tax(2.38),contribution to pension fund (2.46), fixed deposits in scheduled banks (2.40), medical insurance policy (2.46), repayment of housing loan(2.30), interest income and infrastructure bonds(2.12) donation to charitable fund(2.22) and capital gains(2.14) ,contribution to NPS(2.48). The awareness was bad on higher education loan interest (1.89) relief (1.85) and handicapped dependent (1.79)

Table 5.4: Response of Middle Level Managers with respect to deductions

Deductions	Status	Score	Well informed	Partly informed	Uninformed	Chi - Square
Professional Tax	Private	2.1944	13	32	27	
	Public	2.1867	14	33	28	.009[b]**
Interest on Housing Loan	Private	2.4028	5	33	34	
	Public	2.5733	2	28	45	3.167[b]**
Capital Gain arising from the transfer of Property used for residence	Private	2.0139	18	35	19	
	Public	2.0267	22	29	24	1.483[b]**
Insurance Premium	Private	2.5694	1	29	42	
	Public	2.8	2	11	62	12.223[b]*
Contribution to Provident Fund / Public Provident Fund	Private	2.6806	1	21	50	
	Public	2.7867	2	12	61	3.818[b]**
Investments in National Savings Certificates and Post Office Savings Bank A/C.	Private	2.5139	3	29	40	
	Public	2.6933	3	17	55	5.440[b]*
Subscription to Mutual Fund	Private	2.3333	11	26	35	
	Public	2.52	9	18	48	3.631[b]**
Repayment of Housing Loan	Private	2.2361	10	35	27	
	Public	2.3467	12	25	38	3.650[b]**
Subscription to approved infrastructure bonds	Private	2.1528	14	33	25	
	Public	2.2133	16	27	32	1.532[b]**
Fixed Deposits in Scheduled Banks / Housing Fin. Corp. for not less than 5 Years	Private	2.3611	8	30	34	
	Public	2.4533	8	25	42	1.236[b]**
Contribution to Pension Fund	Private	2.2083	10	37	25	
	Public	2.48	6	27	42	6.818[b]*
	Private	2.3611	6	34	32	7.673[b]*

Deduction in Respect of Medical Insurance Policy	Public	2.5333	8	19	48	
Treatment of Handicapped Dependent	Private	1.8611	25	32	15	
	Public	1.8133	31	27	17	1.131[b]**
Interest on Loan taken for Higher Education	Private	2	20	32	20	
	Public	2.04	19	34	22	0.120[b]**
Donation to Charitable Fund	Private	1.9583	19	37	16	
	Public	2.4133	11	22	42	17.548[b]*
Relief in respect of Arrears Salary / Advance	Private	1.8472	24	35	13	
	Public	1.8533	29	28	18	1.996[b]**
Tuition Fees	Private	2.4444	7	26	39	
	Public	2.64	7	13	55	6.998[b]*
Contribution to NPS	Private	2.2083	13	31	28	
	Public	2.4933	6	26	43	6.128[b]*
Interest Income	Private	2.1389	11	40	21	
	Public	2.28	14	26	35	6.771[b]*

Source: Data Analysis
* Significant
** Not Significant

5.1.3 Response of Middle Level Managers

Table 5.4 above indicates the response of the middle level managers with respect to their level of awareness on deductions. Analysing the awareness level of the middle level managers in the private sector it was seen that, they displayed very good awareness levels with respect to contribution on PF/PPF (2.68), insurance premium (2.56), investment in NSC (2.51). It was good in respect of tuition fees (2.44), interest on housing loan (2.40), mutual fund, (2.33), fixed deposits (2.36), repayment of housing loan (2.26), infrastructure bonds (2.15) and contribution to NPS and pension fund (2.20), professional tax (2.16), interest income (2.13) and medical insurance policy (2.36), capital gains (2.11), interest on loan for higher education (2.05). It was bad on donation to charitable fund (1.95) treatment of handicapped dependents (1.86), and relief (1.84).

In the public sector there was very good level of awareness on insurance premium (2.8) and contribution to PF/PPF (2.78), tuition fees (2.64), interest on housing loan (2.57), investment in NSC (2.69), mutual funds (2.52) and medical insurance policy (2.53). Good awareness was noticed with respect to contribution to NPS (2.49), fixed deposits (2.45), mutual fund,

contribution to pension fund and medical insurance policy (2.45), donation to charitable fund (2.40) repayment of housing loan (2.34), professional tax (2.18), infrastructure bonds (2.21) and interest income (2.28), capital gains (2.02) and higher education loan interest (2.04), The awareness level was bad in relation to relief (1.85) and handicapped dependent (1.81).

Table 5.5: Response of Top-Level Managers with respect to deductions

Deductions	Status	Score	Well informed	Partly informed	Uninformed	Chi - Square
Professional Tax	Private	2.1148	16	22	23	4.774[b]**
	Public	2.2787	7	30	24	
Interest on Housing Loan	Private	2.5738	2	22	37	1.886[b]**
	Public	2.7049	1	16	44	
Capital Gain arising from the transfer of Property used for residence	Private	2.0984	16	23	22	5.690[b]*
	Public	2.377	6	26	29	
Insurance Premium	Private	2.7541	1	13	47	7.212[b]*
	Public	2.918	1	3	57	
Contribution to Provident Fund I Public Provident Fund	Private	2.7049	1	16	44	14.073[b]*
	Public	2.9672	0	2	59	
Investments in National Savings Certificates and Post Office Savings Bank A/C.	Private	2.6393	1	20	40	5.663[b]*
	Public	2.8361	0	10	51	
Subscription to Mutual Fund	Private	2.5738	3	20	38	0.277[b]**
	Public	2.623	2	19	40	
Repayment of Housing Loan	Private	2.541	2	24	35	1.869[b]**
	Public	2.623	3	17	41	
Subscription to approved infrastructure bonds	Private	2.0328	15	29	17	8.412[b]*
	Public	2.4098	6	24	31	
Fixed Deposits in Scheduled Banks I Housing Fin. Corp. for not less than 5 Years	Private	2.2951	10	23	28	4.987[b]**
	Public	2.5738	4	18	39	
Contribution to Pension Fund	Private	2.377	6	26	29	0.980[b]**
	Public	2.4918	4	23	34	
Deduction in Respect of Medical Insurance Policy	Private	2.6557	2	17	42	0.805[b]**
	Public	2.7377	1	14	46	

Treatment of Handicapped Dependent	Private	1.7541	27	22	12	2.678[b]**
	Public	1.9836	19	24	18	
Interest on Loan taken for Higher Education	Private	1.9344	19	27	15	2.366[b]**
	Public	2.1311	12	29	20	
Donation to Charitable Fund	Private	1.8852	21	26	14	7.921[b]*
	Public	2.2623	9	27	25	
Relief in respect of Arrear Salary I Advance	Private	1.6885	29	22	10	4.090[b]**
	Public	1.9672	19	25	17	
Tuition Fees	Private	2.6393	2	18	41	2.304[b]*
	Public	2.7377	0	16	45	
Contribution to NPS	Private	2.2623	10	25	26	10.889[b]**
	Public	2.6393	1	20	40	
Interest Income	Private	2.1639	16	19	26	5.659[b]**
	Public	2.459	11	11	39	

Source: Data Analysis
* Significant
** Not Significant

5.1.4 Response of Top-Level Managers

Table 5.5 above indicates the response of the top-level managers with respect to their level of awareness on deductions. The top-level managers of the private sector displayed very good awareness levels with respect to insurance premium (2.75), contribution to PF/PPF (2.70) and medical insurance policy (2.65), tuition fees (2.63), investment in NSC and POSB (2.63), interest on housing loan (2.57), repayment of housing loan (2.54), mutual fund, (2.57). Good awareness levels were seen on contribution to pension fund (2.37), fixed deposits in scheduled banks (2.29), contribution to NPS (2.26), capital gains (2.09) and professional tax (2.11), interest income (2.16), infrastructure bonds (2.03). Bad awareness levels were observed on donation to charitable fund (1.88) higher education loan interest (1.93), treatment of handicapped dependent (1.75) and relief (1.68)

With respect to public sector very good awareness was noticed in respect of contribution to PF/PPF (2.96), insurance premium (2.91), investment in NSC and POSB (2.83), interest on housing loan (2.70) and tuition fees (2.73), medical insurance policy (2.73), mutual fund, (2.62), contribution to NPS (2.63) and repayment of housing loan (2.62), fixed deposits in banks (2.57). The level of awareness was good on contribution to pension fund (2.49), capital

gains (2.37), interest income (2.45), infrastructure bonds (2.40), donation to charitable fund (2.26), professional tax (2.27), higher education loan interest (2.13). The awareness level was bad with respect to treatment of handicapped dependent (1.98) and relief (1.96).

Table 5.6: Deductions with maximum awareness

Income Groups	Private Sector			Public Sector		
	1	2	3	1	2	3
Associate Level	Insurance premium	PF	-	-	-	-
First Level Managers	PF	Insurance premium	-	PF	premium	Tuition fees
Middle Level Managers	PF	Insurance premium	Investment in NSC/POSB	Insurance premium	PF	Tuition fees
Top Level Managers	Insurance	PF	Medical Insurance Policy	PF	Insurance	NSC/POSB

Source: Data Analysis

Table 5.6 above highlights the deductions that displayed maximum awareness level among the four income groups.

The overall observation made from the above table is that insurance and provident fund had maximum awareness levels.

With respect to the private sector employees, provident fund contribution scored maximum awareness among the first level and middle level mangers while insurance scored maximum awareness among the associate level and top-level managers.

With respect to the public sector employees, the first level managers and top-level managers were highly aware about provident fund, whereas the middle level managers scored maximum awareness in case of insurance. The associate level was fully unaware about the deductions under section 80C.

Table 5.7: Deductions with minimum awareness

Income Groups	Private Sector			Public Sector		
	1	2	3	1	2	3
Associate Level	Relief	-	-	Relief/ Handicapped dependent	Infrastructure Bonds/Repayment of loan	-
First Level Managers	Relief	Handicapped dependent	Capital gains	Handicapped dependent	Relief	Higher Education loan interest
Middle Level Managers	Relief	Handicapped dependent	Donation to Charitable fund	Handicapped dependent	Relief	-
Top Level Managers	Relief	Handicapped dependent	Donation to Charitable fund	Relief	Handicapped dependent	-

Source: Data Analysis

Table 5.7 above highlights the deductions that displayed minimum awareness level among the four income groups.

The overall observations made from the above table was that relief in respect of arrears of salary had the least awareness levels.

With respect to the private sector employee's relief in respect of arrears of salary had the scored minimum awareness with respect to all the income groups.

With respect to the public sector employee's treatment of handicapped dependents scored minimum awareness for the associate level, first level and middle level managers while relief scored the minimum awareness for the associate level and top-level managers.

The following hypothesis was tested

H5: "There *is no significant difference between the employees of the private sector and the public sector with regard to their awareness levels on deductions available under the Income Tax Act."*

Table 5.8: Chi-Square analysis of deductions

Deductions	Associate Level	First Level	Middle Level	Top Level
Professional Tax	3.320^{b**}	1.583^{b**}	.009^{b}**	4.774^{b}**
Interest on Housing Loan	1.056^{b**}	2.847^{b**}	3.167^{b}**	1.886^{b}**
Capital Gain arising from the transfer of Property used for residence	1.693^{b**}	3.968^{b**}	1.483^{b}**	5.690^{b}*
Insurance Premium	2.218^{b**}	1.732^{b**}	12.223^{b}*	7.212^{b}*
Contribution to Provident Fund I Public Provident Fund	1.448^{b**}	3.016^{b**}	3.818^{b}**	14.073^{b}*
Investments in National Savings Certificates and Post Office Savings Bank AIC.	.077^{b**}	1.857^{b**}	5.440^{b}*	5.663^{b}*
Subscription to Mutual Fund	1.056^{b**}	1.366^{b**}	3.631^{b}**	0.277^{b}**
Repayment of Housing Loan	1.273^{b**}	1.616^{b**}	3.650^{b}**	1.869^{b}**
Subscription to approved infrastructure bonds	1.777^{b**}	.815^{b**}	1.532^{b}**	8.412^{b}*
Fixed Deposits in Scheduled Banks I Housing Fin. Corp. for not less than 5 Years	2.561^{b**}	1.913^{b**}	1.236^{b}**	4.987^{b}**
Contribution to Pension Fund	2.361^{b**}	3.056^{b**}	6.818^{b}*	0.980^{b}**
Deduction in Respect of Medical Insurance Policy	2.585^{b**}	5.552^{b**}	7.673^{b}*	0.805^{b}**
Treatment of Handicapped Dependent	3.273^{b**}	.647^{b**}	1.131^{b}**	2.678^{b}**
Interest on Loan taken for Higher Education	1.913^{b**}	.845^{b**}	0.120^{b}**	2.366^{b}**
Donation to Charitable Fund	1.840^{b**}	6.199^{b*}	17.548^{b}*	7.921^{b}*
Relief in respect of arrear Salary I Advance	2.036^{b**}	.708^{b**}	1.996^{b}**	4.090^{b}**
Tuition Fees	1.056^{b**}	4.218^{b}	6.998^{b}*	2.304^{b}*
Contribution NPS	.640^{b}	6.862^{b*}	6.128^{b}*	10.889^{b}**
Interest Income	2.512^{b}	1.220^{b**}	6.771^{b}*	5.659^{b}**

Source: Data Analysis

* Significant

** Not Significant

The chi square tests were used for analysing the data and it was observed from Table 5.8 above that the associate level of both service sectors had no significant difference regarding their awareness levels on all deductions under the Income Tax Act.

The hypothesis stands accepted at 5 percent level of significance

There was no significant difference between the first level managers of both service sectors as regards their awareness levels on all deduction except medical insurance donation to charitable funds and contribution to NPS. The hypothesis stands accepted at 5 per cent level of significance

There was no significant difference between the middle level managers of both service sectors as regards their awareness levels on professional tax, interest on housing loan, capital gains, contribution to provident fund, repayments of housing loan, mutual funds, infrastructure bonds, fixed deposits, treatment of handicapped dependent interest on loan taken for higher education and relief. The hypothesis stands accepted at 5 per cent level of significance.

However significant difference existed with respect to insurance premium, investments in NSC/POSB, contribution to pension fund, medical insurance policy, donation to charitable funds, tuition fees, contribution to NPS and interest income. The hypothesis stands rejected at 5 per cent level of significance.

There was no significant difference between the top-level managers of both service sectors as regards their awareness level on professional tax, contribution to pension fund, medical insurance policy, treatment of handicapped dependent, interest on loan taken for higher education and relief. The hypothesis stands accepted at 5 per cent level of significance.

However significant difference existed with respect to capital gains, insurance premium, investment in NSC/POSB, infrastructure bonds, interest income, contribution to provident funds, donation to charitable funds and contribution to NPS. The hypothesis stands rejected at 5 per cent level of significance.

5.2 Tax advice from professionals

For a better understanding on whether salaried tax payers really do consult tax professionals, a five-point scale was prepared. For analysing the results, a five-point weightage was given to “all times”; 4 for “most of the times”; 3 for “sometimes”, 2 for “hardly any time” and 1 for “never”. The mean values for the sample surveyed was considered for analysis whereby, in case the mean value was over 4, professional advice was said to be taken “most of the times” and in case the mean value was below 2, professional advice was said to be taken “hardly anytime”

Table 5.9: Services of professional financial adviser

Status	Score	All times	Most of the times	Sometimes	Hardly anytime	Never
Private	2.71	11	19	32	6.5	31.5
Public	3.09	26	10.5	33.5	6.5	23.5

Source: Data Analysis

It can be observed from Table 5.9 above that the mean score of 2.71 signifies that in the private sector the salaried tax payers sometimes seek professional advice, while the mean score of 3.09 in the public sector signifies that the salaried tax payers more than sometimes consult tax practitioners. The survey brings out that a significant number of assesses viz 31.50% of private sector and 23.50% of public sector assesses do not use the services of experts to guide them. The assesses who responded positively to seeking tax and investment advise from professionals comprised 26% from public and 11% from private sector.

Salaried tax payers at large in both service sectors sometimes prefer taking professional help as is seen in the table above;32% in the private sector and 33.5% in the public sector. Salaried individuals should approach tax consultants, chartered accountants and avoid listing of trials or not take self-decisions when they want to make best investment choices. It is better to consult experts in this fields.

5.3 Tax time management

Table 5.10: Tax time management

Timing	Private		Public		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Commencement of the financial year	98	49	133	67	231	58
Closing of the financial year	38	19	17	8	55	14
At one's convenience	53	27	31	16	84	21
Unplanned	11	5	19	9	30	7
TOTAL	200	100	200	100	400	100

Source: Data Analysis

Table 5.10 above highlights that 58% of total assesses do indeed plan their investments to mitigate and reduce tax liability at the commencement of every financial year followed by 21%

of the total asseeses who would plan at any time of the financial year and 14% who would plan their investments at the end. There were also 7% of the total sample who did not follow tax planning.

However, it appears from the study that in private sector; 49% of the employees believe in the principle of tax planning 27% of them plan their investments when they are mandated by the employers to do so for the purpose of determining their tax deduction at source from salary, 19% of them who would wait till last minute and 5% do not believe in tax planning.

Similar behavior is seen among public sector asseeses where 67% of the assesses had done their tax planning at the beginning of the financial year; 16% who did so only towards the end of the financial year to avoid higher tax deduction by employers; 8% who hurried to plan their investments at the end of the financial year and 9% who did not believe in tax planning.

Tax planning is a continuous process. Beginning your tax planning as the financial year commences has great benefits. Often salary earners look at tax planning only by February end. Starting your tax planning early gives you ample time to choose the right mode of insurance, investment & tax saving products. Factors to be considered include ascertaining the gross salary and take-home pay, employers statutory deductions from salary, fixed outgo from salary if any like housing loan equated monthly installments, or other loan obligations, annual education costs of children etc.

5.4 Tax planning strategies

Tax planning strategies followed by the salaried asseeses for financial year 2017-18 were studied and analysed. The amount of total deduction claimed under Section 80C and the individual deductions claimed in respect of ‘contribution to Provident Fund/ Public Provident Fund’, ‘life insurance policy’, investments in ‘NSC,POSB’, ‘UTI,ULIP’, ‘approved mutual fund’, ‘approved pension fund’, ‘fixed deposits’, ‘repayment of housing loan’, ‘payment of tuition fees’, ‘approved infrastructure bonds’, ‘interest on education loan’, ‘interest on housing loan’, ‘contribution to medical insurance policy’, ‘donation to charitable fund’ and ‘deduction u/s 89 in respect of arrear/advance salary’ was analysed.

The interest on housing loan and repayment of principal amount has been shown separately for the reason being that interest is shown under section 24B whereas principal amount repaid is shown under Section 80C of the Income Tax Act 1961.While doing the analysis, the sum total of interest and principal has been considered.

Analysis was conducted on the basis of mean value of investments done.

Table 5.11: Response of Associate Level with respect to Chapter VIA deductions

Tax Planning Strategies	Status	Mean Value	t - value	p - value
Total Deduction Claimed u/s 80C	Private	29564.75	-1.485**	0.153
	Public	68666.67		
PF / PPF	Private	20370.38	-0.553**	0.586
	Public	27388		
Life Insurance Policy	Private	22194.38	0.117**	0.908
	Public	20733.33		
NSC, POSB	Private	11250	2.521*	0.02
	Public	666.67		
UTI, ULIP	Private	3750	0.589**	0.562
	Public	1666.67		
Approved Mutual Fund	Private	0	-0.799**	0.433
	Public	10600		
Approved Pension Fund	Private	0	-0.722**	0.478
	Public	6000		
Fixed Deposits in scheduled banks	Private	12500	2.137*	0.045
	Public	0		
Repayment of Housing Loan	Private	0		
	Public	0		
Payment of Tuition Fees	Private	375	1.399**	0.176
	Public	0		
Approved infrastructure Bonds	Private	0		
	Public	0		
Interest on Educational Loan	Private	0		
	Public	0		
Interest on Housing Loan	Private	0		
	Public	0		
Contribution to Medical Insurance Policy	Private	0	-0.722**	0.478
	Public	2800		
Donation to Charitable Funds	Private	0		
	Public	0		
Deduction u/s 89 in respect of arrear/advance salary	Private	4500	1.399**	0.176
	Public	0		

Source: Data Analysis

* Significant

** Not Significant

5.4.1 Response of The Associate Level

Table 5.11 indicates the response of the associate level with respect to chapter VIA deductions. The mean value of investment made by private sector revealed that maximum investment was in LIC (Rs. 22,194) followed by PF/PPF (Rs. 20,370) and fixed deposits in banks (Rs. 12,500). In the public sector the maximum investment was in PF/PPF (Rs. 27,388), followed by LIC (Rs. 20,773) and approved mutual fund (Rs. 10,600). As far as total deduction claimed u/s 80C was concerned, the public sector employees claimed up to Rs 68,667 (mean value) while the private sector employees claimed up to Rs. 29,565 (mean value). The maximum deduction allowed under section 80C of the Income Tax Act for the period under study was Rs.150000. The associate level of both service sector was unable to use the maximum deduction.

Table 5.12: Response of First Level Managers with respect to Chapter VIA deductions

Tax Planning Strategies	Status	Mean Value	t - value	p - value
Total Deduction Claimed u/s 80C	Private	41827.92	-4.522*	-
	Public	97281.65		
PF / PPF	Private	60609.71	0.46**	0.647
	Public	49298.94		
Life Insurance Policy	Private	20741.78	-2.125*	0.036
	Public	33621.63		
NSC, POSB	Private	2576.27	-2.05*	0.043
	Public	10915.92		
UTI, ULIP	Private	1118.64	-0.63**	0.53
	Public	1938.78		
Approved Mutual Fund	Private	2033.9	-1.875**	0.063
	Public	6224.49		
Approved Pension Fund	Private	1762.71	-1.23**	0.222
	Public	4693.88		
Fixed Deposits in scheduled banks	Private	1016.95	-0.899**	0.371
	Public	2653.06		
Repayment of Housing Loan	Private	11642.73	0.511**	0.610
	Public	8255.67		
Payment of Tuition Fees	Private	3762.71	-1.898**	0.060
	Public	12404.08		
Approved infrastructure Bonds	Private	0	-	-
	Public	0		
Interest on Educational Loan	Private	3457.63	-0.046**	0.964

	Public	3673.47		
Interest on Housing Loan	Private	6158.54	-0.086**	0.932
	Public	6531.9		
Contribution to Medical Insurance Policy	Private	1042.37	-0.22**	0.826
	Public	1186.76		
Donation to Charitable Funds	Private	508.47	-0.003**	0.998
	Public	510.2		
Deduction u/s 89 in respect of arrear/advance salary	Private	286.39	0.911**	0.365
	Public	610.17		

Source: Survey Data

* Significant

** Not Significant

5.4.2 Response of First Level Managers

Table 5.12 indicates the response of the first level managers with respect to chapter VIA deductions. The mean value of investments made by private sector revealed that maximum investments was made for PF/PPF (Rs. 60,610) followed by LIC (Rs. 20,742) and repayment of housing loan (Rs. 17,801)

In the public sector also, maximum investment was in PF/PPF (Rs. 49,299) followed by contribution to LIC (Rs. 33,621) and repayment of housing loan (Rs. 14,788)

The first level managers of the private sector employees claimed up to (Rs. 41,828) (mean value) and public sector employees claimed up to Rs. 97,282 (mean value). The first level managers too did not utilise the maximum deduction.

Table 5.13: Response of Middle Level Managers with respect to Chapter VIA deductions

Tax Planning Strategies	Status	Mean Value	t - value	p - value
Total Deduction Claimed u/s 80C	Private	68073.04	-2.478*	0.014
	Public	117037.33		
PF / PPF	Private	39992.82	-2.292*	0.023
	Public	61008.48		
Life Insurance Policy	Private	51465.43	0.628**	0.531
	Public	44329.48		
NSC, POSB	Private	2180.56	-1.385**	0.168
	Public	6352.08		
UTI, ULIP	Private	277.78	0.945**	0.35
	Public	20		
Approved Mutual Fund	Private	9190.36	0.325**	0.746

	Public	7820		
Approved Pension Fund	Private	138.89	- 1.59**	0.114
	Public	2000		
Fixed Deposits in scheduled banks	Private	2861.11	1.245**	0.22
	Public	666.67		
Repayment of Housing Loan	Private	29947.19	-0.2**	0.842
	Public	34153.12		
Payment of Tuition Fees	Private	3701.74	-0.581**	0.562
	Public	5653.33		
Approved infrastructure Bonds	Private	0		
	Public	0		
Interest on Educational Loan	Private	2607.78	1.28**	0.20
	Public	0		
Interest on Housing Loan	Private	17974.78	- 0.052 **	0.958
	Public	18437.75		
Contribution to Medical Insurance Policy	Private	2550	1.781**	0.077
	Public	5132.89		
Donation to Charitable Funds	Private	1305.56	1.071**	0.29
	Public	380		
Deduction u/s 89 in respect of arrear/advance salary	Private	2798.65	-1.547**	0.12
	Public	0		

Source: Data Analysis

* Significant

** Not Significant

5.4.3 Response of Middle Level Managers

Table 5.13 indicates the response of the middle level managers with respect to chapter VIA deductions. In the private sector there was maximum investment in LIC (Rs. 51,465) followed by housing loan (Rs. 47,922) PF/PPF (Rs. 39,993)

In the public sector maximum investment was made in PF/PPF (Rs. 61,008) followed by repayment of housing loan (Rs. 52,591) and LIC (Rs. 44,330). The total deduction claimed shows that private sector employees claimed upto Rs 68,073(mean value) and public sector employees claimed Rs.1,73,037(mean value). The middle level managers did not make full utilisation of the deduction.

Table 5.14: Response of Top-Level Managers with respect to Chapter VIA deductions

Tax Planning Strategies	Status	Mean Value	t - value	p - value
Total Deduction Claimed u/s 80C	Private	77622.95	-2.770**	0.006
	Public	142894.49		
PF / PPF	Private	60375.92	-2.589*	0.011
	Public	106749.61		
Life Insurance Policy	Private	63542.61	1.422**	0.158
	Public	40570.31		
NSC, POSB	Private	22540.98	0.732**	0.466
	Public	10040.56		
UTI, ULIP	Private	3540.98	1.547**	0.124
	Public	1106.56		
Approved Mutual Fund	Private	17060.75	-0.296**	0.768
	Public	20459.02		
Approved Pension Fund	Private	65.57	-1.554**	0.123
	Public	1885.25		
Fixed Deposits in scheduled banks	Private	27622.95	0.986**	0.326
	Public	3278.69		
Repayment of Housing Loan	Private	135938.72	1.796**	0.075
	Public	45815.15		
Payment of Tuition Fees	Private	34636.07	1.375**	0.172
	Public	8472.13		
Approved infrastructure Bonds	Private	0	-1.000**	0.319
	Public	983.61		
Interest on Educational Loan	Private	9180.33	1.114**	0.267
	Public	0		
Interest on Housing Loan	Private	52865	0.840**	0.402
	Public	37382.05		
Contribution to Medical Insurance Policy	Private	7764.23	0.636**	0.526
	Public	6338.2		
Donation to Charitable Funds	Private	1803.28	0.600**	0.549
	Public	950.82		
Deduction u/s 89 in respect of arrear/advance salary	Private	0		
	Public	0		

Source: Data Analysis

* Significant

** Not Significant

5.4.4 Response of Top-Level Managers

Table 5.14 indicates the response of the top-level managers with respect to chapter VIA deductions. The maximum investment for private sector employees was by repayment of housing loan (Rs.1,88,804) followed by LIC (Rs. 63,542) and PF/PPF (Rs.60376). The maximum investment for public sector employees was PF/PPF(Rs.1,06,750) followed by repayment of housing loan (Rs. 83,197) and LIC (Rs. 40570). The mean value of total deduction claimed u/s 80C shows that the top-level managers have not utilised the maximum deduction.

Table 5.15: Priority order for tax planning strategies for AY 2018-19

Income Group		Associate Level		First Level Managers		Middle Level Managers		Top Level Managers	
		Private	Public	Private	Public	Private	Public	Private	Public
Priority Order	1	LIC	PF/PPF	PF/PPF	PF/PPF	LIC	PF/PPF	Repayment of Hsg Loan	PF/PPF
	2	PF/PPF	LIC	LIC	LIC	Repayment of Hsg Loan	Repayment of Hsg Loan	LIC	Repayment of Hsg Loan
	3	Fixed Deposits	Mutual Fund	Repayment of Hsg Loan	Repayment of Hsg Loan	PF/PPF	LIC	PPF	LIC

Source: Data Analysis

Table 5.15 above highlights the priority ranking of the tax planning strategies for AY 2018-19. The tax planning strategies that received the widest acceptance in both service sectors amongst all groups other than the associate level was the repayment of housing loan.

It is interesting to note that the public sector employees of all income groups gave first priority to investment in provident fund. This could mainly be due to the reason that there are many tax benefits attached with this, besides being eligible for exemption under section 80 C, the interest earned therefrom is also exempt from tax, provident fund withdrawals are not taxable after five years of continuous service, ten years of contributory membership also ensures lifelong pension under the Employees' Pension Scheme 1995 etc.

The private sector employees of the associate level and middle level preferred to choose life insurance policies. Life insurance is often considered a more effective way of saving for retirement and protecting families from financial hardships. The associate level and middle level managers have limited savings hence would prefer investing in life insurance policies that would offer maximum benefits with low cost.

The first level managers in the private sector chose to invest in provident fund, while the top level managers in the private sector choose to repay their housing loans. Buying a house is a significant life goal and a home loan when managed well is the biggest realise of one's dream. A home loan is possibly the biggest tax saving instrument thanks to a number of tax deductions available under section 24,80c and 80EEA of the Income Tax Act.

Table 5.16: Total amount of deduction claimed u/s 80C of Income Tax Act 1961.

Income Group	Associate Level Managers		First Level Managers		First Level Managers		Top Level Managers	
	Private	Public	Private	Public	Private	Public	Private	Public
Total amount of deduction claimed u/s 80C (Rs)	29565	68667	41828	97282	68073	117037	77623	142895

Source: Data Analysis

Table 5.16 above states the total amount of deductions claimed by each category of assesses under Chapter VIA of the Income Tax Act the amount of deduction under Section 80C for AY 2018-19 was Rs. 150000. Results show that only none of the income groups fully claim the deduction u/s 80C.

The top-level managers in the public sector were close to claiming the full deduction.

The following hypothesis was tested

H_6:" *There is no significant difference between private sector and the public sector salaried assessees with regard to the tax planning strategies adopted for the AY 2018-19".*

Table 5.17: T-test Analysis of tax planning strategies

Tax Planning Strategies	Associate Level Managers		First Level Managers		Middle Level Managers		Top Level Managers	
	t-value	p-value	t-value	p-value	t-value	p-value	t-value	p-value
Total Deduction Claimed u/s 80C	-1.485**	0.153	-4.522*	-	-2.478*	0.014	-2.770**	0.006
PF / PPF	-0.553**	0.586	0.46**	0.647	-2.292*	0.023	-2.589*	0.011
Life Insurance Policy	0.117**	0.908	-2.125*	0.036	0.628**	0.531	1.422**	0.158
NSC, POSB	2.521*	0.02	-2.05*	0.043	-1.385**	0.168	0.732**	0.466
UTI, ULIP	0.589**	0.562	-0.63**	0.53	0.945**	0.35	1.547**	0.124
Approved Mutual Fund	-0.799**	0.433	-1.875**	0.063	0.325**	0.746	-0.296**	0.768
Approved Pension Fund	-0.722**	0.478	-1.23**	0.222	- 1.59**	0.114	-1.554**	0.123
Fixed Deposits in scheduled banks	2.137*	0.045	-0.899**	0.371	1.245**	0.22	0.986**	0.326
Repayment of Housing Loan	-	-	0.511**	0.61	-0.2**	0.842	1.796**	0.075
Payment of Tuition Fees	1.399**	0.176	-1.898**	0.06	-0.581**	0.562	1.375**	0.172
Approved infrastructure Bonds	-	-	-				-1.000**	0.319
Interest on Educational Loan	-	-	-0.046**	0.964	1.28**	0.20	1.114**	0.267
Interest on Housing Loan	-	-	-0.086**	0.932	- 0.052 **	0.958	0.840**	0.402
Contribution to Medical Insurance Policy	-0.722**	0.478	-0.22**	0.826	1.781**	0.077	0.636**	0.526
Donation to Charitable Funds	-	-	-0.003**	0.998	1.071**	0.29	0.600**	0.549
Deduction u/s 89 in respect of arrear/advance salary	1.399**	0.176	0.911**	0.365	-1.547**	0.12	-	-

Source: Data Analysis
* Significant
**Non-Significant

T-test was used statistically to analyse the data and it was observed from Table 5.17 above that in respect of the associate level in both service sectors there was no significant difference regarding “PF/PPF”, “LIC”, “UTI/ULIP”,” approved mutual fund”, “pension fund”, “tuition

fees", "medical insurance policy", "relief" and "total deductions". The hypothesis stands accepted at 5 per cent level of significance. Significant difference existed with respect to the NSC/POSB and fixed deposits.

In case of the first level managers there was no significant difference with respect to "PF/PPF", "UTI/ULIP", "repayment of housing loan", "mutual fund", "pension fund", "fixed deposits" etc. The hypothesis stands accepted at 5 per cent level of significance. Significant difference was noticed with "total deductions", "NSC/POSB" and "LIC". The hypothesis stands rejected at 5 per cent level of significance.

In case of the middle level managers there was no significant difference between the private and public sector salaried assesses with respect to all deductions. The hypothesis stands accepted at 5 per cent level of significance. Significant difference was noticed with respect to "PF/PPF" and "total deductions". The hypothesis stands rejected at 5 per cent level of significance.

In case of the top-level managers there was no significant difference between the salaried assesses of the private sector and public sector in respect of "all deductions". The hypothesis stands accepted at 5 percent level of significance. Significant difference existed only with respect to "PF/PPF". The hypothesis stands rejected at 5 per cent level of significance.

5.5 Specific Provisions under the Income Tax Act 1961

Income tax provisions that do not address the anomaly of different tax rates and laws for income cannot be considered as complete. How much tax one pays on income depends less on how much one earns and more on how much one earns and more on how much one can hide or show income as non-taxable. The salaried earning class is the most disadvantaged because 100% of income tax is taken away even before the salary reaches them. It is also not allowed certain tax-free expenses that non salary earners are allowed. Considering this, a few provisions listed below were studied;

1. Income tax rates.
2. Tax exemption limit.
3. Rationalization of tax rates.
4. Surcharge.
5. Maximum limit for deduction u/s 80C.
6. Substitution of tax rebate u/s 88 by deduction u/s 80.

A five-point scale was assigned by giving a five-point weightage for “full approval”; four points for “approval”; three points for “indifferent”; two points for” disapproval” and one for “full disapproval”. Analysis was conducted on the basis of mean values, where the mean value was above three, the provisions studied were said to be approved while where the mean values were below three, the provisions were said to be disapproved.

Table 5.18: Chi-square analysis of specific provisions under the Income Tax Act 1961

Opinion on Taxation Provisions	Status	Score	Full approval	Approval	Indifferent	Disapproval	Full Disapproval	Chi - square
Do you think that Income Tax rates in India are high?	Private	4.01	61	99	24	12	4	8.212**
	Public	4.18	81	87	19	13	0	
Do you favour increase in Tax Exemption limit?	Private	4.15	84	75	33	2	6	27.056*
	Public	4.46	116	68	8	7	1	
Do you agree with the idea of rationalizatio n of Tax Rates?	Private	3.98	43	111	44	2	0	11.888*
	Public	3.92	56	78	61	4	1	
Do you feel that surcharge should be avoided?	Private	3.82	44	90	52	14	0	13.479*
	Public	3.87	67	59	57	15	2	
Do you agree with enhancement of maximum limit for deduction u/s 80C?	Private	4.26	82	89	27	2	0	6.401**
	Public	4.30	98	71	24	7	0	
Do you think that substitution of tax rebate u/s 88 by deduction u/s	Private	3.68	34	80	74	12	0	9.510**
	Public	3.58	38	52	98	12	0	

80 is beneficial to you?								

Source: Data Analysis
* Significant
**Non-Significant

The following observations were made from Table 5.18 above

Regarding the private sector, the mean value for 'enhancement of maximum limit of deduction u/s 80C' was the highest (4.26). This was followed by 'increase in tax exemption limit' (4.15), income tax rates in India are high (4.01) 'rationalisation of tax rates' (3.98),'surcharge should be avoided' (3.82) and lastly 'substitution of tax rebate u/s 88 by deduction u/s 80' (3.68)

Regarding the public sector, the mean value assigned for 'increase in tax exemption limit' (4.46) was the highest, followed by 'enhancement of maximum limit for deduction u/s 80C' (4.30),'income tax rates in India are high' (4.18),'rationalisation of tax rates' (3.92),'surcharge should be avoided (3.87) and 'substitution of tax rebate u/s 88 by deduction u/s 80(3.58).

Table 5.19: Priority Order for Agreement/Disagreement

Priority Order	Sl. No.	Factors with Maximum Agreement	Factor with Disagreement
		Private & Public	Private & Public
	1	Enhancement of Maximum Limit for Deduction u/s 80C	Maximum limit deductions u/s 80C Increase in Tax Exemption Limit
	2	Tax Rates in India are High	
	3.	Rationalisation of Tax Rates	
	4	Surcharge should be Avoided	
	5	Substitution of tax rebate u/s 88 by deduction u/s 80	

Source: Data Analysis

The responses of the surveyed assesses have been presented in the priority Table 5.19 above

In both the private and public sector there is disagreement with respect to maximum limit for deduction u/s 80C and increase in tax exemption limit.

The following hypothesis was tested

H7:" *There is no significant difference between private sector and public sector salaried assesses with regard to their agreement on the specific provisions under the Income Tax Act".*

Using Chi-square analysis as can be observed in Table 5.18 above it can be stated that there was no significant difference between the employees of the private sector and the public sector with regard to their agreement on the reforms with respect to 'income tax rates in India', 'enhancement of maximum limit for deduction u/s 80C', 'substitution of tax rebate u/s 88 by deduction u/s 80'. Significant difference was noticed with respect to 'increase in tax exemption limit', 'surcharge should be avoided' and 'rationalisation of tax rates'.

5.6 Recommendations for improvement in tax planning strategies and procedures.

Recommendations for improving tax planning strategies and procedures included 'rates of tax to be reduced', 'basic rates should be deducted at source from all employees', 'liability to tax should be reduced',' encourage investments in certain tax saving instruments by providing attractive tax incentives' and 'orientation on benefits of tax planning should be initiated.'. These recommendations were analysed using scoring tables. The responses of the surveyed assesses were used as the basis to arrive at the scores.

Table 5.20: Priority table of recommendations

Recommendations	Private Score	Public Score
Rates of tax to be reduced	428	412
Basic rates should be deducted at source from all employees	637	653
Liability to tax should be reduced and total tax revenue to the Govt. should be enhanced through widening the tax net.	641	678
Encourage investments in certain tax saving instruments by providing attractive tax incentives.	631	643
Orientation on benefits of tax planning should be initiated	660	621
Rank Correlation	0.964	

Source: Data Analysis

Table 5.20 above indicates the priority table of recommendations. Pearson's Correlation was used to determine if there was a significant correlation between the priority given to the recommendations by the respondents in the private sector and public sector. The rank correlation of 0.964 signifies that there is a large degree of positive correlation in the priority of recommendations made by the private sector and public sector respondents with regard to improvement in tax planning strategies and procedure.

5.6.1 Response of the private sector

In the private sector the recommendation which received the first rank was "orientation on benefits of tax planning should be initiated "(660 points) ". This was followed by "liability to tax should be reduced "(641 points)", "basic rates should be deducted at source from all employees" (637 points), "encourage investments in certain tax saving instruments by providing attractive tax incentives "(631 points) and finally "rates of tax to be reduced "(428 points)".

5.6.2 Response of the public sector

The first rank was assigned to "liability to tax should be reduced" (678 points) followed by "basic rates should be deducted at source from all employees "(653 points), "encourage investments in certain tax saving instruments by providing attractive tax incentives "(643 points) "orientation on benefits of tax planning should be initiated "(621) and rates of tax to be reduced.

5.7 Summary

The surveyed assesses in general showed a high level of awareness about most of the provisions on tax laws and planning. However, few differences were observed as regards their awareness levels on various aspects based on the level of income and employment sector.

The tax planning strategies that received widest acceptance was PF Contribution /Insurance premium and repayment of housing loan.

The most striking observation made was that across all income groups, deduction u/s 80C was not utilized to the fullest.

However only the top-level managers of the public sector were close to claiming the full deduction.

5.8 Conclusion

The study and the analysis of the awareness levels of salaried assesses on the tax provisions and laws revealed that all employees displayed high awareness levels, with respect to various deductions, exemptions and provisions of the income tax act 1961 with a few variations there were noticed among the employees depending on their income groups, savings and job profile. The overall observation was that provident fund and insurance displayed maximum awareness. Salaried tax payers look out for secured investments to utilize their savings where safety is guaranteed, risk is less, returns are maximum and rate of return is high. This justifies why housing loans, provident funds and insurance schemes score high on salaried investments charts.

As far as the tax planning strategies followed by salaried assesse for financial year 2017-2018 was concerned, public provident fund and life insurance received wide acceptance across employees at all levels housing loan repayment was the second choice considering the benefits of deduction and interest repayments. For FY 2017-2018 the maximum deduction available under section 80C is Rs 1.50 lakh. The deduction to the maximum allowable limit was claimed by the top-level managers of the public sector. None of the other categories significantly reduced their taxable income by availing sector 80C deduction relating to specified investments in the nature of long-term savings.

Chapter VI

Section 5A of The Income Tax Act and its Impact on Goans

Goa is the smallest state of India by size located on the West Coast of India with coastline stretching along the Arabian Sea. It has a population of around 1.50 million as per 2011 census. It has one of the highest per capita net state domestic product and the third highest literacy rate in the country. It is the most urbanized State in India with 62.20% urban population. The key economic sectors of Goa consist of tourism, mining, manufacturing, agriculture, fishery and allied activities. About 67% of Goa's population is in the working age group of 15 to 59 years.

6.1 Definition of a "Goan" (with reference to the Portuguese Civil Code 1860)

Goa was liberated from Portuguese regime after 450 years of Portuguese rule on December 19,1961 and became part of India; 14 years after the rest of India got its independence. However, Goa continued to enjoy a distinct identity over the rest of India by virtue of it following the Portuguese Civil Code. The Portuguese Civil Code is still prevalent in the state of Goa in relation to marriage, inheritance, property and other personal matters and is applicable to only Goans. 'Goan' refers to every person who or either of whose parents or any of whose grandparents were born before December 20th, 1961 in Goa.

From 19th December 1961 onwards the people of Goa by virtue of being Indian Citizen are liable to be taxed under the provisions of Income Tax Act,1961 because it is deemed that the said Act is extended to the territory which is newly annexed to the Union of India. Till Section 5A was specifically introduced in Finance Act 1994 effective from 1st April, 1994, the Income Tax Act had not specifically recognised the community of the property which is especially applicable to Goans governed under the Portuguese Civil Code for the purpose of assessment of income tax and therefore there were a number of litigations on the said issue.

6.2 Introduction of Section 5A

Under the provisions of the Income Tax Act 1961, income is taxable in the hands of the person who earns it irrespective of the nature of the income. The exception to this rule is provided by section 5A applicable only to Goans. Income Tax Act 1961 contains specific section 5A which was inserted by Finance Act, 1994 effective retrospectively from 1st April,1963. This section

governs the apportionment of income between spouses governed by Portuguese Civil Code as applicable in the State of Goa and reads as under:

5A (1) "Where the husband and wife are governed by the system of Community of Property (known under the Portuguese Civil Code of 1860 as "COMMUNIAO DOS BENS ") in force in the State of Goa and in the Union territories of Dadra and Nagar Haveli and Daman and Diu, the income of the husband and of the wife under any head of income shall not be assessed as that of such Community of Property (whether treated as an association of persons or a body of individuals), but such income of the husband and of the wife under each head of income (other than under the head "Salaries") shall be apportioned equally between the husband and the wife and the income so apportioned shall be included separately in the total income of the husband and of the wife respectively, and the remaining provisions of this Act shall apply accordingly".(Section 5A(1), Income Tax Act, 1961)

5A (2) "Where the husband or, as the case may be, the wife governed by the aforesaid system of Community of Property has any income under the head "Salaries", such income shall be included in the total income of the spouse who has actually earned it". (Section 5A (2), Income Tax Act, 1961)

The implications of this section on an individual, governed under the Portuguese Civil Code of 1860 as applicable in Goa, is that income from any source earned by either spouse, not being salary, is to be clubbed together, summed up and equally divided in the hands of each spouse. The said income could be in the nature of professional income, business income, income from capital gains from sale of property or financial instruments, rental income from house property, income from interest on bank deposits, interest on bank savings accounts, dividend income or any income from financial instruments. However, salary income will not be apportioned equally between both the spouses and will be taxed in the hands of the spouse who earns it.

6.3 Background and Evolution

The concept of Community of Property was first tested in a court of law in 1974 when the Bombay High Court held that a house property which yielded income became the property of the communion of the husband and wife and they were not liable to be assessed as a 'Body of Individuals'(BOI) but they were entitled to be assessed in their individual and separate capacity under the Income Tax Act. (CIT V Purushotam Gangadhar Bhende [1977] 106 ITR 932).

BOI is a separate taxable entity under the Income Tax Act. Under this status the entire income instead of being equally divided between both the spouse was clubbed together and taxed as a separate entity/person.

Upholding the same view, the Bombay High Court in 1983 held that Income from business run by the communion of the husband and wife married as per the custom of Goa should be assessed separately in equal share to each of them and not in the hands of the Body of individual of the communion. (Addl. CIT V. Valentino F. Pinto [1984] 150 ITR 408).

The above two decisions in respect of income from house property and income from business reinforced and recognised the system prevailing in the State of Goa in the Community of Property between the spouses.

However, subsequently Bombay High Court in 1994 took a different stand with respect to income from salary. It was held that income from salary should be assessed and taxed on such individual who draws the salary and as such the share of income on the basis of the principal of Community of Property need not be adhered to. The Court also held that the income from business, share of income from partnership firm and interest earned on bank accounts has to be assessed in the hands of the Body of Individual consisting of husband and wife and not separately in the hands of each spouse. (CIT V. Modu Timblo (individual) [1994] 206 ITR 647).

In conclusion, the Court in the said case stated that the communion of husband and wife married under the custom of Goa and governed by the Portuguese Civil Code constitutes a Body of Individual for the purpose of the Income Tax Act and it will have to be decided in respect of each head of income whether the income has accrued or arisen to the Body of Individual as such or to its members individually.

In view of the above decision, for a taxpayer domiciled in Goa and who opted for the Portuguese Civil Code it became impossible for him to apply the principal of community of the property in the matter of income tax assessment and became disentitled to claim the benefit of sharing the income between both the spouses and thus of the assessment individually. They all became liable for assessment as Body of Individual which created harshness and resentment amongst the people of Goa since applying the concept of Body of Individual resulted in higher tax outgrow and as such even small businesses had to pay tax. On behalf of Goan assesses this issue was taken up by a core group of Chartered Accountants from Goa before the Finance Ministry. The Finance Minister after grasping the uniqueness of the problem acted to obviate this difficulty by introducing Section 5A in the Income Tax Act in Finance Act, 1994 which

came into force on 1st April, 1994. Retrospectivity was given to this section from 1st April,1963.

The Finance Minister while presenting the Annual Finance budget for 1994-95 made the following statement in his speech which throws more light on the issue. It states as under:

"The system of Community of Property (communiao Dos Bens) is peculiar to the people living in Goa, Daman, Diu Dadra & Nagar Haveli. Recently, certain judicial decision has been handed down according to which business income of a Goanese family becomes taxable entirely in the hands of a single entity. The decisions affect the time honoured method of dividing such income equally and assessing such income separately in the hands of the husband and wife. This I understand has given rise to unnecessary tensions and anxiety amongst Goan couples. To set at rest all controversies in this area, I proposed to make suitable amendments in Income Tax act to ensure that expecting for salaries to any other income arising to the citizens governed by the system of Community of Property in Goa, will be divided equally and assessed separately in the hands of the husband and wife". (Finance Budget,1994-95 Sec (1994)206 ITR(st.)5,30).

Thus, 5A reduced the rigours of the judgement in case of Modu Timblo.

6.4 Critical Analysis

Section 5A as it stands today provides that the income of the husband and wife governed under the Portuguese Civil Code in force in the state of Goa shall be divided equally between the husband and wife and the apportioned income will be included separately in the total income of the respective spouse. This shall apply to all heads of income u/s 14 of the Income Tax Act I.e., Income from House property, Profits & gains of Business and Profession, Capital gains, Income from other Sources except from Income from salary. Income from salary would be taxable in the hands of the spouse who actually earned it. Example of calculation of income applying Section 5A and without it is attached.

Some Goan salaried taxpayers aggrieved by the fact that income from salary under the provisions of Section 5A was taxable in the hands of the person who actually earned it and therefore since they could not apportion the salary equally between both the spouses as was provided for the other heads of income filed a writ petition in the Bombay High Court challenging the constitutional validity of Section 5A on the grounds that it was discriminatory to salaried goan assessees.

It was argued that the sole purpose of bringing about the amendment to the Act by introducing this new section, was to recognise the principal of Community of Property and as such the benefit of sharing of income individually between the husband and wife should have been extended even to salary. This distinction was not based on any substantial differentiation vis-à-vis other income and hence was hostile to salaried person.

The principal ground of the writ was that this stand was violate of Article 14 of the Constitution of India since the provisions of Section 5A discriminated against salaried assessees and was consequently unjust and unequitable. It was further argued that Section 14 of the Income Tax Act provides for the computation of income under five heads of income viz salary, house property, capital gains, profession/business and other sources. Each head of income has to be treated separately for the purpose of computation of income to give specific deduction or computation provided for the respective heads. But this does not change the character of each head of income since all heads are income. If a person is having income from all five heads of income, even though those five heads for the purpose of assessment or computation are treated differently, it does not lose its essential character of income or in other words all the head of income meant the separate nature of income. These heads imply only source of income. The Supreme Court emphasised that Income Tax Act puts tax on income, profits & gains irrespective from the source from which they are derived. That the several heads into which income is divided under the Income Tax Act does not make different kinds of taxes. The tax is always one; but it may arise from different sources to which the different rules of computation have to be applied. (CIT v/s Karanpura Development Co. Ltd. v/s CIT, (SC) 1962).

Hence the contention in the writ was that though Section 14 denotes separate heads of sources of income, in reality and in law all this is income and one head of income cannot be discriminated or taken away or excluded for a different treatment from another head. Therefore, if once Parliament recognises the principal of Community of Property, salary alone cannot be excluded for computing the income of husband and wife.

It was pointed out by relying on another Supreme Court verdict that there are no circumstances or justification for Parliament to exclude Salary when the existing condition in the State of Goa was recognised and that recognition is reflected in enacting Section 5A and thus exclusion of salary under any parameters laid down by the said Supreme Court decision was not justified. (Ram Krishna Dalmia V. Justice S.R. Tendolkar (SC)).

On the other hand, the Government contended that for the calculation of income under the separate heads have been treated separately by the Income Tax Act itself. There was nothing

wrong in excluding salaried person for the purpose of assessement in the manner provided under Section 5A. And even in the case of salaried Goans it was only salary that could not be apportioned. Their balance income whether from house property, other sources, capital gains or professional/business income was to be divided equally between both spouses.

The Income Tax department has justified this stand by stating before the Bombay High Court where the writ was being heard at para 12 of their written submissions as under:

"12. With reference to para .39 of the petition and the grounds set out in para. 41, it is denied that Section 5A of the Income -Tax Act is a colourable piece of legislation and/or that it is arbitrary and discriminatory and/or in any manner whatsoever violative of any fundamental right or Article 300A of the Constitution. The Section was introduced after considering the decisions of the High Court of Bombay and due to the administrative problems arising out of creation of body of individuals. The said section was introduced stating the income would be computed first and then divided between husband and wife so as to overcome the administrative problems, not legal problems. All the decisions of the Bombay High Court having been accepted and the income under the head 'House property' (being divided after the decision in the matter of Purushottam G. Bhende [1977] 106 ITR 932 (Bom)), income from capital gains and other sources are also being assessed separately as decided by the Bombay High Court in the case of Modu Timblo [1994] 206 ITR 647. With reference to business or professional income, the Court decided that the income arose in the hands of the 'body of individuals' which created administrative problems like re-opening settled procedures, adjustment of taxes paid in individual status etc. In order to avoid these procedural problems, the benefit of sharing of income is extended to the business/professional income as well. Hence, introduction of Section 5A cannot be considered as arbitrary and in no way discriminatory against any class of persons. All submissions made by the petitioners in the said paras and the grounds therein which are contrary to and inconsistent with what is stated by me herein and in the rest of the affidavit in reply are denied as though specifically set out herein and traversed."

The Honorable High Court distinguished the arguments put forward in support of division of salary income between spouses by stating that here they were dealing with a fiscal statute and that the reasons stated for assailing the exclusion of salaried persons from the operation of 5A was not based on any legal ground.

It justified 5A for Goans because of the historical background, social conditions and also because for centuries together the people of the State of Goa had been separated from the main stream of the nation during the Portuguese rule. The Court held that it is a well settled principal

that the statute cannot be challenged on the ground that certain persons have been given a special treatment and because the petitioners were not extended that benefit, the statute is bad. That cannot be a ground of challenge much less under Article 14 of the Constitution of India. It is quite natural that the legislature could not embrace all classes of people for the purpose of assessment of tax. The Court referred to a judgement of the Supreme Court wherein it has been held that legislation enacted for the achievement of a particular object or purpose need not be all embracing. It is for the legislature to determine the categories it would embrace within the scope of legislation and merely because certain categories which would stand on the same footing as those which are covered by the legislation are left out would not render laws which has been enacted in any manner discriminatory and violative of the fundamental right guaranteed by Article 14 of the Constitution. (Sakhawant Ali V. State of Orissa (SC)).

The Court held that the argument of the salaried assesses that they should also be included in the category for giving benefit of sharing the salary income between the spouses is a matter of policy. And that the policy may not always fit in the square of logic. As such Parliament is justified in grouping the salaried persons as separate and distinct in that context.

The argument of the petitioners was that once Section 14 of the Income Tax Act operated and classified the income assessed in the manner provided in the Act, then it is the total income from all the sources that is to be shared between husband and wife taking into account principle of Community of Property. According to the petitioners what really is meant by Section 5A is charging of income which stand is erroneous. The computation of income is done under Section 14 of the Act. But Section 5A too has prescribed another method of computation of income as regards the spouses of Goan Origin who follows the rule of Community of Property. Therefore, Section 5A has also laid down a computation by which calculation for each head of income is to be done separately. The income so arrived at under each head of income, except salary, is to be divided equally between both husband and wife. Salary earned by the concerned spouse will be added under the Head Salary to income of the said person without any division.

Therefore, the Bombay High Court in the said case of the Goan Salaried Petitioners held that it is a well settled principal that a fiscal statute cannot be challenged on the ground that certain persons have been given a special treatment and because the petitioners are not extended the benefit, the statute should be banned. This cannot be a ground of challenge much less under article 14 of the Constitution of India. (Goa Salary Taxpayers V. Union of India and Ors [2001, 249 ITR 195 Bom]).

As such the Court concluded that Section 5A is constitutionally valid and rejected the challenge of the petitioners against it.

6.5 Analysis of the impact of Section 5A

(on Goan Salaried employees having income from other sources)

The implication of Section 5A on Goan salaried employees was analysed with respect to the following five questions put forth in the questionnaire.

(A)Whether respondent was governed by section 5A

(B) Whether income of spouse was added to their income

(C) Whether TDS was claimed on other income

(D) Whether they earned income from other sources

(E) Whether they incurred interest on housing loan

(F) Whether Section 5A benefited them in terms of tax planning

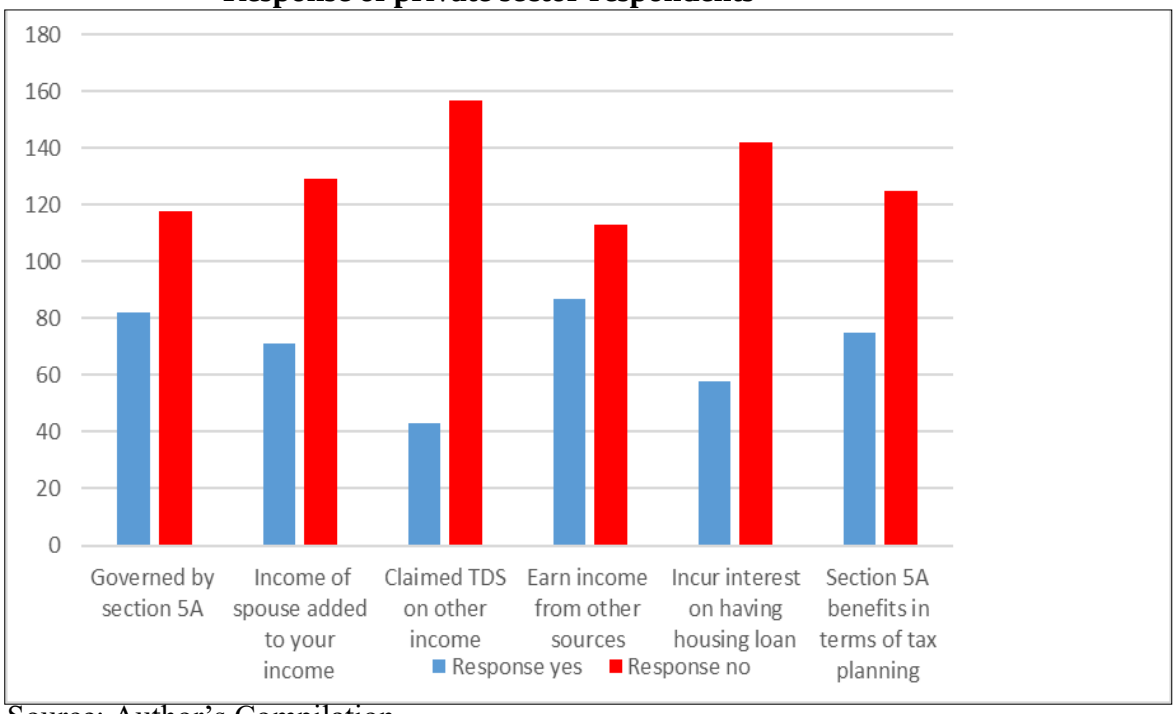
Table 6.1: Response of private sector respondents 200

(A) Governed by section 5A	Yes-82
	No-118
(B) Income of spouse added to your income	Yes-26
	No-174
(C) Claimed TDS on other income	Yes-43
	No-157
(D) Earn income from other sources	Yes-87
	No-113
(E) Incur interest on having housing loan	Yes-58
	No-142
(F) Section 5A benefits in terms of tax planning	Yes -75
	No – 125

Source: Survey Data

Table 6.1 above reflects the responses of private sector respondents on Section 5A

Response of private sector respondents



Source: Author's Compilation

The bar diagram above depicts the responses of private sector respondents

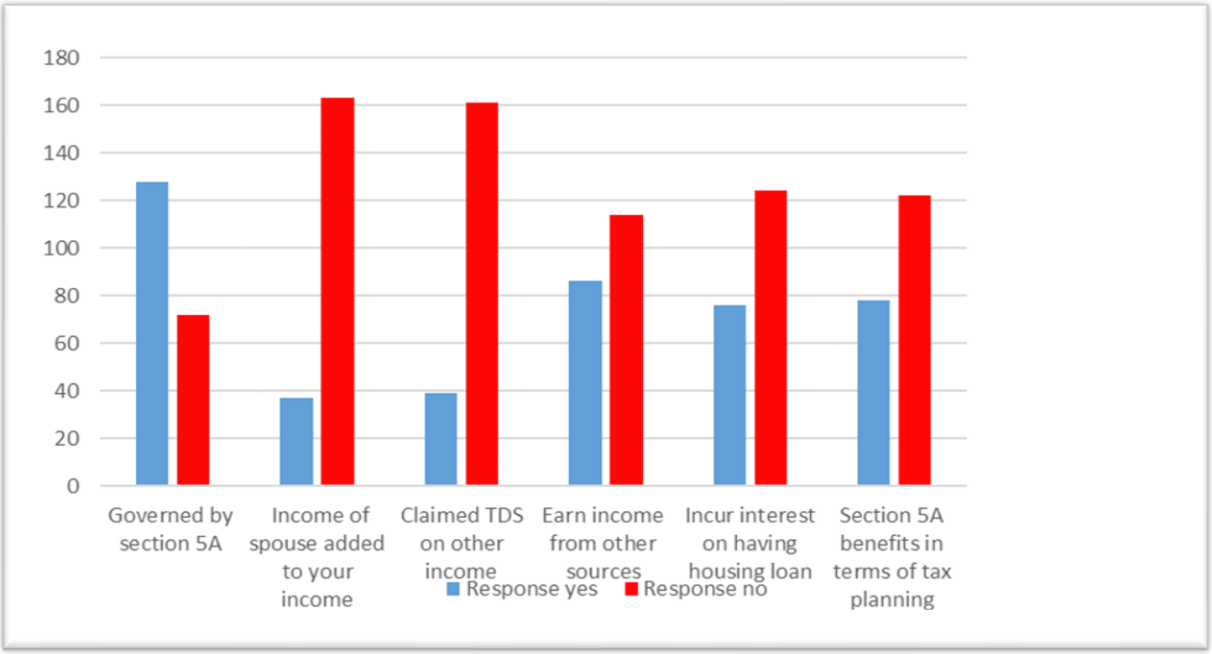
Table 6.2: Response of public sector respondents 200

(A) governed by section 5A	Yes-128
	No-72
(B) Income of spouse added to your income	Yes-37
	No-163
(C) Claimed TDS on other income	Yes-39
	No-161
(D) Earn income from other sources	Yes-86
	No-114
(E) Incur interest on housing loan	Yes-76
	No-124
(F) Section 5A benefits in terms of tax planning	Yes -78
	No - 122

Source: Survey Data

Table 6.2 above reflects the responses of public sector respondents on Section 5A

Response of public sector respondents 200



Source: Author's Compilation

The bar diagram above depicts the responses of private sector respondents

6.6 Survey Results of Total Respondents

The survey covered four hundred salaried asseeses employed in Goa with equal distribution in the private sector and public sector.

Tables 6.3 to Tables 6.8 show the survey results of four hundred salaried asseeses.

Table 6.3: Are you governed under Section 5A of the Income Tax Act 1961?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	82	41	128	64	210	53
NO	118	59	72	36	190	48
	200	100	200	100	400	100

Source: Survey Data

Governed by Section 5A of the Income Tax Act 1961

As per section 5A of the Income Tax Act, all incomes of individuals governed by the Portuguese Civil Code in force in the State of Goa (except salary income from employer) shall be apportioned equally between both the spouses separately. Salary income is not apportioned between both the spouses and is only the income of the person who earns it.

The results of the survey as presented in Table 6.3 show that 41% of the private sector employees and 64% of the public sector employees are governed by the section 5A, which implies that they are Goans governed by the Portuguese Civil Code of 1860 and hence can claim the benefit of apportionment of income under all heads (except salaries) equally between husband and wife and the income so apportioned shall be included separately in the total income of the husband and wife respectively. The balance 59% of the private sector employees and 36% of the public sector employees are not governed by section 5A which implies that they are non Goans.

It appears that there are more Goans employed in the public sector as compared to the private sector. The primary reason-could be that local State Government generally employs locals i.e., Goans.

Table 6.4: Whether income of your spouse is added to your income?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	26	13	37	19	63	16
NO	174	87	163	81	337	84
	200	100	200	100	400	100

Source: Survey Data

Table 6.5: Have you claimed TDS on income other than salary by apportioning it equally?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	43	22	39	20	82	21
NO	157	78	161	80	318	80
	200	100	200	100	400	100

Source: Survey Data

Table 6.6: Do you earn income from other sources?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	87	44	86	43	173	43
NO	113	57	114	57	227	57
	200	100	200	100	400	100

Source: Survey Data

Table 6.7: Do you incur interest on housing loan?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	58	29	76	38	134	34
NO	142	71	124	62	266	67
	200	100	200	100	400	100

Source: Survey Data

Table 6.8: Do you think Section 5A benefits you in terms of Tax planning?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	75	38	78	39	153	38
NO	125	62	122	61	247	62
	200	100	200	100	400	100

Source: Survey Data

6.7 Survey results of respondents governed u/s 5A of the Income Tax Act 1961

This chapter deals with the implications of Section 5A on Goan salaried employees having income from other sources. Hence the final analysis was conducted on eighty-two salaried asseeses who are actually governed u/s 5A of the income Tax 1961.

Tables 6.9 to Table 6.14 show the survey results of eighty-two salaried assesees in the private sector and one hundred and twenty eight salaried assesees in the public sector who are governed by Section 5A.

Table 6.9: Are you governed under Section 5A of the Income Tax Act 1961?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	82	100	128	100	210	100

Source: Survey Data

Table 6.9 above indicates that eighty-two salaried assesses in the private sector and one hundred and twenty-eight salaried assesses in the public sector in Goa are governed under section 5A of the Income Tax Act 1961 and hence can apportion all their incomes (except salary) equally between them.

Table 6.10: Whether income of your spouse is added to your income?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	22	27	36	28	58	28
NO	60	73	92	72	152	72
Total	82	100	128	100	210	100

Source: Survey Data

The results of the survey as presented in Table 6.10 show that in the private sector out of 82 respondents who are governed u/s 5A; 22 respondents are actually dividing their incomes equally; which means that 27% of the private sector employees are governed by section 5A and apportion their incomes equally. In the public sector, out of 128 respondents who are governed u/s 5A; 36 respondents are actually dividing their incomes equally; which implies that 28% of the public sector employees are governed by section 5A and apportion their incomes equally. Therefore, approximately 72% of the private and public sector employees governed under section 5A do not apportion their income with their spouses.

Some of the inferences that can be drawn from this result are as follows

i. Lack of awareness of the applicability of the provisions of Section 5A; whereby this provision of law is mandatorily to be applied by Goans while computation their taxable income and filing their tax returns. All Income tax return forms have incorporated provision to state whether one is governed under section 5A or not.

ii. Non-compliance with the provisions deliberately on account of the tax payer being at a disadvantage by sharing the income with his/her spouse whereby one spouse's income increases to a higher taxable slab or 50pc benefit of deduction on interest on housing loan is lost if the other spouse has no taxable income.

Table 6.11: Have you claimed TDS on income other than salary by apportioning it equally?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	26	32	29	23	55	26
NO	56	68	99	77	155	74
Total	82	100	128	100	210	100

Source: Survey Data

It can be observed from Table 6.11 that 32% of the private sector employees and 23% of the public sector employees governed under section 5A have claimed TDS on other incomes by apportioning it equally. The type of investment incomes which attract TDS are primarily interest on fixed deposit exceeding Rs. 10000/-.

Some of the 5A applicable assesses do not apportion half share of TDS while filing their income tax returns due to practical issue whereby the income tax department while processing the tax returns gives credit for TDS only if the same is reflected in Form 26AS of the assessee. Form 26AS is an annual tax credit statement in which the details of tax credit are maintained for each taxpayer as per the database of Income Tax Department. It gives an overall review of your income tax deducted in a particular financial year at various sources of income like tax deducted on commission income, interest received on fixed deposit, salary etc.

Form 26AS captures TDS fully in the name of the person in whose first name the bank fixed deposit is. This could be the main reason why the percentage of tax payers apportioning TDS between both spouses is low. Although the income tax return provides for division of TDS, the Central Processing Centre (CPC) which processing the tax return does not give credit to apportioned TDS.

Table 6.12: Do you earn income from sources other than salary?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	40	49	66	52	106	50
NO	42	51	62	48	104	50
Total	82	100	128	100	210	100

Source: Survey Data

The survey results as presented in Table 6.12 show that 49% of the private sector employees and 52% of the public sector employees governed by Section 5A have income from other sources, which may include interest on fixed deposits, rent from house property, interest on savings in the post office etc. 40% of private sector employees and 28% of public sector employees to whom provisions of Section 5A are not applicable also have income from other sources. A larger percentage of Goan salaried employees earn income from other sources as compared to non Goan employees.

Table 6.13: Do you incur interest on housing loan?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	35	43	55	43	90	43
NO	47	57	73	57	120	57
Total	82	100	128	100	210	100

Source: Survey Data

The survey results as presented in Table 6.13 show that 43% of the private sector employees and 43% of the public sector employees governed by Section 5A incur interest on housing loan. The repayment of a home loan is divided into two components. It is important to know this before explaining the home loan tax benefits.

- Repayment of Principal Amount.
- Repayment of interest on home loan.

The repayment of principal amount can be claimed as a deduction under section 80C. The interest on home loan can be claimed as a tax deduction under Section 24 upto a maximum amount of Rs. 200000 provided the loan is for a house which is going to be self-occupied;

provided the construction is completed within a period of 5 years from the disbursement date of the home loan. The interest on housing loan be claimed as a deduction by dividing it equally between spouses governed by Section 5A upto a maximum of Rs. 2 lacs.

Interestingly some of the inferences that can be drawn from the above are:

(i) Irrespective of whether Goan employee is in private or public sector Buying a house property by availing housing loan seems to be the most preferred choice irrespective of the fact whether the respondent is in public sector or private sector.

(ii) Another reason for investment in house property could be that besides deduction of interest on loan

(iii) Both spouses can claim deduction as which reduces the taxable income; investment in property gives capital appreciation co-owners upto Rs 2 lacs each. As such for a Goan couple, together the deduction from taxable income can be maximum of Rs 4 lacs.

Table 6.14: Do you think Section 5A benefits you in terms of tax planning?

Response	Private		Public		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
YES	40	49	69	54	109	52
NO	42	51	59	46	101	48
Total	82	100	128	100	210	100

Source: Survey Data

The survey results as presented in Table 6.14 show that 49% of the private sector employees and 54% of the public sector employees governed by Section 5A say it benefits them in terms of tax planning. One can say that nearly half of those employees governed u/s 5A benefit because it results in substantial tax saving if there is income from other heads of income other than salary, i.e., income from bank fixed deposit interest and other investment income, income from capital gains, income from rental house property etc. Interest on housing loan on self-occupied house property is beneficial provided the spouse has taxable income.

The pros and cons of section 5A are explained with example below:

Illustration explaining the impact of Section 5A on Goan Couple

Mr. Fernandes is having net income from business of Rs, 7,50,000 and Mrs. Fernandes is drawing salary of Rs 9,00,000 p.a. Interest on Fixed deposit in hands of Mr. Fernandes is Rs 2,80,000 and Mrs. Fernandes is Rs 2,20,000. Interest on savings account received by Mr. & Mrs. Fernandes is Rs 12,000 & Rs. 8,000 respectively.

Therefore, the computation of total income considering the provisions of Section 5A will be as follows.

Statement of total income as on 31/03/Xxxx

Particulars	Total	Mr. (Amount)	Mrs. (Amount)
Income from salary			
Salary	9,00,000	0	9,00,000
Income from business			
Net profit on business	7,50,000	3,75,000	3,75,000
Income from other sources			
Interest on fixed deposits	5,00,000	2,50,000	2,50,000
Interest on saving account	20,000	10,000	10,000
Gross total income	21,70,000	6,35,000	15,35,000
Less deduction under Chapter VIA			
80C			
PPF	3,00,000	1,50,000	1,50,000
80TTA (interest on saving account)	20,000	10,000	10,000
Net taxable income	18,50,000	4,75,000	13,75,000

Without considering provisions of Section 5A

Particulars	Total	Mr. (Amount)	Mrs. (Amount)
Income from salary			
Salary	9,00,000	0	9,00,000
Income from business			
Net profit on business	7,50,000	7,50,000	0
Income from other sources			
Interest on fixed deposits	5,00,000	2,80,000	2,20,000
Interest on saving account	20,000	12,000	8,000
Gross total income	21,70,000	10,42,000	11,28,000
Less deduction under Chapter VIA			
80C			
PPF	3,00,000	1,50,000	1,50,000
80TTA (interest on saving account)	20,000	10,000	8,000
Net taxable income	18,50,000	8,82,000	9,70,000

As can be seen from the above example Mr. Fernandes is at an advantage if provisions of section 5A are applicable to him as he does not have salary income and all his other incomes are divided equally. However, Mrs. Fernandes is at an advantage if provisions of Section 5A are not applicable to her as half share of her husband's income will not be added to hers and therefore her net taxable income is low. 30% of the private sector employees and 13% of the public sector employees governed under section 5A say the provision does not benefit then. This could be where it results in a higher tax outflow which generally happens when one spouse is not working and the working spouse has interest on housing loan. Also, in case of income from other sources, where all other incomes have to be added to your income.

6.8 Conclusion

In conclusion, Section 5A is a unique Goan specific section incorporated in the Income Tax Act for Goans governed under Portuguese Civil Code and majority of Goans have been benefitting by way of lower taxes thanks to Section 5A.

6.9 References

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Chapter VII

Summary, Findings and Conclusion

Tax planning is a pivotal part of financial planning. Through effective tax planning all elements of the financial plan falls in place in the most effective manner. Taxes can eat into your annual earnings. To counter this, tax planning is a legitimate way of reducing your tax liabilities in any given financial year. It helps you to utilize the tax exemptions, deductions and benefits offered by the authorities in the best possible way to minimize your liabilities.

However salaried individuals are not fully aware of all the tax planning exercises. This refers to the fact that an individual tunes his or her income with the correct number and set of deductions and exemptions so that tax deducted at the end be minimal. This process needs careful research across the financial year and then deciding upon the best of circumstances. Instead most taxpayers rush into tax paying at the end of the fiscal and end up selecting the wrong set of deductions or exemptions. This also sometimes leads to such a situation that a taxpayer ends up paying more taxes than he or she is required to. The Government of India encourages an average salaried employee to invest on savings. It promotes and nurtures the culture of tax savings and channels them into the right sections.

The current study is an effort to evaluate the tax planning measures adopted by the salaried income tax assesees in the State of Goa. An attempt has been made to understand the investment preferences, saving habits, literacy levels on tax provisions and tax planning measures adopted by the salaried individuals employed in public and private sector undertakings across major towns and cities in Goa. The study also covers the implications of Section 5A of the Income Tax Act 1961 which provides for equal division of income from all sources except salary is exclusively applicable to the State of Goa.

The current study was undertaken with the objectives mentioned below

1. To assess the impact of income tax reforms on salaried tax payers in India.
2. To determine the level of awareness of salaried class with respect to tax planning in Goa.
3. To analyse tax planning measures adopted by different segments of salaried class in public and private sector in Goa.

4. To assess the impact of section 5A of the Income Tax act on the total taxable income of eligible salaried class of Goa.

The study was based on the variables mentioned below

1. Saving habits of salaried asseeses
2. Investment choices of salaried asseeses in financial assets.
3. Investment choices of salaried asseeses in physical assets.
4. Outflow of liabilities.
5. Awareness level and tax planning strategies.
6. Tax planning strategies adopted for AY 2018-19.

7. 1 Major Findings

7.1.1 Chapter III: Direct tax reforms in the Indian context

Impact of tax reforms on salaried class in India

In India tax reforms took place independent of interference from any external multilateral agency unlike some other countries. Some of the major changes in personal income tax in India post liberalization were,

- Widening the tax base.
- Lowering the tax rate on income.
- Toning up in the administration of taxation.
- Broadening of exemption limits.

Mentioned below are the reforms that have taken place during the period of study (FY 2005-06 to FY 2017-18)

- Basic exemption limit

  The basic exemption limit was raised from Rs.50000 in F.Y. 2004-05 to Rs. 100000 in F.Y. 2005-06 for individuals. In India gender budgeting appears from FY 2005-06, as women and senior citizen are taken into account for exemption limits in personal income. Since budget 2005 the exemption limit for men, women and senior citizen were increased to Rs. 100000, Rs.135000 and Rs. 185000, from the year 2005-06 to Rs. 250000, Rs. 250000 and Rs. 300000 subsequently to FY 2017-18. Further from FY 2011-12 the age of senior citizens was reduced from 65 years to 60 years and a new category of tax slabs for resident above 80 years was introduced giving them more relaxation in tax rates. This group was called the "resident super senior citizens". The basic exemption limit for this group was Rs. 500000

- Standard deduction

  With effect from AY 2006-07 Standard deduction was abolished on the grounds that there laid an equivalent increase in the basic exemption limit and Section 80C deductions.

- Tax benefits for women tax payers.

  From FY 2005-06, Women enjoyed a higher basic exemption limit or a tax rebate when it came to tax payment on income earned. The higher exemption limit for women below 65 years of age was 135000 and this was subsequently increased upto Rs. 190000 in FY 2009-10. This continued till financial year 2012-13.

- Introduction of Section 80C under Chapter VIA of the I.T Act.

  From FY 2005-06, Section 80C was inserted in the I.T Act 1961, whereby tax payers could claim deduction on payments, contributions or investments in ways specified by income tax laws. The maximum deduction was fixed at Rs. 1 lakh and increased to Rs. 1.50 lakh from FY 2014-15. This decision came subsequent to the withdrawal of rebate under Section 80C.

- Deletion of Section 80L

  Section 80L which provided for a deduction in respect of certain incomes was withdrawn from FY 2005-06.

- Surcharge

  It is pertinent to note that surcharge is levied on the total income tax of the individual. From FY 2005-06 Surcharge was levied at 10% on taxable income above Rs. 10 Lakhs. This continued upto FY 2008-09; from FY 2009-10 surcharge was discontinued and re-introduced back again at the same rate from FY 2013-14 where taxable income exceeded 1 Crore. Thereafter, for the following two financial years 2015-16 and 2016-17 the threshold of taxable income for the purpose of levy of surcharge was unchanged at Rs. 1 crore though the rate of surcharge increased to 12% in FY 2015-16 and 15% in FY 2016-17. However, for FY 2017-18 two thresholds for levying surcharge were introduced as under:

FY 2017-18	Surcharge
Income above 50 lakhs but Less than 1 crore	10%
Income above 1 crore	15%

- Education cess

  The education cess payable was 2% on tax plus surcharge w.e.f FY 2006-07, additional secondary and higher education cess was payable at 1% on tax plus surcharge.

- Rebate

  With the introduction of Section 80C in FY 2005-06 rebate u/s 88 was withdrawn. However, from FY 2013-14 rebate u/s 87A was given to a resident individual whose total income does not exceed Rs. 500000. Rebate was 100% of tax or Rs.2000 whichever is less.

  This came as a small relief to tax payers having income upto Rs. 500000. In FY 2016-17 the rebate u/s 87A was increased to Rs. 5000.

  In the FY 2017-18 the rebate u/s 87A was reduced to Rs. 2500, where the taxable income did not exceed Rs. 350000.

- From FY 2005-06 onwards there have been major increase in tax slabs while the tax rates have remained unchanged.

7.1.2 Chapter IV: Saving habits and investment choices

Savings as a percentage of income

Treat savings as expenses. Savings are "Left overs" after spending. Savings are directly related to investment choices, in simple words the more one saves, the more one can invest.

The table below represents the relation between level of income amongst the four categories of assesses/employees and savings thereof.

Pattern of saving habits of employees

Assessee Categories	Savings
Associate level	Up to 20 per cent
First level managers	Up to 20 per cent
Middle level managers	10 – 30 per cent
Top level managers	10 – 30 per cent

Source: Data Analysis

It is observed that levels of income determine ability to save. As such, it can be seen that the annual savings of the respondents increases as the category of assessee based on his income increases from associate level and first level managers showed savings upto 20% of their annual income while the middle level managers and the top-level managers showed savings upto 30% of their annual income.

Investment choices

Investment choice of employees was studied with respect to investment in financial assets and physical assets.

Financial assets

These consisted of investment in bank deposits, capital markets and others which mainly consisted of provident funds, insurance, pension and other national saving schemes.

Private sector employees were in a better position to make investments in financial assets as compared to public sector employees.

Generally, salaried investors look for need term investment say around 1-5 years, deposits with banks were mostly preferred considering that they are most beneficial in times of need.

Considering that bank deposits still remains a popular choice among salaried employees it can be said that safety is an important factor while doing investments in financial assets. From the survey it is clear that most of them are considering bank deposits as a safe and low risk investment avenue while comparing other investment avenues. Capital market investments was given the second choice by both the private and public sector employees in the first level managers and middle level managers; and in the top-level managers only by private sector employees. Shares and mutual funds are considerate as moderate, high risk avenue and as an emerging avenue for investment.

Physical assets

These consisted of investment in gold, agricultural land, real estate and others which mainly included vehicles.

Real estate topped the list of physical assets for assesses in either sector at the middle level management.

In the public sector, the first level and top-level managers gave their preference to real estate; however, in the private sector the choice was gold.

It appears that real estate exists as one of the top choices for people who are put off by volatility and would like to put an effort to study their investment choices.

Salaried individuals are looking at secure investments. They should invest in government securities and Government bonds which are less risk securities and a good way to utilize their savings. There are no chances of default of these securities.

Insurance, PPF/NSC and gold are coming under a safe and reasonable risk category.

Liability repayment

Housing Loan was the most prominent outflow in terms of liabilities for all salaried employees across all income groups. The reason being that home loan comprises of both principal repayment as well as interest. Tax deductions can be claimed under Section 80C and Section 24(b). Although the housing loan comes with a financial cost, using it smartly can greatly help in reducing financial burden and maximizing tax deductions. This justifies why employees give top priority to housing sector.

7.1.3 Chapter V: Awareness level of employees on tax planning

Awareness levels of Chapter VIA deductions

All employees displayed high awareness level with respect to tax provisions and laws. However, some variations were noticed depending on income groups, savings and job profile. The overall conclusion was that provident fund and insurance displayed maximum awareness.

- Observations on Public sector employees:

  Provident Fund scored maximum awareness among the first level and top level managers.

  Insurance scored maximum for the middle level managers.

  Relief scored minimum awareness among all four levels.

- Observations on Private sector employees:

  Again, Insurance displayed maximum awareness among associate and top level managers.

  Provident fund scored highest for the first level and middle level managers.

  Treatment of handicapped dependent and relief had the lowest level of awareness among all the four levels.

  Salaried tax payers look out for secured investments to utilize their savings and where safety is guaranteed, risk is less, returns are maximum and rate of return is high. This justifies why housing loans, provident funds and insurance scheme score high on salaried investment chart.

7.1.4 Chapter VI: Section 5A of the Income Tax Act 1961and its impact on Goans

As per Section 5A of the Income Tax Act 1961 all incomes of individuals governed by the Portuguese Civil Code in force in the State of Goa (except salary income from employer) shall be apportioned equally between both the spouses separately. Mentioned below are

the findings of the survey and its implications.

- It was observed that 41% of the public sector employees and 64% of the public sector employees are governed by section 5A. It is seen that more Goans are employed in the public sector as compared to the private sector, the primary reason being that the State Government generally gives preference to locals.
- 27% of the private sector employees and 28% of the public sector employees are governed by section 5A and apportion their incomes equally.
- 32% of the private sector employees and 23% of the public sector employees governed by section 5A claim TDS on other incomes by apportioning it equally. The study shows that some of the Section 5A applicable assesses do not apportion half share of TDS as it may not have been reflected in form 26AS. Credit for TDS is given only if the same is reflected in Form 26AS.
- 49% of the private sector employees and 52% of the public sector employees have income from other sources. The study shows that a larger percentage of Goan salaried employees earn income from other sources as compared to non-goan employees.
- 43% of the private sector employees and 43% of the public sector employees incur interest on housing loan. Buying a house seems to be the choice of all employees irrespective of the organization they are working in.

  However, a Goan couple have a district advantage as they together can claim a maximum deduction of Rs. 4 lacs.
- 49% of the private sector employees and 54% of the public sector employees say it benefits them in terms of tax planning as it results in substantial tax saving if there is income from sources other than salary. Interest on housing loan on self-occupied house properly is beneficial provided the spouse has taxable income.

7.2 Tax advice from professionals

Salaried individuals should approach experts like tax consultants, chartered accountants and avoid decisions based on hearsay or half knowledge. It is better to consult experts in this fields. The survey brings out that a significant number of assesses viz 31.50% of public sector and 23% of private sector assesses do not use the services of experts to guide them. The assesses who responded positively to seeking tax and investment advise from professionals comprised 26% from public and 11% from private sector.

7.3 Tax time management

Tax planning is a continuous process. Beginning your tax planning as the financial year commences has great benefits. Often salary earners look at tax planning only by February end. Starting your tax planning early gives you ample time to choose the right mode of insurance, investment & tax saving products. Factors to be considered include ascertaining the gross salary and take-home pay, employers statutory deductions from salary, fixed outgo from salary if any like housing loan equated monthly installments, or other loan obligations, annual education costs of children etc. Survey highlights that 58% of total assesses do indeed plan their investments to mitigate and reduce tax liability at the commencement of every financial year keeping the above factors in mind. However, it appears from the study that in private sector; 5% of the private sector assesses do not believe in tax planning while 27% take planning decisions towards the end of the financial year when they are mandated by the employers to do so for the purpose of determining their tax deduction at source from salary. Similar behavior is seen amongst public sector assesses where 9 % do not plan their investments for tax planning while only 16% do so but do so only towards the end of the financial year to avoid higher tax deduction by their employers.

7.4 Tax planning strategies followed by respondents for FY 2017-18

Public Provident Fund and Life Insurance received wide acceptance across employees at all levels

Public Sector Employees gave preference to provident fund while private sector employees preferred insurance premium.

Housing loan repayment was the second choice for all considering benefit of deduction and interest repayment.

7.5 Total deduction under Chapter VIA

For FY 2017-18, the maximum deduction available under sec 80C is Rs 1.50 lakhs. The deduction to the maximum allowable limit was claimed by the top-level managers of public sector. None of the other categories significantly reduced their taxable income by availing 80C deductions relating to specified investments in the nature of long-term savings.

7.6 Specific provisions under the Income Tax Act 1961

Total agreement was noticed in respect of the following provisions; irrespective of the type of employment of the assessee

1. Increase in chapter VI A deduction
2. Elimination of surcharge
3. Reduction in tax rates
4. Substitution of rebate under section 88 by chapter IV A deduction

7.7 Contribution of the study

This is very first study on tax planning and investment habits and preferences of Salaried individuals in the State of Goa giving equal weightage to Salaried employees in Private sector and Public Sector. The taxation of Goan assesses is unique to the rest of the country by virtue of section 5A of the Income Tax Act applicable only to Goan governed by the Portuguese civil code 1860. This section governs apportionment of income from all heads of taxation between spouses except salary income. Thus, the tax planning and investments are derived from the implications of taxability of income for Goans. This research tries to find out the investment preferences of salaried assesses, analyses the awareness levels of tax provisions and factors influencing their investment choices.

7.8 Policy implications of the study

- The current study suggests the tax payers possess basic awareness but are lacking awareness regarding new investment avenues, retirement planning and estate planning.
- Study will help financial planners and investment advisers, to better understand attitude of salaried individuals regarding personal financial planning and factors which may influence the decision for personal financial.
- Study provides comprehensive idea about individual financial planning concept, process and the different components of the same.

7.9 Suggestions

Over the last few years, the Income Tax Department has undergone a revamp in its approach, from just being a revenue- collecting organization to becoming a more citizen centric one by making available various functionalities on line. Technology intervention through faceless assessments will help build trust within industry and wealth creators.

The following are the suggestions based on the findings of this study:

- Higher indirect tax effects the lower income earning segment of the society. Indirect tax is effectively a consumption tax. Indirect taxes in the form of State VAT, CST, Service Tax, Excise duty, Custom duties etc. constituted more than 60% of total tax revenue. Even after introduction of Goods and Service Tax (GST) taxes w.e.f 1st July 2017 to subsume the above, the 5 slab tax structure in GST is factored to be revenue neutral. Further conceptually consumption taxes in the form of GST are not considered equitable since it effects the poor more than affluent. A higher PIT/GDP ratio could lead to lowering of the GST Revenue neutral rate of 18% thus benefitting a larger section of the population by way of reduced cost of Goods & Services.
- Reduce Corporate tax to 25% from 30% in one go for all corporates, which will encourage businesses to corporatise, spur private investments, enable funds raising for businesses, leveraging for promoters/start-ups**,** increase the rate of return for investors which can be distributed to shareholders or reinvested in business which in turn will increase employment generation, stimulate demand and in turn increase consumption or savings. The reduction in corporate tax rate for all corporates has to be complemented with doing away with various tax incentives and tax breaks. For every 1% reduction in corporate tax rate the Government forgoes 19000-20000 crores in corporate tax revenue which will have to be recouped by increasing the share of PIT to GDP from its current 2 %. The Corporate tax rates in India as a share of total direct tax revenue is around 70% which is on the higher side as compared with other countries. Hence reforming personal income tax should be the focus to ensure redistributive impact of tax.
- The key is to increase the number of taxpayers. Currently only 5.6% of India's population pay personal income tax & out of these the majority are from salaried class. Rationalisation of rates of tax on the lines as was proposed in Direct Tax Code in 2010 which was to replace the over 55-year-old existing income tax Act 1961. The highest tax slab of 30% for Individuals in the Direct Tax Code was for taxable Income above Rs 20 lacs. Factoring for inflation this slab could be Rs 30 lacs today.
- Taxing tax free income like agricultural income, capital gains from sale of listed shares at nominal rates above a predetermined threshold. Agriculture accounts for 18% of India's value added. Exempting agricultural income from tax gives incentive to declare non-agricultural as agricultural and keep resources in sector with lower productivity. Though a politically sensitive subject, a beginning can be made by making it mandatory

for farmers earning agricultural income of more than Rs.2.50 lacs per annum to file tax returns even though there will be no tax liability on account of exempt income. At the same time rich farmers earning agricultural income above a particular limit say Rs 25 lacs per annum could be taxed at a nominal rate. This would help Government assess the impact of agricultural income, determine the nature thereof and initiate the process of taxing it.

- Profits arising from sale of listed shares held for more than 12 months is tax free. Here too a nominal tax rate could be introduced for long term capital gains above a certain threshold.
- Abolition of HUF (Hindu Undivided Family) as a separate legal entity under IT Act. HUF is eligible for the basic tax exemption as well as specific exemptions & rebates just like individual. Overall 9,40,000 HUF's filed Income Tax returns in F.Y. 2014-15. (Utsal Karani 2016). HUF's are used as a legitimate tax structure to reduce tax obligations which would otherwise have been taxes in individual hands.
- Progressivity in personal income tax at the top effective rate of tax. The economic reform had led India to unprecedented levels of inequality. The estimates are that the richest 1% have 22% of all income. (Chancel and Piketty 2005). If that be the case, considering the highest tax rate currently prevailing in India of 35%, this itself should yield tax revenue of 7.7% of GDP which is in contrast of the current total income tax revenue to GDP of less than 2%. Individual income tax returns filed in F.Y.2014-15 with returned income above Rs 25 lacs was over 4,30,000. (Business Line 2017). This is 0.011% of total return filed 36513064. The total returned income filed by this group in 2014-15 is Rs. 3,64,398 crores which is as 22.1% of the total returned income by individuals. The average income returned for these 430000 tax payers is approximately Rs 85 lacs each. This implies that increase in tax on this group would lead to significant rise in in tax revenues.
- Government has initiated a number of measures to increase the tax collections and increase tax payers in the last three years. The significant ones being:
  - Introduction of GST which will ensure trail of all transactions in the supply chain including the details of the manufacturers, distributors, traders and service providers. This will help the Income tax department to even arrive at profit margins of various dealers. Introduction of TDS provisions under the GST, E-way bill to track all

transportation, reverse charge mechanism will further strengthen the trails and boost revenues once GST stabilises.

- Demonetisation of Rs 500 and Rs 1000/- notes on 8th November 2016.
- Digitalisation of economy to reduce cash transactions which is happening at a tremendous pace post demonetisation.
- Black Money & Imposition of Tax Act, 2015 which targeted undisclosed foreign income and assets.
- Income disclosure Scheme (IDS) targeted at domestic black money.
- Pradhan Mantri Garib Kalyan Yojana targeted at undisclosed cash deposits post demonetisation.
- Benami Transactions (prohibition) amended act 2016 which gives authorities more teeth to attach and dispose off Benami properties.
- There are so many transactions which require compulsory quoting of PAN. However, the data of the same may be uploaded to the IT Department taking PAN as the control centre after the end of every year by the third party entities so that the respective Assessing Officer can compare the data uploaded with the return of income and enquire into discrepancies if any. The IT department will get a readymade information at a click of a mouse if all the entities requiring to quote third party PAN upload the data/transactions to the IT Department. Once the data is uploaded, the same can be classified/collected PAN wise and may be reported to the respective Assessing Officer who can compare it with the return uploaded. There has to be a standard format for converting their data into a suitable file format to be uploaded to IT Department.
- It is advisable to upload the scan copies of P&L and Balance Sheet for every business return even if they are u/s 44AD, 44AE, 44ADA to facilitate the Assessing Officer to Compare the investments, loans, sources of income etc. with the data uploaded from third parties.
- It will curb tax evasion since all the details will be available with IT Department and can be compared with the Returns/Balance Sheet/ Profit & Loss Account filed.

All the above efforts are enablers in the process of reducing the size of the black economy, bringing more tax payers in the net to achieve the objective of the Government announced in June 2016 to double number of taxpayers to 100 million and cowering Income tax rates with the end objective of ensuring that personal income tax contributes significantly as a ratio to India's GDP growth.

- Awareness programmes should be conducted by stock broking firms as most of the salaried assesses think that this avenue of investment is a loss making one, for Government employees the Government can have proper financial education consultants about investments in securities stocks and bonds this would enhance the awareness levels with respect to the stock markets.
- Since tax is the main source of income for the Government and the salaried class pay their tax regularly the Government can come forward to implement some welfare schemes by way of housing loans, loans for purchasing domestic appliances, loan for marriage with moderate rate of interest and loan for education.
- Opinion of tax consultant, industrialist and trade unions in respect of tax planning options can be offered for various categories of public and private sector salaried employees by the Government of India.
- Many Goans have documents in Portuguese. The department can consider hiring a translator rather than insisting on translated documents. On similar lines, the High Court or Tribunal judgements vary across States, the tax officer in one State has to be aware of this. This will bring up the training and sensitization issues that have to be taken care of.
- Section 5A of the Income Tax Act 1961

  This provision being unique to Goa and since the income tax forms and procedures are common for entire India, the special reporting requirements of the taxpayer covered under Section 5A was not taken into consideration. Till the times return filing was manual and returns were processed manually by the local jurisdictional officers, the process of assessment, processing and refunds did not cause any issues. Even in the case of processing errors, the rectification process was simple since one could approach the jurisdictional officer in Goa, who being familiar with the implications of provision 5A, would provide a speedy resolution and bring the case to conclusion.

  The issues started when the income tax returns were required to be filed electronically and were processed centrally at the Central Processing Centre (CPC) with the processing being done using higher technology solutions and minimal manual intervention. Since the logic of Section 5A was not taken into account, the processing resulted in wrongly determining returns as defective and incorrect demands on account of non-apportionment of TDS due to matching with Form 26AS. After representations, the Income Tax Department took this matter into consideration and implemented the declaration of being

covered under Section 5A in Part A – Gen and Schedule 5A wherein the taxpayer is required to declare details of spouse and income shared in the income tax return from the Assessment Year 2013-14.

Despite this improvement, the taxpayer continued to face hardship on account of non-apportionment of TDS in line with apportionment of income since the TDS matching logic is PAN based. Despite the Income Tax Department making modifications to Schedule TDS to capture details of TDS of spouse and apportionment thereof the system doesn't apportion the TDS equally between the spouse.

The other major issue affecting the Goan taxpayers subsequent to introduction of e-filing and automated central processing is that there is no provision in the form to declare income of each individual, add the income of spouse and then reduce half thereof to arrive at income as per requirements of Section 5A. For the lack of a better alternative, taxpayer would directly declare half income but would receive notice for adjustment under Section 143(1)(a) for mismatch between income and deduction as compared to Form 26AS. Certain taxpayers in order to avoid mismatch of the income with Form 26AS would show the total income of both spouses and then show half amount as deduction. These taxpayers received enquiries for claiming high deductions since the only possible field in which this amount could be reduced was "any other deduction". This issue also remains unresolved.

The suggested option is that the earning spouse enters the total balance sheet and profit and loss account in ITR 3. The Schedule BP provides for a separate deduction on account of Section 5A wherein the system computes 50% of the income from BP after adjustments. Similar option to be provided under other heads of income. The earning spouse claims 50% of TDS available in Form 26AS against the PAN.

In case of the non-earning spouse, a separate line item be shown in Schedule BP as half share of income of spouse under Section 5A. 50% credit of TDS is shared to the non-earning spouse. The return of the non-earning spouse should be processed as a non-accounts case and should not be marked as defective on account of no P&L and Balance Sheet entered. No tax audit report be made applicable to the non-earning spouse.

7.10 Scope for future research

The scope of the current study is limited to the salaried assesses in the State of Goa. The study evaluates and analyses the tax planning strategies and awareness thereof, saving habits, investment choices, outflow of liabilities adopted by the salaried assesses in Goa for the period covered under study. The income in the study encompasses salary income, income/loss from house property and income from other sources viz interest on bank deposits etc. For the purpose of the study, employees from private sector and public sector were covered. In the private sector multinational corporations and Indian companies across diverse industries ranging from manufacturing to service industry in areas such as telecom, information technology, pharmaceutical, composites etc. were included. In public sector; Central and State Government employees, employees with Government companies and Government corporation and employees of State Government aided colleges and schools were included.

The salaries assesses were classified under four categories based on their levels of income in conjunction with the income tax slabs for individuals. The study also captured the age group and gender of the salaried assesses for better understanding of their risk profile, savings and investment habits.

The uniqueness of this study is that it covers the implications and impact of Section 5A of the Income Tax Act 1961 as applicable to only Goans governed by Portuguese Act 1960.

The study has come up with a number of research issues which can be investigated in the future. Some of them being:

- Comparison between individuals having only income from salary vis-a vis individuals having income from profession or business, house property, capital gains and other sources in the state of Goa considering the implications of section 5A of the Income Tax Act 1961
- The benefits of procedural tax planning for salaried assesses across India.
- Exploring the tax planning benefits for Government employees in comparison to non-Government employees

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Questionnaire

(F.Y. 2017-18 has been taken as the base year)

(Put tick mark in the appropriate column)

Demographic Profile of Respondents

1. Age

   A. Below 30 years ☐ B. Between 30 and 45 years ☐

   C. Above 45 years ☐

2. Gender

   A. Male ☐ B. Female ☐

3. Place of work

   A. Rural ☐ B. Urban ☐ C. Semi Urban ☐

Employment Profile of Respondents

4. Service in completed years:

   A. Below 10 years ☐ B. Between 10 and 20 years ☐

   C. Between 20 and 30 years ☐ D. Above 30 years ☐

5. Sector of Service

   A. Private ☐ B. Public :- State Govt. ☐

   Central Govt. ☐

   Public Sector Undertakings ☐

6. Annual Salary Income for the Financial Year 2017-18

   A. Below Rs. 250,000 ☐ B. Rs. 250,000 to Rs. 500,000 ☐

   C. Rs. 500,000 to Rs. 10,00,000 ☐ D. Above 10,00,000 ☐

7. A. Are you governed under Section 5A of the Income Tax Act 1961? (Refer to explanation of Section 5A on last page*)

   A. Yes ☐ B. No ☐

B. Whether income of your spouse is added to your income ?

A. Yes ☐ B. No ☐

C. Have you claimed TDS on income other than salary by apportioning it equally?

A. Yes ☐ B. No ☐

D. Do you earn income from sources other than Salary ?

A. Yes ☐ B. No ☐

E. Do you incur interest on housing loan ?

A. Yes ☐ B. No ☐

F. Do you think Section 5A benefits you in terms of Tax Planning?

A. Yes ☐ B. No ☐

B. SURVEY DATA:

1. How much of your income in a year is saved in investments?

A. Up to 10% ☐ B. 10-20% ☐ C. 20-30% ☐

D. 30-40% ☐ E. Above 40% ☐

State Your Annual Savings for the Financial Year 2017-2018 under the following:-

		Amount in Rs.
2.1	Financial Assets :-	
2.1.1	With Banks	
2.1.2	Capital Market	
2.1.3	Others, specify……	
	Total (1)	
2.2	Physical Assets:-	
2.2.1	Real Estate	
2.2.2	Agricultural Sector (specify……)	
2.2. 3	Gold	
2.2.4	Others, (specify)	
	Total (2)	
	Total (1+2)	

3. Repayment of Liabilities under the following for the Financial year 2017-2018.

	Liabilities:-	**Amount in Rs.**
3.1 3.2 3.3	Housing Loan Education Loan Others, (specify)……	
	Total	

4. Extent of Awareness Regarding Various Deductions under the Income Tax Act.

(Use X Mark)

		Well Informed	Partly Informed	Uninformed
4.1	Professional Tax.(if applicable)			
4.2	Interest on Housing Loan House Rent Allowance			
4.3	Capital Gain arising from the transfer of Property used for residence			
4.4	Deductions u/s 80C:			
4.4.1	Insurance Premium			
4.4.2	Contribution to Provident Fund/Public Provident Fund			
4.4.3 4.4.4	Investment in National Savings Certificate and Post Office Savings Bank Deposits Tuition Fees of Children			
4.4.5	Subscription to Mutual Fund			
4.4.6	Repayment of Housing Loan (Principal Amount)			
4.4.7	Subscription to approved infrastructure bonds.			
4.4.8	Fixed Deposits in Scheduled Banks/Housing Fin.Corp. for not less than 5 Years			

4.5	Contribution to NPS u/s 80CCD(1B)			
4.6	Contribution to Pension Fund(u/s 80CCC)			
4.7	Deduction in respect of Medical Insurance Policy (u/s 80D)			
4.8	Deduction u/s 80TTA in respect of interest income			
4.9	Treatment of Handicapped Dependents (u/s 80DD)			
4.10	Interest on Loan taken for Higher Education (u/s 80E)			
4.11	Donation to Charitable Fund (u/s 80G)			
	Deduction u/s 80U in respect of disabled person.			
4.12	Relief in respect of Arrear Salary/Advance Salary (u/s 89(1))			

5. **Which of the following Tax Planning strategies adopted by you for the Previous Year 2017-2018**

	Financial Year	**Amount in Rs.**
1.	Deductions Claimed u/s 80C,80CCC (maximum Rs. 1,50,000) 80CCD (1B) (maximum Rs.50,000)	
2.	Amount Invested in:	
	1. PF/PPF	
	2. Life Insurance Policy	
	3. National Savings Certificate, Post Office Savings Bank A/c	
	4. UTI,ULIP	
	5. Approved Mutual Fund	
	6. Approved Pension Fund	
	7. Fixed Deposits (in Scheduled Banks/Housing Fin. Corp. for not less than 5 years)	
	8. Repayment of Housing Loan (Principal Amount)	
	9. Payment of Tuition Fees	
	10. Approved Infrastructure bonds	
	Total	
3.	Interest on Loan taken for Higher Education	
4.	Interest on Housing Loan	
5.	Contribution to Medical Insurance Policy	
6.	Donations to Charitable Fund	
7.	Investments in infrastructure & tax saving bonds u/s 80CCF	
8.	Others if any(specify)	
9.	Relief, if any, claimed :	
	1. Arrear of Salary	

6. **Do you seek the services of a Professional Financial Adviser /Chartered Accountant for making investment decisions?**

A. All times ☐ B. Most of the times ☐ C. Sometimes ☐ D. Hardly any time ☐

7. **When do you formulate your tax plan during a financial year ?**

A. Commencement of the financial year ☐ B. Closing of the financial Year ☐

C. At one's convenience ☐ D. Unplanned ☐

8. Rate Your Opinion on the following:

(Use X Mark)

	Full Approval	Approval	Indifferent	Disapproval	Full Disapproval
Do you think that Income Tax Rates in India are High?					
Do you favour increase in Tax Exemption limit ?					
Do you agree with the idea of rationalization of Tax Rates ?					
Do you feel that Surcharge should be avoided?					
Do you agree with enhancement of maximum limit for Deduction u/s 80C .					
Do you think that substitution of tax rebate u/s Sec.88 by deduction u/s Sec.80 is beneficial to you?					

9. Give Your Recommendations in the Order of their Ranks based on your Priority:

(Priority order 1, 2, 3…..)

	Rank
Tax Rates should be reduced.	
Basic rates should be deducted from all employees at Approval source.	
Liability to tax should be reduced and total tax revenue to the Govt. should be enhanced through widening the tax net.	
Encourage investments in certain tax savings instruments by providing attractive tax incentives.	
Orientation on benefits of tax planning should be initiated	

* Meaning of Section 5A of the Income Tax Act 1961

As per Section 5A of the Income Tax Act, all incomes of individuals governed by the Portuguese Civil Code (except salary income from employer) shall be apportioned equally between both the spouses and added to the total income of each spouse separately. Salary income is not apportioned to both the spouses and is only the income of the person who earns it.

Portuguese Civil Code is applicable only to the State of Goa and Union Territories of Dadra Nagar Haveli and Daman & Diu.