



Effect of Tax Awareness and Tax Planning on Tax Compliance of Individual Tax Payers

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Abstract

Payment of income tax reduces a significant part of salaried class assesses' income. Thus, it requires proper financial planning which will help to reduce the burden of income tax. Tax planning requires awareness of income tax provisions. The purpose of this study is to examine the effect of tax awareness and tax planning on tax compliance of individual taxpayers. This study uses tax awareness, tax planning as an independent variable, while tax compliance as the dependent variable. A survey was conducted on 64 taxpayers of Bilaspur city of Chhattisgarh State. It covers different level of employees both men and women at private sector and public sector using convenience sampling method. Data was collected through questionnaire and the reliability and validity of collected data was checked using Reliability and Validity test using SPSS software. Spearman's rank order correlation was used for data analysis using SPSS software. The results of the study revealed that tax planning significantly affects tax compliance, tax awareness significantly affects tax planning but tax awareness does not affect tax compliance.

Keywords: Tax Awareness, Tax Planning, Tax Compliance, Deductions.

Introduction

Every individual tries to minimize its expenditure so that they will be left with extra money to save and invest as per their choice. A significant part of individuals earning is spent in payment of income tax. So, attempt is made to minimize the amount to be paid in the form of income tax. Most of the people tries to take maximum advantage of deductions to reduce tax. Deductions are not the only thing which helps in minimizing tax liability, apart from deductions, one can also avail the benefit of exemptions, rebate and relief as provided under the Income Tax Act 1961. Benefit of such provision can be taken if people have knowledge and awareness of the such provisions. Only after having proper awareness, they will be able to take advantage of such benefits, without which they will be deprived of the same. After having sufficient knowledge of income tax rules and provisions one can step forward to make plans which will ensure efficient tax compliance along with a reduction in the amount of tax to be paid.

Taxpayer awareness is an attempt or activity supported by encouraging oneself and a commitment to comply with one's taxes duties and rights in line with the laws. If the taxes

regulation is known, acknowledged, respected, and obeyed, taxpayer awareness is acknowledged. If the tax regulation is still poorly understood, then taxpayer awareness is still low. The poor awareness of taxpayers is said to be due to a lack of knowledge and comprehension of tax legislation. (Rahayu, Setiawan, Sudjatno, & Troena, 2017)

Tax awareness is a critical component of tax planning. Individual understanding and comprehension of modern tax laws and norms are required for effective tax planning. Tax planning does not imply not paying taxes; rather, it implies being wise about where to invest money in order to maximize benefits for the individual assessee. It is the structuring of financial transactions in such a manner that the greatest tax advantage is obtained by utilizing all beneficial provisions in the tax laws; it entitles the assessee to various exemptions, deductions, refunds, and reliefs, hence lowering his tax burden. (Mansuri & Dalvadi, 2012)

Taxpayer compliance is the process by which a taxpayer performs his or her tax obligations and returns on a set schedule. Taxpayer compliance indicates how taxpayers complete forms, accurately compute the required tax, proceed to pay and submit their reports on time. (Adam, Suleman, & Thalib, 2021)

The aim of this research is to look into the impact of tax awareness and tax planning on individual tax payers' tax compliance. This study has used tax awareness and tax planning as an independent variable and tax compliance as a dependent variable.

Objectives

The objectives of this research are mentioned as under:

1. To know the impact of tax awareness on tax compliance.
2. To examine the effect of tax planning on tax compliance.
3. To determine the impact of tax awareness on tax planning.

Literature Review

Reviewing of literature helps a researcher to get the deep knowledge of the subject matter of their research. It helps to find out the research gap and perform research. It also provides basis for setting objectives and hypothesis.

Tax Awareness: -

Taxpayer awareness can be described as the ability of taxpayers to determine and pay their tax obligations (Andreas & Enni Savitri, 2015). Tax awareness refers to an individual's understanding of the laws governing income taxes and their rules, such as exemptions, allowances, deductions from 80C to 80U, modifications to income tax rates, rebates, education cess, the penalty for non-payment, TDS, understanding the loopholes, advance payment tax, tax saving approaches, a fine and interest imposed. (Kalgutkar, 2018)

Tax Planning: -

Tax planning is the process of structuring your financial affairs in order to delay or minimize paying taxes. One may have additional funds to save and invest, or more money for

expenditure, if they use effective tax planning tactics. The goal of tax planning is to maximize the efficiency of taxes. Tax planning is a method of organizing your financial affairs in such a way that you take maximum benefit of all exemptions, deductions, rebates, and reliefs provided by law in order to lower your tax burden. (Khader, 2017)

Tax Compliance: -

In its most basic form, tax compliance is characterized as the extent to which taxpayers obey with tax legislation. Tax compliance is a complicated subject with far-reaching impacts. There are two main ways used to urge taxpayers to comply with the taxes system: economic and behavioural. The economic method, which is normally limited to sanctions, may be required to compel compliance from taxpayers who would otherwise not comply with their civic obligations. Furthermore, such severity can undermine normally responsible persons' willingness to comply with what may be viewed as an unjust system. There is a definite need to find the proper balance between encouraging voluntary compliance and discouraging willful noncompliance. (James & Alley, 2010)

Previous studies helpful for this study and beneficial for adding references as the foundation for developing the hypothesis is provided as follows:

(Sulistiyawati, Lestari, & Sabilla, 2022) conducted research to investigate the presence of the impact of tax comprehension on individual taxpayer compliance, taxpayer awareness on individual taxpayer compliance, tax socialization on individual taxpayer compliance, and the effect of taxing authorities on individual taxpayer compliance. According to the findings of this research it was found that taxpayer understanding has no influence on taxpayers, taxpayer awareness has a favourable impact on taxpayer comments, tax socialization has no effect on tax recommendations, and Fiskus assistance have no impact on taxpayer comments.

(Adam, Suleman, & Thalib, 2021) aims to look into the impact of knowledge and awareness on taxpayer compliance, as well as to determine if tax socialization can regulate the connection between awareness and taxpayer compliance. According to the research's outcomes, tax knowledge and awareness have an impact on taxpayer compliance. Tax socialization, on the other hand, was unable to modulate the link between awareness and taxpayer compliance.

The objective of the research is to investigate and collect empirical evidence on the influence of tax socialization on individual taxpayer compliance, with taxation understanding serving as an intervening variable. The results of the investigation revealed that taxation socialization had a positive and substantial influence on taxation understanding, and taxation socialization had a positive and significant impact on individual taxpayer compliance with taxation knowledge as an intervening variable. (Negara & Supadmi, 2020)

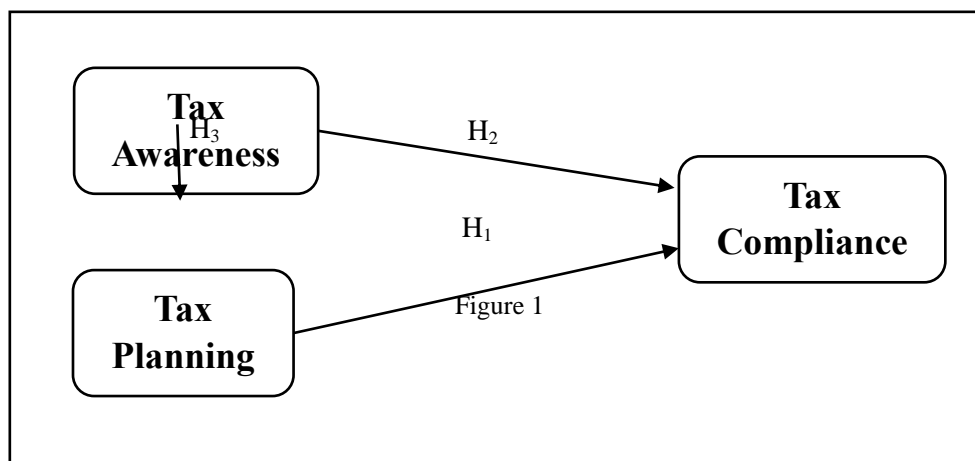
Research Gap

After going through literatures it was found that, the number researches done on tax awareness and tax planning is few in India, especially in Bilaspur city of Chhattisgarh. Thus,

there is scope to perform research on the “Effect of Tax Awareness and Tax Planning on Tax Compliance of Individual Tax Payers”.

Conceptual Framework

A research framework that explains the association connecting research variables can be constructed based on the earlier-mentioned study review. This relationship between the variables of the study is shown in Figure 1.



Based on the Conceptual framework shown in figure 1, following research hypothesis is constructed:

Hypothesis

H₁: There is no significant relationship between Tax Planning and Tax Compliance.

H₂: There is no significant relationship between Tax Awareness and Tax Compliance

H₃: There is no significant relationship between Tax Awareness and Tax Planning.

Variables and its indicator

Variables	Indicators
Tax Awareness (Individual Variable)	<ol style="list-style-type: none"> 1. Awareness of old and new tax slab 2. Due date of filing ITR 3. Penalty and interest 4. Advance payment of tax 5. Deductions, exemptions, rebate, relief 6. Tax-saving investment schemes
Tax Planning (Independent Variable)	<ol style="list-style-type: none"> 1. Planning for selecting new or old tax regime. 2. Preparing rough estimate for income tax to be paid. 3. Keeping money aside for tax payment.

Tax Compliance (Dependent Variable)	<ol style="list-style-type: none"> 1. Claim of Deduction, exemption, rebate, relief on time. 2. Timely filing of ITR. 3. Timely payment of income tax and interest before due date. 4. ITR usually get approved by Income Tax Department.
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Table 1

Research Methodology

This is an explanatory research study. It is research that looks for a cause-and-effect relationship between two distinct events and explains the patterns of relationships between variables. The sample was made up of taxpayers in Bilaspur city of Chhattisgarh State. The sample in this study are 64 taxpayers using convenience sampling technique. The validity and reliability of data collected is tested using validity and reliability test. Data analysis is done using Spearman's rank order correlation in SPSS.

Data Analysis and Interpretation

The acquired data was subjected to reliability and validity tests to ensure its consistency and validity. SPSS software was used to analyze data using Spearman's rank order correlation.

1. Reliability Test

List of constructs and their reliability			
Construct	Full description of the Constructs	Items	Reliability Statistics (Cronbach's Alpha)
TA	Tax Awareness	9	0.864
TP	Tax Planning	4	0.807
TC	Tax Compliance	8	0.829

Table 2

Interpretation

The dependability or consistency with which a test assesses a trait is referred to as its reliability. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. The closer the coefficient is to 1.0, the greater the internal consistency of the items (variables) in

the scale. The results of reliability show that Cronbach's alpha coefficient ranges between 0.80 - 0.89. Reliability test results in Table 2 show that the value of Cronbach's alpha > 0.80 for all constructs that were used. Thus, it is concluded that the instruments used in this study are reliable.

2. Validity test

The validity test determines whether or not the questionnaire to be used to measure study variables is valid. A validity test is applied for each variable namely tax awareness, tax planning and tax compliance.

2.1 Tax Awareness

Correlations											
		TA1	TA2	TA3	TA4	TA5	TA6	TA7	TA8	TA9	TOTAL
TA1	Pearson Correlation	1	.506**	.253*	0.194	.363**	0.209	.253*	0.212	0.229	.517**
	Sig. (2-tailed)		0.000	0.044	0.124	0.003	0.097	0.044	0.093	0.068	0.000
	N	64	64	64	64	64	64	64	64	64	64
TA2	Pearson Correlation	.506**	1	.556**	.331**	.469**	.336**	.407**	.303*	.340**	.687**
	Sig. (2-tailed)	0.000		0.000	0.008	0.000	0.007	0.001	0.015	0.006	0.000
	N	64	64	64	64	64	64	64	64	64	64
TA3	Pearson Correlation	.253*	.556**	1	.247*	.408**	0.085	.406**	0.222	.268*	.574**
	Sig. (2-tailed)	0.044	0.000		0.049	0.001	0.505	0.001	0.078	0.032	0.000
	N	64	64	64	64	64	64	64	64	64	64
TA4	Pearson Correlation	0.194	.331**	.247*	1	.625**	0.088	.558**	.966**	.933**	.828**
	Sig. (2-tailed)	0.124	0.008	0.049		0.000	0.489	0.000	0.000	0.000	0.000
	N	64	64	64	64	64	64	64	64	64	64
TA5	Pearson Correlation	.363**	.469**	.408**	.625**	1	.336**	.731**	.607**	.591**	.817**
	Sig. (2-tailed)	0.003	0.000	0.001	0.000		0.007	0.000	0.000	0.000	0.000

	N	64	64	64	64	64	64	64	64	64	64
TA6	Pearson Correlation	0.209	.336**	0.085	0.088	.336**	1	.350**	0.091	0.094	.310*
	Sig. (2-tailed)	0.097	0.007	0.505	0.489	0.007		0.005	0.474	0.458	0.013
	N	64	64	64	64	64	64	64	64	64	64
TA7	Pearson Correlation	.253*	.407**	.406**	.558**	.731**	.350**	1	.542**	.528**	.751**
	Sig. (2-tailed)	0.044	0.001	0.001	0.000	0.000	0.005		0.000	0.000	0.000
	N	64	64	64	64	64	64	64	64	64	64
TA8	Pearson Correlation	0.212	.303*	0.222	.966**	.607**	0.091	.542**	1	.966**	.822**
	Sig. (2-tailed)	0.093	0.015	0.078	0.000	0.000	0.474	0.000		0.000	0.000
	N	64	64	64	64	64	64	64	64	64	64
TA9	Pearson Correlation	0.229	.340**	.268*	.933**	.591**	0.094	.528**	.966**	1	.830**
	Sig. (2-tailed)	0.068	0.006	0.032	0.000	0.000	0.458	0.000	0.000		0.000
	N	64	64	64	64	64	64	64	64	64	64
TOTAL	Pearson Correlation	.517**	.687**	.574**	.828**	.817**	.310*	.751**	.822**	.830**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000	0.013	0.000	0.000	0.000	
	N	64	64	64	64	64	64	64	64	64	64

Table 3

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Interpretation

Table 3 shows that the sample size is (N) = 64 and Degree of freedom = N-2, 64-2 = 62, 62 DF (0.05) = 0.2461. Obtained values of TA1, TA2, TA3, TA4, TA5, TA6, TA7, TA8 and TA9 > critical value of 0.2461 and is highly significant so these are valid questions.

2.2 Tax planning

		Correlations				
		TP1	TP2	TP3	TP4	TOTAL
TP1	Pearson Correlation	1	.594**	.403**	.375**	.767**
	Sig. (2-tailed)		0.000	0.001	0.002	0.000
	N	64	64	64	64	64
TP2	Pearson Correlation	.594**	1	.418**	.405**	.779**
	Sig. (2-tailed)	0.000		0.001	0.001	0.000
	N	64	64	64	64	64
TP3	Pearson Correlation	.403**	.418**	1	.978**	.840**
	Sig. (2-tailed)	0.001	0.001		0.000	0.000
	N	64	64	64	64	64
TP4	Pearson Correlation	.375**	.405**	.978**	1	.825**
	Sig. (2-tailed)	0.002	0.001	0.000		0.000
	N	64	64	64	64	64
TOTAL	Pearson Correlation	.767**	.779**	.840**	.825**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	64	64	64	64	64

Table 4

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation

Table 4 shows that the sample size is (N) = 64 and Degree of freedom = N-2, 64-2 = 62, 62 DF (0.05) = 0.2461. Obtained value of TP1, TP2, TP3, TP4 > critical value of 0.2461 and is highly significant so these are valid questions.

2.3 Tax compliance

		Correlations								
		TC1	TC2	TC3	TC4	TC5	TC6	TC7	TC8	Total
TC1	Pearson Correlation	1	.426 ^{**}	.269 [*]	0.173	0.189	-0.080	0.233	.290 [*]	.412 ^{**}
	Sig. (2-tailed)		0.000	0.031	0.170	0.134	0.530	0.064	0.020	0.001
	N	64	64	64	64	64	64	64	64	64
TC2	Pearson Correlation	.426 ^{**}	1	.422 ^{**}	0.213	0.233	.263 [*]	.431 ^{**}	.389 ^{**}	.631 ^{**}
	Sig. (2-tailed)	0.000		0.001	0.091	0.064	0.036	0.000	0.001	0.000
	N	64	64	64	64	64	64	64	64	64
TC3	Pearson Correlation	.269 [*]	.422 ^{**}	1	0.241	.263 [*]	.380 ^{**}	.922 ^{**}	.842 ^{**}	.882 ^{**}
	Sig. (2-tailed)	0.031	0.001		0.055	0.036	0.002	0.000	0.000	0.000
	N	64	64	64	64	64	64	64	64	64
TC4	Pearson Correlation	0.173	0.213	0.241	1	.917 ^{**}	.376 ^{**}	0.187	0.205	.514 ^{**}
	Sig. (2-tailed)	0.170	0.091	0.055		0.000	0.002	0.139	0.105	0.000
	N	64	64	64	64	64	64	64	64	64
TC5	Pearson Correlation	0.189	0.233	.263 [*]	.917 ^{**}	1	.344 ^{**}	0.204	0.223	.526 ^{**}
	Sig. (2-tailed)	0.134	0.064	0.036	0.000		0.005	0.106	0.076	0.000
	N	64	64	64	64	64	64	64	64	64
TC6	Pearson Correlation	-0.080	.263 [*]	.380 ^{**}	.376 ^{**}	.344 ^{**}	1	.401 ^{**}	.296 [*]	.553 ^{**}
	Sig. (2-tailed)	0.530	0.036	0.002	0.002	0.005		0.001	0.018	0.000
	N	64	64	64	64	64	64	64	64	64
TC7	Pearson Correlation	0.233	.431 ^{**}	.922 ^{**}	0.187	0.204	.401 ^{**}	1	.863 ^{**}	.875 ^{**}
	Sig. (2-tailed)	0.064	0.000	0.000	0.139	0.106	0.001		0.000	0.000
	N	64	64	64	64	64	64	64	64	64
TC8	Pearson Correlation	.290 [*]	.389 ^{**}	.842 ^{**}	0.205	0.223	.296 [*]	.863 ^{**}	1	.845 ^{**}
	Sig. (2-tailed)	0.020	0.001	0.000	0.105	0.076	0.018	0.000		0.000

	N	64	64	64	64	64	64	64	64	64
Total	Pearson Correlation	.412**	.631**	.882**	.514**	.526**	.553**	.875**	.845**	1
	Sig. (2-tailed)	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
	N	64	64	64	64	64	64	64	64	64

Table 5

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Interpretation

Table 5 shows that the sample size is (N) = 64 and Degree of freedom = N-2, 64-2 = 62, 62 DF (0.05) = 0.2461. Obtained value of TC1, TC2, TC3, TC4, TC5, TC6, TC7, TC8 > critical value of 0.2461 and is highly significant so these are valid questions.

3. Testing of Hypothesis

H₁: There is no significant relationship between Tax Planning and Tax Compliance.

Correlations			TC	TP
Spearman's rho	TC	Correlation Coefficient	1.000	.324**
		Sig. (2-tailed)	.	.009
	N		64	64
	TP	Correlation Coefficient	.324**	1.000
Sig. (2-tailed)		.009	.	
N		64	64	

** . Correlation is significant at the 0.01 level (2-tailed).

Table 6

Interpretation

The output of table 6 shows that Spearman's rank order correlation is significant rho (64) = 0.324, and p-value (0.009) is greater than 0.05, [p < 0.05], So, we can interpret that tax planning significantly affects tax compliance.

H₂: There is no significant relationship between Tax Awareness and Tax Compliance

Correlations			TA	TC
Spearman's rho	TA	Correlation Coefficient	1.000	.022
		Sig. (2-tailed)	.	.862
		N	64	64
	TC	Correlation Coefficient	.022	1.000
		Sig. (2-tailed)	.862	.
		N	64	64

Table 7

Interpretation

The output of table 7 shows that Spearman's rank order correlation is significant rho (64) = .022, p-value (.862) is greater than 0.05, [$p > 0.05$], So, we can interpret that tax awareness does not affect tax compliance.

H₃: There is no significant relationship between Tax Awareness and Tax Planning.

Correlations			TA	TP
Spearman's rho	TA	Correlation Coefficient	1.000	.326**
		Sig. (2-tailed)	.	.009
		N	64	64
	TP	Correlation Coefficient	.326**	1.000
		Sig. (2-tailed)	.009	.
		N	64	64

** . Correlation is significant at the 0.01 level (2-tailed).

Table 8

Interpretation

The output of table 8 shows that Spearman's rank order correlation is significant rho (64) = 0.326, p-value (.009) is lesser than 0.05, [$p > 0.05$], So, we can interpret that tax awareness affects tax planning.

Results and Findings

1. The results of the reliability test show that the value of Cronbach's alpha > 0.80 for all constructs that were used. Thus, it is concluded that the instruments used in this study are reliable.

2. Obtained values of all three variable's constructs were greater than the critical value of 0.2461 and thus, it is concluded that the questions used for data collection were valid.
 3. Spearman's Rank order Correlation test found that tax planning significantly affects tax compliance, tax awareness significantly affects tax planning but tax awareness does not affect tax compliance.
- The output of table 6 shows that Spearman's rank order correlation is significant $\rho(64) = 0.324$, and p-value (0.009) is greater than 0.05, [$p < 0.05$], So, we can interpret that tax planning significantly affects tax compliance.
 - The output of table 7 shows that Spearman's rank order correlation is significant $\rho(64) = .022$, p-value (.862) is greater than 0.05, [$p > 0.05$], So, we can interpret that tax awareness does not affect tax compliance.
 - The output of table 8 shows that Spearman's rank order correlation is significant $\rho(64) = 0.326$, p-value (.009) is lesser than 0.05, [$p > 0.05$], So, we can interpret that tax awareness affects tax planning.

Conclusion

After going through various literature, it was found that there are numerous variables that affect tax compliance. In the present research, the influence of tax awareness and tax planning on tax compliance is addressed. Hypothesis tests have been conducted for determining the relevance of tax awareness and tax planning on tax compliance. When the relationship was tested using Spearman's rank order correlation, it was discovered tax planning significantly affects tax compliance, tax awareness significantly affects tax planning but tax awareness does not affect tax compliance. Thus, it can be concluded that proper tax planning requires awareness of income tax rules and provisions on the part of taxpayer and proper tax compliance requires proper tax planning.

Limitations

This research is confined to taxpayers of Bilaspur city of Chhattisgarh State. This study only examined the effects of Tax Awareness and Tax Planning on Tax Compliance. In this study, the independent variables are merely two: tax awareness and tax planning. While there are numerous factors that can influence taxpayer compliance, that is the dependent variable.

Suggestions

- It is advised that the awareness of income tax regulations among salaried class assessee needs to be improved.
- The salaried class assessee should be encouraged to do tax planning.

Future Scope

This study can be performed in different cities or states in India and it can also be performed for other assesseees apart from salaried class assesseees. There are many variables that affect tax compliance, which can be studied by researchers.

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