

An Analytical Study of Factors Motivating Salaried Class Employees For Payment of Taxes.

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Abstract-

The study attempted to understand the level of awareness and the perception of tax payers with respect to various tax saving options available to them for saving taxes and to identify the factors motivating salaried class employees to pay taxes on time. This study was conducted in Pune Region and was conducted amongst salaried employees. The rationale of considering only salaried class is their understanding of tax system and efforts to save the taxes and not to evade the one. It can be seen from the studies that salaried employees are the system abiding people considering the coercive sanctions behind the system. The study was also an attempt to see as in which tax saving options are popular in the target group to save the taxes. Research methodology used includes descriptive stats, Correlation analysis, and exploratory factor analysis. The study included 400 people. The sampling was random and convenient. The responses were gathered mainly from the I.T. workforce. The research suggested that investment in Mutual fund through SIP is majorly popular amongst the respondents. On the other hand EPF, PPF and LIC are considered to be popular tax saving options. Children tuition fees and home loans are also considered to be a good tax saving option. The notion amongst tax payers is that there should be an increase in tax exemption slabs.

Keywords- Tax, Insurance, Deductions, Salaried Employees, Investments

JEL Classification- D14, G11, G22, H20

1. INTRODUCTION

The tax system in India is not for the taxpayers who are expecting anything in return from the system. There is hardly any direct benefit for paying taxes in this country. But the benefits can be received through the developmental and welfare work government does for the citizens. As we consider tax saving as an option we might consider several rebates, deductions, and reliefs which are available under different sections of the Income Tax act. Income, Investments and savings are correlated to each other, in fact one can say Income triggers a multiplier effect which would include investments, saving and other expenditures. All three are important for

the economy individually none can be responsible for the growth and development of the economy. Taxes plays very important role in this cycle as investment is triggered by the rate of inflation, savings are triggered by the long term goals while income is triggered due to the livelihood requirement of the individual. Taxes paid from the income lessen the amount from the pocket of individuals which eventually triggers the tendency to save it and studying the perception of salaried employees towards the tax saving options is important.

2. REVIEW OF EXISTING LITERATURE-

Sr. No.	Year of the study	Author	Crux of the study
1	1944	Crowe	The study stated that the tendency to evade or save the tax develop from several personal reasons.
2	1958	Groves	Researcher estimated that only 51% of net rent, 82% of farm income, and 96% of dividends were reported on tax returns in Wisconsin.
3	2009	Kasilingam & Jayabal	Authors talked about the awareness of investors as well as how the investors compared the merits and demerits of numerous avenues of savings and investments. They also went on analyzing the reasons for failure of many good schemes and good products and suggested suitable promotion schemes.
4	2012	Patel & Patel	Authors focused their study on investment schemes opted by salaried employees of the private sector. As per their study, salaried people wanted to avail good returns and gain

			maximum tax benefit out of their investments.
5	2013	Ansari and Moid	Authors have studied the investment behavior of an individual investor regarding the dissemination of left out income in different investment schemes. The study revealed that one of the major purpose investment was growth and additional income; whereas income and age also played an important role while investing, irrespective of gender.
6	2014	Patil & Nandawar	Authors have found that investors were aware about investment avenues available in India, but still investors preferred to invest in bank deposits, real estates and metals.

7	2015	Vedantam & Sriram	Authors have used tools like statistical tools like ANOVA and Chi-square to verify the result and found that irrespective of their demographic aspects, respondents were aware of the difference between savings and investments.
8	2015	Sathiyamoorthy & Krishnamurthy	In their study author has studied the investment pattern and level of awareness among the salaried class investors in Tiruvannamali district of Tamil Nadu and found out that people still felt bank deposits to be the safest way to keep money for an unpredictable future. They care for safety more than higher returns.
9	2015	Chakraborty & Digal	Authors have found out that while investing, one major thought that households pondered upon was whether these financial products also social security.
10	2015	Lokhande	Author has attempted to find out what were the roles played by demographic,

			psychological and sociological factors while making investment decisions.
11	2015	Patel	Author has found out that majority of the salaried income investors came to know about various investment avenues through newspapers, education, T.V. and invested 25% to 50% of their income in different avenues.
12	2016	Thulasipriya	Author have examined the investment preferences among the salaried investors. The analysis revealed that the salaried investors chose to have both long term and short term investments for their safe future.
13	2016	Pathy	Author has studied the awareness among people about various investment avenues available to the people of Cuttack city and what factors should be considered before making an investment.
14	2016	Sundari, Vidhyapriya & Venmathi	Authors have observed that the tax prevalence for individuals was to invest in some avenues where relaxation was given by the government for various tax schemes. However, the tax instruments selected totally dependent on the income of investors.
15	2017	Manikandan & Muthumeenakshi	Authors concluded that most of the investors invested in preferred bank deposits so that the invested money could be used for purchasing home and long-term growth.
16	2017	Mak & Ip	Authors have attempted to find out what were the roles played by demographic, psychological and sociological factors while making investment decision.
17	2018	Amit Kumar Arora & Priya Rathi	Authors have attempted to know the awareness and perception regarding various tax saving options available to save tax for salaried class employee. The

			study concluded that salaried people pay more taxes than as compared to other tax payers.
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3. Research Gap

On the basis of literature review it was observed that most studies have been conducted for various investment options available, which comprised of both tax saving and non-tax saving options. Studies on different classes were also conducted. Even studies are been conducted in Pune as well. Pune being the growing IT hub of Western India has become a city of immigrants. And maximum population who are working here are either coming into salaried class or are related salaried class. Hence this study proves to be very significant for this region and this talks about the factors which motivates people in salaried class to pay taxes.

4. Research design –

This study follows ‘Experimental Research Design’ the objective is to find out the correlation between income and savings of taxpayers and the factors which are responsible for motivating the taxpayers to pay their taxes on time. The study is restricted to only salaried class tax payers. Researcher has tried to compartmentalize the parameters which motivates the payment of taxes by using ‘Factor Analysis’. The nature of factor analysis is exploratory as the researcher has tried to find out the factors from the available parameters.

4.1 Objectives-

- a. To find out the correlation between Income and Savings of salaried class employees
- b. To find out the factors which motivates the taxpayers to pay taxes in timeline.

4.2 Hypothesis-

Ho- Annual income, Savings and Investment of the taxpayers are not related to each other.

H1- Annual income, Savings and Investments of the taxpayers are significantly related to each other.

4.3 Data Collection-

The data has been collected from the salaried employees of pune. The areas majorly targeted were Hinjawadi, Kharadi and places nearby. Considering the I.T. parks and residential area nearby. While collecting the sample the methodology adopted is **random&convenient**

sampling. 200 respondents were selected from both the I.T. Zones. The sampling is two stage sampling, first stage sampling includes 'Pilot testing Sample' and second stage includes, 'Convenient Sampling'.

4.4 Data Consideration-

The data considered in the research is considered to be the representative of the total population. As the population is very diverse and the availability of the respondents was the major issue while collecting the data. However the condition of data sufficiency was taken into consideration while deciding the sample size.

4.5 Sources of Data-

The data collected in this research is primary in nature. As the research design is exploratory in nature, the data collected in these cases mostly is primary in nature. The data is collected by administering the questionnaire to the respondents'.

4.6 Questionnaire Design-

The questionnaire used in this research is a formalized and unconcealed type of questionnaire. It consists of three sections, the first one is 'Demographics', second section is 'Inferential Question' and third section is used for 'Factor Analysis'.

4.7 Tools Used-

Tools used in this research are-1) Ms- Office package- 2007) Ms-Excel- Data Analysis tool pack (VBA tool pack)3) IBM SPSS-20

4.8 Statistical test used-

The test used in this paper are Correlation and Factor analysis.

5. Data Analysis-

The data analysis is done in two phases-

1. Reliability and Validity Analysis.
2. Correlation and Factor Analysis.

5.1 Reliability of data

The Cronbach's alpha in this case comes out to be 0.740, the questions considered for testing reliability are 8 in number. The results comes out here are highly significant and confirms the reliability of the data.

Case Processing Summary			
		N	%
Cases	Valid	400	100.0
	Excluded ^a	0	.0
	Total	400	100.0

Reliability Statistics	
Cronbach's Alpha	N of Items
.740	8

a. Listwise deletion based on all variables in the procedure.

Table- 5.1.1- Reliability of data

5.2 Validity of the data-

The validity of the instrument is checked on the basis of determinant correlation matrix. If the correlation matrix shows that the determinant is near to 0.00 or is 0.00 then the instrument is considered to be valid. The matrix is to be checked for higher and lower correlation and then the questions with higher and lower correlations are dropped to check whether the determinant changes for better. If it changes for better then the questions with either higher or lower correlation are to be dropped to make the research instrument valid. In this research the research instrument (Questionnaire) is tested for validity for following parameters. Since the questionnaire is divided into 3 sections, 1st and 3rd sections are not tested accordingly since it consists of demographic and factor analysis respectively hence the content validity is tested for 2nd section that is for inferential questions. And this section is similar for the entire questionnaire, hence only once while doing the pilot testing.

5.2.1 Correlation Matrix-

		Correlation Matrix ^a							
		savings	increase in disposable income	more investible income	returns	availability of investment option	availability of rebates	less tax exemptions	coercive sanctions
Correlation	savings	1.000	-.895	.757	.662	.745	.667	-.209	-.216
	increase in disposable income	-.895	1.000	-.717	-.608	-.701	-.595	.156	.154
	more investible income	.757	-.717	1.000	.574	.619	.621	-.042	-.029
	returns	.662	-.608	.574	1.000	.581	.552	.032	.000
	availability of investment option	.745	-.701	.619	.581	1.000	.631	.043	.018
	availability of rebates	.667	-.595	.621	.552	.631	1.000	.398	.356
	less tax exemptions	-.209	.156	-.042	.032	.043	.398	1.000	.914
	coercive sanctions	-.216	.154	-.029	.000	.018	.356	.914	1.000

a. Determinant = .000

Table 5.2.1 Validity Analysis

Interpretation-The above matrix shows that there are the cases of higher correlation, but there is hardly any case of lower correlation. The limit of higher correlation starts with 0.7 and above and lower correlation is considered as lower than 0.3. Since we can observe that the determinant is 0.00, so it means that the content validity is proved. Further the questions with higher and lower correlation can be dropped, but as the determinant is 0.00, hence there is no requirement of doing such tests in this context for proving validity of the questionnaire.

5.3 Factor Analysis-

Step-I Sampling Adequacy-

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.818
Bartlett's Test of Sphericity	Approx. Chi-Square	2921.001
	df	28
	Sig.	.000

Table- 5.3.1 Sampling Adequacy

The basic test which is to be done before continuing with the factor analysis is to test whether the sample considered for such analysis is adequate or not. The sampling adequacy is tested on the Kaiser-Meyer-Olkin Measure of Sampling Adequacy measure; if the measure comes out to be more than 0.5 then the sample is adequate in nature to perform the factor analysis. Since the KMO measure is 0.818 in this case hence we can undoubtedly interpret that this sample is adequate for factor analysis.

Step-II- Total Variance Explained-

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared			Rotation Sums of Squared		
	Total	% of Variance	Cumulative %	Loadings			Loadings		
				Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.325	54.062	54.062	4.325	54.062	54.062	4.324	54.052	54.052
2	2.162	27.028	81.090	2.162	27.028	81.090	2.163	27.037	81.090
3	.467	5.839	86.929						
4	.380	4.754	91.683						
5	.278	3.478	95.161						
6	.235	2.941	98.103						
7	.084	1.045	99.148						
8	.068	.852	100.000						

Extraction Method: Principal Component Analysis.

Table- 5.3.2 Total Variance Explained

Interpretation- The total variance explained by the model is 81.090 % which shows that the three factors defined by the Eigen values explain 81.090 % of the variation in the dataset. That means the three factors are able to explain the 81.090 % of the variation in the dataset. As per the

principles of the research methodology any factor model which explains the variance from 60% to 70% from the dataset is the good model. Since this is the exploratory methodology it cannot explain the complete variation in the dataset.

Step-III- Factor Identification

Rotated Component Matrix ^a		
	Component	
	1	2
savings	.940	
increaseindisposableincome	-.899	
moreinvestibleincome	.845	
returns	.773	
availabilityofinvestmentoption	.840	
availabilityofrebates	.782	
lesstaxexemptions		.976
coercivesanctions		.966
Extraction Method: Principal Component Analysis.		
Rotation Method: Varimax with Kaiser Normalization.		
a. Rotation converged in 3 iterations.		

Table- 5.3.2- Factor Identification

Interpretation- The rotated component matrix shows that there are two distinct factors which are extracted out of the parameters used for the analysis. The values used for clubbing the parameters into factors are generally taken from the range 0.4 till 0.8 but for the accuracy purpose the lower limit is extended to 0. 6 from 0.4. This has helped in removing the conditions of clogging of parameters into more than one factor and multicollinearity too. The first factor is formed out of the first six parameters and can be named as ‘**Perceptive Factor**’. The second factor is formed of the last two parameters and can be named as ‘**Systemic Factor**’.

6. Suggestions-

Study revealed a few outcomes which are summarized as below-

- a. The correlation analysis revealed that Annual Income, Investments and Savings of the taxpayers are related to each other. It means that more disposable income or savings triggers investment in the system.
- b. It indicates the relaxation in tax slabs would in a way trigger more savings in the system.

- c. The Factor analysis revealed two major factor, which reveals taxpayers are bonded by the coercive sanctions of not paying taxes and hence they pay taxes on time.

The informal conversation with the respondents also revealed that they think as they pay more taxes than any other tax paying classes as their transactions are mostly recorded and hence they come in the eyes of law if they try to evade the taxes. **So most of the taxpayers are willing and looking towards the new budget from the point of view some relaxation in the tax slabs.**

7. Limitation of the study and Scope for further Research-

As this study a sample which is not exhaustive in nature the inferences drawn cannot be generalized. This study was done by keeping a single class of tax payers in mind hence it cannot be extrapolated to another class of tax payers. The study has a scope to be explored further with 'Structural Equation Modelling' to confirm the factors which are identified in this study.

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