A Study on Financial Planning for Salaried Employees and Strategies for Tax Savings

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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 in line with their long-term goals.

The researcher had conducted a survey in order to find out the financial planning as well as for tax saving of the salaried individuals. The survey was done within the region of Pune, Maharashtra for the period of 2 months (1st June, 2020 to 31st July, 2020). The purpose of the study is also to find out the most suitable and popular tax saving instrument used to save tax and also to examine the amount saved by using that instrument.

Keywords: Financial planning, tax planning, tax saving instruments.

I. INTRODUCTION

Financial Planning is the process of meeting life goals through the proper management of finances. Financial planning is a process that a person goes through to find out where they are now (financially), determine where they want to be in the future, and what they are going to do to get there. Financial Planning provides direction and meaning to persons financial decisions. It allows understanding of how each financial decision a person makes affects other areas of their finances. For example, buying a particular investment product might help to pay off mortgage faster or it might delay the retirement significantly. By viewing each financial decision as part of the whole, one can consider its short and long- term effects on their life goals. Person can also adapt more easily to life changes and feel more secure that their goals are on track.

Today, in India financial planning means only investing money in the tax saving instruments. Thanks to the plethora of tax exemptions and incentives available under various sections and subsections of the Income Tax Act. This has led to a situation where people invest money without really understanding the logic or the rationale behind the investments made. Further the guiding force in investment seems to be the "rebate" they receive from the individual agents and advisors. The more the rebate an agent gives, the self-satisfied person are in the belief that they have made an intelligent decision of choosing the right agent who has offered them more rebate. In the process what is not being realized is the fact that the financial future is getting compromised.

II. CONCEPT & SIGNIFICANCE OF THE STUDY

Financial Planning is an integral part of any individual life, especially in this modern world where value of everything is expressed in terms of money. The active working span of human life is short as compared to the life span. This means people will be spending approximately the same number of years in after retirement what they have spent in their active working life. Thus, it becomes important to save and invest while working so that person will continue to earn a satisfying income and enjoy a comfortable life style.

III. SCOPE OF THE STUDY

The scope of study is getting familiar with various investment avenues available in market. To study the life stages of an individual and to identify their risk tolerance, income flow, life goals and current investment. Study should cover all areas of the individual's financial needs and should result in the achievement of each of the individual's goals.

The scope of planning will include the following:

- Risk Management and Insurance Planning
- Investment Planning
- Retirement Planning
- Tax Planning

IV. OBJECTIVES OF THE STUDY

Primary objective:

- To understand financial planning done by salaried employees
- To spread awareness about financial planning among the working-class people
- To understand the saving-investment behaviour of the salaried employees
- To understand the importance of tax planning

Secondary Objective:

- To gain knowledge about the various investment avenues keeping in mind the significance of tax saving

- To understand how savings can be increased for the future using different instruments
- To find out the most suitable investment instrument for salaried investors
- To examine the amount saved by using that instrument

V. REVIEW OF LITERATURE

A large number of salaried tax payers in India start planning their tax saving investments very late in the year when the time limit for submission of investment evidence is coming to an end or at the end of the financial year. While it may help you in saving taxes, it might not be the best decision that you have made.

Given below are the 3 reasons why planning in advance will help you:

- **Choose the best option**: When you plan ahead, you get time to choose an investment scheme that will suit your needs and financial condition – how much risk you can take, your cash requirements, for how long you can invest etc. It will help you arrive at the best decision.
- **Helps in avoiding last minute aggravations and blunders**: When you are rushing making investments, it may lead to unforeseen investment errors. You might not have enough time to perform due diligence before making an investment decision.
- **Plan the schedule for investment payments through the year:** When you begin the investment procedure early in the year, it gives you flexibility for planning payments during the course of the year.

Given below are some of the best tax saving investment opportunities in India:

Table 1. Tax Saving Instruments

Sr. no.	Tax saving Instruments	Tax Benefits Under Section	Total Tax Deduction
1	Life Insurance	Section 80C (Premium & Section 10(D) (Death/Maturity)	Up to Rs. 1,50,000
2	Health Insurance	Section 80D	Up to Rs. 55,000
3	Unit Linked Insurance Plan (ULIPs)	80CCC	Up to Rs. 1,50,000
4	New Pension Scheme (NPS)	Section 80CCD	Up to Rs. 1,50,000 Additional Rs. 50,000
5	Equity-linked Tax Saving Scheme (ELSS)	Section 80C	Up to Rs. 1,50,000
6	Public Provident Fund (PPF)	Section 80C	Up to Rs. 1,50,000
7	National Saving Certificate (NCS)	Section 80C	Up to Rs. 1,50,000

VI. RESEARCH DESIGN:

Type of research design	:	Descriptive research
Research equipment	:	Questionnaire
Sampling technique	:	Non-probability technique-convenience sampling method
Sample size	:	190 samples
Sample design	:	Data has been presented with the help of bar graphs, pie-charts, etc.
Area of research	:	Pune, Maharashtra.

VII. SOURCES OF DATA:

Both the primary sources and secondary sources of data have been used to conduct the study.

Primary source:

The primary data for this study has been collected by approaching the salaried employees via internet (digital survey method).

Secondary source:

The secondary data are collected from articles published on various websites (desk research).

VIII. DATA ANALYSIS AND INTERPRETATIONS

1. Age of the respondents

Age	No. of respondents	Percentage
20-30	126	60%
30-40	41	22%
40-50	15	8%
50-60	8	4%
Grand Total	**190**	**100%**

8. 1

The majority of respondents were from the age groups of 20-30, i.e. 66.%, and 30-40, i.e. 22%. These are considered to be the most active age groups.

The age group of 20-30 is the most dynamic of all age groups. In this age group, an individual has just begun to start/build a career. This age group is prone to spending lavishly and can be targeted for investing and saving. On the other hand, the age group of 30-40 are stable and careful as they have bigger responsibilities like family, home loans, car loans,etc. This is the stage when they begin to think/plan for a secure future. Hence, they take tentative steps towards investments.

2. Gender distribution of the respondents:

Gender	No. of respondents	Percentage %
Female	74	39%
Male	116	61%
Total	**190**	**100%**

8. 2

From the above figure, we can interpret that, from all the respondents, 61% are males whereas 39% are females. Hence, we can say that, the females have started to work shoulder to shoulder with the males in our developing society.

Annual Income	No. of respondents	Percentage %
Up to Rs. 2 lakh	38	20%
Rs. 2-3 lakh	24	13%
Rs. 3-4 lakh	35	18%
Rs. 4-5 lakh	28	15%
Above Rs. 5 lakh	65	34%
Total	**190**	**100%**

3. Annual Income of the respondents:

The above figure shows that a major portion of respondents are in income slab of above Rs.5 lakh p.a.,i.e. 34%, this indicates that the person may be in the mature stage of career. On the contrary, the second major group of respondents belong to the income slab of upto Rs.2 lakh, i.e. 20%, which indicates that he/she might be in the beginning phase of their career. With the rest of the income slabs, the respondents show a stable phase of their career.

8. 3

4. Occupational status of the respondents:

Occupational status	No. of respondents	Percentage %
Teachers/Lecturers	20	11%
Doctors /Engineers	76	40%
Officers	27	14%
Clerks /others	67	35%
Total	**190**	**100%**

8. 4

Most of the respondents were doctors/engineers i.e. 40%, whereas 35% of respondents were from the category of clerks/others. Respondents belonging to the category of teachers/lecturers and officers were 11% and 14% respectively.

5. Annual savings of the respondents:

Annual savings	No. of respondents	Percentage %
Less than Rs. 25,000	78	41%
Rs. 25,000-50,000	34	18%
Rs.50,000-75,000	19	10%
Rs.75,000-1,00,000	17	9%
More than Rs. 1,00,000	42	22%
Total	**190**	**100%**

8. 5

From the figure shown above, we can indicate that majority of the salaried employees have an annual savings of less than Rs. 25,000, i.e. 41% of the total respondents; and on the contrary 22% of the total respondents have an annual savings of more than Rs. 1,00,000. It can be said that the reason behind low/decreasing annual savings can be increasing responsibilies of a middle class worker, less income, more spending, debts/loans, lack of awareness regarding savings and investment, and not to forget inflation.The respondents have also shown a slow and steady/increasing saving pattern after they have completed their expenses, as we can see in the figure.

6. The motivators of savings of the respondents:

Motivators of savings	No. of respondents	Percentage %
To meet specific purpose	85	45%
To earn income	36	19%

To meet contingent expenses	27	14%
To get tax benefits	3	2%
To be secured at old age	39	20%
Grand Total	**190**	**100%**

8. 6

The motivation behind saving cannot be known except for the individual himself. As shown in the figure above, it can be said that the respondents' main motivator is to

meet specific purpose, as 45% of respondents have selected this option. These specific purposes for saving can be personal expenses like buying luxuirious goods, family's expenses, saving for children's future, health expenses, vacations, wedding, etc. Whereas, there are only 2% of respondents whose motivator for saving is to get tax benefits, which shows that most of them are not aware about the benefits of tax saving investments.

7. **Factors considered by the respondents for increasing the size of savings**

Factors	**No. of respondents**	**Percentage %**
Increase in salary	73	39%
Additional income/increments	67	35%
Future needs	44	23%
Tax benefits	4	2%
Statutory requirements	2	1%
Total	**190**	**100%**

8. 7

The figure shown above indicates that, in order to increase the size of savings, an increase in salary is expected, as 39% of the salaried respondents have chosen this option. Additional income/increments also needs to be considered in order to increase savings.Future needs of an individual can be considered as a factor which pushes an individual towards saving more of their income as it may benefit at the time of need.Tax benefits and statutory requirements are the least considered factors while increasing the savings.

8. **Investment preferences of the respondents:**

Investment Preference	**No. of responses for each respondent**	**Percentage %**
Bank Deposits	71	37.4%
Mutual Funds	72	37.9%
Fixed deposits	66	34.7%
Insurance Policies	38	20%
Govt. Securities i.e., PF, GPF/PPF	82	43.2%
Post Office deposits	17	8.9%
Equity Market	30	15.8%
Gold	96	50.5%
Total		**100%**

8. 8

It is observed that half of the respondents (i.e. 50.5%) mostly prefer to invest in gold. Due to some influencing factors such as high liquidity and inflation-beating capacity, gold is one of the most preferred investments in India. Gold investment can be done in many forms like buying jewelry, coins, bars, gold exchange-traded funds, Gold funds, sovereign gold bond scheme, etc.

9. **Respondents' investment trend in the recent years:**

Investment trend	**No. of respondents**	**Percentage %**
Increasing	79	42%
Decreasing	31	16%
Remaining Constant	80	42%
Grand Total	**190**	**100%**

8. 9

The figure shows that the investment trend of the respondents is either at an increasing stage or is remaining constant through recent years of investment. We can interpret that, an increase in investment can be influenced by the increase in income, savings, future needs, decrease in interest rates, attractive returns on investment, proper knowledge/awareness about the benefits of investment, etc. On the other hand, decrease in investments can be caused due to lack of knowledge, disorganised investment, psychological behaviour of the investor, decrease in income/savings, more spending/expenses, inflating rates, etc.

10. **Time horizon of investments**

Horizon of investments	**No. of respondents**	**Percentage %**
Long-term (More than 10 yrs.)	44	23%
Medium-term (More than 5 yrs.)	48	25%
Short-term (More than 1 yr)	21	11%
Very short-term (Less than 1 yr)	7	4%
As per convenience	70	37%
Total	**190**	**100%**

8. 10

37% of the respondents prefer to invest as per their convenience. Investment objective to a greater extend determine the investment tenure and the avenue. Different investment objectives have different investment avenues to meet them. By determining the objective we can easily determine the investment vehicle for individuals.

11. Whose advice do the respondents take while investing:

Advisors	**No. of respondents**	**Percentage %**
Spouse/family members	81	43%
Friends/ colleagues	24	13%
Company Agents	0	0
Financial advisors	20	10%
Self-decision	65	34%
Grand Total	**190**	**100%**

8. 11

Most of the investment decisions are influenced by taking the advise of spouse/family members (43%) or can be self-made decisions (34%) as well.

Investing money requires a meticulous approach and acting on a piece of advice calls for adopting an extra layer of caution. In today's world, the investor, have a plethora of investment options at their disposal. However, what's essential is to be aware of the pitfalls and seek help from seasoned professionals to maximise gains.

12. Where does the respondents get information for your investment:

Information Sources	**No. of responses for each option**	**Percentage %**
T.V & Radio	44	23.2%
Organization Reports	46	24.2%
Family Members & Colleagues	127	66.8%
Journals & Magazines	54	28.4%
Agents & Advisors	45	23.37%
Total		**100%**

8. 12

Most of the salaried employees, (i.e. 66.8%) get information from their family members and colleagues about the benefits investment. We get information about investment at the grass-root level, i.e. the People. Its only after the people invest their money, getting higher returns, that we know for sure that, that particular investment will yield rich returns. Although financial companies try their best in advertising their investment products through T.V., radio, journals, magazines, etc

13. Initiatives recommended by the respondents to create awareness among salaried employees about investment:

Recommendations to create awareness about investment	**No. of responses for each option**	**Percentage %**
Training programmes	88	46.3%
Workshops & seminars	109	57.4%
Social welfare programmes	51	26.8%
Advertisements	57	30%
Investors' meets	80	26.3%
Total		**100%**

8. 13

From the figure shown above, we can interpret that workshops and seminars as well as training programmes are amongst the good initiatives for creating awareness about investments among the salaried employees. As these options help to provide proper information and practical knowledge to the audience. The traditional method i.e. advertisements are also commonly used to create awareness but this option is not as much in the trend as the above two options.

14. Respondents' awareness of tax saving instruments:

Awareness of tax saving instruments	**Fully Aware**	**Just Aware**	**Not Aware**	**Incorrect responses**	**No Response**	**Total respondents**
Life Insurance	114	60	10	4	2	190
Health Insurance	114	59	15	1	1	190
ULIPs	34	37	113	2	4	190
NPS	62	74	50	1	3	190
ELSS	38	58	90	0	4	190
PPF	111	48	25	5	1	190

8. 14

Insurance policies like mostly life insurance and health insurance as well as PPF seems to be the most popular, as most of the respondents are fully aware about these investment instruments. Whereas, on the contrary, ULIPs, NPS, ELSS and NSC are the least popular tax-saving investment options as there seems to be lack of awareness about these options amongst the salaried employees.

15. The type of investment plan does the respondents prefer in future:

Future investment plan preference	No. of responses of each respondent	Percentage %
Regular return plan	92	48.4%
Pension plan	74	38.9%
Medical plan	56	29.5%
Specific purpose plan	35	20%
Multiple option plan	74	38.9%
Total		**100%**

8. 15

From the above figure, we can conclude that most of the respondents prefer a regular return plan for future investment, as their main motive for investing might be to get a good return on investment as they continuously invest. Around 48% people show interest in this type of plan. The second most investment plan preferred by the respondents are pension plan and multiple option plan with 38.9% of the preference. Medical plan and specific purpose plan are amongst the least preferred plans for investment, with 29.5% and 20% respectively.

IX. FINDINGS

- The study reveals that majority (66%) of the respondents were from the age group of 20-30 years and most of them were from the male category (61%).
- From the annual income, it is found the middle-class as well as the upper middle-class working employees were the target respondents. The respondents were mostly doctors/ engineers.
- Most of the respondents save less than Rs. 25,000 annually from their annual salaries.
- The motivators for saving for most of the respondents is to meet a specific purpose.
- According to the results, an increase in salary or additional income/increments will help an individual to increase the size of their savings.
- Gold is found to be the most preferred choice for investment, whereas other investment preferences include Govt. Securities i.e., PF, GPF/PPF, bank deposits, mutual funds and fixed deposits.
- The investments trend amongst the respondents is either increasing or decreasing, on the other hand a few respondents' investment is remaining constant.
- Majority of the salaried employees' do not have a specified time horizon behind their investment decision as they prefer to invest as and when it is convenient for them. On the other hand, most of them invest for medium term as well as long term.
- Most of the salaried employees take the advice of their spouse/family members, as they can be said to be the most trusted individuals. The respondents have also taken their own decisions for making their own decisions.
- Most of the salaried employees get information about investments from their family members and colleagues, whereas a few get information from journals and magazines, organizational reports, T.V and radio, etc.
- From the study, it is found that conducting workshops and seminars is a good initiative to create awareness amongst salaried individuals about the importance of investments.
- The study has also revealed that most of the salaried employees are not aware about the benefits of tax saving investments like ULIPs, NPS and NSC. Life insurance, health insurance as well as PPF are the popular investment options.
- Most of the respondents prefer a regular return plan as a choice for their future. Other preferences include pension plan, multiple option plan and medical plan.

X. LIMITATIONS

- Reluctances of the respondents to provide information can affect the validity of the responses.
- The lack of knowledge of the respondents about the financial instruments can be a major limitation.
- The information can be biased due to use of questionnaire.
- The study was conducted for 2 months i.e. from 1^{st} June 2020 to 31^{st} July 2020.
- The survey was conducted digitally, hence there was lack of physical presence from both ends.
- The responses were anonymous.
- Question number 14 from the survey conducted was found to be a little difficult to understand for a few respondents. Hence, 15 responses were either un-attempted or answered incorrectly.

XI. CONCLUSION

Tax-saving is only a smart part of a broad category called financial planning. There is more to a financial plan than what meets the eye. For a financial plan to be successful, it should have a proper investment plan that saves taxes.

Irrespective of the plan you choose, few things remain constant. They are:

- Having well-structured short-term and long-term financial goals at every stage of your lives
- Starting to save as early as you can, so that it gives you a long window to stay invested and reap good returns
- Cutting down unnecessary expenses and saving for a better future
- Putting aside at least 10 to 15% of savings every month towards financial or investment plans, to be used at a time when it is needed the most
- Talking to a professional in case of any queries or ambiguity

XII. RECOMMENDATIONS

After all this it can be stated that the fundamental corner stones of successful investing are:

- Save regularly
- Invest regularly
- Start Early
- Diversify
- Use tax shelter
- Keep a regular check on investment and modify plans as and when needed

All the documentations should be complete and need to be preserved. At time of maturity it is necessary to produce the investment documents which act as a proof. But many times, investors do not have proper documents which dishonours the claim at maturity. It is also recommended that all the disclosure documents also be preserved as it would help in case of any dispute in settlement. People need to be educated and informed about Financial Planning as well as tax saving and this provides a greater opportunity to financial product distributer like ICICI SECURITIES, TATA Mutual Fund and Reliance Money to educate people. Companies can arrange for seminars and sessions through which they can provide information to people and in return can get prospective clients from the audience. In this way both the audience and the company can also be benefited. Investment through SIP should be encouraged. A little amount regularly invested for long period can create a greater wealth. SIP helps in Rupee cost averaging, develop habit of saving and it provides convenience of investment.

Mutual funds could provide better advice to their investors through the net and through the traditional investment routes where there is an additional channel to deal with the brokers. Direct dealing with the fund could help the investor with their financial planning. If an investor is seeking help from advisor then he should collect enough information of product from different sources. It will help to take proper investment decision and choose a right advisor. It is also necessary that advisor should have enough experience. Thus, the ultimate responsibility is on the investor when it comes to taking investment decision.

Goal should be properly divided into short term, medium term and long term. Proper allocation should be done in various instruments according to the time period of goal. There are various instruments available which can site different time period needs. If investment is giving regular return or are going to get matured should be reinvested properly. Financial planning is not a onetime activity, the initiative should be taken by financial planner to put this forward to their client. Regular meetings should be conducted between the financial planner and client to review the investment portfolio. This is one area where many planners are lacking today. Follow-up, follow-up, follow-up is need of hour and it should be understood by financial service provider.

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