

## AN EMPIRICAL STUDY ON DEDUCTIBLE SAVINGS AND INVESTMENTS ON TAX PLANNING IN KARNATAKA

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### Abstract

With the progressive rate of taxation applied for direct taxes without considering the locality and number of people in the family has made the income tax one of the most complex influencer in life of individuals in India, considering this as the basis the paper is coined with an objective of identifying evolution of income tax with the idea of exploring the Savings and investment component in the tax planning, Data Collection through judgmental sampling of 195 respondents with in the state of Karnataka is taken for the study. To test reliability Cron bach Alpha is used, for hypothesis testing usage of linear regression is done, the output proves that compared to both investment has a better influence on tax planning but on a whole the paper accepts that there is no significant relationship between deductible Savings and investments on tax planning. The suggestions are offered stating the need for including the ELSS in the curriculum to enhance its acceptance by the respondents.

**Keywords:** Tax Planning, Deductible Savings and Deductible Investments.

### INTRODUCTION

Income exceeding beyond the threshold limit attracts income tax, the paid taxes are utilized by the Government towards various welfare schemes like infrastructural development, offering education and providing healthcare to the citizens (Agrawal, K. K, 2007). The evolution of income tax in India does not clearly denote the date but sufficient evidences are drawn from Manusmriti and Arthashastra levying the taxes on traders, artisans and farmers. With 20% taxes are levied in the Traders and artisans, while farmers paid taxes in the form of yield obtained based on the circumstances. India being the British colony, taxes were introduced by the British India in 1860 to recover the expenses incurred during the First War of Indian Independence of 1857. Significant reforms with sufficient amendments were made in 1918 and 1922 and the first law post-independence was passed in the year 1961, dividing income into five heads like salary, house property, business or profession, capital gains and other sources (Goel, M, 2022). Income tax slabs and rates have undergone constant revisions over time. Significant changes that simplified slabs and lowered tax rates took place in 1974, 1985, and 1997. Incomes up to INR 1.6 lakhs were free in 2010, and by 2017, that amount had been increased to INR 2.5 lakhs. A new tax regime was implemented in 2020, giving taxpayers the option to choose between the previous system, which included deductions, and a new, more straightforward regime that had lower rates but no exemptions (Kapoor.S, & Singh.A,2025).

The Indian taxation aims at reducing the burden on the taxpayers, the constant updation of the deductions from time to time in the provisions of Section 80 of the Income Tax Act, offering an array of deductions to the taxpayers to reduce their taxable income. This evolution binds with the intention of the government's intent to refine the tax laws to synchronize with the contemporary financial needs and aspirations while fostering development of economy (Kaur.G).

## REVIEW OF LITERATURE

The majority of the respondents in Pune gave a positive response to the both the tax regime but suggested for better perspectives for its implementation (YES-IIMS, Chinchwad, Pune et al. 2025). The other research reveals the fact that the request for additional enhancements to the minimum tax slabs and suggested that the new regime even with ease of filing comes with the less benefits so the people prefer the old tax regime, these necessities the well-rounded strategy to satisfy the various needs of taxpayers. (Ranka.R. et.al,2020). Long term savings and investments are encouraged under the The Old Regime provides a range of exclusions and deductions along with higher tax rates. The New Regime, on the other hand, which was implemented by Section 115 BAC, streamlines the tax code with reduced tax rates and fewer deductions in an effort to boost taxpayer compliance and disposable income. (Bora, 2024).

### Statement of the Problem

Complexity with the Income Tax Department in introducing the dual tax system of new tax and old tax regime giving the option to the filers of income tax in choosing the regime in which they want to be assessed. This has given birth to enhanced complexities among the assessors in choosing the right regime to reduce their tax liability. The topic completely focuses on obtaining the information from the respondents who are filing the income tax returns on the various Savings and investment avenues that are chosen by them in reducing their tax liability and studying through application of statistical tool as to which is the influential factor in determining tax planning.

### Objectives of the Study

- 1) To understand the evolution of income tax in India.
- 2) To explore the savings and investment components in tax Planning

### Scope of the Study

Multi-level narrowing down of the study is done with the intention of getting the best possible result, tax is a broader concept which is mentioned under article 246 of the Constitution of India giving rights to different administration to collect the taxes, the department of tax relating to the direct taxes is covered under the study, further the study is restricted only towards the qualifying Savings and investment under section 80 of the Income Tax Act 1961. The respondent's data collection is done within the state of Karnataka and the people who are finding returns as per new Income Tax Regime is completely ignored under the study.

## Methods of the Data Collection

The research undertaken marks the necessary of the secondary data in broad understanding of the Tax planning and also the deductions prevailing under the provisions of the Act pertaining to India, published sources from the websites, video references from the YouTube designated channels, magazines, books and journals references are taken and indicated in the sources. Primary data is obtained from a structured questionnaire targeting the individuals who are filing tax returns with their income above the threshold limit.

## Sampling

Judgmental sampling is followed to collect the data from the respondents; the tax returns filers are selected for the study and are randomly distributed with the questionnaire. The data is collected from overall 195 respondents across the Karnataka state.

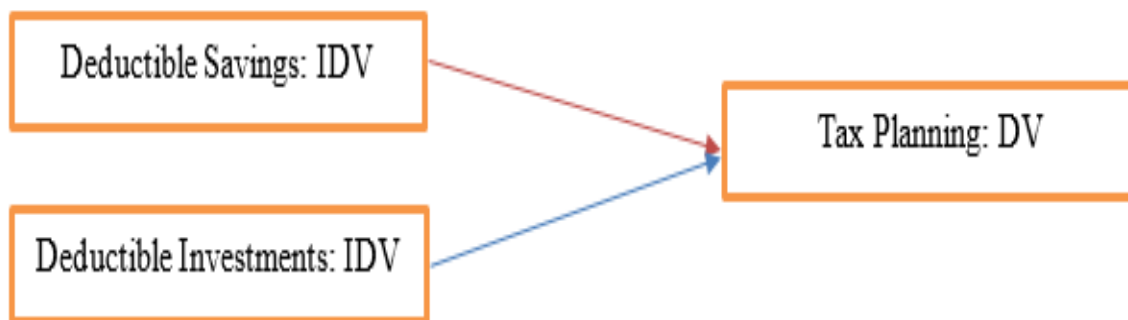
## Statistical tool

The demography data is analyzed using normal frequency distribution, descriptive analysis is performed to assess the average and deviations of the deductible savings, investments and tax planning variables considered under this study. Reliability of respondents obtained data is tested using the Cronbach Alpha test with a p-value of 0.05 with a significance level of 95%, the testing of the hypothesis is done using the regression analysis.

## Hypothesis

|     |                                                                          |
|-----|--------------------------------------------------------------------------|
| Ho  | There isn't relationship between Deductible savings and Tax planning     |
| H1  | There are relationships between Deductible savings and Tax planning      |
| Ho1 | There isn't relationship between Deductible investments and Tax planning |
| H2  | There is relationship between Deductible Investments and Tax planning    |

## Conceptual Framework



The above model of the study entails the coverage of dependent and independent variable, under the present study independent variables are Deductible savings and deductible investments as per the Deductions allowed under section 80 and Dependent Variable is Tax planning.

## Limitations of the Study

1. The limit of the coverage is to the deductions allowed under section 80 relating to Savings and investments only.
2. The confidentiality of data to be disclosed by the respondents was also a challenge.
3. The study's applicability is as per old tax regime of Indian Income Tax Act of 1961.

## Analysis and Interpretation

### Demographic Data

Among the individuals surveyed, 25% are female, 20% are under the age of 30, and 40% fall within the 31 to 40 age range, while the remaining respondents are over 40 years old. Additionally, 72% of participants are married, with an equal representation in professions such as Teaching and Managerial roles, and 10% belonging to other professions. When it comes to income, 55% of respondents earn between 3 to 6 lakhs annually, 45% earn above 12 lakhs, and the remaining 10% have an income ranging from 6 to 12 lakhs.

### Cronbach Alpha

The questionnaire structured is circulated to the respondents, to check whether the questions are measuring collectively through the responses received from the respondents. It tests whether the study constructs are collectively measuring the same concept. The formula used to describe the results between 0 and 1 and the higher values indicate greater consistency.

$$\alpha = \frac{k \times \bar{c}}{\bar{v} + (k - 1)\bar{c}}$$

$\bar{c}$  is the mean of inter constructs covariance and  $\bar{v}$  is the average mean of constructs. Output of 0.9 and above is termed as excellent reliability, 0.8 to 0.9 account for good reliability, 0.7 to 0.8 indicates acceptable reliability, below 0.5 is unacceptable or poor reliability.

**Table 1: Reliability Test**

| Variable              | Number of Constructs | Cronbach alpha value |
|-----------------------|----------------------|----------------------|
| Deductible Savings    | 8                    | 0.77                 |
| Deductible Investment | 4                    | 0.61                 |
| Tax planning          | 10                   | 0.82                 |

### Interpretation

From the above **Table 1**, it is Deductible savings and Tax planning is reliable provided that the values are in excess of 0.7, in case of Deductible Investment it is acceptable meagrely as the contribution in terms of the constructs is less.

### Linear Regression

Linear regression assumes that changes in the Deductible savings and Deductible Investments lead to proportional changes in tax planning.

The model seeks to explain how the mean of the components of the Tax Planning varies with changes in the deductible savings and deductible investment variable. It is one of the fundamental tools for prediction, forecasting and hypothesis testing across disciplines such as economics, psychology and machine learning.

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_p x_{ip} + \varepsilon_i$$

$y_i$  = Tax Planning,  $\beta_0$  = intercept (value of  $y$  when all predictors are zero),  $\beta_1, \beta_2, \beta_p$  = Regression Co-efficient representing the effect of each construct.  $x_{i1}, x_{i2}, \dots, x_{ip}$  = Deductible savings and Deductible Investments and  $\varepsilon_i$  = error term capturing deviations due to randomness

**Table 2: Indicates the Results of Descriptive statistics**

| Statistics | Eligible savings | Eligible Investments | Tax planning |
|------------|------------------|----------------------|--------------|
| Average    | 14.86            | 6.85                 | 31.95        |
| S E        | 0.68             | 0.37                 | 0.70         |
| Med        | 13.00            | 6.00                 | 32.00        |
| SD         | 9.43             | 5.23                 | 9.78         |
| Var        | 88.87            | 27.36                | 95.69        |
| Kurt       | 0.97             | 1.04                 | 0.40         |
| Skew       | 0.34             | 0.36                 | 0.22         |

### Interpretation

The above **Table 2** indicates the results of the descriptive statistics Eligible Savings, Investments and Tax Planning. Here is a detailed interpretation of the data which is derived with the 195 respondents. Tax Planning has the highest mean. Median values indicate symmetrical distributions. Tax Planning proves greater spread in responses, indicating highest variability through standard deviation of 9.78 and variance 95.69. Kurtosis indicates the distributions to be peaked greater than a normal distribution for Eligible Savings and Eligible Investments but flatter distribution for Tax Planning. Skewness values are low, suggesting the data is relatively symmetrical for all three categories. Overall summary indicates that the Tax Planning has the highest central values and widest variability, pointing to greater diversity in how respondents approach tax strategies. Eligible Investments are more stable and consistent, while Eligible Savings occupy a middle ground in both mean level and spread.

### Hypothesis Testing for the Following Variables of Deductible Savings and Tax Planning

**Table 3: Regression analysis indicating relationship between Deductible Savings and Tax Planning**

| Regression Statistics   |        |
|-------------------------|--------|
| R                       | 0.45   |
| R <sup>2</sup>          | 0.20   |
| Adjusted R <sup>2</sup> | 0.20   |
| SE                      | 8.76   |
| n                       | 195.00 |

From the above **table 3**, Multiple R Coefficient of 0.45 is showing a moderate positive correlation between the deductible savings and the tax planning but suggests some degree of association.

R Square Coefficient of Determination 20% variance in the tax planning is influenced by the deductible savings in this model.

This indicates that while the model provides some explanatory power, 80% of the variance is due to factors outside this model. This suggests that the model should accept the null hypothesis and reject the alternate hypothesis.

### Hypothesis Testing for the Following Variables of Deductible Investments and Tax Planning

**Table 4: Results of Regression analysis indicating relationship between Deductible Investments and Tax Planning**

| Regression Statistics   |      |
|-------------------------|------|
| R                       | .40  |
| R <sup>2</sup>          | .16  |
| Adjusted R <sup>2</sup> | .15  |
| SE                      | 9.01 |
| n                       | 195  |

### Interpretation

From the above **table 4**, Multiple R with 0.40 indicates a moderate positive relationship between the eligible investment and tax planning.

R<sup>2</sup> model explains only 16% of the variance in the Tax Planning. This suggests that the model should accept the null hypothesis and reject the alternate hypothesis.

## CONCLUSIONS AND DISCUSSION

From the above finding it is absolutely evident that the awareness level on savings in infrastructure bonds is not sufficiently visible with the respondents, rural NABARD bonds savings is also treated as a last priority by the respondents.

From the perspective of the investment's equity linked saving schemes as still not utilised for tax exemption by majority of the people who have been the respondents, house property investment is still the dominating investment attribute used for the purpose of utilising the deductions under section 80.

It is suggested to the government to take up certain initiatives to promote the infrastructure bonds among the citizens.

Sufficient training and awareness program has to be included along with introducing a course from the school days as a part of the curriculum to take out the negative Vibes about the stock exchange and the methodology of its function.

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