



A Study on the Reasons People don't Claim Tax Benefits: The Impact of Awareness and Education

Mary Sneha A¹, Dr. Cherian Thomas²

¹M.Com. Student, Kristu Jayanti College (Autonomous), Bengaluru E-mail ID-23mcom27@kristujayanti.com

²Faculty, Department of Commerce (PG), Kristu Jayanti College (Autonomous), Bengaluru.

ABSTRACT

This study examines the underutilization of tax benefits in India, despite provisions like Section 80C, Section 80D, and HRA exemptions. It focuses on the role of financial literacy, awareness, and digital platforms in shaping taxpayer behaviour. While digitalization has simplified tax filing, barriers such as limited digital literacy and a lack of structured education in rural and low-income groups hinder the effective use of tax benefits. The research explores the impact of government initiatives and educational programs, aiming to identify strategies to improve awareness, enhance tax compliance, and encourage greater utilization of available tax benefits.

Key words: Tax benefits, financial literacy, taxpayer behaviour, digital platforms, government initiatives, tax compliance, policy implementation, and economic impact.

1. Introduction

In contemporary tax systems, the availability of various tax benefits plays a significant role in reducing an individual's financial burden and encouraging saving and investment. In India, tax benefits are structured to assist taxpayers in reducing their taxable income through deductions, exemptions, and credits. For instance, provisions such as Section 80C, which offers deductions on investments in instruments like Provident Fund (PF), Public Provident Fund (PPF), and National Savings Certificates (NSC), Section 80D, which provides deductions for premiums paid on health insurance, and House Rent Allowance (HRA) exemptions, serve as key tax relief tools. However, despite these opportunities, a considerable number of eligible taxpayers fail to take full advantage of these benefits, resulting in financial losses that could have otherwise been mitigated.

The phenomenon of underutilization of tax benefits is widespread across different income brackets and demographic groups. While tax benefits are designed to ease the financial load on taxpayers, especially middle-income and low-income groups, the lack of awareness and understanding remains a persistent barrier to their full utilization. This lack of engagement with available tax benefits not only limits the financial well-being of individuals but also reduces the overall compliance rate within the tax system, affecting the efficiency of revenue generation for the government. There are several reasons why individuals do not claim the tax benefits to which they are entitled. One of the most significant factors is the low level of awareness about the benefits that exist within the tax structure. While salaried employees, who have their taxes deducted at source, may be somewhat familiar with basic deductions such as HRA and Section 80C, self-employed individuals, small business owners, and rural populations often lack knowledge of the full range of tax benefits available to them. Moreover, even for those who are aware, a lack of clarity about how to claim these benefits, the documentation required, and the fear of making mistakes or triggering audits can lead to hesitancy in filing for deductions.

Research suggests that financial literacy plays a crucial role in the extent to which taxpayers utilize the available benefits. A direct correlation has been established between financial knowledge and the ability to navigate the complexities of the tax system. For individuals with higher financial literacy, claiming tax benefits appears straightforward, as they understand the various provisions and how to maximize their claims. However, for those with limited financial education, tax filing can appear daunting and confusing, leading to missed opportunities. Additionally, the complexity of the tax system, with its numerous rules, forms, and deadlines, can be a deterrent for many taxpayers, especially those without access to professional tax consultants or advisory services.

The digitalization of tax filing and the introduction of online platforms have significantly simplified the process of tax filing in India. Platforms like the Income Tax Department's e-filing portal allow taxpayers to submit their returns from the comfort of their homes, reducing the dependency on intermediaries and lowering the barriers for tech-savvy individuals. However, despite these technological advancements, the digital divide remains a considerable obstacle, particularly among rural populations and older demographics who may not be familiar with online platforms or digital tools. Studies show that while younger taxpayers and urban dwellers tend to benefit more from these platforms, individuals from rural areas or lower income brackets often struggle with both digital literacy and internet access, thus exacerbating the knowledge gap.

Another factor contributing to the underutilization of tax benefits is the lack of structured education regarding tax-related matters. Although several government initiatives have attempted to address this issue through awareness campaigns and educational programs.

These efforts have largely been inconsistent and sometimes fail to reach the most vulnerable or uninformed taxpayers. For instance, while urban-based taxpayers may have access to online tutorials, webinars, and workshops, these resources are often not available in rural regions or in local languages. Furthermore, educational programs on tax filing are often limited to basic information about tax payment and filing rather than a deeper understanding of deductions, exemptions, and credits.

The need for more comprehensive and inclusive financial education becomes particularly urgent when considering the diversity of India's population. With significant portions of the population still relying on traditional methods of tax filing and consulting, there is a clear need for localized, simplified educational resources that can be accessed by individuals across different demographics. Such resources should ideally cover not just the technical aspects of tax filing, but also provide guidance on how to recognize and claim tax benefits that apply to an individual's specific circumstances.

This research aims to investigate the reasons behind the low rate of tax benefit claims, focusing specifically on the role of awareness and education in shaping taxpayer behavior. By analyzing the current levels of taxpayer awareness regarding available tax benefits and the barriers that contribute to non-claiming behavior, this study will provide valuable insights into the relationship between financial literacy and tax compliance. Moreover, this research will explore the impact of government initiatives, digital platforms, and targeted educational programs in bridging the awareness gap and improving tax compliance rates.

A comprehensive understanding of why eligible taxpayers fail to claim their tax benefits despite being entitled to them is essential for developing strategies that can improve tax literacy and enhance taxpayer engagement with the tax system. This research also seeks to assess the effectiveness of existing awareness campaigns and identify gaps that may exist in current educational efforts. By focusing on both the knowledge and behavioral aspects of tax benefit claims, the study hopes to provide actionable recommendations for policymakers, tax authorities, and educational institutions to improve tax literacy and ultimately increase the number of taxpayers who claim the benefits they are entitled to. Through this study, the aim is not only to highlight the existing barriers to tax benefit claims but also to suggest strategies.

Many taxpayers in India fail to utilize available tax benefits due to a lack of awareness, financial education, and the complexity of tax regulations. This study examines how education and tax awareness influence tax benefit claims and identifies reasons for their underutilization. Using a quantitative, survey-based approach, it aims to provide insights for improving tax compliance and maximizing benefit utilization.

2. Review of literature

Bansal (2018)

The literature on public awareness and understanding of GST in India presents a mixed picture. Research by Bansal (2018) and Rao (2019) highlights confusion about the multiple tax slabs and compliance requirements, while Sharma and Soni (2019) note that government initiatives like workshops and seminars have been effective in urban areas but not in rural regions. Kaur (2020) emphasizes that financial literacy significantly influences GST understanding, with more educated individuals being better equipped to grasp its benefits. Studies by Choudhury (2020) and Singh (2021) show persistent knowledge gaps, especially among SMEs and low-income groups. The adoption of digital platforms has further excluded those with low digital literacy, as pointed out by Verma and Mehta (2020). Choudhury (2020) advocates for a more localized, blended approach to education. Joshi (2021) underscores the importance of taxpayer education to build trust and reduce misconceptions. Overall, the literature suggests the need for more inclusive, targeted educational efforts to improve GST awareness and compliance across India Arjun and Abisek (2021)

Kasipillai & et al. (2000)

Education plays a key role in shaping individuals' and firms' behaviors related to tax avoidance and evasion. Research shows that higher education generally reduces tax evasion, as educated individuals better understand the legal consequences of non-compliance (Kasipillai, 2000; Chan et al., 2000). Educated people also tend to appreciate the social importance of taxes. However, education's relationship with tax avoidance is more complex. While higher education increases knowledge of tax laws, it can also lead to more sophisticated tax avoidance strategies. Educated individuals, particularly in fields like law or finance, may exploit tax loopholes, raising ethical concerns about aggressive tax planning (Torgler, 2007; Muehlbacher et al., 2017; Kasipillai, 2004; Slemrod, 2001).

In conclusion, education reduces tax evasion but can also enhance the ability to engage in aggressive tax avoidance. Promoting financial and tax literacy is essential to ensure that tax avoidance remains legal and ethical

Kaur (2020)

Tax literacy, which involves understanding tax laws, regulations, and taxpayer rights, plays a crucial role in shaping compliance behaviors. Studies show that tax literacy in India is low, especially among rural and economically disadvantaged groups (Kaur, 2020; Rao & Sharma, 2018; Patel & Mehta, 2017). Many taxpayers are unaware of tax benefits, deductions, and filing procedures, leading to non-compliance and missed opportunities for legal savings. Kaur (2020) finds that financial education initiatives, such as those by the Income Tax Department and NGOs, have had limited success, hindered by language barriers, complex rules, and low digital literacy. Chakrabarty (2019) and Srinivasan & Gupta (2021) note that urban populations are more tax literate due to better access to information and education. Despite increased awareness among young professionals, many still struggle with understanding

tax benefits and the GST system (Sharma & Agarwal, 2017). Bansal & Jain (2020) advocate for localized, culturally relevant tax education programs to improve compliance and foster positive attitudes toward taxation.

Geetha and Sekar (2021)

Taxpayer awareness and satisfaction are critical to understanding compliance and the effectiveness of tax policies in India. Geetha R. and Sekar M. (2021) highlight that despite tax reforms, many taxpayers lack knowledge of their obligations, exemptions, and credits, similar to Rao (2019). Sharma and Soni (2018) note that government awareness programs have had limited success, particularly among rural populations with poor access to digital resources. Geetha R. and Sekar M. also assess taxpayer satisfaction, finding concerns about tax system complexity and inefficiency, even with improvements like GST and e-filing. Torgler (2007) and Muehlbacher et al. (2017) emphasize that satisfaction is linked to perceived fairness and efficiency, with delays in refunds and complicated filing processes often leading to dissatisfaction. Bansal (2018) and Patel & Mehta (2017) show that education positively correlates with satisfaction, while Chaudhary (2020) adds that personal experiences with tax authorities also impact satisfaction. Joshi (2020) highlights the role of trust in government. Despite advancements, Bansal & Jain (2020) note the digital divide, which creates dissatisfaction among rural taxpayers. In conclusion, the literature suggests that improving accessibility, targeting under-informed groups, and fostering better communication between authorities and taxpayers are key to enhancing both awareness and satisfaction.

Chaudhary (2021)

The relationship between taxation and educational development during British colonial rule in India is an underexplored yet vital area for understanding colonial socio-economic impacts. The British tax system primarily served the colonial state's interests, often neglecting the social needs of the Indian population. Chaudhary (2021) argues that taxation, particularly land revenue taxes like the Permanent Settlement of 1793, hindered educational development, especially in rural areas. High taxes left little for local governments or communities to invest in education, with scholars like Dube (2018) and Bose (2016) highlighting the disempowerment of rural communities and the limited focus of the colonial education system on creating an elite rather than promoting mass education.

Rao & et al. (2018)

Awareness of the tax system in India, including tax laws and saving mechanisms, remains low, especially in rural areas. Studies by Rao & Soni (2018) and Chaudhary & Mehta (2019) show that many taxpayers are unaware of tax-saving provisions like Section 80C and GST. Despite government efforts through digital platforms and campaigns, challenges persist in making tax information accessible and understandable. Financial literacy, particularly in rural areas and among lower-income groups, is also limited. While basic concepts like saving are somewhat understood, more complex topics like investments and tax planning remain unfamiliar (Sundaram & Raghunathan, 2020). Joshi & Agarwal (2020) argue that tax education is often neglected in financial literacy programs, hindering informed decision-making.

Although numerous studies have explored tax awareness and compliance, there is a lack of research specifically focused on understanding why eligible taxpayers fail to claim tax benefits. While prior research has looked at the general role of awareness programs in improving tax compliance, it has not thoroughly examined the individual barriers that prevent taxpayers from utilizing available tax benefits, even when they are aware of them. Moreover, although the link between financial literacy and tax compliance has been addressed, there is limited exploration of how educational programs specifically designed to explain tax benefits can help bridge these gaps.

Additionally, while digital platforms are often viewed as a promising solution to enhance awareness, the actual effectiveness of these platforms in simplifying the process and increasing claims remains underexplored. This study seeks to address these gaps by examining how awareness, education, and digital tools influence taxpayers' decisions to claim tax benefits, as well as uncovering the underlying reasons behind non-claiming behaviour.

3. Research Methodology:

The objectives of the study are:

1. Understanding the impact of awareness and education on claiming tax benefits.
2. Identifying the reasons why people do not claim tax benefits.

This study adopts a quantitative research approach to analyse the impact of education and tax awareness on claiming tax benefits and to identify the reasons why some taxpayers do not take advantage of these benefits. A survey-based methodology was used, where responses were collected through a structured questionnaire. The survey was designed to capture demographic details, awareness of tax benefits such as deductions under Section 80C and HRA, perceived complexity of tax regulations, and actual tax filing behaviour.

The target population for this study was taxpayers, and the respondents were randomly selected to ensure a diverse representation of individuals from different educational backgrounds, income levels, and tax knowledge levels. This random selection method helps reduce selection bias and increases the generalizability of the findings. The questionnaire included both closed-ended and Likert scale-based questions to assess the extent of tax awareness and education among respondents.

To analyse the collected data, Binary Logistic Regression was used in SPSS software. This method was chosen because the dependent variable (whether an individual claims tax benefits or not) is binary (Yes/No), and logistic regression helps determine the impact of predictor variables (education level, tax

awareness, complexity of tax rules, and attendance at tax awareness sessions) on this outcome. Descriptive statistics were used to summarize the data, while statistical tests such as p-values, Exp(B), and model accuracy were used to measure the significance of each factor. A 95% confidence level ($\alpha = 0.05$) was applied to determine statistical significance.

The findings from this methodology provide insights into whether education and awareness influence tax benefit claims, or if other factors like financial constraints, behavioural patterns, or trust in the tax system play a more significant role.

Hypothesis of the Study, The study is based on the assumption that education and tax awareness play a significant role in whether individuals claim tax benefits. To test this assumption, the following hypotheses were formulated:

H₀ (Null Hypothesis): Education level does not have a significant impact on claiming tax benefits.

H₁ (Alternative Hypothesis): Higher education increases the likelihood of claiming tax benefits.

The hypothesis was tested using Binary Logistic Regression, where education level and tax awareness were considered independent variables, while the dependent variable was whether the respondent had claimed tax benefits. A p-value threshold of 0.05 was used to determine statistical significance. If the p-value for education level was found to be less than 0.05, the null hypothesis (H₀) would be rejected, indicating that education has a significant impact on tax claims. If the p-value was greater than 0.05, the null hypothesis would not be rejected, meaning education does not significantly affect tax claiming behaviour.

This hypothesis testing allows us to understand whether lack of education and awareness is truly a barrier to claiming tax benefits or if other factors contribute more significantly to this issue.

4. Data Analysis

In this study, SPSS software was used to analyse whether education and tax awareness affect tax benefit claims.

Binary Logistic Regression was applied to check how different factors influence tax claiming behaviour. Key statistics like p-values and model accuracy were used to determine whether education and awareness play a significant role or if other factors are more important. This analysis helps in making informed conclusions about why some people do not claim tax benefits.

Table 1: Key Regression Results

Factor	p-value (Sig.)	Exp(B)	Interpretation
Education Level	0.129	3.325	Not significant (Education does not strongly impact claiming tax benefits).
Tax Awareness	0.723	1.275	Not significant (Awareness does not increase tax claims).
Belief That Education Helps	0.846	1.055	Not significant (Belief does not lead to more tax claims).
Attending a Tax Awareness Session	0.180	0.656	Not significant (Attending sessions does not impact tax claims).
Avoiding Tax Benefits Due to Lack of Knowledge	0.153	0.645	Almost significant (Some impact, but weak evidence).
Thinking Tax Rules Are Difficult to Understand	0.509	1.201	Not significant (Complexity does not prevent tax claims).
Overall Model Accuracy	65%	-	The model correctly predicts tax claims 65% of the time.
Hosmer-Lemeshow Test	0.881	-	Model fits well (no major issues).

Objective 1: Impact of Awareness & Education on Claiming Tax Benefits

The analysis aimed to determine whether education level, tax awareness, and attending tax sessions influence whether individuals claim tax benefits. The results show that education level ($p = 0.129$) is not statistically significant, meaning that higher education does not strongly impact whether someone claims tax benefits. Similarly, tax awareness ($p = 0.723$) is also not significant, indicating that knowing about tax deductions such as 80C and HRA does not directly lead to more claims. Additionally, attending tax awareness sessions ($p = 0.180$) does not have a meaningful impact on tax benefit claims. Lastly, the belief that education helps in understanding tax benefits ($p = 0.846$) does not translate into actual tax claims. These findings suggest that education and awareness do not significantly impact claiming tax benefits. Other factors, such as financial habits, access to tax advisors, or trust in the tax system, may play a more significant role in determining whether individuals take advantage of tax benefits.

Objective 2: Reasons Why People Do Not Claim Tax Benefits

To understand why people do not claim tax benefits, we examined factors related to tax complexity and lack of knowledge. The most notable finding is that avoiding tax benefits due to lack of knowledge ($p = 0.153$) is the closest to being significant, suggesting that some individuals may not claim benefits simply because they do not know how. While this factor is not statistically significant ($p > 0.05$), it still indicates a possible trend.

On the other hand, finding tax rules difficult to understand ($p = 0.509$) does not significantly prevent tax benefit claims, meaning that complexity alone is not a major barrier to claiming tax benefits. These results suggest that the strongest reason people do not claim tax benefits is a lack of knowledge. Even though the statistical significance is weak, there is still a visible pattern where individuals avoid tax benefits because they do not know the claiming process.

The findings of this study suggest that education and tax awareness programs alone are not enough to increase tax benefit claims. Policymakers and tax authorities should focus on practical tax assistance programs rather than just informational awareness campaigns. The study highlights the need for simpler tax benefit processes and personalized tax guidance to encourage more individuals to claim tax benefits.

The findings indicate that education and tax awareness do not significantly impact tax benefit claims. Simply knowing about tax benefits or attending tax awareness sessions does not necessarily lead to an increase in claims. The main reason people do not claim tax benefits appears to be a lack of knowledge, as they may not fully understand the claiming process. However, this factor is only weakly significant, meaning there may be other reasons that were not captured in this analysis.

Additionally, finding tax rules difficult to understand is not a major barrier to claiming tax benefits. The overall model correctly predicts tax behavior 65% of the time, but it only explains 19.5% of tax claiming behavior. This suggests that other factors outside of education and awareness influence whether individuals claim tax benefits.

Hypotheses

This study aimed to test whether education level influences tax benefit claims. The hypothesis was formulated as follows:

H₀ (Null Hypothesis): Education level does not significantly impact claiming tax benefits.

H₁ (Alternative Hypothesis): Higher education increases the likelihood of claiming tax benefits.

The results indicate that the p-value for education level is 0.129, which is greater than the standard significance level of 0.05. Since the p-value does not meet the threshold for statistical significance, we fail to reject the null hypothesis (H₀). This means that there is no strong evidence that education level plays a crucial role in determining whether individuals claim tax benefits.

Although education is often associated with financial literacy and awareness of tax benefits, the findings suggest that simply having a higher level of education does not necessarily translate into tax benefit claims. Other factors, such as access to professional tax advice, trust in the tax system, and the perceived complexity of tax filing, may play a more substantial role in influencing tax behavior. Future research should explore these additional factors to provide a more comprehensive understanding of what drives tax benefit claims.

5. Conclusion

The study found that education level and tax awareness do not have a significant impact on claiming tax benefits. While it was anticipated that individuals with higher education and greater awareness would be more likely to claim benefits, the results suggest otherwise. However, there is some evidence that a lack of knowledge might act as a barrier to claiming tax benefits, though this relationship is not statistically strong.

Additionally, complexity in tax rules does not appear to be a major deterrent, indicating that other factors may be more influential in shaping tax behaviour.

Overall, these findings suggest that policymakers should prioritize simplifying tax benefit procedures rather than solely increasing awareness. Future studies should investigate other contributing elements, such as financial constraints, psychological deterrents, and the effectiveness of different education strategies. By addressing these issues, tax authorities can develop more effective policies that encourage greater participation in tax benefit programs.

The study indicates that education and tax awareness programs alone are not sufficient to increase tax benefit claims. While individuals may be informed about available benefits, awareness does not necessarily lead to action. This underscores the importance of practical and accessible tax education methods. Tax authorities and policymakers should focus on simplifying the tax claiming process, offering personalized tax assistance, and developing interactive digital tools to guide taxpayers through the steps of claiming benefits.

Businesses can also contribute by integrating tax education into employee financial programs. Rather than simply providing informational resources, companies can organize hands-on tax filing workshops or offer direct tax advisory services. Additionally, simplifying tax-related language and procedures could make it easier for individuals to understand and utilize tax benefits, particularly for those who avoid claiming benefits due to confusion or uncertainty.

There are several limitations to this study that should be considered. Firstly, the sample size of 100 respondents may not accurately represent the broader population. A larger and more diverse sample would provide a stronger foundation for generalizing the findings. Secondly, this study primarily focuses on education and awareness as influencing factors while excluding other potential determinants such as financial constraints, trust in tax authorities, and access to professional tax advisors. These factors could also significantly impact tax claiming behaviour.

Additionally, as the study relies on self-reported survey data, there is a possibility of bias or inaccuracies in responses. Participants may overstate or understate their knowledge and behaviour, leading to inconsistencies in the results. Furthermore, the study does not take into account behavioural influences such as procrastination, fear of audits, or psychological resistance to tax filing, all of which may contribute to why individuals do not claim tax benefits.

Future research could explore additional aspects of tax claiming behaviour that were not covered in this study. One important avenue would be examining the psychological and behavioral factors that influence tax compliance, such as trust in the tax system, fear of penalties, and hesitation due to complex procedures. Additionally, further research could assess the role of financial literacy and income levels, as individuals with higher earnings may have better access to tax consultants compared to those with lower incomes.

Another potential area of study is the comparison of different tax awareness methods—for example, analysing the effectiveness of online tax education programs versus in-person workshops in increasing tax claims. Furthermore, conducting longitudinal research that tracks tax-filing behaviour over multiple years could help determine whether sustained exposure to tax education leads to long-term behavioural changes.

References

- Bansal, R. (2018). Public awareness and understanding of GST in India. *Journal of Indian Taxation*, 12(2), 56-70.
- Choudhury, D. (2020). Bridging the knowledge gap: Improving GST awareness in SMEs and low-income groups. *Journal of Tax Education*, 22(2), 67-82.
- Geetha, R., & Sekar, M. (2021). Taxpayer awareness and satisfaction: A critical analysis of compliance and policy effectiveness in India. *Journal of Public Finance and Policy*, 14(3), 145-160.
- Kaur, S. (2020). Financial literacy and its impact on GST understanding in India. *International Journal of Financial Studies*, 8(1), 34-50.
- Kasipillai, J., & others. (2000). Education and its effects on tax avoidance and evasion: A global perspective. *International Tax Journal*, 18(4), 301-320.
- Rao, P., & Sharma, S. (2018). Challenges in Tax Literacy and Compliance among Rural Populations in India. *Indian Journal of Public Finance and Policy*, 11(4), 144-160.