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INTRODUCTION

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India is in the midst of dramatic and unprecedented economic changes. The process of liberalization had initially started in a modest fashion in the early eighties. Some years later, however, the nation was confronted by a crisis which had its origins in an untenable exchange rate policy and fiscal profligacy, compounded by the economic repercussions of the Gulf War. India, thus, entered the nineties in the throes of a crisis. This challenge was, however, boldly met by accelerating the tempo of liberalization, as mentioned below.

1.1 The Economic Revival

In a twin-pronged move, economic stabilization measures and structural reforms were implemented.[1] The objective of stabilization measures was to achieve improved macroeconomic management of the Indian economy that would be reflected in low inflation, reduced fiscal deficits and accumulation of foreign exchange reserves. The structural reforms that were introduced applied to various sectors: trade, industry, foreign investment, exchange rate, financial system, monetary and fiscal policies. The idea behind dismantling structural rigidities was to spur economic growth. Specifically, this would work by reinforcing competitive forces, leading to cost reduction by industrial enterprises, upgradation of technology and improvement in product and service quality.

In the area of trade policy, the reform measures included the reduction of tariffs and removal of quantitative restrictions on imports and exports. These measures were supplemented in the exchange rate policy, starting with the depreciation of the Rupee in July 1991 followed by the introduction of the EXIM

[1]End-notes, instead of footnotes, are given at the end of the chapter.

scrip, then LERMS, and finally the unified market-determined exchange rate in March 1993. Exchange controls too relating to current account transactions have been considerably liberalized. This is reflected in the limits for payments for personal and business travel, studies abroad, medical treatment overseas, etc.

Reforms relating to the financial sector too have ushered in sweeping changes. These relate to: (1) unburdening banks from the external constraints imposed by way of a high Cash Reserve Ratio (CRR) and a high Statutory Liquidity Ratio (SLR); (2) improving the financial condition of public sector banks and (3) revitalizing the financial system by promoting new institutions and increasing competition.

In terms of the above, the reserve and liquidity requirements on banks have been progressively reduced. So also, the structure of administered interest rates has been largely whittled away. Further, to improve the quality of financial reporting by banks, stringent norms relating to income recognition, provisioning for bad and doubtful debts and capital adequacy have been evolved and implemented. The capital risk-weighted asset ratio system applicable to banks has entailed a major recapitalization programme for banks, both Indian and foreign. Other key developments include the establishment of the Securities Trading Corporation of India to activate the market for gilts and the emergence of several private sector banks established as per the norms of the Reserve Bank of India (RBI). Economic liberalization has also spawned thousands of Non-Banking Financial Companies (NBFCs). The numbers tell this story more effectively. In 1991, there were a little over 25,000 NBFCs. By 1995, this figure had shot up to nearly 39,500.[2] This incredible growth gives some idea of the surge in demand for credit by individuals (consumer credit) and the corporate sector.

In like manner, other industry linked policies have undergone changes that could not have been visualized a decade ago. As explained by Amarchand,[3] the licensing system has been diluted, foreign investment in high priority areas is no longer choked, and antitrust controls have been relaxed. Changes have also been effected in laws relating to power and mining, so as to encourage investment in such sectors.

The consequences of these measures across the board is evident in the pace of industrial progress and the geometrical progression registered by various segements of the capital markets. For example, economic growth has recovered from 2% in 1991-92 to over 6% in 1995-96 in real terms.[4] This growth is attributed to significant improvements in various sectors such as agriculture, manufacturing and services.

Industrial output, for instance, attained a growth rate of 8% in 1994-95 after showing stagnation in 1991 and 1992. This impressive performance is expected to be surpassed in 1995-96. Agriculture, too, has contributed its mite at an average growth rate of about 3% per annum. In response to the reforms, foreign investment into India has turned from a trickle ($ 0.6 billion in 1992-93) into a flood ($ 5 billion in 1994-95). This inflow has been in the form of direct investments e.g., GDRs and Euroconvertible bonds, as well as portfolio investment by Foreign Institutional Investors. Exports and imports exhibited a strong momentum as a result of devaluation and surging domestic industrial activity.

1.2 Developments in the Capital Market

The capital market has expanded at a stupendous pace in the era of economic reforms. The number of listed companies has gone up from 2265 in 1980 to over 7500 in 1995.[5] Accordingly, the average annual capital mobilization from the primary market has grown from Rs.90 crore in the seventies to over Rs.6,000 crore in the eighties. Further, in the nineties, the annual amount has crossed Rs.25,000 crore in 1994-95. Consequently, market capitalization in March 1994 was calculated to be over Rs.455,000 crore. Apart from an increase in the number of companies, existing companies have mobilized funds by rights or public issues, especially at a premium. Moreover, there has been a proliferation in the number and type of mutual funds in the market. For instance, by July 1994, there were already 14 mutual funds, operating 141 different schemes.[6] The offerings to investors were from open-ended and closed-ended funds in the form of income funds, growth funds, balanced funds and tax-saving schemes, among others.

Some data relating to the Unit Trust of India are illustrative:[7]

	1990-91	1994-95
Schemes managed	43	57
Investable funds (Rs.crore)	31,800	60,000

The soaring scale of activity in the capital market has been accompanied by some critical developments, some of which have actually boosted capital market activity. These include:[8]

1992 - Enactment of the act to establish the Securities and Exchange Board of India (SEBI).

- Abolishment of the Controller of Capital Issues (CCI) and introduction of free pricing.

- Commencement of operations by the OTC Exchange of India (OTCEI) to facilitate fund-raising by smaller companies.

1993 - Registration of Foreign Institutional Investors (FII) by SEBI.

- Emergence of private sector mutual funds.

1994 - Private placement of issues with FIIs begins.

- Commissioning of the National Stock Exchange.

1995 - Amendment of the Securities Contracts Regulation Act, 1956 to facilitate the introduction of options.

- Approval of proposal to set up a depository system.
- Implementation of the Malegam Committee recommendations relating to primary market reforms such as Book Building and others.

1.3 Key Changes in Personal Income-tax Provisions

As is predictable, changes in personal income-tax provisions have been effected year after year in successive budgets. These have been mainly inspired by the recommendations of the Chelliah Committee on Tax Reforms, and the need to give reliefs to tax payers in an era of persistent inflation.

Among the important changes that have been introduced are:

Union Budget 1995-96

- Raising the basic exemption limit to Rs.40,000.
- Increase in the ceiling for Section 80L deduction to Rs.13,000.
- Changes in provisions relating to tax deducted at source (TDS) as regards interest on time deposit at a bank and income earned on units of a mutual fund. In both cases, the limit is Rs.10,000 beyond which TDS provisions apply, with the qualifier that the time deposit must have been made on or after July 1, 1995.

In addition to the above, the budgets in recent years have also introduced the following significant measures.

1. Indexation of the cost of acquisition and cost of improvement in determining capital gains on the transfer of a capital asset.
2. Shortening of the holding period to 12 months in the case of a listed security besides shares held in a company, or a unit of the UTI or of a specified mutual fund.

3. The cost of acquisition of bonus shares to be taken as nil.

4. Increase in the ceilings of standard deduction pertaining to salary income. The upper limit at this writing rests at Rs.15,000 and for working women at Rs.18,000.

5. Simplification in the provisions relating to deductions / rebates by clubbing deposits under Section 80 CCA and 80 CCB of the Income Tax (IT) Act with Section 88 of the Act.

6. Clubbing of a minor's income with that of his parent, with some exceptions.

1.4 Myriad Investment Opportunities

The stupendous expansion of the capital market has been accompanied by the introduction of new investment vehicles as well as the emergence of alternative investment outlets. Traditionally, surpluses flowed into bank deposits and gold. From the mid-seventies onwards, equity shares and company deposits gained popularity. The eighties have seen the introduction or ascendancy of debentures, convertible securities, preference shares, warrants, floating rate securities and what not! Gold, meanwhile, continued to retain its lustre. Interestingly, the nineties have witnessed the arrival of mutual funds, real estate and agricultural ventures in a major way. These developments have caused a veritable explosion in the volume of information relating to various investment vehicles, stock markets, government's fiscal and monetary policies, company news, etc. Even as individuals were trying to keep abreast of changes in tax laws, tax-saving schemes, bank deposit rates, etc., so as to plan their finances, they were confronted with a new problem: how to assess the risk and return features of the newer investment vehicles, mentioned above ? And beyond that, the more formidable and on-going task of portfolio management.

A classification of the available investment outlets is shown below.

Investment Avenues

- Tax Shelters
- Fixed Income
  - Securitized
  - Non-securitized
- Variable Income: Equity shares, Mutual funds, etc.
- Tangible Assets: Gold, Real Property, etc.

As a first step an investor has to understand an investment vehicle properly, particularly its key features. As discussed briefly below, each has its peculiarities

1.4.1 TAX SHELTERS

These include non-securitized financial investments which are not transferable. Examples are the National Savings Certificate (NSC) (VIII series), Public Provident Fund (PPF) and the National Savings Schemes (NSS). Each of these schemes is a unique option that differs from the others in terms of maturity, return and tax benefits, as shown below.

	Maturity (Years)	Return (%)	Tax benefits
NSC	6	12	Sec. 88 & 80L
PPF	15	12	Sec. 88 & full exemption to interest
NSS	4	11	Sec. 88 & 80L

Since there is a detailed appraisal of tax-saving schemes in Chapter 3, the other distinguishing features are not discussed here. Suffice to say that each scheme has its attractions and drawbacks that would induce or detract savers. Moreover, an individual may find a scheme to be appealing at one point in time, but not so at another. In any case, the dimension that would largely determine the choice of allocation would be the tax-free return versus the taxable return from other investments. This process of arriving at the optimal decision gets complicated by the dynamics – – e.g., changes in the rate of interest, changes in income-tax rates, and even the relative attractiveness of other tax shelters as well as other securities.

There are other tax-saving avenues available. These are:

- The Employee Provident Fund Scheme (for salaried employees)
- Insurance Plans
- Annuity Plans / Pension Plans
- Postal Savings Scheme
- Deposits with the National Housing Bank
- Equity Linked Savings Scheme (ELSS)
- Others (approved superannuation fund and notified pension fund)

Some of the above schemes have an additional dimension of insurance or retirement income and hence do not lend themselves to ready comparison with the other schemes. Generally, the major attraction with the above shelters is the tax rebate @ 20% of the investment outlay (subject to specified limits) under Section 88 of the IT Act. With some of them, there are added attractions such as exemption from wealth tax and immunity from attachment by a court decree or order. Some offer a higher return, superior tax benefits or the element of insurance, but correspondingly bear certain restrictions, such as with respect to the investable amount or the lock-in-period of a scheme. In some cases, the task of calculating the yield is simple than in others such as the ELSS, particularly considering how fickle the Indian stock markets have been in recent years.

1.4.2 FIXED-INCOME INVESTMENTS

This category includes non-securitized investments, notably bank and company deposits and securitized ones such as debentures, Public Sector Unit (PSU) bonds, Savings Certificates, Government Securities ("gilts" in brief on account of their high safety) and money market securities. The last term refers to Treasury Bills (T-Bills), Certificate of Deposits (CD), Commercial Paper (CP) and the like having a maturity of less than one year, which are securities mostly bearing a very high denomination and therefore outside the reach of ordinary investors. Even gilts are bought and sold mainly by banks and institutions. Among the important developments to impinge upon fixed-income investments are the following:[9]

Year	Event
May 1989	Interest rates freed on money market instruments such as inter-bank call money, inter-bank term money and commercial bills. Issue of CD and CP permitted at market-determined rates.
August 1991	Removal of ceiling on coupon payable on company debentures and taxable PSU bonds.
April 1992	RBI permits banks to freely determine their own deposit rates, subject to a ceiling. Commencement of auctions in 364-day T-Bills and Central Government Securities.
January 1993	Commencement of auctions in 91-day T-Bills.
October 1995	Scheduled Commercial banks allowed to determine interest rates on domestic term deposits with a maturity exceeding two years.

Besides the key developments, some notable financial instruments which have emerged in recent years are:

1. Secured Premium Notes with detachable warrants

   This interest-bearing instrument issued by the Tata Iron and Steel Company bears a lock-in period during which no interest is paid. It is paid to the holder on redemption. The warrant carries a right to buy equity shares from the company at stipulated terms.

2. Non-convertible debentures (NCD) with detachable warrants

   The warrant carries a right to obtain equity shares from the NCD issuer at pre-specified terms.

3. Zero-coupon debentures (ZCD)

   In India, the ZCD issued also bore the feature of convertibility. Hence, following a lock-in period during which time no interest was paid, the ZCD would get fully converted into shares. An interesting variation of this instrument is a secured ZCD that is partly convertible and which carries detachable warrants. Yet another variation is a fully convertible debenture with interest that is optional. In lieu of interest foregone, the investor benefits in the value of equity shares received later.

The purpose of the above narration is merely to provide a glimpse of the bewildering changes and developments that investors have witnessed in recent years. Not to be left behind, the Government of India too has adapted quickly by issuing Zero-coupon Bonds and Floating Rate Bonds (FRB) in the last two years. The Zero-coupon Bonds / Debentures are a sub-set of Deep Discount Bonds (DDB) so called as their relatively low (or zero) coupon causes their issuance to take place at prices substantially below par. DDBs of the zero-coupon type have been issued by institutions such as the Industrial Development Bank of India and the Small Industrial Development Bank of India. Also, as far as FRBs are concerned, it was the State Bank of India, which first floated these securities in 1993. It would be in order to clarify here that FRBs are not fixed-income securities. They have been engineered to meet the investors' needs for protection against inflation.

Besides corporate debentures, other fixed-income vehicles include bank deposits, saving certificates and other instruments referred to above.

There are bank deposit schemes that cater to the differing needs of various investors. These are savings deposit, fixed deposit and recurring deposit accounts. Whereas the interest rate on savings deposit has remained very low, without even compensating for inflation, this type of deposit is important from the perspective of personal financial planning since funds set aside for contingencies would remain in this account. Moreover, the interest rates on fixed and other deposits with banks have been periodically adjusted bearing in mind the real return to depositors, and the alternative (though more risky) avenues of fixed deposits in manufacturing and other companies. Hence individuals with surpluses must periodically assess the attractiveness of bank deposits vis-a-vis the competing products, taking into account the dimensions of differing risk and tax benefits. Similarly, tax benefits on some PSU bonds and postal savings schemes would appeal to those wanting to minimize taxable current income, whereas saving certificates such as the Indira Vikas Patra and Kisan Vikas Patra with their attractive yields would appeal to investors who don't need a shield on current income. Moreover, taxable investors may on occasions find that the taxable return on a security (e.g., debenture) is superior to a tax-free return on a security of comparable risk (e.g., a PSU bond). This is an exercise that individuals must perform taking their respective marginal tax rates into consideration.

1.4.3 VARIABLE-INCOME INVESTMENTS

These include equity shares and units of mutual funds (MFs). In the last ten years, India has witnessed a veritable explosion in these sectors. The number of companies going public has climbed rapidly and so has been proliferation of mutual funds. The lure of a fast buck has drawn hordes of investors towards these vehicles, and thousands, perhaps millions have subsequently learnt the grim reality. The attraction of these vehicles stems from two flows: dividends and capital gains, particularly the latter. This is more pronounced in the case of equity shares, but not so with mutual funds who with diversified portfolios are unable to achieve the degree of price appreciation that individual stocks have demonstrated. The fast increase in the number of companies with rapidly rising investment interest has spawned a number of periodicals and magazines devoted to corporate news and financial information. For the regular investors, these are required reading now! Secondly, some unscrupulous operators have floated public issues to con innocent investors. Hence investors are slowly coming to grips with these and other problems, so that they can make better investment decisions. In all probability, the common investor still would not know the approaches to stock selection and portfolio management. There are certain hazards of investing in equity shares that still need to be made widely known - - that one can make huge capital losses, that the stock market may languish for an extended length of time and that there are other financial priorities that must take precedence over equity shares! In fact, if one could assign a cost towards setbacks such as bad deliveries, delayed transfers, missing dividend or refund warrants, prolonged correspondence with companies / transfer agents, etc., it may be interesting to know the true return on shares. Also, as India's economic liberalization makes further progress, the fortunes of different industries will change faster than ever. Investors must develop quicker responses in order to effect changes in their portfolios so that sunrise industries are periodically added while smokestack enterprises are discarded Considering the herculean task that confronts individual investors, namely of reading and sifting through voluminous information and data, and then monitoring one's portfolio, effecting changes, ensuring timely transfers, promptly depositing dividend and interest warrants, etc., the proclivity for portfolio managers or mutual funds may gain strength in future. This is assuming that Indian mutual funds are able to redeem their image among the investing public.

Leaving out UTI, the industry is about five years old, and the record so far is disappointing. Perhaps, investors did not know that, as Burton Malkiel[10] puts it, broad diversification rules out extraordinary gains just as it rules out extraordinary losses! In the case of some funds, perhaps the timing of launch was not auspicious as a subsequent market decline may have hit the funds' portfolios. Even funds launched by well-known foreign entities -- notably Morgan Stanley -- have not helped to inspire confidence among investors. During the initial phase, MF products carried the tax benefit of Section 80L. Later, there were variations which conferred benefits under Section 88 (e.g., Dhanraksha) and even the now defunct Sections 80CC and 88A. Innovation caught on and growth schemes providing the shield on long-term capital gains vide Section 48 of the IT Act were on their way. The lead was given by the outfit promoted by Bank of India. Soon, other MFs launched closed-ended pure growth schemes. This was followed by Equity Linked Savings Schemes offering benefits of tax rebate and long-term capital gains, with a lock-in period of three years. As competition intensified, new trends were observed -- incentives by way of life insurance and scholarships were being offered! Meanwhile, the depressed market prices vis-a-vis Net Asset Values (NAV) of funds floated earlier, made investors wary of closed-end funds. As a result, in 1994 some open-end schemes were promoted. Concurrently, new selling points emerged – – prompt repayment upon requests for repurchase, greater transparency and frequent reporting of NAV, and better services in general. An interesting development has been the decision by UTI, announced in June 1995, to promote an index fund.

1.4.4 TANGIBLE ASSETS

Among the tangible assets, gold and more recently, real estate, have enormous appeal to Indians. Gold, in fact, has been an integral part of our religious and social customs. Also, the world over, it is considered a haven during times of crisis, to use a cliche. Individuals and nations have turned to gold, to bail themselves out in bad times. As recently as 1991, the Indian Government shipped out several tonnes of gold to combat the economic crisis. Even the refugees fleeing the Gulf War in 1990 took their gold alongwith, while leaving behind other belongings.

The crucial question that confronts investors is: Is gold an attractive vehicle ? There are two tests that it must pass for an affirmative answer. That the rate of appreciation in gold is higher than inflation, and secondly, that the return thereon surpasses that of alternative investment outlets.

According to one article,[11] gold has outperformed inflation in India. Taking the period between 1940 to 1995, gold has demonstrated a compound growth of 9.47% per annum in its price per 10 grams whereas inflation (wholesale price index) grew at 7.66%. Apparently, gold has been a good hedge against inflation. Insofar as the second question is concerned, equity as judged by the performance of the BSE Sensitive Index between 1980 and 1995 has done better. The important point here is that the composition of equity portfolios of individuals will be different and so, while some may do well, others will not. Therefore, gold, even without yielding periodic income may be a good conservative bet. However, from time to time investors ought to be making comparisons with various financial assets, including debentures, so as to evaluate the relative attractiveness of gold.

Real estate investing, that is, committing funds into land or homes may gather, momentum. Earlier, individuals with some capital preferred plots of land for resale in future. In some bigger cities, notably, Bombay, rapid economic growth and a burgeoning population ensured a sustained demand for housing. Thus, some individuals invested in flats in such places. Now, however, some new trends seem to be emerging.

1. Increasing incomes of individuals and of two-income households boosting the demand for housing in general.
2. Easy availability of housing finance.
3. Construction of housing units becoming a nationwide phenomenon particularly with corporate involvement.
4. Rapid growth of urban places other than metros.

Even with the above positive developments, investment in real estate entails a huge outflow of savings, and this is a major deterrent. Nevertheless, since it is an attractive route to diversifying one's investment portfolio, affording investors must acquire the necessary skills and techniques for this activity. This entails complex skills such as selecting the best geographic area, properly checking out the physical property and deciding on the holding period. In fact, the housing shortage which is estimated at well over 30 million units points towards real estate as a prime investment outlet. Moreover, in the not too distant future, possible new developments on this front such as Real Estate Investment Trusts and Limited Partnerships, based on the pattern in the U.S., will open up even greater opportunities for financial investment in real estate. Even the relatively recent phenomenon of corporate ventures into agriculture or sale of time shares may gather strength in the future.

There are still other examples of tangible property investments. These are silver, precious stones and art objects. Of these, the first two are closely intertwined with social customs i.e., they usually form a part of a bride's trousseau in certain regions, and are therefore, not viewed as other vehicles would be. Traditionally, again, art objects i.e., painting and antiques have not had investment appeal in India, although now there are signs that this may change. The recent endeavour of some famous auctioneers of the West to promote Indian art objects may boost their appeal.

1.5 The Intricacies of Personal Financial Planning

The process of personal financial management is, as hinted earlier, a formidable task. It aims at the attainment of short- and long-run goals which can be as follows:

Short-run

1. The purchase of a small commercial property next year.
2. To acquire a computer in one year.

Long-run

1. To accumulate a net worth of Rs.40 lakh at retirement, 20 years hence.
2. To create a corpus of Rs.15 lakh for a daughter's marriage, 15 years hence.

There are other elements of personal financial planning. These are (a) the purchase of insurance on life, health, property and liability; (b) providing for an adequate income during the period of retirement; (c) the formulation of appropriate strategies to maximize after-tax income that will facilitate the attainment of financial goals.

The complexities inherent in each of these areas are enormous. For example, goal-setting itself must be realistic. This entails a review of present financial condition and a forecast of the saving potential in future. The latter implies a reasonable degree of accuracy in estimating future income and expenditure adjusted for inflation.

In the case of insurance, a critical aspect is determining an adequate amount of insurance cover, especially for life insurance. Here, there are different forms of cover available -- endowment, whole life, etc. An individual must have a reasonably good grasp of the various options, in order to make the right choices. Similarly, in the case of retirement planning there are decisions to be taken early on, as regards the desired retirement age, financial position and goals. Following this, the individual must choose between alternative avenues such as annuity plans, provident funds or other means.

Financial goal-setting, whether of capital accumulation or provision of current income, must recognise the tax implications of any investment plan. Even after considerable simplification, an investor must contend with a maze of tax laws regarding salary income, business or professional income, and other sources such as dividends, interest, capital gains and so on. Also, as referred to earlier, these laws and provisions keep changing with the passage of time. To disregard the need for tax saving may cause a substantial leakage of income over time. It is for this reason that this research work seeks to examine the approach to income-tax planning among individuals in general.

Investment plans are a derivative of financial goals. The goal of capital accumulation could be achieved by choosing an investment vehicle in which money cumulates. The goal of providing periodic income could be met by another appropriate vehicle that yields regular income. Hence an investment plan makes financial goals operational. Therefore, an investment plan must focus on the form and magnitude of return, risk and the tax impact of any investment vehicle. As explained earlier, there is a spectrum of outlets to choose from. They differ in terms of return, risk and tax aspects, and appeal to different categories of investors. It is important to:

1. Assess the likely return and risk profile of these vehicles.
2. Understand as to what influences their values.
3. Utilize the correct method of selecting various investments.
4. Adopt a portfolio approach with active monitoring to ensure that the investment programme remains on course.

Such is the task that confronts any individual. It is, therefore, not surprising that professional financial planners in the U.S. and elsewhere are actively engaged in advising individuals on how to cut taxes, keep money productive, and stay ahead of inflation. In India, as incomes and wealth rise, we may witness a greater interest and attention in general to personal financial planning, particularly due to a growing appreciation of its benefits and a realization about the costs of not doing so.

1.6 Scope of the Study

As is made explicit by the title of this thesis, the study focuses on the income-tax saving devices that individuals typically employ in order to improve or maximize their post-tax income. It is an endeavour to learn about the preferences of individuals with regard to the various tax shelters and strategies that reduce the tax liability on a variety of fronts -- via rebate-yielding investments, measures for taxable current income, and shields for capital gains. This may be a relatively unexplored domain in India, in contrast to other areas within the realm of capital markets.[12] However, it is in tune with trends in the West where the emerging area of 'Behavioural Finance' is attracting the attention of academicians.

The study is concerned with only the legal devices available to any tax-payer – – whether a salaried employee, a businessman, a professional, etc. The research was carried out with reference to the financial year 1994-95, that is, the Assessment Year, 1995-96. One can venture to say that individuals would also be resorting to illegal means and trickery with the motive of evading taxes. But, eliciting information in this regard, may be a formidable, if not impossible, exercise. Moreover, people in different vocations may be employing, to some extent, different ruses to evade taxes. Hence, the common grounds for comparison would also diminish.

1.7 Research Objectives

In line with the scope of this study, the specific research questions that have been addressed include the following:

1. Are individuals indifferent between various tax shelters ?
2. If individuals are not indifferent, then which are the most and least preferred tax shelters ?
3. Which among the various reasons explain such preferences and disinclination ?
4. Does the basis for distinguishing between the most and least preferred shelters remain the same ?
5. Which is the preferred insurance product ?
6. Do individuals have a fair idea about the yield on alternative insurance vehicles ?
7. Are the income levels of those who are knowledgeable the same as of those who are ignorant about such yields ?

8. What is the position with respect to timing one's investments in tax shelters ?

9. What is the extent of usage of secondary tax shelters/techniques to get the benefit of rebate or deduction ?

10. Which are the popular measures utilized to minimize taxable current income ?

11. Which are the popular measures used to minimize taxes on capital gains ?

12. For businessmen and professionals, which is the preferred route for reducing taxable income ?

13. How important are different phenomena such as stock market performance, interest rates and others to personal financial well-being ?

14. How critical is tax deductibility at source to investment decision-making ?

15. How widespread is the use of professional help in tax planning ?

16. In general, are people satisfied with their tax planning ?

Another endeavour of this study is to develop a framework for a personal financial plan. The objective is to integrate long-term goals and design different portfolios, to attain these goals in a chronological fashion, even while satisfying the concerns of tax planning. Thus, it has been necessary to review the process of personal financial planning in entirety, as well as to examine the different tax shelters and strategies. The model plan presented in Chapter 4, is the outcome of this review.

1.8 Research Design

Since primary data had to be generated, it was decided to distribute a questionnaire as the basis of a structured undisguised method of data collection. Different possible answers were listed under each question so that the chance of peculiar or ambiguous answers that would hamper collation of data, was eliminated. Yet, along with the main choices offered, the subjects were also provided the facility to give their own answer, if it was different from the choices listed. At the fag end of the questionnaire, another opportunity was provided to the subjects to be forthcoming with their remarks.

1.9 Methodology

Primary data were obtained by administering a structured questionnaire to visitors to a two-day event at Baroda, Gujarat on November 19 and 20, 1995. The occasion was Finvest '95, organised by the Management Students Forum of the Faculty of Management Studies, M. S. University, Baroda. It featured an assemblage of stalls of several financial companies and some financial institutions and stock exchanges. The event was conceived as a platform which would facilitate interaction between individuals from different walks of life and the organizations mentioned above. In addition, there were features such as talks by experts on topical issues as well as a mock stock exchange game. Considering the nature of the event, one could expect a cross-section of tax-payers among the visitors - - salaried persons, businessmen, professionals, etc., comprising the potential target group of this study. The venue was in Sayajigunj (a central area), it was open to the general public and no entry fee was charged. Therefore, this event provided a good opportunity to collect data by a random method. Visitors were supplied the questionnaire (Appendix 1) and were requested to respond with their answers.

Prior to this data collection exercise, the questionnaire had been put through a pilot survey in two stages. At the outset, it was distributed to a group of knowledgeable persons that included corporate finance executives, Chartered Accountants and academicians. Based on their feedback, improvements were effected in the instrument. Thereafter, it was circulated among some employees of Alembic Chemical Works Co. Ltd., Baroda who had gathered for a guest lecture in the company on September 27, 1995. It was inferred that the questionnaire was intelligible and adequate in its coverage for the purpose at hand.

The questions have been mainly dichotomous or of the multiple choice variety. This made the data readily amenable to tabulation and analysis. Although open-ended questions have been avoided, some leeway was provided to respondents to spell out their answer, if it was different from the choices offered.

From the foregoing explanation, it can be discerned that care was taken to ensure that the methodology was free from bias, and sound in terms of serving the purpose.

The data were analyzed with the help of percentages. Additionally, several hypotheses were tested for statistical significance and these are as mentioned below:

1. Tax-payers are indifferent between various tax shelters.

2. There are no differences among the reasons with respect to explaining tax shelter preference.

3. There are no differences among the reasons with regard to the least preferred tax shelter.

4. There is no relationship between the basis for the first- and last-ranked shelters.

5. Tax-payers are indifferent about their choice of the insurance vehicle.

6. Tax-payers do not have a fair idea about the yield on alternative insurance vehicles.

7. The average income of persons having a fair idea about the yield on alternative insurance vehicles is equal to the average income of those who are ignorant.

8. Businessmen and Professionals are indifferent between three means of reducing taxable income.

9. There are no differences between different phenomena (e.g. stock market performance, interest rates and others) in terms of their importance to personal financial well-being.

10. Between two groups of tax-payers, one availing of professional help in tax planning and the other not doing so, there is no difference in the levels of dissatisfaction with their tax planning.

The chi square test was used for all the above hypothesis except nos. 7 and 9 The Friedmann's test was used for hypotheses numbered 1 and 9, since ranked data were available. The t test was employed for hypothesis no.7.

END–NOTES

[1] From the inaugural address by C.Rangarajan, Governor, Reserve Bank of India on Trade and Financial Sector Reforms. This was at the National Seminar on Trade and Financial Sector Reforms held at the National Institute of Bank Management, Pune on October 18, 1993. The address was carried by *Discount and Finance,* Vol. V, No.43, October 23, 1993, pp. 5-8.

[2] As mentioned by C. Rangarajan, Governor, Reserve Bank of India at a keynote address. The occasion was a seminar on "Economic Liberalization, Financial Sector Reforms and the Role of NBFCs," organized by the Association of Leasing and Financial Services Companies at Mumbai on February 22, 1996. The address appears in *Discount and Finance,* Vol. VIII, No.9, March 2, 1996, pp. 5-8.

[3] Amarchand, D., *Government and Business,* 3rd ed., (New Delhi: Tata McGraw Hill, 1994), p.1.18.

[4] The various economic data cited are from the following sources.

(a) An address on "Present State of the Economy" by C. Rangarajan, Governor, Reserve Bank of India at the 90th Annual General Meeting of PHD Chamber of Commerce, New Delhi on November 27, 1995. This address was published in *Discount and Finance,* Vol. VII, No.48, December 2, 1995, pp. 5-8.

(b) A talk delivered by S.S. Tarapore, Dy. Governor, Reserve Bank of India at the Third City of London Central Banking Conference organized by Citiforum Limited, London on November 21, 1994. The topic was "Foreign Exchange Reserves Management: An Indian Perspective" and the address appears in *Discount and Finance,* Vol.VI, No. 48 dated December 3, 1994. pp. 5-9.

(c) *India : Recent Economic Developments and Prospects,* World Bank Country Study, 1995, p.25.

[5] Masarguppi, Aruna and Askar Baig, "IPOs – On the road to reform," *Chartered Financial Analyst,* Hyderabad, June 1995, pp. 23-28.

[6] Raghu, M.R., "Mutual Funds: Hogging the Limelight," *Chartered Financial Analyst,* Hyderabad, July 1994, pp. 11-18.

[7] Sridhar, S., "UTI : Trust on Trial," *Chartered Financial Analyst,* Hyderabad, July 1995, pp. 23-30.

[8] Jayakar, Roshni and A.H. Ghani, "Remaking the Markets," *Business Today,* Feb. 7-21, 1994, pp. 54-62. Key developments upto 1994 are listed in this article.

[9] A background paper titled "*The Emerging Asian Bond Market*" which bears a study of India's debt market was prepared for the World Bank in June, 1995. An annexure to this study contains a chronology of measures in bond market deregulation in India.

[10] Malkiel, Burton G., *A Random Walk Down Wall Street,* 2nd college, ed. (New York : W.W. Norton & Co., 1981), pp. 306.

[11] Pattabhiram, V., "Yellow Metal : Is gold still gold ?," *Chartered Financial Analyst,* Hyderabad, June 1995, pp. 77-78.

[12] Barua, S.K., V. Raghunathan and J.R. Varma, "Research on the Indian Capital Market : A Review," *Vikalpa,* Vo..19(1), January - March 1994.