

The Dynamics of Tax, Investment and Income: An Empirical study

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ABSTRACT

Taxes and investment are the two vital forces shaping exchequer revenues and economic development, in this paper an attempt has been made to understand the motive of taxpayers behind investment in various financial assets instrumental in reducing tax liability of a person, A well structured questionnaire have been used to collect the primary data from the respondents, secondary data has been collected from various journals, newspapers etc. The results portray that income, Gender, and Age play a significant role behind motive of investment in various tax saving schemes.

Keywords: Exchequer, Financial Assets, Motive, Person.

I. INTRODUCTION

Taxes and investment are the two important pillars of Economy, taxes and investments are necessary to the government revenues and to the economic development of the country. Income Tax is a levy charged on income while Investment involves making a sacrifice of present consumption with the hope of deriving future benefits. Taxes in both forms; Direct or indirect, directly contributes to the government treasuries and investment in financial assets are a direct source to the economic growth of the country. the dilemma and the interest of the governmental agencies should always consider whether the tax saving schemes enhances investment and the extent of deductions that should be allowed to individuals to lessen the tax liability by investing in different tax saving schemes as reducing the tax liability would result in less revenues from tax and less investment in financial assets is not an embrace for the economic growth. Since 1970s, in India, the tax revenue/GDP ratio has remained in the band of 6-10 percent of GDP.

II. LITERATURE REVIEW

The Income tax act is an important component of the fiscal policy, the credit for starting the research work in the area of taxation goes to the Government of India, in this section an attempt has been made to review some of the important and relevant research work regarding the subject.

(Rajitha Nair, Shivram Gopalkrishnan and Yashika) [1] , found gender and age being an influential factor in the opinion making of saving or paying tax, it was found that socio-economic status also plays an important role in deciding about the tax options. They suggested that the tax payers before choosing any tax saving options one need to search out the benefits of the schemes available and lookout from one's perspective and decide on the basis of risk, return, liquidity and flexibility.

The tax saving schemes is a tool for inculcating the saving and investment habit and a way of channelizing the resource for productive purposes but it is not very encouraging attempt because people don't save with intention for making productive investment but save for lessening the tax burden, the author further added that a sound and rational tax structure of a country plays a key role in developing saving and investment habits among the tax payers (Radha Gupta[2])

(Ankita[3]), in her study propounded that a small attempt to rationalize the personal income tax structure can bring benefits to the govt as well as to the people in the form of (a) increase in the number of assesses (b) high rate of GDP (c) more compliance to the tax laws and (d) better well being of the individuals

The effect of taxation varies according to the base of tax, rate of tax and level of tax burden, Taxes affect the willingness and ability of a individual to save, work and invest (Peter and Ian [4]).

(Rajini Bedi [5]) was of the opinion that the frequent amendments in the tax laws should be avoided in order to reduce complexity of tax laws, the total impact of the tax deductions should be examined as they seem not to fit any definite principles, a suggestion was put forth to review the tax saving schemes and/or eliminate the schemes where ever possible

(Chitta Ranjan Sarkar [6]) concluded that the basic purpose of various tax savings schemes is to motivate the taxable assesses to invest and save more, particularly in backward and rural areas of India.

III. OBJECTIVES OF THE STUDY

To understand the motive of taxpayers behind investment in tax saving schemes- to lessen the tax burden or future savings

To analyse the role income, gender and age behind the investment motives

IV. HYPOTHESES

H1: Income is the dependent factor behind the motive of Investment

H2: Gender is the dependent factor behind the motive of Investment

H3: Age is the dependent factor behind the motive of Investment

V. RESEARCH METHODOLOGY

A well structured questionnaire has been used to collect the primary data from the respondents, the respondents comprised of Assistant Professors, Associate professors, and Professors across departments of Jammu University. The sample size of 119 was calculated using the online sample size calculator compromising of the formula given below. Secondary data has been collected from different journals, Newspapers, articles, websites and books.

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

Where:

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

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

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

VI. DATA ANALYSIS AND INTERPRETATION

The profile of the respondents has been represented with the help of tables given below, Gender and age is shown in TABLE 1 while TABLE 2 depict the Socio-Economic status of respondents

Table 1: Demographic Data

	No of Respondents	% of total
Gender		
Male	76	63.87
Female	43	36.13
Total	119	100
Age		
26-30	20	16.81
31-35	34	28.57
35 & above	65	54.62
Total	119	100

Table 2: Socio-Economic Status

	No of Respondents	Percentage of total
Income		
5 Lakhs- 10 Lakhs	54	45.38

10 Lakhs and above	65	54.62
Total	119	100

The respondents constitute of gender being male for 63.87% while 36.13 that of gender as females, the age of the respondents is observed of 16.81% those having age between 26-30 years, 28.57 % aged between 31-35 years and 54.62% aged 35 years and above, most of the respondents have been observed having age of more than 35 years. The income of the respondents have been divided in two groups, 45.38% of the respondents with annual income of 5 Lakhs-10 Lakhs and 54.62 % of respondents with annual income of over 10 Lakhs. The information collected from respondents is assimilated and the same is shown in table 3.

Table 3

Opinion	No of Respondents	Percentage of total
I invest in tax saving schemes to reduce my tax liability and consider tax savings.	64	53.78
I invest in tax saving schemes only for future gains and do not consider tax savings.	55	46.22
Total	119	100

53.78 % of the respondents invest in tax saving schemes with the motive of saving tax where it was found that 64 out of the 119 respondents prefer to lessen their tax liability and that of 46.22 % (55 out of 119) invest with the motive of future gains. Chi square test was applied to test the relationship of Income, Gender and Age behind the motives of investment and same is shown in table 4, 5 and 6 respectively.

Table 4: Application of Chi Square for Income Wise Classification

Income	Invest to Save Tax	Invest for future gains	Total	Chi Square			
				O	E	(O-E) ²	(O-E) ² /E
				24	29.04	25.4016	0.87471
				30	24.96	25.4016	1.01769
5-10	24	30	54	40	34.96	25.4016	0.72659
10 and above	40	25	65	25	30.04	25.4016	0.84559
Total	64	55	119	Total			3.46458

Table 5: Application of Chi Square for Gender Based Classification

Gender	Invest to Save Tax	Invest for future gains	Total	Chi Square			
				O	E	(O-E) ²	(O-E) ² /E
				37	40.87	14.9769	0.36645
				39	35.13	14.9769	0.42633
Male	37	39	76	27	23.13	14.9769	0.64751
Female	27	16	43	16	19.87	14.9769	0.75374
Total	64	55	119	Total			2.19403

Table 6: Application of Chi Square for Age Wise Classification

Age	Invest to Save Tax	Invest for future gains	Total	Chi Square			
				O	E	(O-E) ²	(O-E) ² /E
				11	10.76	0.0576	0.00535
				9	9.24	0.0576	0.00623
26-30	11	9	20	16	18.29	5.2441	0.28672
31-35	16	18	34	18	15.71	5.2441	0.33381
35 and above	32	33	65	32	34.96	8.7616	0.25062
Total	64	55	119	33	30.04	8.7616	0.29167
			Total			1.1744	

VII. RESULTS AND DISCUSSIONS

The data reflect that 24 (44.44%) out of the total 54 respondents having income bracket of 5-10 lakhs invest to save tax while 30 respondents (55.56%) invest for future gain, out of 65 respondents (Above 10 lakhs income) 61.5% i.e. 40

respondents invest to save tax and 25 respondents (38.5%) invest for future gain. 37 males (48.6%) and 27 females (62.8%) out of 76 males and 43 females respectively have the motive to save tax while as 39 (51.4%) males and 16 (37.2%) females respectively invest for future gains, it was also observed that 55%, 47% and 49 % from age groups of 26-30 years, 31-35 years and 35 years and above respectively had the same motive of saving tax. the chi square values obtained for income, gender and age are 3.46458, 2.19403 and 1.1744 respectively which are less than the tabulated values at 5% level of significance (TABLE 7) which depicts the significant relationship between Income, Gender and Age with the motive of Investment in various Tax saving schemes. All of the three Hypotheses are there by accepted and held valid as there was no ground for any rejections, the results obtained fall in line with what was found Dr Radha Gupta (2012) and Rajitha, Shivram and Yashika (2014).

Table 7: Summary of Results

Hypotheses	Degrees of Freedom	Level of Significance	Calculated Value	Table Value	Result	Conclusion
H1	1	5%	3.46	3.84	Accepted	Income is the dependent factor behind the motive of Investment
H2	1	5%	2.19	3.84	Accepted	Gender is the dependent factor behind the motive of Investment
H3	2	5%	1.17	5.99	Accepted	Age is the dependent factor behind the motive of Investment

CONCLUSION

The tax saving schemes on one side do affect the government revenues in terms of lesser tax collections, the schemes however channelizes savings of tax payers towards economic causes which in run help the government revenues and the economic development of the country. The tax saving schemes should not only be seen as a tool to reduce tax but attractive enough for future gains as well. The data reflects that income, gender and age all play an important role behind the motives of investing in various tax saving schemes.

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