# Chapter : 6

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## 6.1 Limitations

It would be in order to acknowledge the limitations of this research work at the outset, before discussing the implications of the findings.

To start with, the sample size turned out to be 85, as a consequence of the response rate. Over and above this, a fair number did not provide answers to several questions. Even the chi square tests were handicapped by the fact that in some tables, the cell (expected) frequencies were less than five. Therefore, a larger sample would lend greater weight to the results of such studies, although costs and the task of successfully administering the questionnaire on a larger scale are formidable barriers. Some refinements to the questionnaire would throw up additional information of relevance. Personal data on age and the number of children, in the case of married persons may cast light on the preferences and disinclination for certain tax shelters and strategies. For instance, it would be interesting to examine the nature of association between age and the attitude towards NSS and Annuity Plans, and age vis-a-vis the view on the stock market. There are a couple of minor omissions in the questionnaire. The choices (c) and (d) against Question No.14 ought to have included spouse/married daughter and children respectively. Above all, the currency of such research work can never be long in a period of major changes sweeping across the economy, the capital markets and government policies. With the introduction of new instruments and on-going changes in the tax structure and rates, it would become imperative to redesign the questionnaire and replicate the survey at regular and not-too-distant intervals, if meaningful insights are to be extracted from such initiatives. Moreover, it may be worthwhile to undertake such surveys in the bigger cities, and employ the technique of proportional stratified sampling to cover all income strata. Hence, in view of the foregoing limitations, the findings and inferences of this research endeavour must be grasped in the proper perspective.

## 6.2 Implications

The picture that emerges (a la psychographic profile) of the typical tax-paying individual is as follows :

He is a resident belonging to the Hindu religion, more likely to be married and having an annual income above Rs.76,000. [For want of sufficient data, the income is stated as being "above" Rs.76,000]. His main source of income is from salary and he prefers to invest in tax shelters rather than pay taxes on total taxable income and then invest freely to maximize return. The prime tax shelters are PPF, ELSS and to a lesser extent NSC, besides PF, of course. The attractions are higher return and safety of capital. He tends to invest in these vehicles late in the financial year, and in doing so, may be missing an opportunity in PPF. His strong bias for LIC's insurance policy may be on account of an erroneous underestimation about the true yield on ULIP or Dhanraksha. His disinclination for tax shelters such as NSS and Annuity Plans stems from various reasons that include longer term, inconvenience, lower return, etc. There is a fair chance that he is employing other devices such as life insurance and PPF deposits on behalf of spouse and children and to a lesser extent, medical insurance for himself and family members. Donations to specified charities are less probable, in comparison. To minimize taxable current income, he gives priority to shares, units and others that qualify for benefits under Section 80L, but is most unlikely to seek tax-free securities. He may also be drawn towards companies that may favour issuing bonus shares, as compared to others.

In a year when current income is expected to be high, it is likely that he would defer realization of capital gains, in order to curb the income tax burden. To minimize taxes on capital gains, the technique that is most likely to be employed is that of extending the holding period appropriately for different securities, in order to make capital gains long-term. To a lesser extent, he may also make gifts of securities within the prescribed limit. To him, stock market performance, inflation and income-tax rates may be of greater concern than the general level of interest rates.

While he may frown at the proviso of tax deductibility at source, in general, he is likely to be satisfied with his tax planning, irrespective of whether he receives professional assistance or not !

The study reveals some deficiencies in the tax planning by individuals. As alluded to earlier, they need to take a closer look at ULIP and Dhanraksha. Giving priority to these products would improve the yield on their insurance portfolio. Individuals must also invest in PPF early in any financial year for the reasons mentioned earlier.

There are important implications for those issuing tax shelters/financial products. The assurance of a higher return and safety of capital are key ingredients from the investors' perspective. Other attributes such as shorter term, convenience and familiarity are unlikely to make up for the absence of the key features stated above.

There is also something of concern to tax consultants. They need to examine their own effectiveness to ascertain whether they are serving their clients to the best of their ability.

## 6.3 Directions for Future Research

Income-tax planning is an integral part of personal financial planning. The model proposed in Chapter 4 demonstrates how long-term goals can be dovetailed into a complete financial plan that takes care of the income-tax dimension as well.

Therefore, an interesting line of inquiry would be to probe whether and how individuals are undertaking income-tax planning within the broader concerns of personal financial planning. On a narrower scope, similar surveys could be replicated after refining and updating the questionnaire. Some suggestions in this regard have been made earlier in this chapter. One could also examine whether income-tax planning is considerably different if the spouse too is an income-earner.

Moreover, this research has thrown up some intriguing points that call for greater exploration. One is the discernible shift in the basis or rationale of assigning the first and last ranks to tax shelters, among a certain set of people. The second is the attitude towards interest rates in general. For example, a thought that is inspired by the findings of this research effort is whether investors hurt by inflation may feel better compensated by a rise in stock prices or by a decline in income-tax rates than by an administered increase in interest (deposit) rates ? Surely, an issue such as this one would be of great interest to policy makers, monetary authorities and academicians as well !