A Study of Tax Planning of An Individual Assessee with Special Reference to Ten Individual Assessee

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Abstract:

"It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand-fold"-Kalidas in Raghuvansh eulogizing KING DALIP.[1] The overall development of society is the government's primary duty. Taxes are an essential source of funding for every government, among other sources. Taxes are imposed by the government as a requirement on its people. Income tax is one of India's central direct taxes and makes up 49% of the total tax collection, while 30% is from indirect taxes. Individuals usually find it painful to pay income tax; thus, they always strive to use legal strategies to reduce their tax obligations. To minimise their tax burden lawfully, the assessee must be informed of the numerous tax saving plans and tax planning strategies. This paper's main goal is to evaluate how well-aware and actively participating assesses in tax-saving initiatives and selecting the old or new tax regime. According to the report, just 23% of respondents had a strong awareness of tax savings plans, while 34% had very little knowledge of them.

Keywords: Tax, Tax Planning, Assessee, Individual Assessee.

Introduction:

There are two distinct tax types of taxes first is the direct tax, and the second is indirect. The government collects the income tax, which falls under the direct tax category and is due from the payer. It may be directly withdrawn from the salary income in the form of TDS or paid to the government after the income for a specific accounting year has been assessed. The term "assessee" refers to the individual who pays the tax. Assessees might be considered normal, deemed, or in default. The following year, the assessment year is when the assessee must pay the tax for a particular accounting year. However, an assessee's residence status affects the overall amount of income and tax due. An individual assessee's sources of income may include salary, rental income, company or professional earnings and gains, capital gains, or income from other sources.

Additionally, it is the taxpayer's responsibility to classify the earned income under the appropriate income category. Any person's financial strategy has to include tax planning. We may minimise our tax liability with adequate tax preparation. This is accomplished by utilising all tax breaks, chapter VIA deductions, refunds, and allowances. A new tax system was announced in the budget for 2020, and starting with the 2020–21 financial year, a taxpayer may elect to pay taxes under any of the stated regimes. This research intends to assess the benefits analysis by comparing the two systems and analysing the personal taxpayer preference between the two regimes.

Tax: "A tax is an imposed contribution, exacted pursuant to legislative power; it is not a voluntary gift or donation." Direct and indirect taxes are categories for additional taxes.

Tax Planning: Tax planning has a larger philosophical basis and is directly related to an individual's income and consumption tendencies. "An arrangement of one's financial and economic affairs by taking entire legitimate benefit of all deductions, exemptions, allowances, and refunds so that tax burden lowers to a minimum" is the definition of tax planning given by the IRS. In a nutshell, tax planning is arranging one's financial affairs in accordance with the legal requirements of an act, taking full advantage of all exemptions, deductions, rebates, and reliefs allowed under the Income Tax Act to minimise the tax burden on an assessee.

Assessee: Income Tax Act, 1961, section 2 (7) defines the term assessee as "assessee" means a person by whom any tax or any other sum of money is payable under this Act, and includes (a) every person in respect of whom any proceeding under this Act has been taken for the assessment of his income or assessment of fringe benefits or of the income of any other person in respect of which he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person; (b) every person who is deemed to be an assessee under any provision of this Act; (c) every person who is deemed to be an assessee in default under any provision of this Act;
Individual Assessee: A typical assessee is a person who must pay taxes on the income they receive within a financial year. Every person must pay taxes to the government in the current fiscal year if they had any revenue during the previous fiscal years or losses during those years.

Aim and Objective of the Study:
This study aims to determine how an individual assessee's tax planning relates to the new and old tax regimes. The primary goal of this study is to detect and define the assessee's level of awareness. However, it will look for answers to the issues that certain assessees have with their assumptions of the new tax regime. However, the following are the study's main goals:

1. To assess the profiles of the ten assessees and the significance of tax preparation.
2. To analyse the effects of the old and new tax systems on specific taxpayers.
3. To comprehend and assess the tax preparation strategies being used by a particular taxpayer.
4. To investigate the causes of individual taxpayers' ignorance.
5. To examine different exclusions and deductions, particularly as they pertain to individual taxpayers' Income Tax Act of 1961.
6. To advise taxpayers to manage their finances.

Hypothesis:
The following are the study's hypotheses:

1. Individual assessees are well aware of tax planning.
2. The individual assessee has a concern with the new tax system's assumptions.

Methodology:
Both primary and secondary data are used to support this research work. The primary information will be acquired by observing and conversing with a small subset of taxpayers, while secondary information will derive from books, journals, and scholarly publications. The pertinent material for this study was gathered from websites, newspapers, Web of Science, business journals, government statistics, and annual

reports to analyse the statistical data as needed. Standard statistical methods, including mean, percentage, and correlation, were used in the study, which was done using MS Excel and SPSS software. Additionally, tables and graphs are used to tabulate and present the data.

Review of Literature:

1. Mitra and Stern (2003), taxpayers needed assistance to voluntarily comply with tax laws since they were ignorant of the broad ideas involved. Additionally, this would aid in enhancing tax management.

2. Ankita Gupta (2009), proposed that tax structure simplification, tax slab expansion, and personal income tax rate reductions would all have a favourable impact on the growth of individual income tax and bring a sizable increase in the number of taxpayers into the tax net.

3. Rajni Bedi (2007) highlighted the varied alterations under several income areas. The study also found that adjustments should only be done in the simplest of ways to simplify tax regulations.

4. Amaresh Bagchi and et. al. (1983), income tax revenue may be increased by altering tax administration and compliance. They considered that the rise of tax revenues is not related to the growth in income.

5. Khatik and Amit Nag (2012), A complete analysis of the Direct Tax Code of 2011 and its impact on individual taxpayers was conducted by Khatik and Amit Nag in 2012. He made significant recommendations to stabilise the tax system and emphasise personal income tax.

6. Govinda Rao and Kavita Rao (2005), online tax filing can significantly lower the administrative costs of taxes, minimise distortions, increase equality, and lower compliance costs.

7. Kumar (1998), After examining administrative issues related to tax avoidance and evasion, Kumar (1998) provided a few recommendations, including starting creative search and seizure procedures, eliminating some exemptions, and hiring additional people to make tax administration more efficient and revenue-elastic.

8. Puneet Bhushan (2014), noted that a lack of financial understanding causes people to lack confidence while making monetary judgments. The average person cannot typically comprehend tax rules and regulations, which undermines their faith in tax preparation.

9. H. Hoffman (1961), states that individuals cannot ignore taxes since a sound income tax strategy might result in significant savings of tax deductions. The importance of educating people on tax planning and the best ways and places to pay taxes to the government cannot be overstated.

Data Analysis and Interpretations:

Profile and Sample Size:

The following sample size was used for analytical purposes, where the sample size is ten individual assessments. India has only a little over eight crore direct taxpayers; when people and companies are included, the Union Finance Minister said to Parliament in March. Profits and income are subject to direct taxes. They receive payment from the government directly. The chosen sample represented the universe.

Comparison between the new income tax system and the previous tax system:

Budget 2020 unveiled a new personal income tax system for individual taxpayers. The difference in slab rates is the primary distinction between the old and new tax systems. In India, taxpayers are required to pay income tax based on the tax slab system into which they are classified. The average income of the individuals is considered while creating the tax slab. As a result, people with higher incomes will have higher tax liabilities. The capacity to deduct taxes from income is another key difference between the old and current tax systems. censor taxes. The previous tax system had several alternatives available to taxpayers, but There are no deductions permitted under the present tax code. While the previous tax code offered around 70 deductions and exemptions to decrease taxable income, the new tax code allows taxpayers to claim zero deductions or exemption substitutes.

Pros and cons of the New Tax Regime.

Pros of the new regime are as follows:

Reduced tax rates and compliance: Compared to tax rates under the previous or current regime, the new regime offers concessional tax rates. Furthermore, because most exemptions and deductions are unavailable, less documentation is needed, making tax filing easier.

Investors may not prefer to lock in funds in the prearranged instruments for the specified period: All taxpayers would be treated equally under the new system, and receiving a deduction or allowance would not be a requirement to qualify for a tax exemption. Because most investments have a lock-in time before they cannot be withdrawn, this may benefit those taxpayers who are not permitted to subscribe to the specified modes of investments. They have the option to invest in open-ended securities or deposits, which provide them with high yields and withdrawal flexibility. For instance, qualifying instruments have a longer lock-in duration, such as National Savings Certificates (NSC) for five years, equity-linked savings schemes (ELSS) for three years, and fixed deposits with banks and post offices.

Increased fluidity in the hands of the taxpayer: The taxpayer would have greater discretionary income thanks to the lower tax rate since they could not invest in specific products for personal or financial reasons.

The flexibility of customising the investment choice: The current tax code allows for deductions for the taxpayer as long as he makes investments in the specific instruments and ways outlined in the Act. This limits the taxpayer's investing options because he can only invest in the designated instruments. But the new system gives taxpayers the freedom to personalise their investing choices.

The cons of the new tax regime are as:

Non-availability of certain quantified tax deductions: The new tax rule does not permitthe taxpayer to avail of certain specified deductions. The illustrative list is as follows:

a) Clauses referred to in section 10 as follows: i) Clause (5) - Leave travel concession; ii) Clause (13A) - House rent allowance; iii) Clause (14) - Special allowance detailed in Rule 2BB (such as children education allowance, hostel allowance, transport allowance, per diem allowance, uniform allowance, iv) clause (17) - Allowances to MPs/MLAs; v) Clause (32) - Allowance for clubbing of income of minor;

b) Exemption for SEZ unit under section 10AA;

c) Standard deduction, the deduction for entertainment allowance and employment / professional tax as contained in Section 16;

d) Interest under section 24 in respect of the self-occupied or vacant property (loss under the head IFHP for the rented house shall not be allowed to be set off under any other head and wouldbe allowed to be c/f as per extant law);

Additional depreciation under section 32(1) (iia);

e) Deductions under sections 32AD, 33AB and 33ABA;

f) Various deductions for donation or expenditure on scientific research contained

in sub-clause (ii) or sub-clause (iia) or sub-clause (iii), of sub-section (1) or sub-section (2AA) ofsection 35;
g) Deduction under section 35AD or 35CCC;
h) Deduction from family pension under clause (iia) of section 57;
i) Any deduction under chapter VI-A (like section 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80IA, 80-IAB, 80-IAC,80-IB, 80-IBA, etc.). However, deduction under sub-section (2) of section 80CCD (employer contribution on account of the employee in notified pension scheme) and section 80JJAA (for new employment) can be claimed.

Make your choice between the two:

Considering the new income tax regime, wherein specific deductions and exemptions would not be available, taxpayers may compare the two regimes if they wish to choose the more lenient one. A taxpayer may choose the new tax system if they desire investment freedom and do not wish to invest in the designated eligible instruments. However, before deciding to stick with the current regime or choose the new one, it is important to do a comparative evaluation and analysis of both regimes to determine which one suits you the best. Remember that the individual can exercise their option each year and follow any helpful programme (excepting those who have income from business or profession). Individuals with a company or professional income cannot alternate between the new and old tax systems each year. These people only have one chance in their lifetime to choose the old taxation system if they choose the new one. Furthermore, until your business revenue stops existing, you won’t be able to select a new tax regime if you return to the previous one.

The pros and cons of the old tax regime:

The pros of the old regime:

By requiring investments in specific tax-saving devices, the previous income tax system gradually instilled in people a savings culture that encouraged them to set money aside for things like marriage, school, home purchases, medical expenses, etc. In March 2019, India’s gross savings rate was about 30%, with domestic savings by people playing a significant role in the country’s total savings rate. The savings rate would fall if more people chose the new system, but the demand cycle and consumption would pick back up.

The cons of the old regime:

Investments in specific instruments are eligible for tax benefits under the previous system, and most instruments have a three to five years lock-in period. Millennials, who would rather spend than save, and seniors, who would rather have cash on hand and invest in securities with a flexible and open-ended tenure, may not find this an excellent tax-saving choice. The investor cannot choose any other star-rated funds that could perform better than the specified instruments because they are often risk-averse and may not generate significant profits throughout investing. In the former regime, paperwork and evidence of investments were to be kept in case assessment procedures before the tax authorities; these requirements might not apply in the new regime.

Who should choose the new, and who should decide the old?

The choice of tax regimes may be influenced by several variables, including current income level, income composition, sources of income, investment appetite, and saving habits. Before selecting whether the tax system is preferable, people will need to calculate their tax obligations under the existing and new tax systems. The income tax division has also developed a simple calculator that indicates which regime would be advantageous based on the amount of tax expended. Choosing between a new and old tax system relies on the taxpayer. One needs to weigh each system's benefits and drawbacks to make a sensible selection while choosing between the old and new tax regimes.

“We have discovered that the majority of taxpayers benefit from being in the prior tax law when they take full use of section 80C and use the tax breaks and perks offered by their pay scale, such as claiming an HRA or receiving a portion of their CTC as reimbursements, etc. Only 10% of all Cleartax filers benefited from the previous system and chose it, according to Archit Gupta. Additionally, it has been noted that the younger generation, which lacks significant tax-saving investments, prefers the new tax system. “Many taxpayers choose the new system because they don't want to lock their money into investments made under Section 80C, which has a lock-in period. Instead of securing their assets in tax-saving strategies for 3-5 years, many taxpayers decide to invest in fixed-interest securities, according to Amit Gupta.

Is it permissible to switch between the old and the new tax regimesmultiple times?

You may select this option each year if you are salaried. People who get income from salaries, rental properties, capital gains, and other sources have the option of paying taxes under the old or new systems each year. Those having income from a business or profession only have one choice to switch back to the old tax system after choosing the new one. They are only allowed to choose the new tax system once in their entire lives.

Table No. 1: Frequency Distribution of Respondents based on Annual Income

Sr. No.	*Annual Income*	*No. of Respondents*
1	Up to Rs 2,50,000	0
2	Rs 2,50,001 to Rs 5,00,000	1
3	Rs 5,00,001 to Rs 10,00,000	4
4	Above Rs 10,00,001	5
	Total	**10**

(Source: Primary Data)

Interpretation: As per table no.1, It has been noted that 40% of respondents had an annual income of between Rs 5,001 and 10,000. A single respondent’s annual income ranges from Rs 2,50,001 to Rs 5,000,000. Most research participants are from an income bracket of more than Rs 10,00,000.

Table No. 2: Awareness regarding proposed changes in New Tax System

Sr. No.	*Annual Income*	*No. of Respondents*
1	Fully Aware	2
2	Aware	4
3	Neutral	3
4	Not Aware	1
	Total	**10**

(Source: Primary Data)

Interpretation: Table 2 reveals that 60% of respondents feel confident in their knowledge of the suggested adjustments to the new tax structure. About 10% of respondents are still unaware, and about 30% are undecided about the changes to the tax system that are planned in Budget 2020.

Table No. 3: Option selected in F.Y. 2020-21 while filing the income tax return

Sr. No.	*Options Selected (Regime)*	*No. of Respondents*
1	Old	9
2	New	1
	Total	**10**

(Source: Primary Data)

Interpretation: According to table no. 3, 90% of the respondents still think they would stick with the existing system. In contrast, 10% of respondents feared transferring to a new tax structure. Are you satisfied with the present proposed New Tax System?

Table No. 4: Satisfaction with New Tax System

Sr. No.	*Options*	*No. of Respondents*
1	Yes	3
2	No	7
	Total	**10**

(Source: Primary Data)

Interpretation: More than 70% of respondents, and almost 30% of respondents, are dissatisfied with the new tax structure, according to table No. 4.

Table No. 5: Helpfulness of New Tax System for Tax Evasion.

Sr. No.	*Annual Income*	*No. of Respondents*
1	Strongly Agree	*2*
2	Agree	*4*
3	Neutral	*0*
4	Disagree	*1*
5	Strongly Disagree	*3*
	Total	**10**

(Source: Primary Data)

Interpretation: As seen from table no. 5, the majority of respondents, or 30%, hold the opinion that the new tax system will not assist in reducing tax evasion. Additionally, 20% of respondents believe that the new tax system's lower rates will lessen tax evasion.

Testing of Hypothesis:

The hypothesis of the research tested as follows:

Hypothesis 1: Individual assessees are well aware of tax planning.

We can observe that although men make up the majority of the respondents overall, women also participate in tax planning to the same extent as men. Both genders are well-educated. Thus, they are both aware of tax planning. Additionally, they make a lot of legal deductions.

Hypothesis 2: The individual assessee is concerned with the new tax system's assumptions.

It is observed that the individual assessees have a concern with the new tax system. In this regard, the question asked as; Do you have awareness regarding proposed changes in New Tax System introduced in Budget 2020?

Table No. 6: Awareness of the new tax system

Sr. No.	*Annual Income*	*No. of Respondents*
1	Fully Aware	*2*
2	Aware	*4*
3	Neutral	*3*
4	Not Aware	*1*
	Total	**10**

(Source: Primary Data)

Interpretation: According to Data Interpretation table no. 6, 60% of respondents feel confident in their knowledge of the planned changes to the new tax system. 10% of respondents still don't know, and approximately. We can tell that many people are still unaware of the new tax system's anticipated modifications.

Findings:

1. A new tax system was proposed in the budget for 2020, beginning in the fiscal years 2020–21, and an individual taxpayer would have the option of choosing between the new and current tax to decide how much to pay.
2. When asked which of the two tax systems they preferred, 90% of respondents said they would choose the old one over the new one because the former offers advantages such as deductions and exemptions that significantly lower tax liabilities and encourage saving and investing.
3. Even though the government has an internet gateway for filing income tax returns, more than 70% of consumers still rely on a CPA or attorney to get their return files.
4. Approximately 40% of respondents are unaware of the New Tax System adjustments in the Budget 2020 proposal.
5. More than 80% of respondents indicated their support for additional reforms to the Indian Taxation System when questioned about the possibility of doing so.

Conclusion:

It is determined that there is a more significant correlation between the tax preparation and the profiles of the ten individual assessees. You can select this option each year if you are a salaried individual. Furthermore, it is a reality that taxpayers can choose between the old and new tax systems each year depending on their income from wages, rental properties, capital gains, and other sources. After choosing the new tax system, people who make money through a business or profession only have one option left: they can switch back to the previous system. They are only allowed to choose the new tax system once in their whole lives. The daily updated taxes system is the primary reason ordinary taxpayers are ignorant. The cornerstone of India's taxation system is the idea that people with higher incomes should pay more tax and those with lower incomes should owe less. The government proposed a new tax system with lower tax rates to further ease the burden of tax obligations, but there is a catch: it will not take deductions into account and will not benefit from certain exemptions. The government is focusing on the fact that the younger generation does not value conserving money; therefore, the goal is to give them more money to spend while reducing their tax obligations. However, many taxpayers will continue to use the existing tax system since it offers benefits on both ends. First, it will encourage people to save money and make investments that will benefit them later. Second, it will allow them to take advantage of deductions that further lower their tax obligations. Every person has to research to assess the tax duty load under both regimes and choose the better choice.

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