



**Research Article**

**A COMPARATIVE STUDY OF VARIOUS INVESTMENT OPTION TOWARDS TAX SAVING SCHEME**

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**ABSTRACT**

Investment is the employment of funds with the objective of receiving return on it. Investment means the purchase of financial product with expectation of positive returns in the future. The investors invest from the earnings which are earned over a period of time. The study is focused on the various investment options relating to tax saving scheme. The investment in various tax related schemes are identified. The investment options in mutual funds which related to tax benefits are also identified.

**Key words:**

Tax Scheme, Mutual Funds, Investment option, Expected Returns

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**INTRODUCTION**

To understand the perception and behavior of investors and potential investors to invest in tax saving options, this study has been conducted. In addition, attitude of investors towards Reliance Money has also been considered. So, research has been carried on the title “A comparative study of various investment options towards Tax-Savings”



**Tax Saving Schemes**

Tax saving schemes is quite numerous but they are not so conspicuous or obvious to find. It may take a really trained and seasoned professional or somebody who really knows how the economy operates to find out avenues by which they can invest and make profits normally without having to spend so much on taxes.

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Sometimes it may require adopting some particular strategies to minimise tax without having to evade it entirely. Often times it is important to adopt some of these practices to save money and maximise profits especially if the profits made on a particular transaction are not big enough. In such circumstances the natural thing most people do is to try to maximise their profit by reducing taxes.

In as much as tax saving schemes is good for a business, it can be disturbing on the government or any institution that is a beneficiary of funds that accrue from such taxes. A lot of times it may seriously affect the revenue expectations of a government. This always has its multiplier effect in that the government or the benefiting institution may not be able to meet up to its responsibilities. This may even have a negative effect on the business environment such that the responsibilities the government may have been unable to provide will end up affecting the businesses that have found a way of reducing the tax they pay to the government. A lot of financial services institutions are always attracted to tax saving schemes such that they are always investing in them and even looking for other avenues to make such investments better or increase them. One of such investment instruments that are guaranteed to reduce the tax burden of an investor and their clients is tax deferred annuities. People who invest in this kind of instrument are usually exempted from tax on their investment until when the investment reaches a maturity date. When the investment or annuity plan reaches its full term, tax is normally charged and deducted on the interest only at pay

out. Thus, this reduces significantly the amount of money that would have been paid on tax.

Another kind of investment that the investing public is seriously attracted to so much as tax saving schemes is tax exempted bonds. Bonds are usually issued by government institutions to generate finances for executing capital intensive projects. The investing public is usually encouraged to invest in these bonds so that the amount of money needed can be realised. When this is done, interests are usually paid by the government on these bonds to the investors that purchased them at the expiration of these bonds. Taxes are usually not charged on bonds since they are issued by the government. Also, the tax exemption maybe an incentive by the government to encourage public participation in raising money from these bonds. The duration of a bond is usually varied depending on when the issuer intends to pay investors their money with the interests that have accrued on it.

#### ***Tax Audit-How to go about them***

Taxes are a very serious thing so asking questions about taxes is a smart thing. No matter if you have questions about income, property, federal, business or personal taxes we have the answers to most questions covered such as "tax saving schemes - what are they?". If our site doesn't have the specific answer you are looking for ask one of our professionals.

#### ***Need of the Study***

The need of the study arises because of the reason that a trainee must understand the company, its achievements and tasks, products and services and also to collect information about its competitors.

But the major focus was on making a customer profile for Madaras Stock Exchange and studies the position of Madras Stock exchange in the market as well as among its competitors. In addition, investors were to be made aware about various products and services offered by Madras Stock exchange and checking the satisfaction level of present customers

#### ***Objectives of the Study***

- To make investors aware about the tax-saving schemes available in the market.
- To create awareness about the products offered by Madras stock exchange in the Market
- To know about the investment preference or style of investors.
- To know about response of investors towards Madaras stock exchange
- To know about the awareness of Madras stock exchange as a brand and services offered

#### ***Statement of the Problem***

January to March is the time when most people seek tax-saving options. So, it's a busy time for finance companies trying to lure investors with tax-saving offers. But you had better be careful not to buy a flawed product in your desire to save tax. Here's what you need to know about these taxing issues.

Old Is Gold So, how should you plan your investments for tax savings? First, remember your tax-savings instruments have to fit into your overall financial profile and complement your

other investments. Second, be clear about what you want that investment to do for you-this partly depends on your age. Third, decide for how long you can leave that money to work for you. Once you are able to answer these three questions, the task of zeroing in on the right investment products becomes easier. Here are some pointers based on your age, and point of your life cycle.

#### **Key Tax-saving Means**

1. Life insurance premiums.
2. Contributions to EPF and VPF.
3. Public Provident Fund (PPF).
4. National Savings Certificates (NSC).
5. Unit-linked insurance plan (ULIP).
6. Repayment of principal and payment of interest on a housing loan.

#### ***Scope of the Study***

The scope of the study can include

- An advanced level study can be conducted on the same topic.
- In addition to the Reliance Money, further research can be conducted in various other sectors.
- Further, research can include all the dimensions that are relevant to trading.
- The research can be extended to other levels in an organization.
- Suggestions which are presented here may help the company to achieve new heights in the years to come.
- the products offered by Madras stock exchange in the Market
- To know about the investment preference or style of investors.
- To know about response of investors towards Madaras stock exchange
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#### ***Limitations of the Study***

Although full efforts have been made in the study but the following limitations should be kept in the mind before making any conclusion:

- Sample size was small in comparison of entire population (100)
- The respondents may be biased or influenced by outside factors.
- The time constraint was one of the major problems.
- The respondents were limited and cannot be treated as the whole population.
- The accuracy of indications given by the respondents may not be considered adequate.
- The research has been conducted according to present market conditions of recession, so the finding and inferences may not hold good for every business cycle.

## **RESEARCH METHODOLOGY**

According to the Advanced Learner's Dictionary of Current English, "Research methodology is a careful investigation or inquiry especially through search for new facts in any branch of knowledge".

According to Fred. N. Kerlinger, “Research is a systematic, controlled, empirical and critical investigation of hypothetical propositions about the presumed relation among natural phenomena”.

**Research Design:** “A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data.

The research design used for the project is Descriptive research design. It is also called as “Ex post Facto Research”. It includes surveys and fact finding enquiry of different kind. The major purpose is description of the state of affairs that exist.

**Population:** “Population is the aggregate of all the units with specific characteristics on which the samples are drawn.” All the items in any field of enquiry constitute a universe or population.

The population taken into consideration for the study of trading behavior of investors. The population is from various areas of Chennai like Parrings, Nungambakkam, Mount Road, etc.

**Sample Design:** “A sample design is a definite plan for obtaining a sample from a given population.” The type of sample design used in this study is Descriptive design.

Non-probability sampling is the sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. Non-probability sampling is the ‘non-random’ sampling.

**Sampling Technique:** Sampling method used in this research is simple random sampling which is also known as probability sampling. Under this sampling design every item of universe has an equal chance of inclusion in sample. It is say to a lottery method.

**Sample Size:** Sample size refers to the number of items to be selected from the universe to constitute a sample. The number of the samples selected for this study is 150.

**Contact Method**

Personal interview is used as a method of contacting people.

It is a market research technique for gathering information through face-to-face contact with individuals. Personal interviews take place in a variety of settings-in homes, in a business office. This type of research is relatively costly, because it requires a staff of interviewers, but it provides the best opportunity to obtain information through probing for clearer explanations.

**Data Collection Method**

Research Instrument used in this research was Questionnaire. A questionnaire is a formalized set of questions for eliciting information. It is one of the most common instruments used for primary data collection.

It can be administered by means of a personal interviewer as well as by the telephone, Mail. Here, the questionnaire was administered by a personal interview

**Tools of Analysis**

For the proper analysis of data, Quantitative Technique such as percentage method was used. In addition, statistical analysis by:

- Weighted Average Method
- Chi-Square Test
- One Sample Run Test

**Weighted Average Method**

The Weighted Average is obtained on dividing the weighted totals by the sum of weights. Let  $x_1, x_2... x_n$  occur with weights  $w_1, w_2...w_n$  then,

$$\text{Weighted Average} = \frac{\sum wix_i}{\sum w_i}$$

A Weighted Average with appropriate weight is generally used when the moving averages affected by extreme values.

**Chi-Square Test:** Chi-square test is a non –parametric test that establishes the independence between variables. It is measured by comparing the observed with those of expected frequencies based on the hypothesis.

It is given by,

$$\Psi^2 = \sum \frac{(O-E)^2}{E}$$

O- Observed Frequency

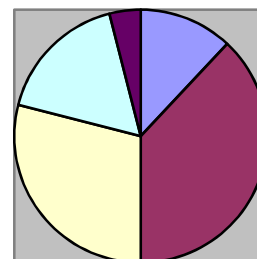
E- Expected Frequency

**One Sample Run Test**

It is a non-parametric method to determine the randomness with which the samples items have been selected. It is useful technique for testing the null hypothesis  $H_0$  that the observations have indeed been drawn at random, where run is one or more identical symbols representing the common property of the data.

**Table Showing Frequency of Investment Transaction**

Investment Frequency (No. of times in a year)	No. of Respondents
MORE THAN 150 TIMES	12
50 – 150 TIMES	38
25 – 50 TIMES	29
5 – 15 TIMES	17
LESS THAN 5 TIMES	4



■ MORE THAN 150 TIMES  
■ 50-150 TIMES

**Inference:** From the total 100 respondents 12 do transaction more than 150 times a year, 38 do from 50 to 150 times, 29 do 25 to 50 times, 17 respondents do 5 to 15 times and only 4 do transaction less than 5 times a year.

**Frequencies**

**Chi-Square Test**

Occupation of the respondents		
Observed N	Expected N	Residual

Salaried	69	16.7	52.3
Professionals	16	16.7	-7
Self employed	4	16.7	-12.7
Housewife	3	16.7	-13.7
Retired	5	16.7	-11.7
Others	3	16.7	-13.7
Total	100		

Annual Income			
	Observed N	Expected N	Residual
< 100000	3	20.0	-17.0
100001 - 300000	32	20.0	12.0
300001 - 600000	27	20.0	7.0
600001 - 1000000	21	20.0	1.0
> 1000000	17	20.0	-3.0
Total	100		

Test Statistics		
	Occupation of the respondents	Annual Income
Chi-Square	204.560 <sup>a</sup>	24.600 <sup>b</sup>
Df	5	4
Asymp. Sig.	.560	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.7.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 20.0.

### Analysis of Variance

ANOVA					
Annual Income	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	91.288	5	18.258	44.207	.000
Within Groups	38.822	94	.413		
Total	130.110	99			

### Findings

The research has brought to focus the following findings:-

- Fixed income (33.75%) and Mutual fund (33%) are the most popular investment methods. Share market investment occupied the third place with 26.25%. Even with respect to investments made already till now, 7 % use alternative options such as futures, etc. The study shows that investors prefer fixed income with a steady growth.
- 14% people take advice for investment from their friends, most people (46%) from consultants, 8% within the family, 20% through advertisements and 12% take decision by self.
- The reason for investment are to supplement cash flow (24%), to supplement future income (pension) 18%, to save for the "rainy days" or special occasions (14%), to protect the value of capital (wealth preservation) 15%, to grow capital 29%.
- When cross tabulations were drawn, irrespective of the age, the performance levels of mutual funds were perceived to be good by a majority.
- It was also inferred that salaried people and retired people mainly invest for tax benefits, on the other hand business people invest in order to earn higher returns.
- From the total 100 respondents 76 expect their income to rise well ahead of inflation, 13 expect to keep pace with inflation, only 1 expect to fall and 10 expect to fluctuate from year to year.
- It is found that 45% of respondents invest 5-10% of their savings, and 22% of them invest 11-20% of their savings.

- From the total 100 respondents 14 people wants to invest less than 25% of their asset in other than risk free deposits, 35 wants to invest 25 to 50 %, 15 wants 50to 75%, 7 wants to invest more than 75% and 28 invest according to the market condition

### Suggestions

- From our study, we found that many of those who have not invested in mutual fund perceive it to have a high degree of risk. Hence this fear must be eradicated.
- Regarding those who know about mutual fund, many perceive that mutual funds offer the best return. Diversification, Professional management are not considered to be the important factors though they are critical to the success of mutual funds. Hence this could be given a focused promotion.
- The role of advertisement in influencing the decisions was very low. People donot believe much in advertisements. Hence the strategy of advertising must be reviewed to attract and retain customer interest.
- The popularity of debt, balanced mutual funds is low. It can be enhanced by emphasizing the fact that the risk level is low.
- Company should reduce the initial amount of mutual fund schemes so, it covers lot of customers.

### CONCLUSION

Every human saves one part of his income for some future needs. For this purpose, people are interested to save their income through bank saving, post office saving, chit funds, share market, mutual funds, insurance. The study has concluded that 'Tax Benefits' are the motto of the salaried and retired people and 'Higher Returns' are the motto of the business people.

5-10% of the income is the amount invested. Many do not perceive mutual funds as a diversification of risk or consistency of returns when mutual funds provide such benefits. This needs to be given a closer look. The feeling that mutual funds have a high degree of risk associated with it should be eradicated. The popularity of mutual funds investments would be enhanced if all these factors are taken into account

As students, many of us are completely ignorant of the work cultures of various corporate organizations. SIP is an attempt to provide us a practical corporate exposure where we work in certain corporate organizations as interns. Working with Madras stock exchange is a nice opportunity by which I can explore my knowledge. A good brand is always welcomed.

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