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The Study on the Effect of Tax Benefits on Investment Behaviour of Salaried Employees in Bangalore

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ABSTRACT

A study in Bangalore, India, explores how tax benefits affect investment behavior among salaried employees. Conducted through a structured questionnaire, it found varying levels of tax knowledge among respondents, with many aware of company-provided benefits but a significant portion uninformed. Most respondents earn less than 5,00,000 annually. The study reveals a link between tax benefits and investment behavior, showing that while some actively pursue tax-efficient investments, many do not prioritize tax benefits in their choices. However, those who do actively seek tax benefits tend to align their investments with tax-efficient strategies, highlighting the importance of taxation knowledge. The findings underscore the need for understanding the impact of tax benefits on investment decisions. Targeted financial education and communication strategies could empower salaried employees to make informed investment choices and improve their financial security in the long run.

Keywords: Tax benefits, Investment behavior, Salaried employees, Demographic factors, Tax knowledge, Tax awareness

1. Introduction

Tax benefits play a pivotal role in shaping the investment behavior of individuals, particularly salaried employees who form a significant segment of the workforce in urban centers like Bangalore, India. The relationship between taxation policies and investment decisions has garnered considerable attention due to its implications for financial planning, wealth accumulation, and economic growth. Understanding how tax incentives influence investment behavior is crucial for policymakers, employers, and individuals seeking to optimize their financial strategies. In Bangalore, a bustling hub of technology and commerce, salaried employees navigate a complex landscape of tax regulations and investment opportunities. The city's vibrant economy and diverse workforce underscore the importance of studying the effects of tax benefits on investment behavior within this context. As individuals strive to secure their financial futures, they must navigate a myriad of investment options while also considering the tax implications associated with each choice. The present study seeks to address this pressing issue by examining the impact of tax benefits on the investment behavior of salaried employees in Bangalore. By analyzing the level of tax knowledge and awareness among individuals regarding available tax benefits, the research aims to shed light on the factors influencing investment decisions in the face of taxation policies. The study's objectives are twofold: first, to analyze the tax knowledge and awareness level of salaried employees concerning the tax benefits available to them; and second, to investigate how these tax benefits influence investment behavior. By exploring these dimensions, the research endeavors to provide valuable insights into the interplay between taxation policies and investment decisions among salaried individuals in Bangalore. Through the utilization of structured surveys and questionnaires, the study gathers primary data on participants' investment behavior, tax knowledge, preferences, and demographic information. The findings from this research contribute to a deeper understanding of the dynamics shaping investment decisions in the context of tax benefits

2. Review of literature

Shaikh (2017), A financial plan is something that you create after considering your current income, savings, expenses, future earnings, insurance if any, financial goals and a vision for your future life. You then try to choose savings and investment options accordingly so that you can meet your long-term and short-term financial goals at various stages in your lives. Financial planning is important when it comes to saving taxes. It is imperative for an individual as it helps in maintaining steady savings percentage even when the financial markets are constantly being played between inflation and fluctuation. Tax planning is an essential part of financial planning. Efficient tax planning enables us to reduce our tax liability to the minimum. This is done by legitimately taking advantage of all tax exemptions, deductions rebates and allowances while ensuring that your investments are in line with their long-term goals.

Shetty (2019), This study seeks to delve into the understanding of the level of awareness among taxpayers regarding tax-saving schemes, and how this awareness is correlated with their investment patterns. The primary objective of the research is to ascertain the extent to which tax incentives influence the investment decisions made by investors when considering tax-saving schemes. To collect the necessary data for this investigation, a well-designed and comprehensive questionnaire was employed. This questionnaire comprised statements that were specifically related to both awareness and investment habits in tax-saving schemes. Furthermore, the questionnaire also collected relevant demographic information about the participating investors, such as their age, income, and occupation. this study highlights the importance of awareness and its correlation with investment patterns in tax-saving schemes. By focusing on enhancing taxpayer awareness and targeting specific demographic groups, policymakers and financial institutions can foster a more conducive environment for investments in tax-saving schemes, ultimately promoting economic growth and financial stability. It is essential to continually monitor the effectiveness of these strategies and make necessary adjustments to ensure sustained progress in promoting tax-saving investments among various demographic groups.

Suganthi and Valli (2019), Investment pattern of people vary depending on their income status and the activity that is engaged by those to make saving on their income these investments are made from their hard earning. Investment options a plentiful and the choices are Real estate, investment on gold, deposits in banks, post services, chit funds, shares and bonds. Investors look on returns on investment, value of appreciation on assets or investments. Investment is an activity confined to specific financial aims of investors. It’s the path through which smart money are transferred from the surplus area to the deficit.

Martin Jacob (2021), This paper examines the role of personal income taxes (PIT) in corporate investment decisions. Since PIT reduce consumption and increase cost of labor, investment decisions can be affected because of the inevitable link of production input factors. Using data on PIT in 30 European countries and a large sample of private firms, we find that personal income taxes substantially reduce investment. The magnitude is comparable to the effect of corporate taxes. We confirm this finding using three within-country settings where we explore local variation in PIT. Further, the PIT–investment association is stronger for lower-income earners, for firms facing more elastic employees, for firms with a stronger capital-labor-relation, for durable goods industries, and for financially constrained firms.

Frank (2022), This paper studies the impact of taxation on corporate investment, debt, equity, and dividends. There is a classical tax code in which the firm pays tax on profits and the investor pays taxes on dividends, interest, and capital gains. We find that a small increase in the dividend tax (or the capital gains tax) has no effects on consumption, production, or government revenue. Instead, the firm alters the dividends and share issuance policies. A small increase in corporate profits tax (or a cut in the tax on interest) reduces consumption, increases government revenue, and for realistic tax parameters increases production. There is one approximate symmetry between the impact of corporate profits tax and interest tax, and another between dividend tax and capital gains tax..

3. Statement of the problem

The study aims to examine how tax benefits influence the investment behavior of salaried employees residing in Bangalore, India. Specifically, it seeks to identify the extent to which tax incentives provided by the government or employers affect the investment decisions of salaried individuals. The research will explore whether salaried employees in Bangalore are aware of available tax benefits related to investments and how this awareness, or lack thereof, influences their investment choices. the research aims to provide insights into the relationship between tax benefits and investment behavior among salaried individuals in Bangalore, ultimately contributing to a better understanding of financial decision-making in the context of tax planning and investment strategies.

4.Objectives

To analyse the awareness level of salaried employees with respect to tax benefits available for them

To analyse the tax knowledge of salaried employees with respect to tax benefits available for them

To investigate how tax benefits influence investment behavior

5. Hypothesis of the study: for the 1st and 2nd objective

Null Hypothesis (H01): There is no significant difference in the tax knowledge and awareness level among salaried employees regarding available tax benefits.

Alternative Hypothesis (H1): There is a significant difference in the tax knowledge and awareness level among salaried employees regarding available tax benefits

Hypothesis of the study: 3rd objective

Null Hypothesis (H03): There is no significant association between the investment behaviour of salaried employees and their utilization of tax benefits.

Alternative Hypothesis (H3): There is a significant association between the investment behaviour of salaried employees and their utilization of tax benefits.

6. Data collection method

The data collection method for the study is a primary data collection method dealing with questionnaire and interview. The questionnaire was prepared with the consultation of the research guide and based on the literature available on the topic.

Non-probability sampling is used in this research paper, as this a type of sampling in which not every member of the population has an equal chance of being selected for the sample. Non-probability sampling methods are often used in exploratory research or when it is difficult or expensive to obtain a list of the entire population. The paper studies the influence of investing behavior of salaried employees which are influenced by taxation. The population of the study are all the salaried employees from Bangalore.The research is quantitative in nature. The source of data is primary in nature using close-ended questionnaires in the form of an interview. The survey and questionnaire were framed in order to collect information.

7. Research approach

The research is quantitative in nature. The source of data is primary in nature using close-ended questionnaires in the form of an interview. The survey and questionnaire were framed in order to collect information

8. Period of study

In order to study the effect of tax benefits of investment behaviour of salaried employees in Bangalore. Research was conducted during October 2023 – March 2024 with a sample size 100, belonging from Bangalore

As the objective of the study is to analyse the Tax knowledge level and awareness about the salaried employees regarding the tax benefits by investments.

9. Data analysis and interpretation

Table 1 Anova Test

Test for Equality of Means Between Series Sample: 1 100

Included observations: 100

Method		df	Value	Probability
Anova F-test		(2, 297)	5.434385	0.0048
Welch F-test*		(2, 195.442)	5.525206	0.0046
Analysis of Variance				
Source of Variation		df	Sum of Sq.	Mean Sq.
Between		2	9.846667	4.923333
Within		297	269.0700	0.905960
Total		299	278.9167	0.932832
Category Statistics				
				Std. Err.
Variable	Count	Mean	Std. Dev.	of Mean
AWR	100	2.120000	0.844232	0.084423
AGE	100	2.000000	1.119163	0.111916
QUAL	100	2.430000	0.867540	0.086754
All	300	2.183333	0.965832	0.055762

ANOVA stands for Analysis of Variance. It is a statistical method used to analyze the differences among group means in a sample. ANOVA tests the null hypothesis that the means of two or more populations are equal, based on the variance between sample groups compared to the variance within sample groups. In Test for Equality of Means Between Series, the probability values (p-values) associated with the F-tests are less than the conventional significance level of 0.05 (or 5%). This indicates that there are statistically significant differences between the means of the groups being compared. The variation between groups (9.846667) and within groups (269.0700) are compared to assess whether there are significant differences in means among the groups. A larger value for the variation between groups compared to within groups suggests that there are significant differences in means among the groups. The F-statistic, which is derived from the mean squares, would be used to formally test the null hypothesis of equality of means across groups.

Here, Under Category statistics the variables AWR: represents whether participants were aware of specific tax benefits (e.g., deductions, exemptions,

schemes). This is a categorical variable along with age and educational qualification. Both F-tests being statistically significant ($p < 0.05$) confirms the alternative hypothesis (H1). This means there's a significant difference in tax knowledge and awareness at least between one pair of groups defined by "AWR, "AGE", or "QUAL".In this case, the p-values associated with the Anova F-test and the Welch F-test are both less than 0.05 (0.0048 and 0.0046 respectively).Therefore, the null hypothesis is rejected and it is concluded that there is a significant difference in the means of the variables among the groups.

9.1 Table 2 Regression Analysis

Variable	Std. Error	t-Statistic	Prob.
TAX_80C	0.173432	-1.472642	0.1441
C	0.654691	5.273384	0.0000
R-squared	Mean dependent var		2.510000
Adjusted R-squared	S.D. dependent var		1.388954
S.E. of regression	Akaike info criterion		3.503040
Sum squared resid	Schwarz criterion		3.555143
Log likelihood	Hannan-Quinn criter.		3.524127
F-statistic	Durbin-Watson stat		1.336372
Prob(F-statistic)			

A regression analysis was used to test the association between investment choices and tax benefit utilization among salaried employees.

The coefficient for the variable "TAX_80C" is -0.255403, which is the type of investment gives tax benefits (independent variable). The coefficient for the constant term (C) is 3.452437, which is the type of the investment (dependent variable). F-statistic: The p-value associated with the F-statistic (0.144052) is greater than the typical significance level (e.g., 0.05). This means the overall model does not statistically significantly predict the dependent variable

(investment choices). R-squared: The adjusted R-squared value is very low (0.011667), indicating the model explains only a very small portion of the variance in investment choices."TAX_80C": The coefficient is negative (-0.2554) but not statistically significant (p- value = 0.1441). This suggests that actively seeking tax benefits does not have a clear association with specific investment choices in this model.Constant: The intercept (3.4524) represents the predicted average investment (around 3.5) when all independent variables are zero. Based on the analysis, there is no statistically significant evidence to suggest an association between the investment choices of salaried employees and their utilization of tax benefits and therefore, there is no significant association between investment choices of salaried employees and their utilization of tax benefits.

10. CONCLUSIONS

Tax Knowledge and Awareness Level among Salaried Employees:The analysis indicates a significant difference in tax knowledge and awareness levels among salaried employees regarding available tax benefits. Both the Anova F-test and the Welch F-test yielded p-values less than 0.05, suggesting statistical significance.

This implies that there are discernible differences in tax knowledge and awareness among groups defined by variables such as awareness of tax benefits.

Association between Investment Behavior and Utilization of Tax Benefits:

The regression analysis failed to find a significant association between the investment behavior of salaried employees and their utilization of tax benefits.

The coefficient for the variable "TAX_80C" (representing the type of investment giving tax benefits) was negative but not statistically significant, indicating that actively seeking tax benefits does not necessarily correlate with specific investment choices in this model.

The overall model did not significantly predict the dependent variable (investment choices), as indicated by the F-statistic and adjusted R-squared values.

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The overall model did not significantly predict the dependent variable (investment choices), as indicated by the F-statistic and adjusted R-squared values.

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