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Analysis of Different Investment Options Available for Tax Saving

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***Abstract:** It is important to plan the taxation for every individual. An individual should plan income tax before the March end and this would help them in reducing their income tax which needs to be paid at the end of every financial year. This study is an attempt to understand the income tax slabs and the planning which an individual carries out before paying income tax. It is important for all the individuals to understand the different instruments available for tax saving so that they could plan in advance and do not end up paying a high amount of income tax. Planning tax is a very important aspect of financial planning. Tax when planned efficiently would enable the individuals to reduce their tax liability to minimum. In the research study, we have compared different tax saving investment options under ELSS i.e. HDFC tax saver direct plan, SBI long term equity fund, TATA India tax savings fund, under Fixed Deposit we have compared both Public and Private sector banks. Under public sector banks we have taken SBI, PNB & UNION bank, whereas under private sector we have taken AXIS, HDFC & ICICI bank. At last we have compared other options such as Public Provident Fund, Post Office Scheme & National Savings Certificate. T-test has been applied.*

***Keywords:** Taxation, Financial Planning, Tax Saving Instrument, Tax Planning.*

1. INTRODUCTION

Income tax is a direct tax which is imposed on the income of individuals. The Indian Government collects income tax as per tax slabs which are defined by them and accordingly to the income, the people whose income is high pay more tax and those who do not fall in the lowest income tax slab do not need to pay income tax. Income tax Act 1961 is applied for levying income tax and this act came into force on April 1st, 1962. Government has created Central Board of Direct Taxes which looks after direct taxes administration. Income tax is applied annually on the individual income. Income tax is applied on the income earned during previous year and tax is assessed during next assessment year at rate which is applied in that particular assessment year. The rates of tax is fixed by Annual Finance Act. This tax is charges

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on total income of individuals. The individual could be HUF, Association of people, individuals, body of individual, company, firm and each person. The individuals or group of individuals which pays tax under the Income tax Act 1961 is referred to as Assessee.

INCOME TAX SLAB (in Lacs)	TAX RATES FY(21-22) (in %)
0 – 3	NIL
3 – 5	5
5 – 7.5	10
7.5 – 10	15
10 – 12.5	20
12.5 – 15	25
More than 15	30

Tax Planning

Planning of tax allow the tax payers in making best usage of tax exemptions, benefits and deductions for minimizing their liability of taxes over financial year. Tax planning is a very important aspect of financial plan. Planning of taxes is only possible when there is management of taxes. A very important part of tax planning is tax management. It is very important to take the required precautions for complying with various legal formalities for availing tax deductions and exemptions. Tax management helps in protecting an assessee against prosecution and penalty by charge of tax obligation within a stipulated period of time.

Tax planning can be referred to financial plan or situation for ensuring all the elements are working together for allowing the individuals to pay tax as lowest as possible. Planning of tax would help in minimizing the amount of tax and this is referred to as tax efficiency. Tax planning is very important and it should be a part of the financial planning of individuals.

Tax saving is considered to be an activity which is undertaken for minimizing tax liability with the help of available allowances, exemptions, exclusions, deductions etc. for reducing income.

Objective of this study

- ✓ To study about various tax saving investment options.
- ✓ To compare the rates of different tax saving investment options.
- ✓ To find out which tax saving instrument is most suitable for saving tax.

Hypothesis of this study

H_0 There is no significant difference among the return among ELSS mutual funds of Private and Public sector

H_1 There is no significant difference among the return among ELSS mutual funds of Private and Public sector.

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2. RESEARCH METHODOLOGY

Research methodology can be referred to certain specific techniques or procedures which are used for identifying, selection, processing and analyzing information related to a particular topic. In any research paper, methodology allows reader to evaluate overall reliability and validity critically.
Research design in this study is analytical. This study has thrown light on relation between assessment of level of income for paying tax and options for saving tax. As, an Assessee's investment depends upon his/her income level. Higher income level group mostly invests on multiple tax saving investment options which provides higher returns. On the other hand, low income level group moves towards those options which provide more benefits as well as higher returns in short period.

Data Collection

Secondary data has been drawn from various sources like published articles, text books, information from different search engines etc.

Tax Saving instruments

Let's take a look at the top 6 tax savings instruments which can help us to achieve the target of tax savings and at the same time provide good returns on investments.
1. Life insurance policy.
2. Public provident fund.
3. National savings certificates.
4. Mutual funds.
5. Fixed deposit.
6. National pension system.

Data analysis: comparison between rates of different tax savings investment options

1. **Equity linked savings scheme**

Options	3 mths.	6 mths.	1 yr.	3 yrs.	5 yrs.
SBI long term equity fund	2.03%	-4.43%	8.20%	47.38%	64.13%
HDFC tax saver direct plan	4.88%	-1.34%	17.06%	38.20%	52.22%
Tata India tax savings fund	0.36%	-3.11%	10.42%	48.60%	81.91%

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Based on the above table, it is found that in 3 months the highest return is given by HDFC tax saver direct plan but in 6 months we have seen that all the options are providing the negative returns, among which HDFC tax saver plan is found to be the best option. In 1year it is again found that HDFC tax saver plan is best but in further 3 & 5 years it is found that TATA India tax savings fund is providing more returns as compared to HDFC tax saver direct plan.
We can now conclude that HDFC tax saver plan is best for short term investment and TATA INDIA tax saving is best for long term investment.

2. Fixed deposit

Public sector banks	**1 yr.**	**> 1 - 2 yrs.**	**> 2 - 3 yrs.**	**>3 - 5 yrs.**	**> 5 – 10 yrs.**
Sbi	4.40%	4.90%	5.10%	5.30%	5.50%
Pnb	5.10%	5.10%	5.10%	5.25%	5.25%
Union bank	5.00%	5.10%	5.30%	5.40%	5.50%

Based on the above table, it is found that in 1year the highest return is given by PNB but in 1-2 yrs., it has been observed that PNB & Union bank are providing the same returns. In 2-3 yrs. it is found that Union bank is best but in 3- 5 years it is again found that Union bank is providing more returns. In last 5-10 yrs., it has been observed that SBI & Union bank both are providing the same returns.
It can be concluded that SBI & PNB is best for short term investment and Union bank is best for long term investment.

Private sector banks	**1 yr.**	**> 1 - 2 yrs.**	**> 2 - 3 yrs.**	**>3 - 5 yrs.**	**> 5 – 10 yrs.**
HDFC	5.10%	5.10%	5.40%	5.60%	5.75%
AXIS	5.25%	5.60%	5.60%	5.60%	5.75%

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ICICI	4.50%	5.10%	5.40%	5.60%	5.75%

Based on the above table, it is found that in 1year the highest return is given by Axis Bank but in 1- 2 years we have seen that again Axis Bank is providing the highest returns. In 2-3years it is found that again Axis Bank is best but in 3- 5 years and 5-10 years it is found that all the banks i.e., HDFC, Axis & ICICI Bank are providing same returns. We can now conclude that all the 3 private sector banks are almost providing the same returns on investment. Thus, they are beneficial for both Long & Short term investment.

3. Others

Options	Annual rates
Public Provident fund	7.1%
National Savings Certificate	6.8%
Post Office Deposit	6.7%

Based on the above table, it is found that Public Provident Fund is providing highest annual rates followed by National Savings Certificate and Post Office Deposit.

Hypothesis testing
H_0 There is no significant difference among the return among ELSS mutual funds of Private and Public sector
H_1 There is no significant difference among the return among ELSS mutual funds of Private and Public sector
For testing the above hypothesis, t test has been applied through MS Excel for finding out the difference in return among ELSS mutual funds of Private and Public sector. The Public sector AMC in this study is SBI ELSS and among the Private AMCs, the average return of HDFC and Tata ELSS has been considered. For understanding the difference in return provided, t-test has been applied for ELSS mutual funds as the fluctuation in return is based on the portfolio maintained by the fund manager for that particular fund.

t-Test: Two Sample for Means		
	Variable 1	**Variable 2**

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Mean	24.92	23.46
Known Variance	1.5	1.6
Observations	5	5
Hypothesized Mean Diff.	0	
T	1.85	
P(Z<=z) - one-tail	0.03	
t Critical - one-tail	1.64	
P(Z<=z) - two-tail	0.06	
t Critical - two-tail	1.96	

The p value (two tail) in the above table is 0.06 and it will be compared with 0.05 on the basis of 5% significance level. P value indicated that there is not much difference in return provided by ELSS mutual funds of Private and Public sector.

3. CONCLUSION

From the above study conducted, we can now conclude that if a person wants to invest for long term he/she can go for Tata India tax saving fund under Equity Linked Savings Scheme which provides 81.91% returns for the period of 10 years i.e 10.42% annual returns.
For short term investment HDFC Tax Saver Plan provides highest returns i.e. 17.06% annually followed by Tata India tax saving fund(10.42%) & Public Provident Fund(7.1%)annually.
Thus, Tata India Saving Fund is found to be the best investment option for short as well as long period. T-test has been applied.

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