



## **PROFILING TAXATION LITERACY OF SALARIED INDIVIDUALS IN SELECT REGION OF DELHI: AN EMPIRICAL STUDY**

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### **Abstract**

*Taxation literacy means the level of awareness among the people about the Income Tax Act, 1961, and various laws related to them i.e., Payment of Gratuity Act, 1972, etc. In other terms knowledge of technical jargon used under the Income Tax Act, 1961, and awareness of various kinds of deductions, and exemptions available under the Select Act. Tax planning and management are also to be considered under taxation literacy. The main objective of this study is to determine people's knowledge regarding taxation laws. For this purpose, respondents are to be taken from select regions of Delhi i.e., civil lines. Data will be collected through primary sources mainly questionnaires and analyses by using SPSS and appropriate statistical tools. This study concludes that both financial and taxation literacy are positively correlated with each other. Some factors i.e., age, gender, income, and qualifications are also positively correlated with taxation literacy, which means the higher the qualification, the higher be assessee's taxation literacy. This study also concludes that there is a significant relationship between tax planning and taxation literacy.*

**Keywords:** *Deductions and Exemptions, Tax Management, Tax Planning, Taxation Literacy.*

## **INTRODUCTION**

Taxation literacy means the level of understanding or knowledge of people regarding the taxation laws and various related acts. It is not important to cram the acts and laws but there is a need to interpret the taxation laws correctly. Correct interpretation will always lead to a better understanding of taxation laws which would help in raising laxation literacy among the people. Tax planning and tax management are not synonyms to each other but their meaning is completely different. Former means reducing tax liability by taking advantage of legitimate

concessions and rebates specified under Income Tax Act, 1961 whereas, later related to managing tax compliances properly e.g., filing a tax return, and timely payment of advance tax which helps to eliminate non-compliance charges. Both tax planning and tax management are legally valid but the term tax evasion is an unlawful act in nature. Tax evasion is reducing tax liability by illegal means where assessee conceals the source of income and income too.

Taxation literate person should also have the knowledge of exemptions and deductions available under the Income Tax Act, 1961. Let us understand the basic difference between them. Deductions are part of gross total income but, exemptions are not part of gross total income. Assessee first includes its income in a particular head and then deducts the same from the gross total income but it does not happen in case of exemptions where assessee includes it in its income and deducts the same at the same step. Well-known deductions are specified under Chapter VI-A of the Income Tax Act, 1961 from sections 80C to 80U whereas sections 10(13A), 10(10), 54, 54F, etc. are examples of exemptions. Nowadays assessee has the option to file their return in an old or a new tax regime, different regime has different benefits and disadvantages. But this will raise the need for professionals for an assessee. Under this paper, we will identify the relationship between the income of an assessee, tax planning, and tax management with taxation literacy and check how age and gender are associated with taxation literacy. For the purpose of the same appropriate statistical tools will be used i.e., arithmetical average, correlation coefficient, regression, etc. For this purpose, primary data will be collected from the respondents through a questionnaire who live in a central district of Delhi region. The gross total income of an assessee comprises five heads such as income from salary, income from house property, income from capital gain, income from profit and gain from the business profession and the last income from other sources which is also known as residuary head. The sum of all these heads will give you gross total income (GTI) and after excluding various available deductions will give you net total income (NTI). After getting NTI applicable slabs are applied to calculate the net taxable liability. According to the current income tax slab if an assessee's income is up to two lakhs fifty thousand then he needs to pay 5 percent and a higher slab is applicable when an assessee's income is more than ten lakhs then he needs to pay a tax rate of 30 percent. This will be different in the case of a new tax regime.

### **OLD V/S NEW TAX REGIME**

At present, there are two tax regimes through which an assessee can file through income tax return by adopting a particular tax regime as per his choice. But his choice depends on the available benefits in the form of various tax deductions and exemptions. Let us discuss the old

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tax regime where income slabs start from two lakhs fifty thousand and range to a maximum of ten lakhs. Assessee can avail all the benefits of tax deduction and exemptions defined under the Income Tax Act, of 1961, whereas under the new tax regime income slabs start from two lakhs fifty thousand and end at fifteen thousand. Under the new tax regime, assessee can only claim some select deductions and exemptions. The new tax regime is made a default tax regime, which means the assessee can opt old tax regime by his choice only. Assessee can be shift from one tax regime to another but, if assesses earn income from business or profession and choose a new tax regime can never be switched to another one. So which tax regime is better for an assessee? Lower income group people will always be in a position to gain in a new tax regime but higher income groups get benefits from an old tax regime.

### OLD V/S NEW TAX REGIME'S STRUCTURE

Following are the tax slabs from old and new tax regime such as

Old Tax Regime	Tax Rate	New Tax Regime	Tax Rate
Upto 2,50,000	Nil	Upto 3,00,000	Nil
2,50,000 - 5,00,000	5%	3,00,000-6,00,000	5%
5,00,000-10,00,000	20%	6,00,000-9,00,000	10%
More than 10,00,000	30%	9,00,000-12,00,000	15%
		12,00,000-15,00,000	20%
		More than 15,00,000	30%

This old tax regime is for an assessee who is a resident individual and HUF age up to less than 60. Here the term resident defined under sections 6 (1) and 6(6) of the Income Tax Act, 1961. Two are basic conditions and two are additional conditions specified u/s 6(1) and 6(6) respectively. Following are the conditions specified in sec 6(1) i.e., a person stays in India for 182 or more days or stays in India for 60 days in the last financial year and 365 days during the preceding year. If a person satisfies any one condition, then he is called a resident of India. To check the additional condition specified u/s 6(6) i.e., the person shall be 2 times resident in the preceding 10 financial years and stay in India 730 days during the last 7 financial years. If an assessee satisfies both condition then his status is considered as a resident but ordinary resident (ROR), otherwise considered as a resident but not ordinary resident(R-NOR). For the purpose of this study, I collect data from respondents who are different age groups, genders, education, saving habits, investment habits, and income groups but all are salaried people based on these data researcher tries to find out the behaviour of their investment and relationship between the.

## LITERATURE REVIEW

**De Clercq, B. (2023)** paper concludes that taxation literacy increases assessee's commitment towards their societal obligations which will be possible by paying taxes to the government. It also decreases the gap between taxation authorities and assesses. They also found that higher simplicities in authorities will lead to an increase in the knowledge of taxpayers.

**Tantriangela, J., & Setyowati, M. S. (2023).** Polishing the Concept of Tax Literacy as an Effort to Improve Tax Compliance. In this paper researcher concludes that through simple linear regression tests Males are positively correlated with taxation literacy. Males are more knowledgeable about taxation terminologies as compared with females. Based on the different tests, show that there are differences between male and female tax literacy.

**Graber, J. G. (2020)** Financial Literacy and Retirement Planning Education. A Quantitative Analysis of Perceived and Actual Knowledge by Information Source. The paper concluded that individuals select their retirement plan through their perceived knowledge rather than their actual knowledge whereas, while selecting their experts in the field of finance select the ones who have more actual knowledge as compared to perceived knowledge.

**Bornman, M., & Wassermann, M. (2020)** Tax Knowledge for the Digital Economy, conclude that to become a rich economy in the field of digital economy there is a need to have a high knowledge of tax and try to encourage individuals about unique informational technology.

**Hastings, J., & Mitchell, O. S. (2020)** This paper concludes that the level of impatience is a solid predictor of wealth and investment in health. Financial literacy is also compared with wealth, but it appears to be a weaker predictor of sensitivity to framing in investment decisions.

**Oladipupo, A. O., & Obazee, U. (2016)** Tax awareness, penalties on the failure of managing tax compliances in MSME in Nigeria. This Study concludes that taxation knowledge is positively correlated to tax compliance and negatively related to a tax penalty.

**Bharat, T., Surendra, N. (2015)** This paper concludes that students have a basic understanding of finance but it does not ensure that they are also good in the stock market, managing taxes, financial statements, and insurance. Student's parents play a vital role in influencing their decisions and have a positive attitude toward savings. They also found that financial knowledge is not related to university affiliation, financial behaviour, and gender.

**Jaroslav Kovarnik, E. H. (2015)** This paper concludes that utmost of taxpayers considers the tax system inequitable in the Czech Republic. The basic element for this inequity is vertical and horizontal, as well as in the failure of legislative framework both during the creation and

application of tax laws. The knowledge among the public related to taxation laws is comparatively low.

## OBJECTIVES OF THE STUDY

Following are the objectives of the study as

1. To find out the relationship between financial and taxation literacy
2. To analyse the association between age, gender, income, and education level with taxation literacy
3. To measure the relationship between tax taxation literacy and tax planning

## HYPOTHESIS OF THE STUDY

**H<sub>01</sub>** : There is no relationship between financial literacy and taxation literacy

**H<sub>A1</sub>** : There is a significant relationship between financial and taxation literacy

**H<sub>02</sub>** : There is no significant association between age, gender, income and education level with taxation literacy

**H<sub>A2</sub>** : There is a significant association between age, gender, income and education level with taxation literacy

**H<sub>03</sub>** : There is no relationship between taxation literacy and tax planning

**H<sub>A3</sub>** : There is an important relationship between taxation literacy and tax planning

## RESEARCH METHODOLOGY

This study is experimental in nature as it describes the cause-and-effect relationship between various dependent and independent variables. The population of the study is salaried people who live in the east district of Delhi and samples were collected through questionnaires and personal interviews using a convenient sampling method. The sample size is 60 and statistical tools will be used for the same such as correlation etc. by using SPSS.

## DATA ANALYSIS

For results and analysis of the data from the questionnaire with 60 respondents containing five-point Likert scale responses to questions from strongly agree to strongly disagree.

<b>Profile of the Respondents</b>			
<b>Variables</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>	Male	40	67%
	Female	20	33%
<b>Age</b>	18-25	10	17%
	25-40	32	53%
	40-60	10	17%
	60-80	8	13%
	More than 80	0	0%
<b>Marital Status</b>	Married	28	47%
	Unmarried	32	53%
<b>Education</b>	Matriculation	12	20%
	Higher Second. Edu.	12	20%

<b>Income</b>	Graduation	10	17%
	Post Graduation	12	20%
	Professional Degree	14	23%
	Upto 2.5 Lakhs	20	33%
	2.5-5 Lakhs	13	22%
	5-10 Lakhs	15	25%
	More than 15 Lakhs	12	20%
<b>Employment Status</b>	Employed	60	100%
	Unemployed	0	0%

*Source: Primary Data*

The table shows the respondent's level of education, income, gender, age, and marital status where 67% and 33% of the total population are males and females respectively, and most of them belong to the 25-40 age group holding professional degrees like CA, CS, lawyers, etc., Most of them are under the income group of 0-2.5 lakhs. A sample consisting of 100% are employed in both government and non-government organizations. The questionnaire is enclosed with this paper.

For the testing of the first hypothesis here we use nine variables such as financial planning, nature of tax, exemptions, and deductions, etc. i.e., in  $H_{01}$  we use the correlation technique to check the relationship between financial literacy and taxation literacy where different questions are asked from the respondents related to both financial and taxation literacy and based on respondent's data there is a positive correlation between financial and taxation literacy. By using SPSS software, we found the value of correlation is 0.743.

<b>Descriptive Statistics</b>									
<b>Mean</b>	4.52	4.72	4.60	4.68	4.36	4.32	4.40	4.36	4.40
<b>Stand. Dev.</b>	0.714	0.678	0.500	0.690	0.907	0.945	0.707	0.860	0.764
<b>N</b>	60	60	60	60	60	60	60	60	60

*Source: Primary Data*

<b>Correlation between financial literacy and taxation literacy</b>									
<b>Variables</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
<b>1</b>									
<b>2</b>	.743**								
<b>3</b>	.37	.39							
<b>4</b>	-.07	.16	.579**						
<b>5</b>	.28	.441*	.422*	.790**					
<b>6</b>	-.2	-.11	.635**	.738**	.492*				
<b>7</b>	.07	.16	.825**	.785**	.610**	.923**			
<b>8</b>	-.11	.18	.06	.2	.25	.26	.3		
<b>9</b>	-.02	.14	.11	.25	.32	.16	.23	.406*	
**Correlation is significant at the 0.01 level (2-tailed)									
*Correlation is significant at the 0.05 level (2-tailed)									

*Source: Primary Data*

As the above data shows it simply means that we reject the null hypothesis. Therefore,  $H_{A1}$  is accepted. For the testing of the second hypothesis, we also consider nine kinds of variables (Income, qualification, age, gender, etc.) i.e.,  $H_{02}$  we again use the correlation technique where the results show that there is a positive correlation relationship between age, gender, income, and qualification with the level of taxation literacy.

<b>Descriptive Statistics</b>									
<b>Mean</b>	1.320	3.720	2.560	2.160	4.680	4.360	3.880	4.720	4.560
<b>Stand. Dev.</b>	0.476	1.137	1.387	0.688	0.690	0.907	1.054	0.504	0.507
<b>N</b>	60	60	60	60	60	60	60	60	60

*Source: Primary Data*

<b>Correlation between age, gender, income, qualification and taxation literacy</b>									
<b>Variables</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
<b>1</b>									
<b>2</b>	-0.135								
<b>3</b>	-0.346	0.236							
<b>4</b>	-0.163	0.166	0.295						
<b>5</b>	-.436*	-0.225	-0.284	-0.151					
<b>6</b>	-0.181	-0.342	-.498*	-.430*	.790**				
<b>7</b>	-0.086	0.075	-0.038	0.028	-0.055	0.003			
<b>8</b>	-0.123	0.138	0.051	-0.098	.530**	0.383	-0.061		
<b>9</b>	-0.256	0.356	0.128	-0.387	0.176	0.087	-0.025	0.292	
**Correlation is significant at the 0.01 level (2-tailed)									
*Correlation is significant at the 0.05 level (2-tailed)									

*Source: Primary Data*

But the high-income group is literate in taxation terms as compared to the lower income group. There is positive relationship between income and taxation literacy. Also, a positive relationship between education and income of a people, the higher the education and income level higher will be its taxation knowledge. As the results show, rejecting the null hypothesis and accepting the  $H_{A2}$ .

For the testing of  $H_{03}$ , we have taken eight variables such as nature of tax, tax planning, tax management, etc. and again correlation function is applied and the result shows that there is a perfect positive relationship between tax planning and taxation literacy. It simply means that the higher the taxation literacy higher the chance of reducing tax liability through better tax planning.

<b>Descriptive Statistics</b>								
<b>Mean</b>	4.68	4.36	4.32	3.96	4.40	4.72	4.36	4.56
<b>Std. Dev.</b>	0.69	0.91	0.95	1.24	1.04	0.54	0.81	0.51
<b>N</b>	60	60	60	60	60	60	60	60

*Source: Primary Data*

<b>Correlations between Taxation Literacy and Tax Planning</b>								
<b>Variables</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
<b>1</b>								
<b>2</b>	0.79							
<b>3</b>	0.738	0.492						
<b>4</b>	0.276	0.087	0.473					
<b>5</b>	0.186	0.238	0.119	-0.052				
<b>6</b>	0.53	0.383	0.508	0.231	-0.015			
<b>7</b>	0.214	0.1	0.115	-0.109	0.119	0.334		
<b>8</b>	0.176	0.087	0.393	0.435	-0.047	0.292	0.097	

*Source: Primary Data*

The sample population is widely known for the tax terms i.e., gross total income, net total income, net tax liability, surplus, cess, section 115 BAC, etc. and easily differentiates between different tax structures and is aware of the existing various tax deductions and exemptions available under income tax act, 1961. Data also shows that people having high tax knowledge invest their funds in the best investment option which gives high returns with lower risk rates e.g., national saving certificates, post office schemes, fixed deposits, etc.

## CONCLUSION AND SUGGESTIONS

This study concludes that all the null hypothesis is rejected which means that accepting the alternative hypotheses. There perfect positive correlation between taxation and financial literacy, significant association between respondents' age, gender, qualification, and income with taxation awareness we also found that both taxation literacy and tax planning are positive correlated with each other. The government should try to be aware and emphasize more on people's cognitive development through kind of workshops & awareness programs and incentives for those who fill out their tax returns and manage their tax compliances properly. This will help for government in generating huge revenues in the form of taxes.

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