

## Reflection of Tax Saving Behaviour on Individual Income Tax Assesseees

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### Abstract

The present research paper is related with sensitive and personal financial aspects of individual income tax assesseees. The need has been felt by the researcher to undertake an empirical research on the topic to identify the factors that influence the individual assesseees to invest in tax-saving schemes and scope for further investment. Depending upon their risk appetite, an increase has been witnessed in number of investment avenues available for investors such as investment in Life Insurance Premium on the life of specified persons, contribution to Public Provident Fund (PPF), National Saving Certificate, Five Year Term Deposit Schemes in Post Office, Senior Citizen Saving Schemes, Repayment of Housing Loans, National Deposit Plan, Purchase of Mutual Funds, Term Deposits with Banks, Tuition Fees Paid, investment in Notified Bonds of NABARD, Employees Contribution to SPF and EPF, Notified Annuity Plan of LIC and investment in Infrastructure Company etc. These are eligible for deduction under section 80C from the Gross Total Income of the assesseees. The questionnaire has been drafted on the basis of relevant literature. The particulars of investment in tax-saving schemes of the 500 sample assesseees have been collected for the assessment year 2014-2015 from the individual income tax assesseees. Out of 500 respondents, 367 (73.4%) were found to be valid for the purpose of conducting the present study. To ascertain the association between the identified variables and their investment in tax-saving schemes, chi-square test has been applied. It has been observed that maximum assesseees have invested in Life Insurance Policy. Though the main objective of taking Life Insurance Policy is to cover the risk, it is not uncommon that the assesseees turn to invest in LIC Policy to reap the tax benefit and concessions given under the Income Tax Act in India. 88.3% of the sample assesseees have invested in Life Insurance Policy. After analysing the data a significant association between different identified variables (Area of Residence, Marital status and Number of dependents) and that investment in tax saving schemes except in case of Type of Family has been seen. Hence, designing new instruments along with the welfare-maximizing instruments is the relevant subject so that the tax saving behaviour of taxpayers can be changed because such instruments can help in removing the constraints on the choice of tax instruments.

**Keywords:** Annual tax-liability, Assessee, Assessment year, Tax planning and Tax-saving schemes.

## Introduction

Investment in tax-saving schemes is one of the tax planning measures adopted by the individual assesseees. From time to time various tax saving schemes are introduced for the assesseees to invest their income and reduce tax liability. It is not necessary that an assessee earns his income only from salary or house property or business and profession or capital gains or other sources. It means an assessee earns his income from all the above heads. When assesseees earn their income from above five heads, in this case aggregate amount of taxable incomes computed is called gross total income.

Before computing the gross total income taxpayers usually search for the opportunities available in the market to invest their money. Nowadays the markets keep on moving from static to more of dynamic and as a result investors' bend of mind is also continuously changing according to the exposure in investment avenues. Taxpayers have the intention to save tax and they invest more and more money as per their risk taking capacity. It indicates that demographic profiles of the taxpayers have a significant role to play while investing money. Depending upon their risk appetite, there is an increase in number of investment avenues available for investors and taxpayers invest in the best possible way to save more and more so that they can earn regular income and can reduce their tax liability. Level of knowledge about the tax saving avenues also differs from individual to individual which leads to different rates of return from various investments they make. Hence, before analysing tax saving behaviour it becomes necessary to understand the term 'tax-liability'. An Individual's tax liability has its component of calculation of taxable income, which consists of gross income less exempt income and allowable deductions included in Gross income. In other words, these deductions include: employment benefits paid to employees over and above their basic salary or wage (fringe benefits). So, here to understand taxpayers' view point three questions have been asked from respondents. Which avenues they choose to invest their money? What is their level of tax liability and how much they want to save their tax liability? A brief research review was conducted to identify key research findings relevant to the specific research questions of examining how taxpayers usually behave to save tax and how do individuals make decisions for tax saving when they want to reduce their tax liabilities.

Many factors influence the individual assesseees to investment in tax-saving schemes. The investments that are safe and liquid may not have sufficient return. For example, fix deposits in banks are very safe and liquid but yield very low returns. The investments that are highly profitable may not have adequate safety. For example, the private money lending yields very good return, but it is not safe. The

investments that are safe, liquid and profitable may not have any tax concession. The investments that have tax concession may not have liquidity and profitability. Hence, it could be said that the investments for tax savings of individual assesseees is influenced by the factors like tax concession, safety, liquidity and profitability. The government is also interested to know which tax-saving scheme is most preferred by the sample assesseees for further investment, if the maximum qualifying limit for tax saving schemes stand raised. Awareness about tax saving investments is also required. Many countries have savings incentives, some universal, and some targeted at particular groups. Pension saving, asset building, home ownership are the few examples given by authors for the purpose of showing behaviours of taxpayers as these incentives stimulate saving in general or for specific forms of savings and investment. Hence, literature has been reviewed about individuals' behaviour when making investment choices.

## Literature Review

Martin (1951) discussed the question that how the effects of taxes on economic behavior are important for revenue estimation, for calculating efficiency effects, and for understanding short-term macro-economic consequences. The primary focus in this paper was on taxes on labor income but some attention was also given to taxes on income from saving also. Feldstein (1976) concluded that the effect of the personal income tax on portfolio composition is very powerful. Within each income class the pattern of asset holdings have dependence on relative net yields. Thaler and Johnson (1990) also proposed that individuals edit their choices according to various rules, often in a manner that would make their choices most pleasant or least pleasant. Kalyani (1991) conducted a study on tax planning for the financial year 1988-89 and found that tax-saving investments increase along with the income and employees prefer to invest in Life insurance, Provident Fund and National Saving Certificates. Minarik (2003) in his paper answered critically the question: how tax policy should purposefully deviate from efficiency in order to encourage taxpayers to pursue positive economic objectives (such as saving. Poterba (2004) suggested that income tax rates are significant determinants of household portfolio decisions. It was found that those with higher marginal tax rates are more likely to hold tax-exempt assets, either by investing in tax-exempt bonds or by channelling a high fraction of assets into tax-deferred accounts. Evans, Carlon and Massey (2005) conducted a study on record keeping practices and tax compliance of SMEs. This paper explored the relationship between the record keeping practices of small businesses and their potential exposure to tax and related business compliance problems. The research has shown that there was some dissonance between perceptions and reality. Natarajan (2008) conducted a study on factors influencing

investment in tax-saving schemes. The study was undertaken among salaried assesses in Erode District of Tamil Nadu to provide a valid solution, both to the assesseees and to the government as the government is also interested to know which tax-saving scheme is mostly preferred by the salaried assesseees for investment. Collard (2009) in the key findings talked about the attitudes and reported that attitudes to risk depend on a wide variety of factors including age, income and wealth, gender, marital status, personality, educational attainment, and level of financial knowledge and experience. There is fairly consistent evidence that women are more risk-averse than men in their attitudes and behaviours towards investment decisions and it is relatively easier for individuals and businesses to switch from one investment to another. Lewis and Messy (2012) worked on the view point that Compulsory saving schemes need to be distinguished from payroll taxation that is typically used to fund pay-as-you-go pensions or social security payments. The Pension Saving which is much needed to encourage saving for retirement, to reduce poverty and reliance on welfare benefits in old age. General saving amongst particular groups includes different options in different countries to stimulate formal saving.

### Need of the Study

Without having knowledge on which profile affects selection of tax-saving schemes by the sample assesseees for investment, the government cannot raise the maximum qualifying limit for tax-saving schemes under section 80C of the Income Tax Act. Hence, this study has been undertaken to find out which extrinsic demographic variables mostly affects investment in tax saving schemes. Though micro level research has been done on this topic, no empirical study is made on this topic. Since the research is related with sensitive and personal financial aspects of assesseees, the researcher feels it necessary to undertake an empirical research on this topic to identify the factors that influence the individual assesseees to invest in tax-saving schemes and scope for further investment.

### Objective of the Study

The objective of this paper is to examine the investment behaviour of individual taxpayers while saving tax under the provisions of Income Tax Law regarding various aspects of direct taxes affecting them.

### Research Methodology

To collect primary data, questionnaires were distributed personally to 500 persons in the three cities of Punjab state of India namely: Amritsar, Jalandhar, Ludhiana and union territory of Chandigarh. The data has been collected from the month of January 2015 to March 2015. The questionnaire has been drafted on the basis of relevant literature. The particulars of investment in tax-saving

schemes of the 500 sample assesseees have been collected for the assessment year 2014-2015 from the individual income tax assesseees. In all, 385 respondents replied back and 367 (73.4%) were found to be valid for the purpose of conducting the present study. To ascertain the association between the identified variables and their investment in tax-saving schemes, Chi-square test has been applied.

### Analysis Framework

After defining the avenues for tax saving, perceptions of individual assesseees towards tax-saving schemes have been analysed on the following basis:-

1. Distribution of sample assesseees on the basis of their choices for investment in tax-saving schemes
2. Distribution of sample assesseees on the basis of their level of investment in tax-saving schemes
3. Distribution of sample assesseees on the basis of their level of annual tax liability
4. Distribution of sample assesseees on the basis of level of taxable income and average investment in various tax-saving schemes
5. Impact of extrinsic demographic factors on investors' investment in various tax-saving schemes.
6. Relationship between extrinsic demographic factors and investment in tax-saving schemes

The main focus of the review was investment behaviour in relation to various tax saving schemes like provident funds, insurance policies, and this is reflected in the research that was identified. On the basis of available literature, the investment in tax-saving schemes is found associated with four identified variables of the sample assesseees namely: Area of Residence, Marital status, Number of dependents in the family and Type of family. Broadly, for the purpose of studying investment in tax-saving schemes in association with four identified variables of the sample assesseees following hypotheses were constructed:-

**H<sub>01</sub>:** There is no significant difference in the choice of assesseees towards various tax-saving schemes

**H<sub>02</sub>:** There is no significant difference in the level of investment towards various tax-saving schemes

**H<sub>03</sub>:** There is no significant difference in the annual tax liability and various demographics profile of the assesseees

**H<sub>04</sub>:** There is no significant difference in the area of residence of the assesseees and level of investment towards various tax-saving schemes

**H<sub>05</sub>:** There is no significant difference in the marital status of the assesseees and level of investment towards various tax-saving schemes

**H<sub>06</sub>:** There is no significant difference in the type of family of the assessee and level of investment towards various tax-saving schemes

**H<sub>07</sub>:** There is no significant difference in the number of dependents of the assessee and level of investment towards various tax-saving schemes

#### Analysis on the Basis of Sample Assessee for their Level of Investment in Various Tax Saving Schemes:

Respondents were asked to give their preferences to indicate their behaviour for the choices they make and following

descriptive were found. With the help of statistical tools the constructed hypotheses were tested and as shown in Table 1.1 it could be found that maximum assessee have invested in Life Insurance Policy. Though the main objective of taking Life Insurance Policy is to cover the risk, it is not uncommon that the assessee turn to invest in Life Insurance Policy to reap the tax benefit and concessions given under the Income Tax Act. 88.3 per cent of the sample assessee have invested in Life Insurance Policy.

**Hypothesis: H<sub>01</sub>-** There is no significant difference in the choice of assessee towards various tax-saving schemes.

**Table 1.1**  
Distribution of Sample Assessee on the Basis of their Investment in Tax-saving Schemes

S. No.	Tax Saving Schemes/Avenues	No. of Assessee Invested	No. of Assessee Not Invested	Total
1.	Life Insurance Policy	324 (88.3)	43 (11.7)	367 (100)
2.	Contribution to Public Provident Fund (PPF)	257 (70.0)	110 (30.0)	367 (100)
3.	National Saving Certificates	190 (51.8)	177 (48.2)	367 (100)
4.	5-Year Time Deposit Schemes in Post Office	138 (37.6)	229 (62.4)	367 (100)
5.	Senior Citizens Saving Schemes	76 (20.7)	291 (79.3)	367 (100)
6.	Repayment of Housing Loan	132 (36.0)	233 (63.5)	367 (100)
7.	Purchase of Mutual Fund Units	221 (60.2)	146 (39.8)	367 (100)
8.	Term Deposit with Bank	278 (75.7)	89 (24.3)	367 (100)
9.	Investment in notified bonds of NABARD	61 (16.6)	306 (83.4)	367 (100)
10.	Employee's Contribution to SPF or RPF	114 (31.1)	253 (68.9)	367 (100)
11.	Notified Annuity Plan of LIC	37 (10.1)	330 (89.9)	367 (100)
12.	Investment in Infrastructure Company	115 (31.3)	252 (68.7)	367 (100)
13.	Medical Insurance Premium	199 (54.2)	168 (45.8)	367 (100)
14.	Precious metals like Gold/ Silver	200 (54.5)	167 (45.5)	367 (100)
15.	Stock market to earn from dividends and capital gains to pay tax	186 (50.7)	181 (49.3)	367 (100)
16.	Any other	78 (21.3)	289 (78.7)	367 (100)

Source: Primary Data

Note: Figures in parentheses represent percentages

#### Analysis on the Basis of Level of Investment in Various Tax Saving Schemes:

**Hypothesis: H<sub>02</sub>** - There is no significant difference in the level of investment towards various tax-saving schemes.

For the purpose of this study, in Table 1.2, the total sample respondents have been classified and analysed on the basis of their level of investment in various tax-saving schemes for the assessment year 2014-15.

**Table 1.2**  
Distribution of Sample Assessee on the Basis of their Level of Investment in Tax-saving Schemes

Investment to Save Annual Tax Liability (In Rupees)	No. of Respondents	Percentage
Upto 50000	99	27.0
50001-70000	104	28.3
Above 70000	164	44.7
Total	367	100.0

Source: Primary Data

Table 1.2 clearly indicates that out of 367 sample assesseees, 27 per cent of the sample assesseees have invested upto Rupees 50,000 and 28.3 per cent of the sample assesseees have invested among Rupees 50,000 to Rupees 70,000, and 44.7 per cent of the sample assesseees have invested above Rupees 70,000 in various tax-saving schemes for the assessment year 2014-15.

**Analysis on the Basis of Level of Annual Tax Liability:**

The total sample respondents have been classified and analysed on the basis of their level of annual tax liability for the assessment year 2014-2015.

**Hypothesis: H<sub>03</sub>** - There is no significant difference in the annual tax liability.

Table 1.3 reveals that, out of 367 respondents, 29.2 per cent of the sample assesseees have annual tax liability upto Rupees 10,000 and 24 per cent of the sample assesseees have annual tax liability among Rupees 10,001 to 25,000. 30.8 per cent of the sample assesseees have annual tax liability among Rupees 25,001 and 50,000 and only 16.1 per cent of the sample assesseees have annual tax liability above Rupees 50,000.

**Table 1.3**  
**Distribution of Sample Assesseees on the Basis of their Level of Annual Tax Liability**

Annual Tax Liability (In Rupees)	Number of Respondents	Percentage
Upto 10000	107	29.2
10001-25000	88	24.0
25001-50000	113	30.8
Above 50000	59	16.1
<b>Total</b>	<b>367</b>	<b>100.0</b>

Source: Primary Data

**Association between Independent Variables and Investment in Tax Saving Schemes**

In this section, an attempt has been made to examine the association between independent Variables of the 367 sample assesseees and their level of investment in tax-saving schemes. The identified variables which might influence the investment in tax-saving schemes are: Area of Residence, Marital status, Type of Family and Number of Dependents.

**(a) Area of Residence and Level of Investment in Tax Saving Schemes**

**Hypothesis: H<sub>04</sub>** - There is no association between area of residence and level of investment in tax-saving schemes of the sample assesseees.

The area of residence of assesseees may influence the investment in Tax-saving Schemes. The assesseees living in rural have no scope to invest their money in proper way in other schemes so, they invest in tax saving schemes. Their investment in tax-saving schemes would be greater than the assesseees living in urban area due to influence of economic and social condition. For this study to ascertain the association between area of residence and level of investment in tax saving schemes, the sample assesseees have been classified into three groups on the basis of their area of residence i.e. Group A: Urban Assesseees, Group B: Semi Urban Assesseees, Group C: Rural as depicted in Table 1.4.

**Table 1.4**  
**Chi-square Calculation for Association between Area of Residence of the Assesseees and Level of Investment in Tax-saving Schemes**

Area of Residence	Investment in Tax saving Schemes(In Rupees)			Total
	Upto 50000	50001-70000	Above70000	
<b>Urban Assesseees</b>	47	82	118	247
<b>%</b>	19.0%	33.2%	47.8%	100.0%
<b>Semi Urban Assesseees</b>	43	20	45	108
<b>%</b>	39.8%	18.5%	41.7%	100.0%
<b>Rural Assesseees</b>	9	2	1	12
<b>%</b>	75.0%	16.7%	8.3%	100.0%
<b>Total</b>	99	104	164	367
<b>%</b>	27.0%	28.3%	44.7%	100.0%

Source: Primary Data

Test Statistics:  $\chi^2$  Value: 33.249, df=4, Sig=.000, Level of significance 0.05%, Significant

Inferences: The  $X^2$  results indicate that there is significant relation in the area of residence and level of investment towards various tax saving schemes, so the hypothesis is rejected. Hence, it could be concluded that investment in tax saving schemes is not independent of area of residence of the assesseees.

(b) Marital Status and Level of Investment in Tax Saving Schemes

Hypothesis:  $H_{05}$ - There is no significant difference in the marital status of the assesseees and level of investment towards various tax-saving schemes.

The investment attitude of the individual assesseees would differ according to their marital status. The investment in tax-saving schemes of the married assesseees would be different from that of bachelor assesseees. The married assesseees, with lot of responsibilities towards their family, so spend their money on them and they are very cautious while investing their money in tax-saving schemes. The bachelor assesseees invest more than married assesseees because they have no responsibilities about the expenditure of their family. To analyse that there is no significant difference in the choice of assesseees towards various tax-saving schemes on marital grounds Table 1.5 depicts:-

**Table 1.5**  
**Chi-square Calculation for Association between Marital Status of the Assesseees and Level of Investment in Tax-saving Schemes**

Marital Status	Investment in Taxsaving Schemes(In Rupees)			Total
	Upto 50000	50001-70000	Above 70000	
<b>Married Assesseees</b>	45	48	23	116
<b>%</b>	38.8%	41.4%	19.8%	100.0%
<b>Unmarried Assesseees</b>	54	56	141	251
<b>%</b>	21.5%	22.3%	56.2%	100.0%
<b>Total</b>	99	104	164	367
<b>%</b>	27.0%	28.3%	44.7%	100.0%

Source: Primary Data

Test Statistics:  $\chi^2$  Value: 42.416,  $df=2$ ,  $Sig=.000$ , Level of significance 0.05%, Significant

Inferences: Table 1.5 indicates that for 2 degrees of freedom at 5 percent level of significance the association between the two variables is significant. Thus, the hypothesis that there is no significance in the marital status and level of investment towards various tax saving schemes is rejected. Hence, it could be concluded that there is significant association between marital status of the assesseees and investment in tax saving schemes of the sample assesseees.

(c) Types of Family and Level of Investment in Tax Saving Schemes

Hypothesis:  $H_{06}$ - There is no significant difference in the type of family of the assesseees and level of investment

towards various tax-saving schemes.

The investment attitude of the individual assesseees towards investment in tax-saving schemes may differ according to the types of family to which they belong. In case of joint families, other members of the family may assist the assesseees, his responsibility towards his family is likely to be less. But, at the same time he may contribute his earnings to members in the family. In case of nuclear family, the assessee may not get any assistance from other members of the family and his responsibility towards his family is more. Therefore, he may invest higher amount in tax saving schemes.

**Table 1.6**  
**Chi-square Calculation for Association between the Types of Family of the Assesseees and Level of Investment in Tax-saving Schemes**

Types of Family	Investment in Tax saving Schemes (In Rupees)			Total
	Upto 50000	50001-70000	Above 70000	
<b>Nuclear Family</b>	64	77	105	246
<b>%</b>	26.0%	31.3%	42.7%	100.0%
<b>Joint Family</b>	35	27	59	121
<b>%</b>	28.9%	22.3%	48.8%	100.0%
<b>Total</b>	99	104	164	367
<b>%</b>	27.0%	28.3%	44.7%	100.0%

Source: Primary Data

Test Statistics:  $\chi^2$  Value: 3.236,  $df = 2$ ,  $Sig=.198$ , Level of significance 0.05%, Insignificant

Inferences: Table 1.6 exhibits the association between type of family and level of investment in tax-saving schemes of the sample assessees. Table 1.6 shows that the calculated value of Chi-square is 3.236 for 2 degrees of freedom at 5 percent level of significance which is insignificant. Thus, the hypothesis that there is no significant association in the types of family and level of investment towards various tax saving schemes is accepted. Hence, it could be concluded that investment in tax saving schemes of the sample assessees is free from types of family of the assessees.

#### (d) Number of Dependents and Level of Investment in Tax Saving Schemes

**Hypothesis:  $H_{07}$** - There is no significant difference in the number of dependents of the assessees and level of

investment towards various tax-saving schemes.

It is possible that the number of dependents of the assessees may have an association with their investment in tax-saving schemes. Assessees having more dependent members could invest in their name and can enjoy tax concession. But assessees with less number of dependents cannot have this facility and hence they invest lesser amount comparatively.

For the purpose of this study, to ascertain the association between number of dependents and level of investment in tax-saving schemes, the sample assessees have been classified into three groups on the basis of their number of dependents viz. Group A: None, Group B: One, Group C: Two dependents, Group D: Three or more dependents as shown in Table 1.7.

**Table 1.7**  
**Chi-square Calculation for Association between the Number of Dependents of the Assessees and Level of Investment in Tax-saving Schemes**

No. of Dependents	Investment in Tax-saving Schemes (In Rupees)			Total
	Upto 50000	50001-70000	Above 70000	
<b>None</b>	49	38	23	110
<b>%</b>	44.5%	34.5%	20.9%	100.0%
<b>One</b>	18	26	51	95
<b>%</b>	18.9%	27.4%	53.7%	100.0%
<b>Two</b>	21	34	60	115
	18.3%	29.6%	52.2%	100.0%
<b>3 or more</b>	11	6	30	47
	23.4%	12.8%	63.8%	100.0%
<b>Total</b>	99	104	164	367
	27.0%	28.3%	44.7%	100.0%

Source: Primary Data

Test Statistics:  $\chi^2$  Value: 44.863,  $df=6$ ,  $Sig=.000$ , Level of Significance 0.05%, Significant

Inferences: Table 1.7 exhibits that the calculated value of Chi-square is 44.863 for 6 degrees of freedom at 5 percent level of significance which is significant. Thus, the hypothesis that there is no significant association in the number of dependents and level of investment towards various tax saving schemes is rejected. Hence, it could be concluded that investment in tax saving schemes of the sample assessees is not independent from number of dependents of the assessees.

#### Discussion

Individual assessees have various options/tax-saving schemes to invest their taxable money to reduce their tax liability. Level of investment of individual assessees is different. There is a close association between investment and identified variables. The annual tax liability is different on the Gross Total Income because every individual invests their money according to their own view. There is a significant association between different identified variables (Area of Residence, Marital status and Number of dependents) and that investment in tax saving schemes except in case of Type of Family. Hence, it could be

concluded that investment in tax saving schemes of the sample assessees is independent from Type of Family of the assessees. There may be various reasons for such outcomes. One reason may be that the assessees may not be aware of these tax-saving schemes. Another reason may be that many assessees may have apprehensions regarding the safety of these investment avenues. The other reason for poor investment may be the infrastructure company bonds which are not open for investment throughout the year as is the case of other tax saving investment options. For instance, it is found that the maximum of the sample assessees have contributed in the LIC because any amount that you pay towards Life Insurance Premium for yourself, your spouse or your children can also be included in section 80C Deduction. Mostly salaried assessees invest in SPF or RPF, instead of PPF. In a study by Kalyani (1991) on tax planning for the financial year 1988-89 found that tax-saving investments increase along with the income and employees prefer to invest in Life insurance, Provident Fund and National Saving Certificates. Burman (2011), a tax economist concluded in testimony before the Senate Committee on Finance that "one might expect high tax rates

to deter work and saving, but in fact the effects are ambiguous. Empirically, the total response appears to be very small or even zero on average” (Burman 2011).

Conclusively, it can be said that the identified variables, majorly extrinsic demographic variables play significant role in taking decision regarding tax-saving schemes. The strategies required for popularising the tax-saving investment schemes are dependent on some other factors which can be found in future researches. Recent work has also emphasized that tax policy towards saving and risk taking cannot be studied in isolation from the effects on other areas of the economy. Hence, it is suggested that the sponsoring institutions should create awareness among the assesseees through various programs such as print media, electronic mass-media, meeting and conference to popularize these tax-saving schemes and remove the vague fear among the assesseees about the safety of the investment. The financial institutions, which manage these investment schemes are autonomous bodies and have a high reputation and efficiency. Moreover, these tax-saving investment schemes are continuously monitored and controlled by the securities and exchange board of India (SEBI). Annual dividend is automatically credited in the assessee’s Electronic Bank Account. Further, these securities should be made available throughout the year as is the case of other tax-saving investment options. Investment in these bonds and units offer excellent return. Infrastructure Bonds are issued by infrastructure companies, and not by the government. The amount that one invests in these bonds can also be included in Section 80C Deductions. When the government has given a wide choice of investing money according to the assessee’s financial condition and taste, it is the prime duty of individual assessee to utilise his/her choices and reap the harvest.

Taxation has an effect on risk taking behaviour which in other words is called tax evasion. As first explored in the articles by Allingham and Sandmo (1972) and Srinivasan (1973), models of tax evasion have several features in common with analyses of portfolio choice. The taxpayer is supposed to have a given income, and he is deciding on the fraction of it to report to the tax authorities. On this fraction he will pay tax at the regular rate, while on the amount evaded he pays either nothing or, in case he is detected, at a penalty rate which is higher than the regular tax rate. The taxpayer is assumed to maximize expected utility (according to Allingham and Sandmo) or expected net income (according to Srinivasan). One can then derive comparative statics results for the effects of changes in the tax parameters and the probability of detection. Individuals' willingness to bear risk reveals itself not only in their choice of portfolio composition but also in other areas of economic decision making. There are certain areas which influence the investment in tax-saving schemes. One of these is occupational choice, and the effects of taxation on the choice

between safe and risky occupations have been explored by Kanbur (1981). His analysis provides some interesting contrasts with the portfolio choice framework. First, occupational choice is treated as one between mutually exclusive alternatives; the individual is not allowed to choose a portfolio of occupations. Second, because of this assumption, an equilibrium distribution of agents among occupations cannot be defined in partial equilibrium marginal utility terms, but must be defined in terms of equality between total expected utilities of alternative occupations. Therefore, unlike in the portfolio choice framework, one cannot ask questions about the individual behavioural response to changes in the level of taxation; the effect has to be evaluated in terms of the equilibrium distribution of the population between occupations.

### Concluding Remarks

To conclude, the institutions, market structure and tax system of each country must be expected to influence behaviour with respect to saving and portfolio choice. The most important insight derived from the present work is that there are no easy options in tax policy with respect to saving and risk taking. Feasible tax systems all involve distortions of the decisions made by consumers and firms, and one faces the now familiar second-best problem of designing tax systems which are welfare-maximizing subject to the constraints on the choice of tax instruments.

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