

## A Study on Tax Awareness in Public and Private Sector Organizations

*Meetu Agarwal\**

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### ABSTRACT

*Of late, the issue of taxation has come in the forefront after a series of amendments made in the tax regime. Taxation is one of the important aspects of financial literacy in the current scenario as it is vital for a taxpayer to know what taxes he/she is required to pay to the government every year. One of the important components of financial planning is tax management. Tax management refers to taxpayer's ability to manage personal taxation issues such as computation of tax liability, tax savings, and payment of taxes on time and timely filing of tax return. In order to handle the issues relating to tax management and managing their personal finances effectively, taxpayer must be aware as well as knowledgeable about basic concepts of personal taxation. The objective of this paper is to estimate the levels of tax awareness among male and female salaried employees and tax awareness among salaried individuals of public sector and private sector. It also explores the relationships between select demographic variables and other variables with respect to awareness of tax.*

**Keywords:** *Taxation; Tax awareness; Personal taxation; Public sector; Private sector.*

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### 1.0 Introduction

Financial literacy presents a rather young concept which originated from developed countries. The need for financial literacy is mostly based on dynamic and continuous changes in the economy where financial consumers, in order to be financially successful, are obligated to have a certain amount of financial knowledge and skills. This trend expanded from the developed countries and now days it is equally important in the developing and transition countries.

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*\*Joint Commissioner of Income Tax, Income Tax Department, Jaipur, Rajasthan, India. (E-mail: meetuag.24@gmail.com)*

One of the important components of financial planning is tax management. Tax management refers to tax payer's ability to manage personal taxation issues such as computation of tax liability, tax savings, and payment of taxes on time and timely filing of tax return. In order to handle the issues relating to tax management and manage their personal finances effectively, tax payer must be aware as well as knowledgeable about basic concepts of personal taxation. Individuals should be well educated on their tax obligations as well as on their tax entitlements, since any disturbances in the taxation system may affect the level of their disposable income, and their expenditure, saving and investment decisions. In this context tax literacy of an individual plays an important role. To be able to understand tax system and determine (i.e., calculate) your own tax obligations, one should have an adequate level of tax education i.e., tax literacy. Tax literacy may be defined as the knowledge which an individual should possess in order to manage the issues concerning personal taxation effectively.

Tax literacy is strongly connected not only to the financial situation of individuals and households but also to the issue of government finance and government spending. Problems like tax complexity; low tax morale, low tax compliance and shadow economy may all be reduced increasing the level of taxpayers' (individuals') financial literacy. According to the OECD (2013) large informal economy in most developing countries presents a key reason for engaging in taxpayers' education. Engaging and educating individuals could help them overcome tax system complexities and strengthen their feelings of responsibility and identity to the state. Also, increased revenues could impact the improvement of the quality of public goods and services. Moreover, OECD (2013) in their publication states that taxpayer education campaigns can be an efficient and effective way of building trust and increasing public engagement.

Developing and transition countries continue to face the challenge of creating a society of well-informed and willing taxpayers. This kind of state of mind, in economies where continuous inefficiencies, inequalities, corruption and lack of transparency are everyday problems, presents a challenging venture difficult to achieve. How to begin to overcome the mentioned challenges and create tax morale society using tax literacy is in the focus of this article.

### **1.1 Tax literacy and awareness**

Tax literacy is a rather new and still developing concept which is highly related to financial literacy. Financial literacy presents a very broad concept which is usually defined as basic financial knowledge and financial skills needed to make

informed financial choices. Financial literacy reflects individuals' ability to understand financial concepts, financial products and services and enables them to control their personal financial resources (Bahovec *et al.*, 2014). Worthington (2006) argues that although policy makers and researchers have attempted to define financial literacy, it can mean different things to different people. It might be a broad concept involving an understanding of economics, or alternatively a narrower concept focused mainly on basic money management. International Adult Literacy Survey (IALS) defines literacy as "The ability to understand and employ printed information in daily activities, at home, at work and in the community - to achieve one's goals, and to develop one's knowledge and potential." Similarly, UNESCO (2012) considers that "literacy is the ability to identify, understand, interpret, create, communicate and compute, using printed and written materials associated with varying contexts."

Financial literacy itself includes several different components. However, very little research, if any, has focused on what elements should in fact, be measured as components of financial literacy. It is argued that taxation should be considered as one of the important components since it has a strong potential to influence on individual's or household's financial wellbeing.

His ability to meet tax liabilities on time, prepare returns accurately and claim all available entitlements would certainly impact on a person's overall financial position. Therefore, it is argued that if taxation issues are not seriously considered as important components of financial literacy, there could be significant risks for both individual wealth and the economy. It is further argued that this lost wealth should be considered from a tax perspective and that lost wealth could also lead to lost tax revenue.

Discussions on tax literacy are not widespread and the concept is also not discussed widely nor is it generally defined or accepted. Basic literacy without any doubt presents a first prerequisite for acquisition of tax literacy. In other words, the capacity to read and to write is crucial for understand the tax laws, tax procedures, and tax burden. Teachers of tax law and legal tax are usually measuring basic tax knowledge in the sense of calculating tax liabilities on income and wealth for different taxpayers in different situations. Tax knowledge combines information about

Tax rules and tax policies with financial skills needed in calculation of economic consequences for taxpayers (Fallan, 1999). According to Waris & Murangwa (2012) tax literacy is intended to firstly, help provide information about taxes, secondly, not to support any particular type or amount of taxes, but to simply explain taxes within a domestic system as well as a regional and international system, and how it impacts on those being informed. Furthermore, tax literacy can be defined

as the ability to fill in the tax form and calculate tax liabilities independently (Bardai, 1992; Razman & Ariffin, 2000). Tax literacy may be defined as the knowledge which an individual should possess in order to manage the issues concerning personal taxation effectively (Bhushan & Medury, 2013).

According to study made by Madi *et. al.*, (2010) a person can be considered functionally literate if he/she can read, write and calculate for his/her own self. By analogy tax literacy may be defined as follows: a person is considered functionally tax literate if he/she can independently read and understand tax reports, can engage independently in various tax calculations and is aware of possible tax risks in its financial environment.

### **1.2 Importance of tax awareness**

Taxation is the most efficient way of funding public goods and services which government provides to citizens. According to the OECD (2008) there are many reasons why financial education presents a major policy concern. Financial education is particularly required due to the complexity of financial products and services, involving tax issues. Tax system itself presents a complex system, and in the context of continuous changes (as in India) it becomes even more challenging for a financial consumer to be adequately educated on it.

Of course, taxpayers who do not understand the tax laws and procedures cannot comply their tax obligations so they need education and assistance programs to help them better understand their tax obligations and entitlements. This precisely is the main function of financial literacy and financial education. Financial education is intended to increase individuals' awareness of financial issues and possible financial risks, to provide them information on various possibilities, and advise them how to overcome various financial problems (Cvrlje, 2013).

Previously mentioned main purpose of taxation is to raise revenues effectively, efficiently, and fairly to finance public goods and services (Dickinson & Hansen, 2013). However, many individuals are prone to tax evasion and act as free riders. Tax evasion is a complex phenomenon which reflects to low fear of punishment; limited enforcement; and a lack of awareness of, or confidence that, the state collects taxes in a fair and efficient manner or uses the revenue to benefit most citizens (OECD, 2013). There are many reasons why taxpayers try to avoid taxation. The problem of low tax compliance and tax evasion are usually connected with the complexities of tax systems, where taxpayers are inadequately informed (educated) about their tax obligations but also with taxpayers' low tax morale or dissatisfaction with the tax rates or quality of provided public goods and services. On account of higher tax rates and

their inability to understand tax issues, significant number of people does not file in their tax returns or use paid preparers which very often are not educated professionals. As a result of that, government has to suffer in terms of poor collection of tax revenues while many individuals end up in paying too much tax. Recent studies have shown that people who receive good quality public services are more willing to pay their taxes (OECD/CEPAL, 2011). On the contrary, low tax morale weakens citizens' commitment in the projects of common social interest. In addition, many individuals with low levels of tax morale are engaged in informal economy and act as free riders. Although tax literacy does not directly depend on the sophistication of the tax system, it does play a significant role since low tax morale and poor tax compliance are usually linked to poorly managed governance. Therefore, here lies the link between tax literacy and tax morale. Kidder & McEwen (1989) in their paper postulated that tax compliance is a luxury because it requires "skill and resources that relatively few people have." Also, it is important to mention that tax literacy is especially emphasized in transition countries where the level of confidence in the state and government is rather low and governments are perceived as incapable of carrying out the mandate society has granted to them (Waris & Murangwa, 2012).

Nevertheless, tax ignorance and illiteracy are dangerous not only for the economy but also for individuals and their personal budgets. In other words, if taxation issues are not regarded with special attention, there might occur certain financial problems which represent significant risks for endangering household financial stability (for ex. it can cause taxpayers to pay too much tax by preventing them from taking advantage of tax benefits to which they are entitled). In order to ensure household financial stability, it is very important to make sure that taxpayers have an adequate level of tax literacy. Tax management plays a very important role in personal financial planning. An individual should have thorough knowledge of various aspects of taxes and tax policies, which should help him to better understand how much he can save even after paying taxes. The ability to meet tax liabilities on time, prepare returns accurately and claim all the possible entitlements for sure impacts one's overall financial situation (Brackin, 2007). The findings of the financial literacy researches are suggesting that a financially capable person is more likely to take an active and responsible role in their financial life. Therefore, a more tax literate person should be more likely to take an active and responsible role in the taxation arena (Brackin, 2007). On the other hand, people who have not received any formal type of education on taxation found it very difficult to understand and comprehend the issues related to determination of tax liability, tax filling and tax saving (Bhushan & Medury, 2013).

Different types of taxes have different influences on financial situation of the

individual and just knowing their general characteristics very often is not enough. Besides just knowing and understanding types of taxes and their characteristics, individuals and households should also be aware of the tax risk. Tax risk presents one of the important risks which should be considered in the process of personal financial planning. Tax risk is the type of macroeconomic risks which is not only under the influence of taxpayers' personal choices but also under the influence of external forces, mostly government. Possible changes in the tax laws may significantly affect the attractiveness of certain financial investments as well as individuals' own financial situation, since in the case of increased tax rates, they will have lower amount of disposable income and thus will have to adjust their future financial decisions. Crucial thing would be to continuously follow the occurring changes in the tax system, try to predict them and implement them promptly in personal financial plans.

Evidently, improving individuals' tax literacy could bring double dividend to the society, by improving financial situation of both, individuals and overall society and government.

### **1.3 Current state of affairs in India**

It is commonly believed that Indian taxation system is difficult to understand. Taxpayers find it difficult to understand and comprehend the issues related to determination of tax liability, tax filling and tax saving as most of them do not undergo any formal course on taxation. Earlier studies suggest that people assume that tax rates are very high in our country. On account of higher tax rates and their inability to understand tax issues, most of the people do not file in their tax returns. As a result of this government has to suffer in terms of poor collection of tax revenue. A government needs taxes because, in the long run, taxation is the most efficient way of funding the goods and services which people want the government to provide. Tax ignorance is harmful for individuals as well as for the nation. It can cause taxpayers to pay too much tax by preventing them from taking advantage of tax benefits to which they are entitled. In India the main body, which is responsible for the collection of taxes, is the Central Board of Direct Taxes (CBDT). It is a part of the Department of Revenue under the Ministry of Finance of the Indian government.

According to Indian Income Tax Act 1961, income of an individual can be classified into following five heads of Income: Income from salary, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources. Any individual can have income under one head, under two or more than two heads or under all the heads. Sum total of income under all the heads is known as Gross Total Income. Deductions U/S 80 of Income Tax Act is allowed from

Gross Total Income and residual amount is known as Total Income. Tax is levied on Total Income at scheduled rates prescribed for the particular assessment year.

An attempt has been made through this study to determine basic tax literacy level of salaried individuals based on various demographic and socio-economic factors. Assessing the level of tax knowledge amongst salaried individuals will help us to know the actual level of tax knowledge possessed by them. We will also be able to determine the factors which significantly affect the level of tax literacy. Findings of the study can be utilized by the government so as to identify those groups of tax payers which possess the lowest level of tax literacy and accordingly framing policies to educate them on issues relating to personal taxation. Furthermore, efforts could be made to educate more and more people and develop a strategic communication strategy for tax payers.

## **2.0 Review of Literature**

In the era of the Self-Assessment Tax, tax awareness among taxpayers plays an important role on tax compliance. Therefore, the level of tax education and tax knowledge is significant to ensure that the tax administration to be going well. As a result, taxpayers will able to assess their tax liability correctly and to file tax return forms on time. Generally, taxes are the main source of the country's development. Thus, the problem of tax arrears, tax assessment and other related tax administration will give a big problem for the government in general and Income Tax Department, especially, if the matters related to taxation are not handled properly.

To be tax compliant, taxpayers need to be tax literate. At minimum, individual taxpayers need to possess some basic knowledge of personal taxation, with respect to the taxability of income, deductibility of expenses, entitlements, relief, rebates and exemptions (Choong *et. al.*, 2011).

The literature regarding tax literacy is relatively poor. Researches which explore the tax literacy are relatively scarce. The literature part deliberates on the discussion the level of tax awareness influences by tax knowledge and tax education, followed by a review of the theoretical framework surrounding tax literacy and knowledge.

According to Professor Dr. Sommerfeld, he concerned that taxation has become an education's orphan (Sommerfeld, 1966). He added that taxation should be taught rather than just practiced and learned. He further suggested higher institution can offer unique perspective on tax subject to all students.

Barjoyai (1992) & Ho (1992) suggested the implementation of tax education

into the academic curriculum regardless of the students' academic disciplines. The importance of taxes education is a universal knowledge in order to help each citizen with potential liability of paying tax one day. Thus, all future taxpayers need to be equipped with sufficient tax knowledge at schools or tertiary in order to make them more tax literate.

Tax education enables to well understand the tax system. Eriksen & Fallan (1996) believed that with reasonable understanding of the tax laws, people are willing to respect the tax system; consequently, they are more compliant to pay tax instead of evading it. Furthermore, individuals become educated, which is knowledgeable in the aspect of tax planning, tax law and the likes. At the same time, tax knowledge improved individual's awareness and ethics toward reduce their tendencies of tax noncompliance.

It proved the study by Jeyapalan *et. al.*, (2003) among Malaysian undergraduates; they found that tax education influenced the attitudes and mind sets of Malaysian students (the future taxpayers) towards tax avoidance and tax evasions.

Studied by Nero & Amrizah (2005) about the level of tax knowledge among working salaried adults in particular East Malaysia found that survey respondent had average knowledge of personal taxation. Meanwhile, Loo & Ho (2005) also studied working salaried individual in Malacca found that respondents did not possess sufficient tax knowledge pertaining to personal taxation even though they had tertiary education. Surprisingly, they were not fully aware of personal tax reliefs, rebates, entitlements and exemptions. The impact is that majority of Malaysian salaried might have filed incorrect tax returns.

In order to increase level of tax compliance, Richardson, 2006: Kirchler *et al.*, 2008, believed that tax knowledge plays the important role. Hence, people should be equipped with the tax education so that everyone has a sufficient knowledge towards competent taxpayers. Park & Hyun (2003), suggested that tax education is one of then effective tools to induce taxpayers to comply more. On the other hand, if the taxpayers well understand basic concept of taxation, they are willing to comply (Mohamad *et. al.*, 2010).

Riezman & Slemrod (1987) investigated the role of the tax collection costs on fiscal decisions. They found that a low literacy imposes countries to rely more on import and export taxes; while on the other hand, an increase in literacy is linked to a decline in the percentage of revenue accounted for by the trade taxes. Ghura (1998) investigated the effect of literacy rate on the tax revenues and concluded that there is a positive relationship between them. Author stressed out that when the corruption is included in the same regression, the magnitude and statistical significance of their



impact decreases. Book (2003) suggests that low literacy, with different taxes and languages, is used by the deviant taxpayers to hide their tax evasion. By consequence, an increase of literacy tends to eliminate this kind of evasion. Furthermore, Kenny & Winer (2006) in their research explored about 100 democratic and nondemocratic countries for three distinct periods of time (1975-1980, 1981-1985, 1986-1992) and used the average years of educational attainment in the adult population as a measure for literacy. Their results are very similar to those of Riezman & Slemrod (1987). According to their study, the rise of the educational attainment is accompanied by a higher importance of taxes that require widespread literacy (i.e. individual income taxes, and domestic goods and sales taxes). At the same time, there are taxes that have less demanding literacy requirements, such as payroll and trade taxes. Using a modified version of the models employed by Ghura (1998), Mahdavi (2008) in his study found that a higher level of basic education is one of the key factors that affects positively the sales and excise taxes. Therefore, he concluded that improving the literacy rate should lead to the increase in the level of taxation. Kirchler *et. al.*, (2008) developed an explanatory framework (“slippery slope”) to emphasize the necessary actions of the state in order to improve the taxpayers’ tax compliance. They suggested that developing tax educational programs would be a good direction to improve tax compliance for those taxpayers with a motivational commitment. In the case of taxpayers with motivational capitulation or resistance to the educational programs, they suggested actions that profile the state power in respect to tax compliance. Chaudhry & Munir (2010) analyzed the determinants of low tax revenues in Pakistan and concluded that an increase of literacy rate results in a decrease of collected tax revenues. The main results of the study made by Mutascu & Danuletiu (2013) also showed that a very low literacy is associated with reduced tax revenues.

Moreover, Lewis (1982) studied the impact of tax knowledge and attitudes of an individual on completing the tax returns. His aim was to study the impact of increase in tax knowledge on tax compliance behavior. He found that there is insufficient knowledge about tax regulations amongst the population which negatively effects tax compliance behaviour. Eriksen & Fallan (1999) in their study found that fiscal knowledge is significantly correlated with attitudes towards taxation. They suggested that tax behaviour could be improved by a better understanding of tax laws. In their opinion, taxpayers must be given better tax knowledge in order to improve their tax ethics and compliance behaviour.

Singh (2003) in his research concluded that general tax knowledge of an individual is correlated with taxpayers' ability to understand the rules and regulations of taxation, and their ability to comply with them. Christie & Holzner (2006) in their

study found a positive relationship between chosen measure of tax complexity and tax compliance for personal income tax. Moreover, Marti *et. al.*, (2010) showed that misunderstanding of the fiscal law (such as tax rates, tax base and paying dates) is one of most important factors that affect tax compliance in Kenya. Their results showed that an improvement in the tax collection was caused mainly by an increase of the taxpayers' ability to understand the tax laws.

Gender differences in tax knowledge and attitude towards taxation were studied by Fallan (1999). The findings of this study indicate that male students have a significantly stricter attitude towards their own tax evasion and female students have a significantly stricter attitude towards other people's tax evasion.

Loo & Ho (2005) examined competency of salaried individuals of Malaysia towards self-assessment system and found that tax knowledge of respondents is low thus making them incompetent under self-assessment regime. Nero *et. al.*, (2005) studied tax literacy level among employees of Sabah and Sarawak's states of Malaysia. It was found that the tax literacy level in the two states is not quite satisfactory. Mottiakavandar *et. al.*, (2003) in his study on compliance behaviour of salaried taxpayers in Malaysia found the evidence that Malaysian tax payers perceive fairness of the income tax system in several dimensions. Also, tax knowledge and tax compliance were shown to affect – fairness perceptions. Furthermore, research done by Bhushan & Medury (2013) showed that salaried individuals in India have low level of tax literacy and are not well versed with the basic concepts of personal taxation which at the end caused them difficulties in computing their tax liabilities and file their tax returns.

After reviewing the relevant literature, it becomes clear that developing tax knowledge and literacy among taxpayers is an important component of creating and maintaining a successful tax system. In other words, it can be concluded that higher tax literacy should decrease the possibility of individual or household indebtedness by decreasing their exposure to the tax risk, increase their tax morale and respectively decrease in formal economy and increase tax revenues. Also, it can be said that studies related to tax literacy and tax awareness were mainly carried out in countries other than India. The intention behind this study is to determine tax awareness among the salaried employees of both government and private sectors. In India no such kind of study which has determined tax awareness level has been undertaken. Thus, the present study bridges this gap.

### **3.0 Methodology**

For the purpose of the study a survey was conducted amongst salaried individuals (those who fall in income tax bracket) of Dell, Bangalore and BPCL, Mumbai. The population of taxable salaried individuals was obtained from both organizations. Two stage stratified sampling method would be used. In first stage, the employees are stratified as workers below the rank of managers, general managers and senior managers and then sample (not less than 10 % of the population) were randomly selected from the population of general and senior manager which is around 500 in each organization (in the mentioned offices), who were contacted through e-mail or in person to respond to a questionnaire. To ensure that the validity and reliability of the data collected be maintained the respondents were selected randomly, so as to get representative sample of the population. Accordingly, total data was collected from 104 respondents which constituted the sample for the study:

*Dell, Bangalore:* Incorporated as Dell Computer India Private Ltd. in Bangalore in 1996, Dell has been among the fastest growing technology companies in India with sales and marketing, customer contact centers, research and development (R&D), IT, manufacturing and services offices in Bangalore, Hyderabad, Chandigarh, Delhi, Pune, Coimbatore, Noida and Chennai.

*BPCL, Mumbai:* Bharat Petroleum Corporation Limited (BPCL) is an Indian state-controlled oil and gas company headquartered in Mumbai, Maharashtra. The Corporation operates two large refineries of the country located at Mumbai and Kochi. More than 14000 employees work in Mumbai office.

Besides demographic profile, in order to check the tax awareness level, 17 questions about personal income tax, related to basic concepts of income tax, computation of tax liability, assessment rates, deductions etc., were asked from the respondents in order to assess how knowledgeable the respondents are about the concepts and issues relating to personal taxation. For each correct answer one mark was given and no marks were given for incorrect answer. The total score for each respondent was calculated which was further converted to their percentage score. The main objective of this study was to determine tax awareness level of salaried individuals of private and public organization and explore relationships between select demographic variables and other variables with the help of statistical analysis tools.

### **4.0 Qualitative Analysis**

Qualitative means a non-numerical data collection or explanation based on the attributes of the graph or source of data. Qualitative researchers aim to gather an in-

depth understanding of human behavior and the reasons that govern such behavior. The qualitative method investigates the why and how of decision making, not just what, where, when. Hence, smaller but focused samples are more often needed, rather than large samples.

Qualitative research is a method of inquiry appropriated in many different academic disciplines, traditionally in the social sciences, but also in market research and further contexts (Guba, & Lincoln, 2005).

The phrase 'qualitative research' was until the 1970s used only to refer to a discipline of anthropology or sociology. During the 1970s and 1980s qualitative research began to be used in other disciplines, and became a significant type of research in the fields of education studies, social work studies, women's studies, disability studies, information studies, management studies, nursing service studies, human service studies, psychology, communication studies, and many other fields.

*Content analysis* is also considered a scholarly methodology in the humanities by which texts are studied as to authorship, authenticity, or meaning. This latter subject includes philology, hermeneutics, and semiotics.

Neuendorf (2002), offers a six-part definition of content analysis, describing content analysis is a summarizing, quantitative analysis of messages that relies on the scientific method (including attention to objectivity, inter subjectivity, a priori design, reliability, validity, generalizability, replicability and hypothesis testing) and is not limited as to the types of variables that may be measured or the context in which the messages are created or presented.

Lasswell (1986), formulated the core questions of content analysis: "who says what, to whom, why, to what extent and with what effect? " Holsti (1969), offers a broad definition of content analysis as "any technique for making inferences by objectively and systematically identifying specified characteristics of messages."

## **5.0 Statement of Problem**

To determine tax awareness level of salaried individuals of public and private organization and explore relationships between select demographic variables and other variables.

## **6.0 Objectives of the Study**

- (i) To estimate the levels of tax awareness among male and female salaried employees.
- (ii) To determine the levels of tax awareness among salaried individuals of public sector and private sector.

(iii) To explore the relationships between select demographic variables and other variables.

## 7.0 Results and Discussion

### 7.1 Demographic profile of the respondents

Table 1 gives the summary of the demographic and socio-economic characteristics of the respondents.

**Table 1: Demographic and Socio-economic Details of the Respondents**

		Frequency	Percentage
<b>Gender</b>	Male	79	76
	Female	25	24
<b>Age (Years)</b>	20-40	59	56.7
	41-50	32	30.8
	51-60	13	12.5
<b>Education</b>	Graduation	39	37.5
	Post-Graduation	58	55.8
	PhD	7	6.7
<b>Income per annum (in rs.)</b>	200000 - 500000	15	14.4
	500001	58	55.8
	1000001	26	25
	above 2000000	5	4.8
<b>Nature of employment</b>	Public Sector	52	50
	Private sector	52	50
<b>Who files return of income</b>	Respondent	57	54.8
	Tax practioner	49	47.1

A look at demographic and socio-economic detail shows that the number of male respondents is 79 out of total 104 respondents which constitutes 72.5% of all respondents and female respondents are 25 out of total 104 respondent, hence, constituting 27.5% of the sample.

56% of the respondents i.e., 59 respondents fall in the age group of 20-40 years, 32 respondents which constitute 30.8% of the sample fall in the age group of 41-50 years and only 13 out of total 104 respondents constituting 12.5% fall in the age group of 51-60 years.

Majority of the respondents i.e., 55.08% (58 out of 104 respondents) of our sample are post graduates followed by 37.5% (39 respondents) having graduate degree and only 6.7% (7 respondents) of our sample are Ph.D. and others.

The respondent also constitutes government (public) 50% i.e., out of total 104 respondents, 52 are public sector employees and non-government i.e., private employees are also 52 in number, thus, constituting 50% of the sample.

55.08% (58 respondents) of the respondents have an annual income between Rs.5-10 lacs followed by 26 respondents i.e., 25.00% of respondents who earn between Rs. 10-20 lacs annually followed by 14.4% of respondents i.e., 15 respondents having annual income of Rs2-5 lacs and rest 4.8% of the respondents are less than 2 lacs annually.

57 respondents out of total sample of 104 respondents constituting 54.8% of the sample file their Return of Income without taking any help from the tax practioners while 49 respondents i.e., 47.1% of the sample take the help of tax practioner in filing their income tax return.

## 7.2 Awareness level of the respondents

### 7.2.1 Association between gender and tax awareness level

Table 2a shows the scores of tax awareness level of males and females. The results indicate that tax awareness of male is more than females, the mean scores of males was found to be 84.58% and that of females was found to be 69.76%. From Table 2b it can be seen that t-test value is significant at 5% significance level, hence, it can be interpreted that there is an association between gender and tax awareness level. Thus, it can be concluded that there is significant difference between males and females' respondents in term of tax awareness level.

**Table 2a: Mean and Percentage score of Tax awareness level**

Gender	No. of respondents	Mean	% Score
Male	79	14.38	84.58
Female	25	11.86	69.76

**Table 2b: Mean, Standard Deviation and t Value of Tax awareness Level**

		Mean	Std. Dev	t value	Significance
Gender	Male	14.38	4.11	1.68	.000
	Female	11.86	4.66		

### 7.2.2 Association between age and tax awareness level

Table 3 shows the mean score of tax awareness level for different age groups. It can be observed from the Table that maximum tax awareness level of 85.06% is

shown by respondents falling in age group of 41-50 years followed by 79.58% for age group of 51-60 years and minimum score of 78.88% for age group of 20-40 years. It can be observed from the data that the score differs with the age group. Middle aged respondents have more tax awareness than lower and upper age group respondents.

**Table 3: Mean and Percentage score of Tax Awareness Level**

Age Group	No. of Respondents	Mean	% Score
20 - 40Years	58	13.41	78.88
41- 50 Years	32	14.46	85.06
51 - 60 years	14	13.53	79.58

**7.2.3 Association between education and tax awareness level**

Table 4 shows that tax awareness level is correlated with the level of education. More the education level, more is the level of tax awareness. Table 4 shows that tax awareness level is highest for respondents who have Ph. D degree (89.88%) followed by those respondents who have post graduate degree (83.05%) and least for the respondents who are only graduated (80.35%). Thus, it can be concluded that tax awareness level depends on the education level.

**Table 4: Mean and Percentage score of Tax awareness level**

Education	No. of Respondents	Mean	% Score
Graduation	39	13.66	80.35
Post Graduation	57	14.12	83.05
Phd And Others	8	15.28	89.88

**7.2.4 Association between income and tax awareness level**

The results of Table 5 indicate that more the income, more will the level of tax awareness. Table 5 shows that tax awareness level is highest for respondents having income level between Rs 10-20 lacs (85.70%) per annum followed by those who earn between Rs. 5-10 lacs (81.41%) per nanoflower by those who earn between Rs. 2-5 lacs (74.111%) per annum and lowest for income group who earn below 2 Lakhs. From the table it can be seen there is an association between income and tax awareness level. Thus, it can be concluded that tax awareness level depends on the income of a person.

**Table 5: Mean and Percentage Score of Tax Awareness Level**

Income per annum	No. of Respondents	Mean	% Score
1000001 - 2000000 Lakhs	26	14.57	85.70
500001 - 1000000 Lakhs	57	13.84	81.41
200000 - 500000 Lakhs	16	12.60	74.11
below 2000000 Lakhs	5	12.00	70.58

### 7.2.5 Association between nature of employment- public and private sector employees- and tax awareness level

On the basis of nature of employment, the respondents are divided as public sector employees and private sector employees. Table 6 shows that public sector employees have higher tax awareness level as compared to private sector employees. From the Table it can be seen that t value is significant- at 5% significance level. Hence it can be concluded that nature of employment influences tax awareness level.

**Table 6: Mean, Standard Deviation and t Value of Tax Awareness Level**

		Mean	Std. Dev	t Value	Significance
<b>Nature of employment</b>	Public sector	14.59	7.24	1.65	.000
	Private Sector	12.92	2.49		

Further analysis is based on individual's "ability to fill the tax return form independently." This is a practical definition, which assumes that to be able to fill the tax return form, one need to know a minimal knowledge of taxation. Logically, one is not required to know more than is necessary to help them handle their own affairs. The definition is also practical as far as the tax administrators' is concerned. Result shows that out of 52 public sector employees, 45 respondents file their Return of Income without help of any tax practioners. 96.2 % of the public sector employees file their Income tax Return on their own while only 23.1 % private sector employees i.e., 12 out of 52 employees file their Return on their own and rest take the help of Tax Practioners for filing or Tax Practioners only file their Return of Income. Thus, in overall it shows that public sector employees are better in tax awareness than private sector employees when analyzed on this criterion (Table 7).

Result shows that public sector employees had the highest tax awareness level with overall scores at 85.82% and the private sector employees have the lower tax awareness with overall score at 76%. Hence, it can be concluded that nature of employment influences tax awareness level and the public sector employees are



significantly better in their tax awareness level than the public sector employees.

**Table 7: Average and Percentage Score of Tax Awareness Level**

Nature of Employment	Who files your Return of Income	Total	Avg. Score	Percentage score
<b>Private Sector</b>	Tax Practioner	40		
	You	12		
Private Sector Total		52	14.59	85.82%
<b>Public Sector</b>	Tax Practioner	7		
	You	45		
Public Sector Total		52	12.92	76%
Grand Total		104		

## 8.0 Conclusion

The following are the main findings of the study:

1. Overall tax awareness level of 77.17% is not high as the tax awareness questionnaire dealt with the basic knowledge of income tax and points out to the fact that salaried individuals are not well versed with the basic concepts of personal taxation. Thus, they may face difficulty in computing their tax liability and filing their tax returns.
2. Tax awareness level of males is higher than that of females and the difference is statistically significant.
3. Level of tax awareness is positively related to the age, education and income level i.e., our results indicate that tax awareness level increases with age, education and income.
4. The employees working in public sector are more tax aware as compared to those in private and the difference is statistically significant.

From the above analysis it can be concluded that overall tax awareness level of 77.17% among all respondents is not encouraging. The questions in the test were very basic and should be known to all tax payers. This shows that in our country people are still not much aware about their personal taxation related issues. The results suggest that level of tax awareness varies significantly among respondents on the basis of various demographic and socio-economic factors. Also, the level of tax awareness gets affected by gender, age, education, income and nature of employment.

Overall, it can be concluded that tax awareness level is not very good in our country and necessary measures should be taken by government to increase awareness about tax related matters amongst the population.

### **9.0 Limitations of the Study and Recommendations**

There are several limitations of the study that need to be considered in evaluating the findings. First, the survey is done on respondents living in Mumbai and Bangalore. To the extent that this group is unique, the findings may not be generalizable to the general population of taxpayers in India. Second, the usual limitations associated with self-reported questionnaire apply (i.e., response and non-response bias). The potential for response bias was mitigated by the anonymity of the respondents, promised confidentiality of responses, and direct return of the completed questionnaires to the authors. Finally, the variables (employment categories) investigated in the study are not meant to be complete or exhaustive; there may be other variables that influence tax awareness level which were not included.

The limitations highlighted above suggest possible directions for future research. For example, future research could be extended to more regional areas such as north and south India and having bigger sample of population. Future studies could also examine ways to reduce the response and non-response bias such as disguising the objective of the study or shortening the reply period. Finally, future studies could include other variables such as family background, work experience and so on in assessing tax awareness in India.

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### **Annexure : Questionnaire**

#### **Part A: Demographic**

1. Name:
2. Gender:                   A) Male                B) Female
3. Age:                       .....years
4. Education: A) Graduation                B) Post Graduation        C) PhD and other
5. Income Per Annum (In Rs.):
6. Nature of Employment:                A) Government B) Non- Government
7. Who files your Return of Income: A) You B) tax practioner

#### **Part B: Tax Awareness**

8. What is an Income Tax?
  - A. tax imposed by the Government of India on anybody who earns income in India
  - B. tax imposed by the state Government on anybody who earns income in India
  - C. None
  - D. Both
9. What is the period for which a person's income is taken into account for purpose of Income tax?
  - A. 1st April to 31st March
  - B. 1<sup>st</sup> January to 31<sup>st</sup> December
  - C. 1<sup>st</sup> may to 30<sup>th</sup> April
  - D. Any of the above
10. What are the existing income tax slabs?
  - A. Up to Rs. 2.5L; Rs. 2.5L – 5L; Rs. 5L – 10L; above 10L
  - B. Up to Rs. 2L; Rs. 2.5L – 5L; Rs. 5L – 10L; above 10L

- C. Up to Rs. 2.5L; Rs. 2.5L – 10L; Rs. 10L – 20L; above 20L
  - D. Up to Rs. 2.5L; Rs. 2.5L – 15L; Rs. 15L – 20L; above 20L
11. What are the percent of income tax payment according to slabs?
- A. 10%, 20% and 30%
  - B. 10%, 30% and 50%
  - C. 5%, 10% and 20%
  - D. Between 10% and 50%
12. If you invest in LIC, you are eligible to claim Deduction under which section of income tax act, 1961?
- A. Section 54
  - B. Section 80C
  - C. Section 80D
  - D. Section 10
13. Along with income tax, CESS and Surcharge are paid at what rate?
- A. 4 % CESS and Surcharge
  - B. 3% on Income-tax plus Surcharge.
  - C. 3.5 % on Income-tax plus Surcharge
  - D. 3 % on Total Income
14. How many times you are required to pay income tax in a year?
- A. Once in a year
  - B. Once in six months
  - C. Once in a quarter
  - D. None
15. On which income you pay your final income tax?
- A. Grand total income
  - B. Net income
  - C. Total income
  - D. All of above
16. Which is not one of the five heads of income according to Income Tax Act, 1961?
- A. Capital gains
  - B. Business and profession
  - C. House property
  - D. Interest income
17. What does TDS stands for?
- A. Total deducted salary
  - B. Tax deducted on salary
  - C. Tax distributed at source



- D. Tax division by source
- 18. What does ITR stands for?
  - A. Income transaction report
  - B. Income tax report
  - C. Income tax record
  - D. Income tax Return
- 19. Who is liable to Deduct TDS on your salary?
  - A. Employee
  - B. Government
  - C. Income tax department
  - D. Employer
- 20. What is the relevant Assessment year for financial year 2015-16?
  - A. A.Y. 2015-16
  - B. A.Y. 2014-15
  - C. A.Y. 2016-17
  - D. None
- 21. Which is the website for Income tax related work?
  - A. Incometax.com
  - B. Incometaxindia.com
  - C. Incometaxindiaefiling.gov.in
  - D. Incometax.gov.in
- 22. What PAN stands for?
  - A. Permanent account number
  - B. Personal account number
  - C. Permanent administrative number
  - D. Priority account number
- 23. What type of tax structure is followed in India?
  - A. Flat rate tax structure
  - B. Progressive rate tax structure
- 24. Who levies and collect income tax in India?
  - A. Central Government
  - B. State Government.
- 25. Which of the below doesn't come under Direct Taxes?
  - A. Corporate Tax
  - B. Wealth Tax
  - C. Income Tax
  - D. Service Tax.