

A Study Of Investors' Perception On The Preference Over Tax Savings Options

Aparna Puranik¹ and Ashvin Dave²

¹Ph.D Scholar, Pandit Deendayal Energy University

²Ph.D, Pandit Deendayal Energy University

ABSTRACT

The tax saving season starts from 1st April for both salaried and businessmen. As a smart investor, one should look for tax saving investments, which not only provides the benefit of tax exemption but also help earn tax-free income. With the plethora of investment options available for investors for tax saving, it becomes increasingly difficult to choose a right option. However, for most of the investors the tax planning is a let's-do-it-later affair. Tax saving is the legitimate way to save the tax out go and every income tax assessee should exercise the option to increase their wealth. The paper aims to analyse the investors' perception towards tax saving options from most popular 80C and 80 (CCD) 1B from Gujarat region. The tax saving options considered are Tax saving fixed deposit, National saving certificates, public provident fund, Tax saving mutual funds, Life insurance, national pension system (NPS), pension policies and Sukanya Samriddhi Yojana (SSY). The study revealed that life insurance, PPF and fixed deposit are the most preferred investment options and NPS and SSY are the least preferred options for tax saving.

1. INTRODUCTION

Income tax savings schemes are offered as per the relevant sections of the Income Tax Act, 1961. The chief among these is the Section 80C which offers potential tax savings options of up to Rs.1.5 lakhs yearly. There are other sections also that provide benefits to individuals. Major income tax saving instruments include Public Provident Fund, also called PPF, you can make a maximum contribution of Rs.1.5 lakhs per year in this tax saving scheme. PPF cannot be withdrawn before 15 years without penalty. The Public Provident Fund (PPF) scheme is a very popular long-term savings scheme in India because of its combination of tax savings, returns, and safety. The PPF scheme was launched in 1968 by the Finance Ministry's National Savings Institute. The main objective of the scheme is to help individuals make small savings and provide returns on the savings. The PPF scheme offers an attractive rate of interest and no tax is required to be paid on the returns that are generated from the interest rates. The next tax saving instrument is Tax saving fixed deposits which are available for a fixed tenure of 5 years and Premature withdrawals, Loans or Overdraft (OD) facilities are not available for a Tax Saving FD. There is no auto-renewal facility for Tax Saving Fixed Deposits. A Tax Saving FD is a good choice for an investor, as it provides dual benefits of guaranteed returns and

low risk. Another avenue of tax saving is the NSC scheme which is available at all NSC post offices and the Indian Government promotes the NSC scheme. Due to the number of post offices present in India and the easy access to these post offices, the scheme has become very popular. The main aim of the scheme is for individuals to make small or medium savings, and tax benefits are provided for these savings. Since the scheme is encouraged by the Indian Government, the risks of investing in the scheme are low. The scheme was launched mainly for individuals, therefore, non-resident Indians (NRIs) and Hindu Undivided Families (HUF) are not eligible to opt for this scheme. The next avenue is Tax saving mutual funds, also known as Equity Linked Savings Scheme or ELSS. These funds offer the opportunity for capital appreciation through investments in equities while saving on taxes along the way. Also, long term capital gains from these schemes are tax efficient, while dividend options for such funds will enable capital gains even during the lock-in period. The typical lock-in period is 3 years for an open ended scheme and the benefits are provided u/s 80C, which entitles investors to tax benefits up to Rs.1.5 lakhs each year. Further an investor can invest in Sukanya Samriddhi yojana which is a small savings scheme launched by the Prime Minister to encourage savings that will eventually be used to fund the education and marriage of the girl child which The account can be opened on behalf of the girl child by her parents or legal guardians. A maximum of 2 accounts can be opened, and in the case of twins, a total of 3 accounts can be opened. The Minimum deposit amount is Rs.250 per year and a maximum deposit amount is Rs.1,50,000 per year at interest rate of 7.6% p.a. which is revised by ministry of finance. Account will mature after 21 years from the date on which the account was created, or on the date of marriage of the girl child in whose name the account was created. The Central Government has introduced the National Pension System (NPS) with effect from January 01, 2004 (except for armed forces). NPS was made available to All Citizens of India from May 01, 2009. Pension Fund Regulatory and Development Authority (PFRDA), the regulatory body for NPS, has appointed NSDL as Central Recordkeeping Agency (CRA) for National Pension System. CRA is the first of its kind venture in India which will carry out the functions of Record Keeping, Administration and Customer Service for all subscribers under NPS. CRA shall issue a Permanent Retirement Account Number (PRAN) to each subscriber and maintain data base of each Permanent Retirement account along with recording transactions relating to each PRAN. An additional deduction for investment up to Rs. 50,000 in NPS (Tier I account) is available exclusively to NPS subscribers under subsection 80CCD (1B). The tax saving life insurance plans include policies taken for yourself, or your spouse, or dependent children. You can claim deduction under Section 80C if the premium paid is not over 10% of the sum assured in the policy, if the policy has been purchased after April 1, 2012. If the policy has been purchased before April 1, 2012, then the premium must not be over 20% of the sum assured.

2. OBJECTIVES OF THE STUDY

- a.) Assess the level of awareness of the participants about various tax saving options in the region.
- b.) Explore the investors' attitude towards various tax saving avenues and rank the options on basis of their preference.
- c.) Ascertain the preference of the investor on basis of various demographic factors like gender, age, education and income.

3. RESEARCH DESIGN

Data: Primary data have collected through personal interview method and also from structured questionnaires which are distributed to the individual assesses. The secondary data have collected from books, journals, financial report of the company and websites. The sample size of the study is 310 respondents selected from Gujarat region using convenient sampling method.

Tools of analysis: The collected data is analyzed through various tools i.e, percentage, filters applied for various demographics and its impacts is studied through and exhibited in percentages and few tables and charts.

4. EMPIRICAL RESULTS

1.) General Interpretation

Out of 310 respondents we observe that the most favored tax saving instrument is life insurance policy with 67.10% favoring and 32.90% have not favored it. The next instrument is Public Provident Fund which is accommodated by 59.68% and unaccepted by 40.32% participants. The next avenue accepted by investors is tax saving fixed deposit with 56.45% investing in it and 43.55% investors not favoring it. ELSS funds see 173 takers and 137 not investing with 55.81% accepting the options. Next 4 options see less than 50% acceptance by the investors with Pension policies have 136 investing with 43.87% and 56.13% rejecting it. National Saving certificates see 42.26% takers and NPS and SSY have 40% and 32.90% takers respectively. It can be seen in Table-1 and Chart-1.

Chart-1

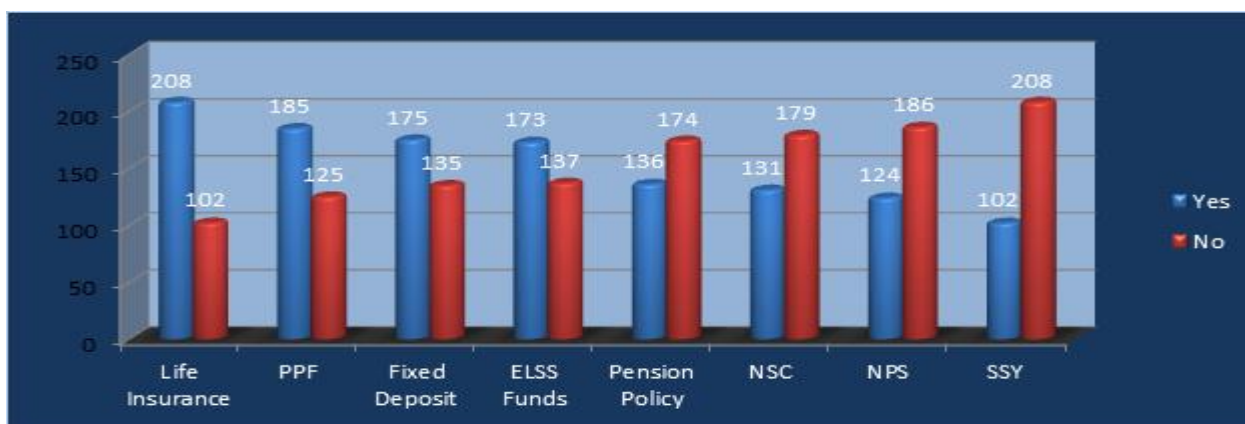


Table-1

Tax Saving Options	Yes	No	Yes Percent	No Percent
Life Insurance	208	102	67.10	32.90
PPF	185	125	59.68	40.32
Fixed Deposit	175	135	56.45	43.55
ELSS Funds	173	137	55.81	44.19
Pension Policy	136	174	43.87	56.13
NSC	131	179	42.26	57.74
NPS	124	186	40.00	60.00
SSY	102	208	32.90	67.10

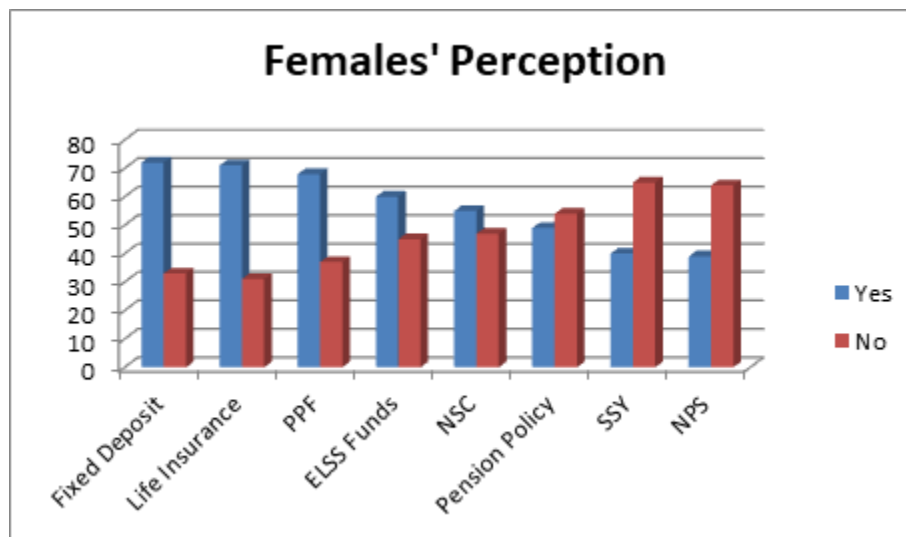
2.) Females' perception towards tax saving

After segmenting the data we observe that there are 105 female participants with comprise of 33% respondents out of 310 total participants. Female respondents were seen to be more inclined towards tax saving fixed deposit with 72 participants investing in it which is 68.57% of the total and was the highest choice in this segment. It was followed by life insurance with 69.61%, PPF at 64.76%, ELSS funds 57.14%, NSC with 53.92% acceptance. Last 3 options viz. pension plans, SSY and NPS saw less than 50% acceptance at 47.57%, 38.10% and 37.86% acceptance in females. It can be seen by the table-2 and chart-2 that female participants are more conservative and do not want to look for non-conventional options for tax saving like ELSS and pension plans etc.

Table-2

Tax Saving Options	Yes	No	Yes %	No %
Fixed Deposit	72	33	68.57	31.43
Life Insurance	71	31	69.61	30.39
PPF	68	37	64.76	35.24
ELSS Funds	60	45	57.14	42.86
NSC	55	47	53.92	46.08
Pension Policy	49	54	47.57	52.43
SSY	40	65	38.10	61.90
NPS	39	64	37.86	62.14

Chart-2



3.) Perception of males towards tax-saving options

In male participants, we see more inclination towards life insurance as a primary option for tax saving with acceptance of 66.17% followed by PPF with 56.86% participants after that comes ELSS funds with 54.90% respondents favoring it. Acceptance of Fixed deposit and pension policy come next with 49.50% and 43.05% respectively. NPS is accepted by 40.98% participants and least preferred options are NSC and SSY with 36.50% and 30.39%. We see males have more favors with life insurance and PPF for safe returns and more than 50% males are investing in new age products like ELSS funds.

Fixed deposit, pension plans and NPS still need to catch up with the perception of the investor. Also as per males, NSC and SSY seem to have lost the sheen. It can be observed in Table-3 and Chart-3.

Chart-3

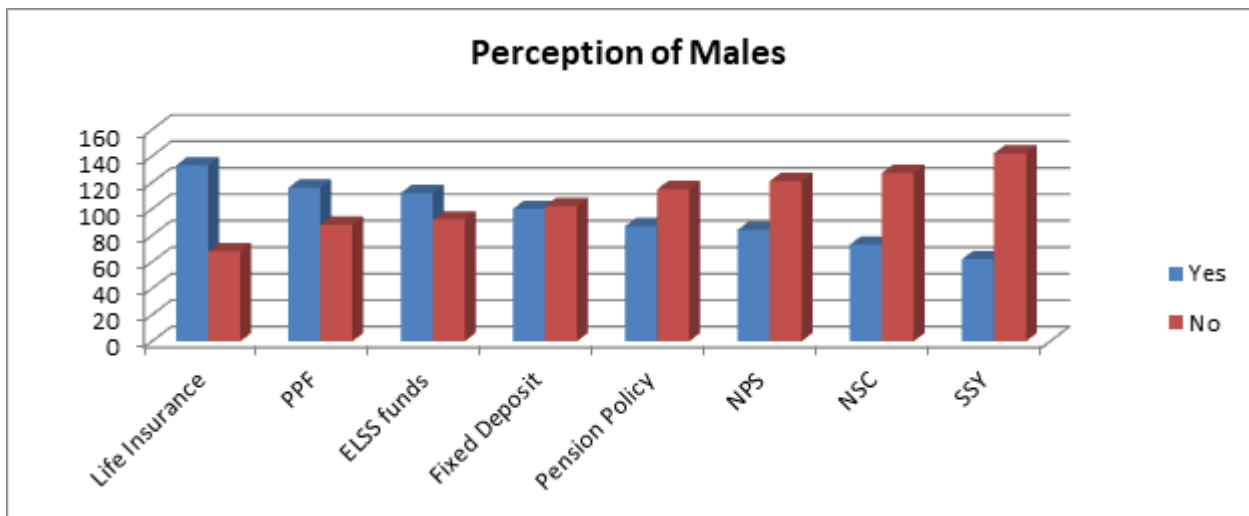


Table-3

Tax Saving Options	Yes	No	Yes Percent	No Percent
Life Insurance	133	68	66.17	33.83
PPF	116	88	56.86	43.14
ELSS funds	112	92	54.90	45.10
Fixed Deposit	100	102	49.50	50.50
Pension Policy	87	115	43.07	56.93
NPS	84	121	40.98	59.02
NSC	73	127	36.50	63.50
SSY	62	142	30.39	69.61

4.) Perception of participants as per age segmentation:

On observation of age group data, we see that majority of participants comes from 20-30 years age group with 211 respondents at 68.06% and in 31-40 years there are 66 participants with 21.29% participation. The least data comes from 41-50 and 51 & above age group with 6.13% and 4.52% respectively. We can observe the same from Table-4.

Age Group	Participants	Percentage
20-30	211	68.06
31-40	66	21.29
41-50	19	6.13
51 and above	14	4.52

4a.) Age group 20-30 years old:

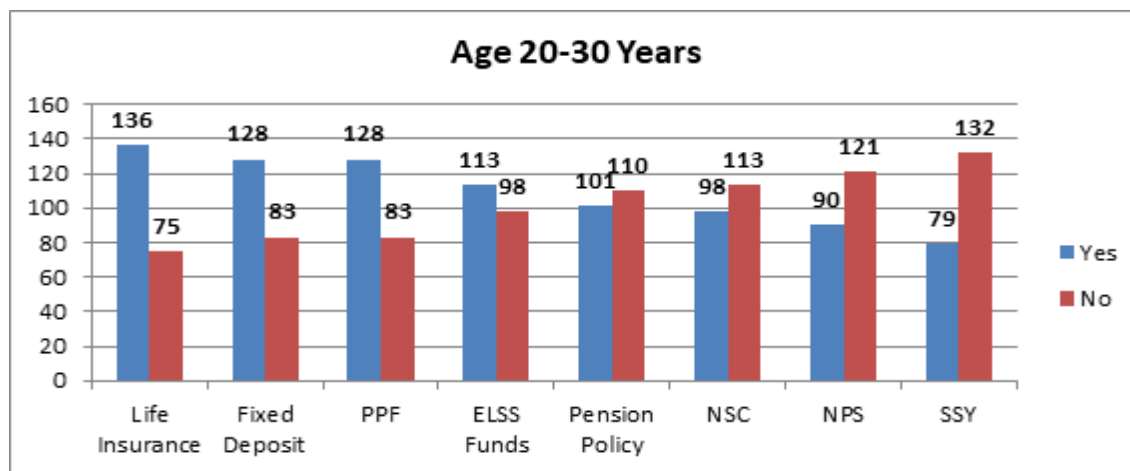
We observe that 64.45% favors Life insurance with 136 participants followed by fixed deposit and PPF with 60.66% acceptance in each product which is followed by ELSS funds with 53.55%

respondents favoring it. Pension policy and NSC comes next with 47.87% and 46.45% acceptance. NPS and SSY seem to be least preferred investment options. We can take an inference that mostly participants in this age group have started their careers and majorly follow the advice from their parents and peers and hence we see more inclination towards traditional products. Although we see with ELSS at 4th position the penetration has started to increase with more than 50% participants considering it in Table-5.

Table-5

Tax Saving Options	Yes	No	Yes %	No %
Life Insurance	136	75	64.45	35.55
Fixed Deposit	128	83	60.66	39.34
PPF	128	83	60.66	39.34
ELSS Funds	113	98	53.55	46.45
Pension Policy	101	110	47.87	52.13
NSC	98	113	46.45	53.55
NPS	90	121	42.65	57.35
SSY	79	132	37.44	62.56

Chart-5



4b.) Age group 31-40 years old

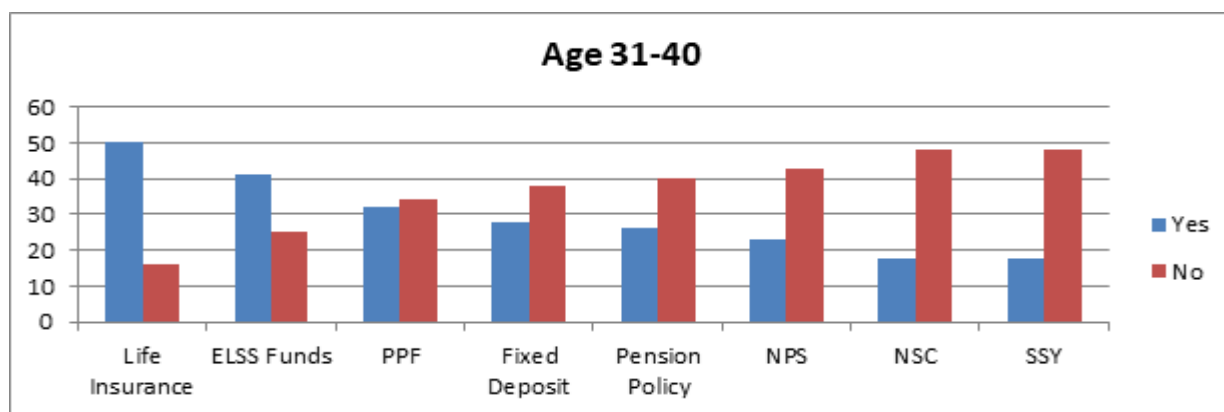
In this age group we see sharp difference in investors’ perception vis-à-vis to the 20-30 years age bracket where life insurance again taking first position at 75.76% participants. With increase in age and experience investors tend to participate more in ELSS funds with 62.12% with an aim to generate wealth along with saving taxes. Followed by ELSS is PPF, fixed deposit and pension plans with 48.48%, 42.42% and 39.39% respectively. Next comes NPS may be due to additional tax saving requirements apart from 80C. NSC and SSY again hold the last position. We can observe the same from the Table-6 and chart-6.

Table-6

Tax Saving options	Yes	No	Yes Percent	No Percent
--------------------	-----	----	-------------	------------

Life Insurance	50	16	75.76	24.24
ELSS Funds	41	25	62.12	37.88
PPF	32	34	48.48	51.52
Fixed Deposit	28	38	42.42	57.58
Pension Policy	26	40	39.39	60.61
NPS	23	43	34.85	65.15
NSC	18	48	27.27	72.73
SSY	18	48	27.27	72.73

Chart-6



4c.) Age group 41-50 years old

In this age group, we see respondents with PPF having highest popularity with 73.68% followed by Life insurance at 68.42%. In this age there must be participants who would have purchased the life insurance policies earlier in their life and now must be continuing them. The next option is ELSS where 52.63% participants have shown favor for it. Fixed Deposit and NSC show declining trend in interest of the investors. It is surprising to see there are few takers for NPS and pension policies, usually in this age bracket the income is high and an additional tax benefit would really help but may be the awareness of the options is less or taxability of the respondents is less. It can be checked from the Table-7

Table-7

Tax Saving Options	Yes	No	Y %	N %
PPF	14	5	73.68	26.32
Life Insurance	13	6	68.42	31.58
ELSS Funds	10	9	52.63	47.37
Fixed Deposit	9	10	47.37	52.63
NSC	7	12	36.84	63.16
NPS	6	13	31.58	68.42
Pension Policy	6	13	31.58	68.42
SSY	3	16	15.79	84.21

4d.) Age group 51 years and above

In this age group, we see less takers for Life Insurance viz. 4th position, as this age group may not be eligible to take insurance, those who have participated must be old investors in life and pension policies. Investors must be looking for “safety first” hence invested in PPF with 78.57% participation. ELSS funds take 3rd position with 64.29% takers. SSY and NPS are least popular options at 14.29% and 35.71% respectively. This can be viewed from Table-8.

Table-8

Tax Saving Options	Yes	No	Yes %	No %
PPF	11	3	78.57	21.43
Fixed Deposit	10	4	71.43	28.57
ELSS Funds	9	5	64.29	35.71
Life Insurance	9	5	64.29	35.71
NSC	8	6	57.14	42.86
NPS	5	9	35.71	64.29
Pension Policies	3	11	21.43	78.57
SSY	2	12	14.29	85.71

5.) Perception of participants as per Income segmentation:

On observation of income group data, we see that majority of participants comes from 0-25000 income group with 150 respondents at 48.38% and in 25001-50000 income category there are 69 participants with 22.25% participation. The least data comes from 50001-75000, 75001-1 Lakh and 1 Lakh and above income group with 12.25%, 4.38% and 12.25% respectively.

5a.) Income group 0-25000

Table-9

Tax Savings Options	Yes	No	Yes %	No %
Life Insurance	99	51	66.00	34.00
PPF	85	65	56.67	43.33
Fixed Deposit	82	68	54.67	45.33
Pension Policies	74	76	49.33	50.67
NSC	70	80	46.67	53.33
ELSS Fund	67	83	44.67	55.33
NPS	60	90	40.00	60.00
SSY	56	94	37.33	62.67

From Table-9 we can observe that 66% favors Life insurance with 136 participants followed by fixed deposit and PPF with 56.67% acceptance in each product which is followed by fixed deposit with 54.67% respondents favoring it. Pension policy and NSC comes next with 49.33% and 46.67% acceptance. NPS and SSY seem to be least preferred investment options. We can take an inference that mostly participants in this age group have started their careers and majorly follow the advice from their parents and peers and hence we see more inclination towards traditional products. Although we see with ELSS at 6th position the penetration is low with 44.67%

5b.) Income group Rs. 25001-50000

Table-10

Tax Saving Options	Yes	No	Yes %	No %
Life Insurance	49	20	71.01	28.99
ELSS Funds	46	23	66.67	33.33
PPF	45	24	65.22	34.78
Fixed Deposit	40	29	57.97	42.03
NPS	32	37	46.38	53.62
Pension Policies	32	37	46.38	53.62
NSC	28	41	40.58	59.42
SSY	22	47	31.88	68.12

This segment prioritizes Life Insurance more with 71.01% acceptance and second option stays with ELSS funds with 66.67% going after it. This may probably be because of the lower lock-in period of 3 years as compared to the higher lock-in period in other options. 3rd and 4th option goes with safer options like PPF and FD. Also NPS has ranked higher with this income group as compared to other groups. NSC and SSY still ranks lower.

5c.) Income group Rs. 50001-75000

Table-11

Tax Saving Options	Yes	No	Yes %	No %
PPF	27	11	71.05	28.95
Life Insurance	27	11	71.05	28.95
Fixed Deposit	23	15	60.53	39.47
ELSS Funds	23	15	60.53	39.47
NPS	14	24	36.84	63.16
Pension Policies	13	25	34.21	65.79
NSC	12	26	31.58	68.42
SSY	8	30	21.05	78.95

This income group has stark difference to the previous group. Here the preference lies with PPF and Life Insurance with 71.05% acceptance each followed with Fixed Deposit and ELSS funds with each 60.53% each. It is followed by NPS and pension policies with 36.84% and 34.21% respectively. NSC and SSY are at last position. The allocation to PPF, life insurance and FDs denote the risk aversion in this income group.

5d.) Income group Rs. 75001-1 Lakh

Table-12

Tax Saving Options	Yes	No	Yes %	No %
ELSS Funds	13	2	86.67	13.33

Fixed Deposit	9	6	60.00	40.00
PPF	6	9	40.00	60.00
NSC	5	10	33.33	66.67
Life Insurance	5	10	33.33	66.67
NPS	3	12	20.00	80.00
Pension Policies	2	13	13.33	86.67
SSY	1	14	6.67	93.33

Out of 15 responses from this income group we see more awareness in ELSS funds with 86.67% acceptance followed by Fixed Deposit at 60%. Rest all options are 40% and below with less people preferring pension policies and SSY. With this income group it is recommended to have allocation to NPS as they are in higher tax slab. Hence, more awareness in this product is required.

5e.) Income group Rs. 1 Lakh and above

Table-13

Tax Saving Options	Yes	No	Yes %	No %
Life Insurance	28	10	73.68	26.32
ELSS Funds	24	14	63.16	36.84
PPF	22	16	57.89	42.11
Fixed Deposit	21	17	55.26	44.74
NSC	16	22	42.11	57.89
NPS	15	23	39.47	60.53
SSY	15	23	39.47	60.53
Pension Policies	15	23	39.47	60.53

In this income group, as can be seen from table-13, we have 38 responses where the preference goes with Life insurance with 73.68% weightage followed with ELSS funds at 63.16% at second place. PPF, fixed deposit and NSC comes in next 3 places with 57.89%, 55.26% and 42.11% respectively. NPS, SSY and pension policies come at last 3 places. This allocation suggests that investors are inclined towards diversification of tax planning and higher awareness level. The awareness about the NPS needs to go higher as this income group is in highest tax bracket.

5. FINDINGS AND CONCLUSIONS

In the research paper of perception of investors towards tax saving instruments, the study gives us multi-faceted perspective as follows:

- 1.) The general analysis shows an inclination towards Life insurance plans with 67.10% favoring it. It may be because as an investor life insurance has been traditionally being used as a medium for savings money and tax saving. This psychology keep on continuing and family also supports and favors investments in life insurance.
- 2.) The investors have “safety first” thought process when it comes to money and our analysis also exhibits the same with 2nd and 3rd position being occupied by Public Provident Fund and Fixed Deposit as investors like to be risk averse and the motto is just to save taxes.

- 3.) ELSS funds generally stands at 3rd or 4th position in all the analysis. But in lower income groups and lower age bracket ELSS is not that popular but we see more awareness of ELSS funds in higher income groups and 31-40 years age group as tend to be more aware about the same.
- 4.) Female respondents seem to be more conservative than male counterparts. We see perception of female respondents more towards FDs, Life Insurance and PPF while in analysis of male respondents we see more inclination towards Life Insurance, PPF and ELSS which is a stark difference with gender variation.
- 5.) Sukanya Samridhi Yojana invariably occupied last position. Even with 102 participants out of 310 (32.10%) saying yes to SSY it still ranked at last place. It looks like either investors are not aware of the benefits of the plan or a longer lockin period is keeping them away from SSY.
- 6.) It is surprising to see the National Pension System scheme is ranked on 5th and 6th position out of 8 schemes analyzed. The more worrying factor comes when the higher income group is still not preferring NPS despite it providing additional tax benefit of Rs 50,000 to the income groups which fall in higher tax brackets.
- 7.) Pension plans also saw a subdued response from the investors with higher age and higher income groups. We also observe a better participation from lower income groups like 0-25000 and 25001-50000 and age group of 20-30 and 31-40. The perception clearly tell the need of pension after retirement for private employees, also government is no longer supporting pensions to its employees after year 2005.

6. SUGGESTIONS

- 1.) More awareness programs like “Mutual Fund Sahi hai” should be conducted by regulators and other market bodies to create more awareness towards channelizing more money towards ELSS scheme for saving taxes.
- 2.) A higher awareness of NPS scheme should be rolled out by PFRDA to increase the subscription in the scheme as it will be beneficial to citizens in general along with saving additional tax.
- 3.) Schemes like SSY and PPF should be given more focus by the investors as the maturity proceeds in these schemes is completely tax-free unlike tax saving FDs and national saving certificates which are taxable.
- 4.) Government should extend tax benefits to products like sovereign gold bond and exchange traded funds with suitable lock in to generate wealth along with tax saving.

7. FUTURE RESEARCH DIRECTIONS

The researcher in this area should also include other options of 80 C like home loan principle amount, school tuition fees and other schemes like Health Insurance which is covered in section 80 D and donation which is covered under 80 G of Income tax act 1961 to enhance the research in covering more perspective of investors.

8. REFERENCES

- 1.) Bharathraj Shetty, Muthu Gopalakrishnan M, Prashant Mane (August 2013), “An analysis of Investors attitude towards various Tax Saving Schemes”, International Research Journal of Business & Management, Volume No. 1, Pp. 11-29.

- 2.) Bhuvanewari. C, “A study on Investor’s perception towards Equity/Tax saving Mutual funds”, CARE Journal of Applied Research, Pp 18-20.
- 3.) Gaurav Agrawal and Mini Jain (October-December 2013), “Investor’s preference towards mutual fund in comparison to other investment avenues”, Journal of Indian Research, Volume 1, No.4, Pp.115-131.
- 4.) Hanumantha RaoK, Gopi T. (October-December, 2013), “Investor Perception towards Unit Linked Insurance Plan a select study on UTI mutual fund”, Asian J. Management, Volume No.4 (4), Pp. 254-259.
- 5.) Mehrothra H.C and Goyal S.P (A. Y. 2015-16), “Income tax Law and Practice”, Sahitya Bhawan Publication, New Delhi.
- 6.) Priyanka Sharma and Payal Agrawal (February 2015), “Investors’ perception and attitude towards Mutual fund as an Investment option”, Journal of Business Management & Social Sciences Research (JBM&SSR), Volume 4S, No.2, Pp.115-119.
- 7.) Sapna Singh and Nishanth Kumar (February2015), “Investors Attitude towards Pension scheme: special reference to Lucknow district, Uttar Pradesh state, India”, International Journal of Science Technology & Management, Volume No.04, Pp 188-196.
- 8.) Senthikumar and Desti Kannaiah, “Investors attitude towards savings in Post Office”, International Journal of Research in Commerce & Management.
- 9.) Sreenivas D. L and Anand M. B (December 2012), “Investors perception on public and private Life Insurance Companies in India-with special reference to Life Insurance Investors in Karnataka”, International Journal of Research in Commerce & Management, Volume No. 3, Pp. 37-45.
- 10.) Velmurugan G, Selvam V and Abdul Nazar N (July 2015), “An Empirical analysis on perception of Investors’ towards various Investment Avenues”, MCSER Journal of Social Sciences, Volume 6 No 4, Pp. 427-435.

Author’s Profile:

Aparna Puranik is a lecturer in a college teaching management and finance subjects at Rajkot. She has completed her M Com and is a research scholar pursuing Ph. D. from PDEU Gandhinagar

Dr. Ashvin Dave is Head of School of Liberal studies at PDEU Gandhinagar