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A STUDY ON FINANCIAL PLANNING FOR SALARED EMPLOYEES AND STRATEGIES FOR TAX SAVING

Sristy , MBA 2nd Year

Mrs. K. Prashanthi, Assistant Professor, Department of MBA

Sridevi Women's Engineering College

ABSTRACT

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 inline with their long-term goals.

The researcher had conducted a survey in order to find out the financial planning as well as fortax saving of the salaried individuals. The survey was done within the region of Hyderabad, Telangana. The purpose of the study is also to find out the most suitable and popular tax savinginstrument used to save tax and also to examine the amount saved by using that instrument.

The data is collected through a structured questionnaire from 100 randomly selected salaried persons. The questionnaire consists of multiple-choice questions.

INTRODUCTION

Financial Planning is a core keyword to life success. And, it's very important for salaried employees. The hard-earned money should be used for the right purpose, savedfor the necessary obligations and secured for retirement.

The financial planning for every individual will depend on their lifestyle and family obligations. Such as preparation of monthly budgets, make a long-term financial plan and retirement planning. Financial planning provides us the systematic roadblocks for achieving our goals without facing any monetary problems.

For individuals, financial planning savings starts and ends with tax saving investments.Saving tax is always good but there are lots of other ways through which an individualcan enjoy an absolutely successful and stress free financial life.

The ability and willingness of the salaried person to save and invest, in return give shape to the prosperity index of the nation otherwise country growth story gets standstill. The point here is what encourage or discourage savings and investments. If the income tax rate is high, it may discourage savings and investments circle.

Steps for Financial Planning

Without financial planning, reaching financial goals is difficult if not impossible. Different factors influence a person's goals and decisions. While some individuals desire a new car or home, others want to travel, maintain good credit, plan for retirement, saving of tax or simplysave.

- **Assessment of Your Current Financial Situation** - An essential start of a good personal financial plan is the self-assessment of your current financial situation. It involves creating financial statement for yourself. This can be carried out by preparinga personal income statement and personal net worth statement (balance sheet) at the beginning of the planning.

- **Set Personal Financial Goals** - The next step is to set personal financial goals based on your personal values, social and economic conditions. This should be both the current and future conditions.

- **Identify Possible Action Plans or Strategies**- At this step, you will devise possible strategies that will help you to achieve the set financial goals. The strategies or action plans could be self-change, acquisition of additional knowledge and skills, and cooperating with other people and institutions whose support you will need to achieveyour goals.

- **Evaluate the alternative action plans** - Now that you have identified the possible actions that could help you to achieve your financial goals, the next step is to evaluate each action plan. This will help you select the most suitable option(s). Evaluation can be in a form of pros and cons of each strategy.

- **Select and create the Action Plan** - Following the evaluation of the identified options, you should choose one or two action plans for implementation. It also gives you the opportunity to make a decision about which goal to pursue using the evaluation analysisof the possible action plan for each goal.

- **Implement Your Financial Action Plan**- A financial plan without implementation is like a building design without actual construction. Implementation of the action plans is the most challenging part of personal financial management. It is the step where youmust work very hard to increase your means and or change yourself. The implementation also includes the use of special tools such as personal budgeting and record keeping. At implementation, you must work to make sure that planned actions are executed.

- **Review and Revise Your Financial Plan** - A review is eminent as financial goals maychange over time due to change in life circumstances such as marriage, birth, new job etc. Review and revision are needed to reflect the changes so that you can stay on track with the long-term goals. Therefore, your decision about goals and related action plan should not be carved in stone.

Corporate tax planning

Corporate tax planning is a means of reducing tax liabilities on a registered company. The common ways to do this includes taking deductions on business transport, health insurance of employees, office expenses, retirement planning, child care, charitable contributions etc. Through the various tax deductions and exemptions provided under the Income Tax Act, a company can substantially reduce its tax burden in a legal way. Once again, tax planning should not be confused with tax avoidance and all the planning should be done within the frameworkof law.

Increasing profits for a company results in higher tax liabilities. As such, it becomes imperative for them to devote enough time on tax planning to reduce the liabilities. With proper tax planning, the direct tax and indirect tax burden is reduced at times of inflation. It also assists in proper planning of expenses, capital budget and sales and marketing costs, among others. A good tax planning results out of:

- Disclosing correct information to relevant IT departments.
- Not being ignorant of applicable tax laws as well as court judgements regarding thesame.
- Legal tax planning should be done which is under the purview of law.
- Planning must be done with business objectives in mind and should be flexible enoughto incorporate possible changes in the future.

SCOPE OF STUDY

Scope of personal financial planning is the process whereby a salaried individual's personal and financial goals are achieved through the development and implementation of a comprehensive financial plan and investment plan in tax saving product. It is not just about making Money. It's about buying/achieving all the goals of a person and creating opportunities to achieve the goals.

It is also a process that helps individual meet their life goals through proper management of financial resources for saving tax and to save and spend future income.Important scope for personal financial plan is a critical exercise in ensuring long-term financial security to live a tension free life.

OBJECTIVES

- To identify various tax saving products available for investor
- To analyse the factors about how financial planning needed for every salaried employee
- To know and utilize effective strategies for tax savings
- To make an analysis of entire Section 80C deduction
- To reduce the overall tax liability for the salaried
- To restructure the salary for tax savings

LIMITATIONS

- The study is based on the opinions expressed where there is a great tendency forfluctuations in response and behaviour, which can lead to certain distortions.
- The questionnaire method carries with it certain inherent limitations, which have tobe considered.
- The respondents were unable or unwilling to give a complete and accurate responseto certain questions.

- The data collected from the customers may be biased
- Due to time constraints a detailed study could not be made
- Only limited number of questions were asked
- The results are based on survey methods which has its own limitations.

Data collection

One of the most significant steps in writing a report is the collection of data or information. Because the report depends on the quality of the data collected, the report will be good if the data collected is good (Guffey). When collecting data in research it is important to take into account, what type of data is to be collected and what method of data collection is to be implemented. Data collection can be expensive cost wise, but depends on the nature of the project. However, data collected plays an important role in determining the research problem (Stevensens, Wrenn, Sherwood & Ruddick). The following sections give a detail description about the types of data and methods of data collection from theoretical point of view and furtheraddresses the data used and the methods of data collection implemented for the research.

Types of Data

(1) **Primary data**: Data that is gathered by a researcher for the first time for a particular ongoing research project. According to Guffey, primary data is that collected through firsthand experience. Primary data can be gathered by applying either of the two basic research methods, qualitative or quantitative (Stawarsk & Particia)

(2) **Secondary data**: Data that has been formerly gathered by other researchers for other reasons. Guffey mentions that secondary data results from reading what others have experimented with and observed. In addition to these, Guffey adds that secondary data is simpler and has lower cost to develop and to use than primary data which might meaninterviewing large groups and distributing questionnaires.

FINANCIAL ACT FOR INCOME TAX

Income tax for FY 2021-22 is applicable to all residents whose annual income exceeds Rs.2.5 lakh p.a. The highest amount of tax an individual could pay is 30% of their income pluscess at 4% if their income is more than Rs.15 lakh p.a.

Passed in 1961, the Income Tax Act of India handles all income tax provisions as well as any tax deductions that may be applicable. Since its introduction, there have been many changes to the law because of economic situations and inflation. The legislature enacts the Income Tax Act, 1961, to administer and govern income tax in the country, but the Income Tax Rules, 1962, were created in order to help in the application and enforcement of the law constituted in the Act. Moreover, the Income Tax Rules can only be read in conjunction with the Income Tax Act. The Finance Minister of India presents a Finance Bill every year that proposes amendments to the direct and indirect taxes. When both the houses of the Parliament passes the bill, it receives consent from the President of India and becomes the Finance Act. Such amendments will become a part of the Income Tax Act and will be implemented from thefirst day of the next financial year usually.

Income Tax deductions

Deductions for your taxable amount are available under various sections of the Income Tax Act, 1961. And as per latest finance act amended below deductions will have to be mentionedin the relevant ITR form at the time of e-filing income tax returns.

- **Section 80C:** - Deductions under this section are only available to individuals and HUF.This section allows for certain investments like NSC, etc. and expenditures to be exempt from taxation up to the amount of Rs.1.5 lakh
- **Section 80CCC**: - Deductions under this section are on payments made to LIC or any other approved insurance company under an approved pension plan. The pension policy must be up to Rs.1.5 lakh and be taken for the individual himself out of the taxable income.
- **Section 80CCD:** - Deductions under this section are for contributions to the New Pension Scheme by the assessee and the employer. The deduction is equal to the contribution, not exceeding 10% of his salary.

The total deduction available under Section 80C, 80CCC and 80CCD is Rs.1.5 lakh. However, contributions to the Notified Pension Scheme under Section 80CCD are not considered in the Rs.1.5 lakh limit.

- **Section 80D: -** This is the section that deals with income tax deductions on health insurance premiums paid. In the case of individuals, the insurance policy can be taken to cover himself, spouse, dependent children – for up to Rs.15,000 and parents (whether dependent or not) – for up to Rs.15,000. An additional deduction of Rs.5,000 is applicable if the insured is a senior citizen. In the case of HUF, any member can be insured, and the general deduction will be for up to Rs.15,000 and an additional deduction of Rs.5,000.
- **Section 80DDB: -** This section is for deductions on medical expenses that arise for treatment of a disease or ailment as specified in the rules (11DD) for the assessee, a family member or any member of a HUF.
- **Section 80E:** - This section deals with the deductions that are applicable on the interest paid on education loans for an education in India.
- **Section 80EE:** - This section deals with tax savings applicable to first time home- owners. Applies for individuals whose first home purchased has a value less than Rs.40 lakh and the loan taken for which is Rs.25 lakh or less.
- **Section 80RRB: -** Deductions with respect to income by way of royalties or patents can be claimed under this section. Income tax can be saved on an amount up to Rs.3.0lakh for patents registered under the Patents Act, 1970.
- **Section 80TTA: -** This section deals with the tax savings that are applicable on interest earned in savings bank accounts, post office or co-operative societies. Individuals and HUFs can claim a deduction on an interest income of up to Rs.10,000.
- **Section 80U:** -This section deals with the flat deduction on income tax that applies to disabled people, when they produce their disability certificate. Up to Rs.1.0 lakh can benon-taxed, depending on the severity of the disability.
- **Section 24:** - This section deals with the interest paid on housing loans that is exempt from taxation. An amount of up to Rs.2.0 lakh can be claimed as deductions per year, and is in addition to the deductions under Sections 80C, 80CCF and 80D. This is only for self-occupied properties. Properties that have been rented out, 30% of rent receivedand municipal taxes paid are eligible for tax exemption.

Income Tax Slab Rate & Deductions FY 2021-22

According to the new budget 2021 – 22 everybody who earns an income falls under a "TaxBracket". It is important to keep in mind that your "Taxable Income", or income after deductions, defines your tax bracket which could actually be lower than the amount of money you have earned over the year. As per interim budget, Individual taxpayers having taxable annual income up to Rs.5 lakh will get full tax rebate u/s 87A and therefore will not be required to pay any income tax. The current income tax determined four main tax brackets, which are as follows:

For Men and Women below 60 Years of Age

Taxable income	Tax Rate (Existing Scheme)	Tax Rate (New Scheme)
Up to Rs. 2,50,000	Nil	Nil
Rs. 2,50,001 to Rs. 5,00,000	5%	5%
Rs. 5,00,001 to Rs. 7,50,000	20%	10%
Rs. 7,50,001 to Rs. 10,00,000	20%	15%
Rs. 10,00,001 to Rs. 12,50,000	30%	20%
Rs. 12,50,001 to Rs. 15,00,000	30%	25%
Above Rs. 15,00,000	30%	30%

For Senior Citizens (Age 60 years or more but less than 80 years)

Taxable income	Tax Rate (Existing Scheme)	Tax Rate (New Scheme)
Up to Rs. 2,50,000	Nil	Nil
Rs. 2,50,001 to Rs. 3,00,000	Nil	5%
Rs. 3,00,001 to Rs. 5,00,000	5%	5%
Rs. 5,00,001 to Rs. 7,50,000	20%	10%
Rs. 7,50,001 to Rs. 10,00,000	20%	15%
Rs. 10,00,001 to Rs. 12,50,000	30%	20%
Rs. 12,50,001 to Rs. 15,00,000	30%	25%
Above Rs. 15,00,000	30%	30%

For Senior Citizens (Age 80 years or more)

Taxable income	Tax Rate (Existing Scheme)	Tax Rate (New Scheme)
Up to Rs. 2,50,000	Nil	Nil
Rs. 2,50,001 to Rs. 5,00,000	Nil	5%
Rs. 5,00,001 to Rs. 7,50,000	20%	10%
Rs. 7,50,001 to Rs. 10,00,000	20%	15%
Rs. 10,00,001 to Rs. 12,50,000	30%	20%

Rs. 12,50,001 to Rs. 15,00,000	30%	25%
Above Rs. 15,00,000	30%	30%

Surcharge:

a) 10% of Income tax where total income exceeds Rs.50 lakh

b) 15% of Income tax where total income exceeds Rs.1 crore

c) 25% of Income tax where total income exceeds Rs.2 crore

d) 37% of Income tax where total income exceeds Rs.5 crore

Note: Enhanced Surcharge rate (25% or 37%) is not applicable in case of specified incomes I.e. short-term capital gain u/s 111A, long-term capital gain u/s 112A & short-term or long-term capital gain u/s 115AD(1)(b).

Education cess: 4% of tax plus surcharge

Maximum Income Tax Deductions and Exemptions

- Section 80C to 80CCC: ₹ 1,50,000
- Section 80CCD: ₹ 50,000
- Section 80D: ₹ 30,000 for self, spouse and children, ₹30,000 for parents, ₹50,000 forsenior citizens
- Section 80DD: ₹ 75,000 for disabled dependent or ₹1,25,000 for severely disableddependent
- Section 80DDB: ₹ 75,000 or ₹ 1,00,000 for senior citizen taxpayers
- Section 80TTA: ₹ 10,000
- Section 80TTB: ₹ 50,000
- Section 80U: ₹ 75,000 for disability and ₹ 1,25,000 for severe disability

FINDINGS

1. It is found that 60% of the respondents are male participated in this survey and 40% arefemales
2. It is found that 10% of the respondents are getting salary monthly, 35% of the respondents are getting salary annually, 30% are getting salary by commission basis, 20% by performance basis and 5% by other type
3. It is found that 25% of the respondents are getting income of 2 to 3 lakhs per annum, whereas 35% of the respondents are getting 3 to 5 lakhs, 30% are getting 5 to 8 lakhs and 10% of the respondents are earning above 8 lakhs per annum
4. It is found that 62% of the respondents are first time tax payers
5. It is found that 85% respondents said that their source of income is the same as last year
6. It is found that 60% of the respondents have moderate awareness about computation oftaxable income.
7. It is found that 60% of the respondents have moderate awareness about Incomeexempted from tax.
8. It is found that 64% of the respondents are agreed with personal income tax rates arenot fair
9. It is found that 92% of the respondents are agreed with Small income should have lowertax liability

10. It is found that 72% of the respondents are agreed with High income tax rates effects ability and willingness to save and invest
11. It is found that 35% of the respondents are preferred to invest money in term deposits. 25% of the respondents are preferred to invest money in post office, 20% of the respondents are preferred to invest money in mutual funds, 8% of the respondents are preferred to invest money in insurance related
12. It is found that 97% of the respondents are preferred to invest in tax saving schemes merely for making their future safe

SUGGESTIONS & RECOMMENDATIONS

- Increase awareness of individual regarding investing and financial planning like presentvalue, future value, returns risks right, tax impact from the higher secondary school curriculum.
- Instead of having multiple agencies and regulators donning the role of investor educator(Present regulators are creating awareness not the knowledge) researcher would like to suggest a central government agency which will plan, implement and coordinate investor education initiatives throughout the country.
- Government agencies can even consider incentivizing employers to educate their employees about income tax planning, financial services, investments as such.
- Government of India must take immediate steps towards development of an annuity market in India like promoting the retail investments in debt market. Currently individuals have limited access to debt market as result there is an underdeveloped retail debt market in India and it in turn is not helping to grow the annuity market in India.
- For the individuals employed in organised sector, employers make small contribution towards NPS, making a part of company provided retirement plan.
- Activities to increase awareness about tax saving and financial planning for retirementmust be made a part of staff-welfare activities.
- As per findings, it has been observed that individuals in age group 25 to 30 years thinkless about finance planning, tax saving and retirement, so employers should include a training or awareness program for employees in the age group of 25 to 30 years.

CONCLUSION

At the end of this study, we can say that given the rising standards of Indian salaried individuals and upward economy of the country, prudent tax planning before-hand is must for all the citizens to make the most of their incomes. However, the mix of tax saving instruments, planning horizon would depend on an individual's total taxable income and age in the particularfinancial year.

The Indian Income Tax Act of the year 1961 governs the levy whereas C. B. D. T. (Central Board for Direct Taxes) governs the Department of Income Tax in India. However, as per some of the sections of this Act like Section 80 C, 80 CCF, 80 D etc., exemptions are given on certain incomes. There are many tax saving options, investing on which, one can get a deduction on his or her total income tax.

This report helped to analyse the factors about how financial planning needed for every individual and also to know the effective strategies for tax savings by selecting right tax saving products. Here I made an effort with the help of Income tax Act 80C to reduce the overall tax liability for the salaried and also to restructure the salary for tax savings.