

Exploring the Impact of Optional Tax Regimes on Tax-Saving Investments In India

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ABSTRACT

The motive of the study is to provide an understanding about the optional tax regime and its impact on tax-saving investments. This paper includes understanding taxpayer's mind-set while approaching optional tax, creating awareness among taxpayer's about new regime, shortcomings of optional tax and its impact in tax saving investments. Descriptive research design was adopted to test the pre-defined hypotheses and contribution to the existing knowledge. We used Frequency analysis and One-way Anova to find out the impact of optional tax regime on tax saving investments.

The research paper concluded that Tax-saving investments were influenced by factors like security and future planning. The optional tax regime did not seem to have a significant impact on investment behavior among the sampled individuals. Overall, the study suggests a need for greater awareness and education regarding the optional tax regime and tax-saving opportunities.

Keywords: Optional tax regime, Tax saving investments, Direct tax, Investment planning.

INTRODUCTION

History Before 1992: Taxes on income and wealth have been around since ancient times, not just in recent history. The word "Tax" comes from "Taxation," meaning an estimate. In ancient civilizations like Greece, Germany, and the Roman Empire, taxes were levied on sales, trades, and professions to fund the government's military and civil expenses. In India, direct taxation has existed for centuries, with references to tax measures found in ancient texts like Manu Smriti and Arthasastra.

Kautilya's Arthasastra, written around 300 B.C., provides detailed insights into taxation and financial administration during the Mauryan Empire. The tax system was well-organized and collected from various sources, including income tax from traders, musicians, and actors. Kautilya emphasized fairness in taxation, with the affluent paying more than the less fortunate. Taxes were used to fund social services, infrastructure, and protect citizens.

Overall, Kautilya's Arthasastra was a pioneering work on public finance and tax administration, contributing significantly to the prosperity and stability of the ancient empire. It laid down the principles of good governance, including economic and financial management. (Income Tax, 2023)

Evaluation after 1992: Over the last few decades, India has seen rapid changes in the administration of direct taxes, reflecting the evolution of socio-economic thinking. The Income-tax Act of 1922 laid the foundation for the Income-tax Department's organizational structure, and since then, there have been significant structural changes and expansions in the department. Key changes include the creation of the Central Board of Revenue in 1924 and the introduction of Appellate Assistant Commissioners and a central charge in Bombay in 1939.

World War II brought unusual profits to businesses, leading to the introduction of Excess Profits Tax and Business Profits Tax during 1940 to 1947. In 1946, Group 'A' officers were directly recruited, and investigation techniques were developed to handle large income cases. The Indian Revenue Service (IRS) was formally constituted in 1953. To improve training, the IRS (Direct Taxes) Staff College started in 1957. The creation of the Central Board of Direct Taxes in 1963 marked a significant change in the administration of the department.

Over the years, various policy and administrative reforms were introduced, including lowering tax rates, simplifying laws, and computerization of tax processes. Computerization efforts began in 1981 with the Directorate of Income tax (Systems), leading to extensive automation of tax-related activities across the country by the late 1990s. (Income Tax, 2023)

The strength and effectiveness of India's tax system, including recent changes like the introduction of GST, play a crucial role in managing economic growth and revenue consistency for the nation. (Naseema, December 2016)

Finance ministry aims to win over Indian taxpayers' confidence in the new income tax regime by introducing higher tax exemptions and a raised threshold for tax rebates, making it more appealing. The revised default option, which was previously unpopular, now offers significant benefits, including reduced surcharge for the super-rich. The move is expected to encourage greater adoption of the new tax system and boost compliance. (Online, Feb 2023)

Old tax rates of Individuals (both for resident or for non-resident), are, -

Net income range	Income-Tax rate
Upto Rs. 2,50,000	Nil
Rs. 2,50,000 - Rs. 5,00,000	5%
Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

The Finance Act, 2020, has provided an option to Individuals and HUF for choosing to pay taxes under old and New tax regime.

The tax rates for payment of taxes under the new tax regime at the following reduced rates from assessment Year 2021-22 and onwards:

Income range	Income Tax rate
Upto Rs. 2,50,000	Nil
Rs. 2,50,001 – Rs. 5,00,000	5%
Rs. 5,00,001- Rs.7,50,000	10%
Rs.7,50,001- Rs.10,00,000	15%
Rs.10,00,001- Rs.12,50,000	20%
Rs.12,50,001- Rs.15,00,000	25%
Above Rs.15,00,000	30%

In new tax regime major Deductions are not allowed as per section 80 and chapter VI A.

The subsequent sections of this paper will delve into the conceptual framework, literature review, data analysis, and findings, culminating in a comprehensive conclusion and policy recommendations.

VARIABLES:

1. Dependent Variables
 - i. Direct Tax
 - ii. Investment Planning
 - iii. Knowledge of Tax Saving Investments.
2. Independent Variables
 - i. Number of Taxpayers: How much taxpayers in India change the investment patterns.
 - ii. Gender: Gender could also play a role in investment plan. For instance, males tend to take more financial risks compared to females.
 - iii. Income Level: How much Individual are earning also important in investment planning.
 - iv. Tax-saving investments: There are lots of tax saving investments for saving a tax and get a side income from the same.
 - v. Optional tax regime: a tax system that allows taxpayers to choose between paying taxes based on their income and paying a fixed tax rate on their total income.

RESEARCH OBJECTIVES:

1. To examine the concept of optional tax regime and its impact on tax-saving investments.
2. To identify the factors that influence taxpayers to opt for the optional tax regime.
3. To assess the effectiveness of the optional tax regime in encouraging tax-saving investments.
4. To compare the tax savings between taxpayers who opt for the optional tax regime and those who do not.

RESEARCH GAP

1. **Limited research on the effectiveness of the optional tax regime:** While the optional tax regime was introduced in 2020, there has been limited research on its effectiveness in promoting tax-saving investments. This could be a potential research gap that could be explored.
2. **Limited awareness of tax-saving instruments:** Many salaried employees in India are not aware of the various tax-saving instruments available to them, and this may limit their ability to make informed decisions regarding tax-saving investments.
3. **Lack of understanding of tax-saving investments:** Many salaried employees in India lack knowledge about tax-saving investments and the benefits they provide. Therefore, there is a need for research that examines the awareness and understanding of tax-saving investments among salaried employees.

HYPOTHESIS: -

(H0): There is no significant Impact of optional tax regime on tax-saving investment.

(H1): There is significant Impact of optional tax regime on tax-saving investment.

REVIEW OF LITERATURE: -

Paper Indicate that the lots of things include in direct Tax System like Dividend Distribution tax, MAT, Surcharge, and cess as well interest rate on late payment and delayed refund of tax also have lots of Double taxation on varies things. Implementation of GST help in Economic growth and lead to Additional GDP growth rate and prepare the centralized taxation for all. (Beemabai K. and Dr Krishnakumar K., April 2019)

Paper indicates that most of tax assessee adopt the Provident Fund as 1st preference and 2nd Life insurance Policy as tax saving investment between 12 different kinds of investments in tax saving (Saravanan K. And Dr. MuthuLakshmi K., August 2017)

In his paper he covers the comparison between Old and New Tax regime awareness among taxpayers and find out most of the respondent agree that the new regime better than old one and its totally depends on the level of income and level of investment of individual. If limitation on new scheme take to sideline it's a right step for tax reform. (Kamath, June 2020)

In this paper his understand that After several year of reform in tax system its remains major challenge in india. (Rao, December 2000)

In this he Find that all Tax changes does not have the same impact on economic growth, and financing and structure of a tax change are difficult to achieve economic growth because tax rate cut encourage the payers to work, save and invest more. (Sanjeeb Kumar Dey and Kamal Kumar Varma, January 2016)

In this paper researcher find that the section 80C dedications are most preferable and after that the section 80EE deduction of home loan interest. (Suchithra P. and Vidhya C., March 2019)

In this paper his said that Tax scholars focus on building a institutional capacity within and outside the government for long term game of policy making. Tax policies should not be developed for the development of any Political institutions. (Bir, November 2009)

With the help of Microeconomic model, he found that the Tax reform will hold down the investments in some medium term. (occhino, July 2020)

This paper discusses the direct tax problems faced by Indian aviation companies due to ambiguities in the Income Tax Act, 1961, which contributes to their losses. It suggests reviving some expired provisions of the Act to support the aviation industry's interests. (Jha, July 2019)

In this he Find that all Tax changes does not have the same impact on economic growth, and financing and structure of a tax change are difficult to achieve economic growth because tax rate cut encourage the payers to work, save and invest more. (Gale William G. & Samwick Andrew A., February 2016)

RESEARCH METHODOLOGY

Design, Data and Data Analysis

This research study employs a descriptive approach, utilizing both primary and secondary data collection methods. Primary data is obtained through a tailored questionnaire designed specifically for the study, while secondary data is sourced from a variety of scholarly articles, journals, magazines, newspapers, and websites. The gathered data and information are then organized, tabulated, and processed, with the findings presented systematically.

Sampling Plan

- Targeted Population: The study focuses on individual taxpayers.
- Sampling Method: Convenient sampling is employed, selecting participants based on their accessibility and availability.
- Sample Size: The study includes a sample size of 51 individuals.

DATA INTERPRETATION

Analysis from survey:

I presented and interpreted the result from the survey systematically in the section using tables.

Gender	Responses	Percentage
Male	34	67%
Female	17	33%
Grand Total	51	100%

Table 1

Source: Primary data

Interpretation: -Survey Indicate that out of the total respondent's most which accounts for 67% belong to male and rest 33% are females.

Age	Responses	Percentage
18-25	35	69%
25-40	14	27%
40-60	2	4%
Grand Total	51	100%

Table 2

Source: Primary data

Interpretation: - The survey results indicate a significant majority of respondents, specifically 69%, fall within the age range of 18 to 25 years. Following this group, the age bracket of 25-40 years comprises approximately 27% of the respondents. Only a small percentage, around 4%, belongs to the age group of 40 to 60 years.

Education Level	Responses	Percentage
Graduate	30	59%
Postgraduate	20	39%
12 th	1	2%
Grand Total	51	100%

Table 3

Source: Primary data

Interpretation: Among the total respondents, over 59% possess qualifications up to the graduation level. Additionally, around 39% hold post-graduate qualifications, while a mere 2% have education up to the 12th class. This suggests that the majority of respondents are well-educated.

Occupation	Responses	Percentage
Clerks /others	33	65%
Business	11	22%
Teachers/Lecturers	3	6%

Doctors /Engineers	3	6%
Officers	1	2%
Grand Total	51	100%

Table 4
Source: Primary data

Interpretation: - Lots of the respondents were Clerks/others i.e., 65%, whereas 22% of respondents were from the category of Business. Respondents belonging to the category of teachers/lecturers, Doctors/Engineers and officers were 6%, 6% and 2% respectively.

Do you Aware and Understand the Optional Tax Regime?	Responses	Percentage
Yes	36	70%
Maybe	10	20%
No	5	10%
Grand Total	51	100%

Table 5
Source: Primary data

Interpretation: - The majority of respondents, comprising 70%, exhibit awareness and understanding of the optional tax regime. Meanwhile, 20% express uncertainty regarding their awareness, and 10% indicate a lack of knowledge about the optional tax regime.

How well do you understand the optional tax regime?	Responses	Percentage
Fully known	19	37%
Just know	17	33%
Aware	13	25%
Not aware	2	4%
Grand Total	51	100%

Table 6
Source: Primary data

Interpretation: - How well respondent understand the Optional tax regime there is 37% are fully know what is meant by optional tax regime and 58% peoples are Just know and aware about it and at last 4% are not aware of what is optional tax regime.

Have you made tax-saving investments in the past?	Responses	Percentage
Yes	28	55%
No	23	45%
Grand Total	51	100%

Table 7
Source: Primary data

Interpretation: - Most of the people i.e., 55% people are invested in different Tax-saving investments in past and others are wanted but won't invested in tax saving investments in past years.

If yes, what type of tax-saving investments have you made?

51 responses

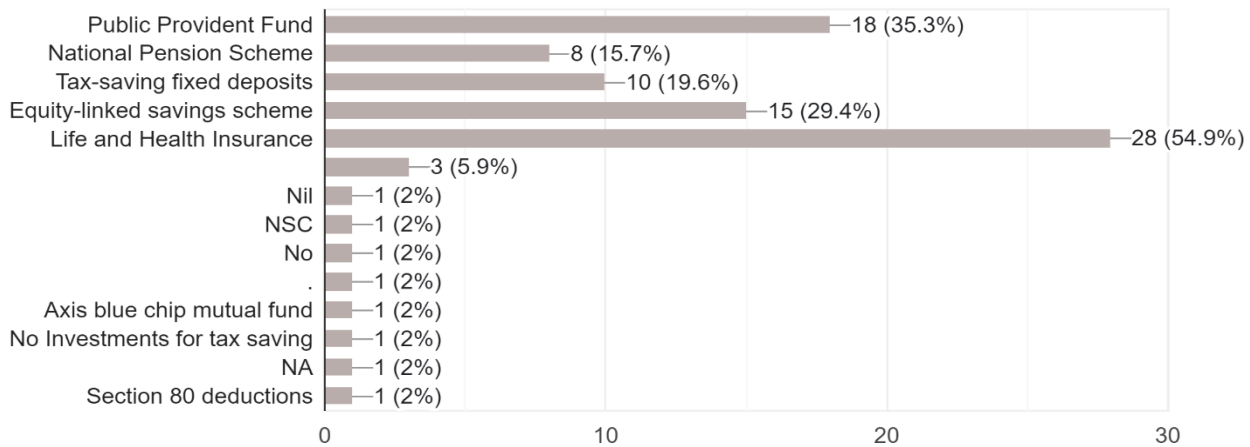


Table 8

Source: Primary data

Interpretation: - It seen that more than half of Respondent i.e., 55% prefer the Life and health insurance over the other Investment that show their concern for the health and future and 35% and 16% person things about their retirement life, so they invest in Public provident fund and National pension scheme. This is the Multiple options question so everyone person have selected more than one option and there are some persons have not invested in any scheme or in a different scheme other than option provided.

Do you believe the optional tax regime provides flexibility to taxpayers in managing their taxes?	Responses	Percentage
Agree	23	45%
Strongly Agree	7	14%
Neutral	13	25%
Strongly Disagree	4	8%
Disagree	4	8%
Grand Total	51	100%

Table 9

Source: Primary data

Interpretation: - Peoples believe that optional tax regime provides flexibility to taxpayers in managing their taxes number is high 59%, and 25% respondent are neutral that they don't have any opinion and remaining respondents are totally Disagree about the same.

Apart from the optional tax regime, what are the other factors that influence your decision to make tax-saving investments on the scale of 1 to 5 (1 Low and 5 High)?										
	Returns	%	Risk	%	Liquidity	%	Future Plan	%	Security	%
5	13	26%	7	14%	7	14%	13	25%	14	27%
4	11	21%	15	29%	11	22%	12	24%	11	22%
3	14	27%	16	31%	18	35%	12	24%	12	24%
2	6	12%	9	18%	10	20%	7	14%	8	16%
1	7	14%	4	8%	5	10%	7	14%	6	12%
Grand Total	51	100%	51	100%	51	100%	51	100%	51	100%

Table 10

Source: Primary data

Interpretation: -

- 1) Return: - 31% of respondents are moderate about the Return they won't think much about the returns but most 43% want a max return on their investments and remaining are ok with the low return.
- 2) Risk: - As per observation no one want to take a Risk on the investments they made but if risk provide the maximum return the people are ready to take risk up to scale of 3, 75% and remaining 25% are willing to take a risk.
- 3) Liquidity: -Now a days everyone at a time of investment check how quickly they can convert their investment in cash. 35% people are neutral about the Liquidity factor which is quite high, and 36% respondent are consider the liquidity and remaining are don't care.
- 4) Future Plan: - Most of the investments are made for future plan for retirement and housing as in the above question most people invested in the Provident Fund and pension scheme and here around 73% respondents are up to the scale 3 and other are below that.
- 5) Security: - 73% of people want their money secure that's up to the scale of 3 and others also want their money to be safe but is less proportion compared to first ones.

As per above survey, Majority considers the security first over other factors then Future Plan for a particular purpose other Return, Risk and Liquidity preference are almost same in order.

How important is the potential tax-saving aspect in your investment decision-making process?	Responses	Percentage
Important	32	63%
So important	11	22%
Natural	6	12%
Not important	2	4%
Grand Total	51	100%

Table 11

Source: Primary data

Interpretation: - 85% of people consider the Tax-saving aspect is important at a time of investment decision they make and other are natural and only 4% consider tax-saving not important at a time of investment.

Why Are you likely to invest in tax-saving instruments?	Responses	Percentage
Tax Benefits	25	49%
Future planning	18	35%
Returns	8	16%
Grand Total	51	100%

Table 12

Source: Primary data

Interpretation: - Most of the respondents, i.e., 49% are invest for the tax benefits which are available for future planning, and some are invested for the Returns on investments.

How has the optional tax regime affected your investment behaviour?	Responses	Percentage
No change in investments	23	45%
Increase the Investment	22	43%
Decrease the investments	6	12%
Grand Total	51	100%

Table 13

Source: Primary data

Interpretation: - There is no change in Investments of 45% people because of the optional tax regime because of lack of awareness and 43% people increase the investments which are don't know the benefits and drawbacks of optional tax regime and some are decrease the investments.

Are you satisfied with the optional tax regime as a tax-saving measure?	Responses	Percentage
-------------------------------------------------------------------------	-----------	------------

Fully Satisfied	4	8%
Satisfied	21	41%
Natural	16	31%
May be	4	8%
Not Satisfied	6	12%
Grand Total	51	100%

Table 14
Source: Primary data

Interpretation: - As per the survey Half of the respondents are Satisfied with the optional tax regime as tax saving measure 39% respondents are don't know what to say they are natural or maybe they are satisfied as above and remaining Not satisfied with it.

As per above there is lots of requirement for promotion of optional tax regime among public and make them aware the benefits and drawback of the new and old tax regime. How to avail the Tax saving investments and how can save the tax by making the Investments.

There is no such huge impact of optional tax regime on the Investment among the peoples as per my sample.

Hypothesis	Test	Significance level	Decision
There is no significant Impact of optional tax regime on tax-saving investment.	One Way Anova	0.686	Accept the null Hypothesis

Used questions for the hypothesis testing with oneway anova consider the influence as dependent factor on the basis of level of Understanding of optional tax regime and find out that there is no such significant impact on people of optional tax regime on tax saving investments so find out that people need to educate about optional tax regime its advantages and disadvantages.

FINDING: -

- Most of the respondent are the Males i.e., 67%. The majority of the age group is 18 to 25 years in research. All the Respondent are Highly educated. The majority of respondents belong to salary class. Most of the respondents are aware and understand the optional tax regime as per the study.
- The level of understanding of the optional tax regime is different for everyone. Half of the respondents made tax saving investment in the past, and half did not make any tax saving investments. Most of the respondents prefer the life and health insurance they are concerned about their Health and future and then prefer the provident fund and national pension scheme that show their concern about the retirement life.
- Most of the respondents believe that optional tax regime provides them flexibility in managing their taxes and gives them an option what they want to pay. Main reasons for the investment in tax saving investment in scale of 1 (low) to 5 (high) Security and future and least concern about the risk and liquidity when invested in tax saving instruments. When making investment respondents believe that tax saving aspect is so important. For tax benefits respondents are invest in tax saving investments and then for the future planning preferred over the returns.
- There is no change in Investments of 45% people because of the optional tax regime because of lack of awareness and 43% people increase the investments which are don't know the benefits and drawbacks of optional tax regime and some are decrease the investments. Most of the people are satisfied with the optional tax regime and 39% people don't know if they are satisfied or not with it. That means they are not aware about optional tax regime. As per my analysis and testing there is Impact of optional tax regime on people tax saving investments but there is not much awareness about optional tax regime and its advantages and disadvantages.

Conclusion: -

The study on the impact of the optional tax regime on tax-saving investments revealed several key findings. While a majority of respondents were aware of the optional tax regime, there was a lack of understanding about its nuances. Tax-saving investments were influenced by factors like security and future planning. Surprisingly, the optional tax regime did not seem to have a significant impact on investment behavior among the sampled individuals. Overall, the study suggests a need for greater awareness and education regarding the optional tax regime and tax-saving opportunities. The

government gives the option to every individual which tax regime they want to choose so there may be some losses to the government in tax because of it, but government recover those losses by any other way.

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