



## A study on tax literacy level among taxpayers (A case study of Derabassi City)

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### Abstract

Tax is a very important aspect in any country. Revenue collected from taxes enables a country to provide services for its citizens and also development of its economy. Taxes have been broadly categorized into direct and indirect taxes. Direct taxes" include those taxes which are paid by the person on whom these are levied like income tax, wealth tax etc. On the other hand, „indirect taxes" are levied on one person, but paid by another e.g. sales tax, excise duty, custom duty etc. The direct tax which is paid by individual to the Central Government of India is known as Income Tax. In India Income tax is governed by the Income tax Act 1961. Income Tax is charge on total income earned by every person during the relevant previous year. The gross total income of a person is computed under five heads of income i.e. income from salary, income from house property, income from business and profession, income from capital gain and income from other sources. The objective of this study was to examine tax awareness among tax payer of Derabassi city. The study used descriptive research design. A sample of 60 individual tax payers were randomly taken from the city. The study used primary and secondary data sources. Data collected were analysed by using frequency and percentages and findings are interpreted accordingly.

**Keywords:** Taxpayer awareness, taxpayer education, tax liability

### Introduction

In India, the system of direct taxation as it is known today, has been in force in one form or another even from ancient times. There are references both in Manu Smriti and Arthashastra to a variety of tax measures. The detailed analysis given by Manu Smriti and Arthashastra on the subject clearly shows the existence of a well-planned taxation system, even in ancient times. Not only this, taxes were also levied on various classes of people like actors, dancers, singers etc. Taxes were paid in the shape of gold-coins, cattle, grains, raw-materials and also by rendering personal service.

Tax knowledge and awareness are an important aspects in a voluntary compliance with the tax system particularly in determining an accurate tax liability and understanding the tax laws.

Tax is defined as a compulsory levy imposed by a government or a government appointed body (tax authority) on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return. On the other hand, tax may be viewed as a cost to the tax payer whether as an individual or a corporate body. However, there is a conflict in taxation whereby tax payers' desire to minimize costs and maximize profit, while government's desire is to maximize revenue through enhanced tax compliance. To strike a balance between the taxpayer and the tax collector, the latter need to come up with strategies and methods of simplifying tax procedures and requirements. One such strategy is the use of enhanced tax payer education. The understanding and awareness of the people to obediently pay the tax are still relatively low. This is due to the non-optimal tax understanding obtained by the community. Therefore, the people need to be given the understanding of taxes so that their awareness can be developed.

Taxpayer education can be described as a method of educating the people about the whole process of taxation and why they should pay tax. It assists taxpayers in meeting their tax obligations to the government. This means that the primary existence of taxpayer education is to encourage voluntary compliance amongst taxpayers. The main objective of tax payer education is in three folds: impart knowledge as regards tax laws and compliance; change taxpayer's attitude towards taxation and increase tax collection through voluntary compliance.

### Review of literature

Niway Ayalew Adimasu & Wondwossen Jerene Daare (2017) <sup>[2]</sup> studied that the major reason of tax noncompliance is lack of awareness by tax payers followed by lack of capacity to pay, intentional non-compliant tax payers, negligence, existence of poor and tiresome collection system, and expectation amnesty of tax penalty respectively.

Vinayak Revji Gandal (2017) <sup>[6]</sup> concluded that overall tax literacy level is 74.66%. This shows that people are aware about their personal tax planning. The level of tax awareness gets affected by gender, age, education and income level. It is also concluded that most of the assessee have basic knowledge about income tax provisions and tax planning.

Gotora Phillemon & Dr. Samuel Obino Mokaya (2018) <sup>[1]</sup> The need for taxpayer education through establishment of print media tax education programme on taxpayer compliance in Tanzania, website-based taxpayer education programme on voluntary tax compliance in Tanzania, tax stakeholder workshops; all have a significant effect on the level of voluntary tax compliance in Tanzania.

Lewis (1982) <sup>[4]</sup> studied the impact of tax knowledge of an

individual on completing tax return. He stated in his conclusion that there is insufficient knowledge about tax regulations amongst the individual tax payers.

Fallan L. Gender (1999) [3] studied Exposure to tax knowledge, and attitudes towards taxation; an experimental approach. He stated in his research that the fiscal knowledge correlates with attitudes towards taxation. He also suggested that the tax behaviour can be improved by a better understanding of tax laws. Individuals must be given better tax knowledge in order to improve tax ethics and compliance behaviour.

**Objectives of the study**

The following are the objectives of present research study:

1. To study the tax planning measures of an assessee.
2. To find out the general tax awareness of tax payers about tax.
3. To study the influence of tax awareness on voluntary tax compliance decision of tax payers.

**Research Methodology**

**Primary data**

The primary data was collected by using questionnaire technique. The questionnaire was administered on 60 respondents belonging to the Derabassi city. The sample of respondents was selected by using random sampling techniques from the population belonging to different age groups and different income and education level.

**Secondary data**

The secondary data was collected through internet, websites, research journals and published books etc.

**Data analysis & Interpretation**

**Table 1:** Demographic profile of respondents

Gender	No. of Respondents	Percentages
Male	45	75
Female	15	25
Total	60	100
Age		
17-26	5	8.33
27-36	16	26.67
37-46	19	31.67
47-56	20	33.33
Total	60	100
Education		
Illiterate	2	3.333
Primary Education	8	13.33
Secondary Education	15	25
Degree/Diploma Holders	21	35
Master's Degree Holders	11	18.33
Above Masters Degree	3	5
Total	60	100

Source: Primary data

**Interpretation**

As per Table, Out of 60 respondents 75% respondents were male and 25% respondents were female tax payers. 8.33% of the respondents belongs to 17-26 age group, Accordingly,

26.67 % of respondents were aged between 27-36, 31.67 % of respondents were aged between 37- 46; and 33.33 % was aged between 47-56.

**Table 2:** Awareness of basic exemption limit & basic concepts (assessment year, previous year, income tax, assessee, tax liability etc.)

Response	No. of Respondents	Percentages
Yes	45	75
No	15	25
Total	60	100

Source: Primary data

**Interpretation**

As per Table, Out of 60 respondents 75 % respondents were aware about basic income tax exemption limit and 25 % respondents were not aware about basic exemption limit.

**Table 3:** Awareness about income tax slab

Response	No. of Respondents	Percentages
Yes	36	60
No	24	40
total	60	100

Source: Primary data

**Interpretation**

As per Table, 60% respondents were aware about income tax slab rate belongs to them, while 40% respondents were not aware about slab rates applicable to them.

**Table 4:** Awareness about deductions under section 80 c to 80 U

Response	No. of Respondents	Percentages
Yes	48	80
No	12	20
Total	60	100

Source: Primary data

**Interpretation**

As per Table, 80% of the tax payers are aware about the deductions under section 80C to 80 U & 20 % of the tax payers are not aware.

**Table 5:** Reasons why tax payers pay taxes

Variables	No. of Respondents	Percentages
To Avoid Punishment	12	20
To get public facilities	20	33.33
It's an obligation	25	41.67
I don't know the reason	3	5
Total	60	100

Source: Primary data

**Interpretation**

As per Table, respondents were asked why they pay taxes, 33.33% of the respondents said that they pay taxes in expectation of public facilities from the government and 41.67% of tax payers responded that because it is a duty to the government, 20% of tax payers replied that they pay tax to avoid punishment, and 5% of respondents were responded that they don't know why they pay tax to the government.

**Table 6:** Reasons why tax payers are not willing to pay tax

Possible Answers	No. of Respondents	Percentages
Because of lack of awareness	21	35
Because of lack of ability to pay	7	11.67
Intentional	9	15
Negligence	10	16.66
Poor & Tiresome collection System	13	21.67
Total	60	100

Source: Primary data

**Interpretation**

As per Table, tax payers were asked to express their view about the reasons why tax payers are not willing to pay tax voluntarily. Consequently, 35% of tax payers were replied that most tax payers do not pay taxes because of lack of awareness about taxation, 21.67 % of tax payers were responded because of existence of poor and tiresome tax collection system, 16.66% of tax payers were answered because of negligence of tax payers, 15 % of tax payers were replied that because of intentional non compliance of tax payers and 11.67 % of tax payers responded that because of lack of capacity to pay by tax payers. Therefore, from the this finding, we can conclude that the main reason for tax non compliance by most tax payers is lack of awareness about taxation followed by existence of poor and tiresome collection system, negligence, intentional and lack of ability to pay respectively.

**Table 7:** Awareness of tax returns filling due date

Due Date Awareness	No. of Respondents	Percentages
I am aware	24	40
I am not aware	36	60
Total	60	100

Source: Primary data

**Interpretation**

From the above table it is evidenced that 40% of the respondents were aware of the due dates of filing tax returns, while 60% of the respondents were not aware of the due date.

**Table 8:** Under which heads of income your income becomes taxable

Heads of income	No. of Respondents	Percentages
Income from salary	20	33.33
Income from house property	9	15
income from business and profession	24	40
income from capital gain	5	8.33
Income from other sources	2	3.34
Total	60	100

Source: Primary data

**Interpretation**

From the above table it is evidenced that 40% of the respondent’s income were taxable under head income from business and profession, while 33.33% of the respondent’s income were taxable under head Income from salary,15 % of the respondent’s income were taxable under head Income from house property,8.33% of the respondent’s income were taxable under head income from capital gain & 3.34% of the

respondent’s income were taxable under head Income from other sources.

**Table 9:** How do you get the information about taxation?

Source of information	No. of Respondents	Percentages
Through tax consultant	30	50
Through friends and relatives	21	35
Through media(journals, magazines, books, televisions, Internet etc..)	9	15
Total	60	100

Source: Primary data

**Interpretation**

From the above table it is evidenced that 50% of the tax payers get the information about taxation through tax consultant & file return through tax consultant., 35% of the tax payers get the information about taxation through friends & relatives & were taking help for the purpose of investment such as Life insurance, PPF, National saving certificate, medical insurance, interest on home loan, tuition fees etc. & 15 % of the tax payers get the information about taxation through media.

**Findings & Observations**

It is observed that most of the tax payers were about basic exemption limit, basic concepts of income tax, assessment year, previous year, tax liability etc. Mostly the tax payers were aware regarding deductions under 80C to 80U & income tax slabs. Nearly 42% of the respondents said that they pay taxes because it is a duty to the government. 50% of the tax payers get the information about taxation through tax consultant & file return through tax consultant,

**Conclusion**

From the above analysis it is concluded that overall tax literacy level is gud. It can be said that most of the tax payers have basic knowledge about income tax provisions, concepts etc. Tax planning is done with the help of tax consultant as well as friends and relatives & also tax payers get knowledge about tax through media also. TRA should champion its literacy campaigns to improve the taxpayer’s ability to understand tax laws i.e. rates of tax, filing and paying dates among others. TRA should also make taxpayers feel part of the tax system and understand that they are not paying unfair share of taxes. They should work to improve peer attitude i.e. a belief that neighbors are reporting and paying tax honestly, and rewarding taxpayers for compliance by giving trophies for outstanding tax payment.

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