



A Study on Tax Literacy among Salaried Individuals

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Abstract

Aim. The taxpayer's knowledge has a significant impact on the degree of compliance with tax law, tax planning, and tax management. It improves tax collection by the states as Taxation is an extremely important aspect in any country being the state's primary source of revenue.

Method: This study used a convenience sampling method with size of 147. The data has been ANOVA tested to examine the current tax literacy level among salaried people and also to determine how a demographic element affects the tax knowledge of salaried people.

Results. In this study, 74% male and 26% Female respondents participated. Both have equal tax literacy. The respondents belong to different age criteria. Individuals of age 18-30 yeras are better on tax literacy as compared to the other age criterion individuals. The respondents of the age category of 60 & above years are having less tax-related literacy.

Conclusion. Tax literacy is one of the financial literacy dimensions financial knowledge. Taxpayers with higher age groups find it challenging to comprehend and understand difficulties relating tax liability, filing or saving taxes. The younger age group was found to be better literate and follow tax-related issues closely, irrespective of gender.

Keywords: Taxation, Tax Literacy, Tax Knowledge, Tax payer, Salaried Individual

Introduction

Taxation is a universal subject that every citizen who may be subject to taxation should be familiar with. However, the "universality" of taxation knowledge is very limited. The different tax systems practices in different countries of the world make knowledge very localized, the faster the development in taxation literature occurs over time, the faster previous knowledge

becomes obsolete. Because of the aforementioned constraints, ordinary citizens may find it difficult to keep up with tax laws and procedures. As a result, only those who are directly involved in tax administration or a tax-related profession would make an effort to stay up to date on these new developments in taxation all of the time. Tax authorities may find information on the extent of taxpayer knowledge useful in developing effective compliance enhancement policies. For example, if knowledge of a specific area of tax regulation is limited, compliance on the relevant items is also likely (Spicer and Lundstedt, 1976).

According to Chardon, Tax literacy should be added to the definition of financial literacy. This argument's premise is that a person's entire financial status benefits by understanding tax systems. This is predicated on the notion that taxes can affect access to government benefits given by the tax system as well as the returns on financial investments. An individual's level of knowledge of tax systems is thought to be related to their ability to budget, communicate with advisors, make decisions and appropriate choices, and understand their rights and obligations. In this sense, it was argued that a fundamental degree of tax and superannuation awareness is necessary for financial literacy. The demographic relationship between taxation and financial literacy appears to be similar.

Tax literacy can be defined as the knowledge an individual should have to effectively manage personal taxation issues. Tax literacy is one of the financial literacy dimensions that refer to having specific tax-related financial knowledge and numeracy skills that are required for managing tax calculations. Tax literacy is intended to assist individuals in receiving tax information and explaining taxes within a domestic, regional, and international system. Individuals who gain a basic understanding of taxation and public expenditures are better able to manage their personal finances.

Since most taxpayers do not enroll in any formal taxation courses, they often struggle to understand and comprehend issues related to determining tax due, filing taxes, and saving taxes. Due to rising tax rates and their inability to comprehend tax laws, the majority of people do not submit tax returns. As a result, this government must suffer from a lack of tax revenue collection. Taxation is necessary for a government because in the long run, it is the most effective method of paying for the goods and services that people anticipate the government to offer.

Need of Tax Literacy

Tax knowledge and awareness are critical components of voluntary adherence to the tax code, especially in understanding the tax regulations and estimating precise tax liability. Taxes are described as a compulsory levy placed on income, expenses, or capital assets by the government or a government-designated organization (tax authority), for which the taxpayer receives no benefit. Tax, contrasted, can be viewed as a cost paid by the taxpayer, whether they be a person or a corporation. Taxpayers aim to minimize costs and maximize profit, but the government wants to increase revenue through better tax compliance, creating tension in the tax system. Tax collectors need to come up with ideas and techniques for streamlining tax procedures and requirements in order to strike a balance between the taxpayer and the taxing authority. Increasing taxpaying public education is one such option. People continue to have a generally low level of comprehension and awareness of the significance of paying taxes on time. This is because the community has a suboptimal understanding of taxes. As a result, people must be educated about taxes in order for their awareness to grow.

Taxpayer education aims to influence taxpayer attitudes toward taxes, increase tax collection through voluntary compliance, and disseminate information about tax rules and compliance.

Literature Review

Lewis [1982] investigated the impact of an individual's tax knowledge and attitudes on the completion of tax returns. His goal was to investigate the effect of increased tax knowledge on tax compliance behaviour. He discovered that the general public lacks knowledge of tax regulations. Individual determinants, which act as the intrinsic motivation to pay taxes, have been labeled 'tax morale, and tax literacy aids in to be one such intrinsic motivational factor. (Knut Eriksen & Lars Fallan, 1996)

Eriksen and Fallan [1996] discovered that financial literacy and tax-related attitudes are correlated in their study. They contend that a better understanding of tax laws can improve tax behaviour. Better tax knowledge must be provided to taxpayers in order to enhance compliance behaviour and tax ethics.

Fallan [1999] investigated gender differences in tax knowledge and attitudes toward taxation. According to the study's findings, female students are much more stringent when it comes to their own tax evasion, whereas male students are significantly more strict when it comes to the tax evasion of others.

Singh [2003] According to his research, a person's general tax knowledge affects both their capacity to grasp and comply with the tax laws as well as their ability to learn and comprehend them.

Loo and Ho [2005] When the self-assessment system was investigated, it was found that Malaysian salaried individuals lacked the necessary tax expertise, rendering them incapable of using the system.

Nero et al. [2010] investigated the level of tax literacy among Malaysian employees in the states of Sabah and Sarawak. It was found that the two states' tax literacy levels are not quite adequate.

Saad [2014] In his research on the compliance behaviour of salaried taxpayers in Malaysia, he found evidence that tax payers there assess the fairness of the income tax system in a number of different ways. Additionally, it has been demonstrated that tax compliance and knowledge affect how fairness is perceived. It is evident from a survey of the pertinent research that individuals' tax awareness is generally low across studies. As a result, it is obvious that improving taxpayers' tax literacy is essential to maintaining an effective tax system.

According to **Sanjeeb Kumar Dey and Verma (2016)**, demographic factors such as age, education, gender, and so on influence tax awareness and planning. Tax planning alternatives should be designed in such a way that they provide both good returns and tax benefits; these investments are typically preferred by salaried individuals.

Chardon (2016) An individual's level of knowledge of tax systems is thought to be related to their ability to budget, communicate with advisors, make decisions and appropriate choices, and understand their rights and obligations.

Ahmed. et. al (2016) emphasised the importance of taxation knowledge. According to the findings, professionals have the highest percentage of tax literacy among respondents, while

formers have the lowest percentage. Overall, the results show that more than 60% of respondents are tax literate.

According to **Niway et.al (2017)**, the most common reason for tax noncompliance is a lack of awareness among taxpayers, the inability to pay, willful noncompliance by taxpayers, negligence, the presence of a subpar and laborious collection mechanism, and the anticipation of tax penalty amnesty come next.

According to **Vinayak Revji Gandal (2017)**, Overall, 74.66 percent of people are tax literate. This demonstrates that individuals are conscious of the importance of personal tax planning. Gender, age, education, and income level all have an impact on tax awareness. Additionally, it is found that most of the assess are familiar with the fundamentals of income tax laws and tax strategy.

Ledid Bin Abdul Khader (2017) investigated tax awareness among college teachers and discovered that they were unaware of the new exemptions, deductions, and reliefs available to salaried taxpayers and continued to save and invest in traditional ways.

Freudenberg (2017) It was believed that financial literacy necessitates a fundamental understanding of taxation and superannuation. It appears that the demographic relationship between taxation literacy and financial literacy is similar.

According to **Wassermann and Bornman (2018)**, the concept of tax literacy can be defined to have a universal meaning and to include common elements of the concept of tax knowledge. As a result, it has opened up a new avenue for empirical research into the role it plays in influencing tax compliance behaviour. They conducted a systematic review of empirical studies published between 1996 and 2017 that investigated the role of tax knowledge (and, where applicable, "tax literacy") in influencing tax compliance. Their research looks at how tax knowledge/literacy is defined, what the components of tax knowledge/literacy are, and how tax knowledge is measured.

Objectives of the study

- (i) To examine the current level of tax literacy among salaried individuals.
- (ii) To identify the effect of demographic factors on the tax literacy of salaried individuals.

Research Methodology

A survey was conducted to ascertain the rate of tax literacy among salaried employees. The convenience sampling method is used to target the sample. Following the identification of the sample target, a set of pre-prepared questionnaires was distributed to respondents. The respondents in this sample were classified based on their age, gender, and educational qualification. A structured questionnaire was used to collect primary data from respondents. The sample for this study is made up of 147 people. To gauge respondents' tax literacy, 13 personal income tax-related questions were posed to them. In order to gauge respondents' understanding of personal taxation principles and issues, questions pertaining to fundamental income tax concepts, tax liability, assessment rates, deductions, and other topics were asked. The major objective of the study is to examine the correlation between demographic characteristics and tax literacy among salaried people. The ANOVA test was used to test the hypothesis of this study. The hypothesis was tested at a 5% level of significance. Model fit validity has been ensured as the reliability of data was found through the Cronbach alpha method, and the value is 0.73. The data considered for the study is reliable. The data has been compiled, and modeled to Anova test, to identify the Tax literacy between genders and among various age profiles (Thogaram Umasankar & R Mahajan., 2022).

Data Analysis

Data analysis is the methodical application of logical and statistical approaches to describe, demonstrate, summarize, and assess data. A descriptive research design has been used to check the construct's reliability, analyze the data, and test the hypothesis. The analysis has been carried out with help of statical software SPSS and Microsoft Excel.

Hypothesis formation and Testing

Effect of Gender: Based on Gender Theory (England, 1993), both gender men and women react differently to general beliefs and values about money. The gender perspective looks at the impact of gender on people 's opportunities, social roles, and interactions.

H₀₁: There is no significant difference between the gender and tax literacy of salaried individuals

Descriptives								
TL								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1	109	15.4862	2.06655	.19794	15.0939	15.8786	12.00	22.00
2	38	16.2105	2.34990	.38120	15.4381	16.9829	14.00	21.00
Total	147	15.6735	2.15865	.17804	15.3216	16.0253	12.00	22.00

ANOVA					
TL					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	14.781	1	14.781	3.220	.075
Within Groups	665.545	145	4.590		
Total	680.327	146			

The above Anova table shows the sig value 0.075. Hence it can be said that there is no significant difference between gender and tax literacy of salaried individuals.

Effect of Age: As the age of the individual increases, the education level also increases, the education level and understanding also increases. So, an effort has been made to find out the difference between the Age and tax knowledge of salaried peoples.

H₀₂: There is no significant difference between the age and tax literacy of salaried individual

Descriptives								
TL								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		

					Lower Bound	Upper Bound		
1	51	16.3922	2.60828	.36523	15.6586	17.1257	12.00	21.00
2	74	15.3784	1.89955	.22082	14.9383	15.8185	12.00	22.00
3	14	15.5714	1.28388	.34313	14.8301	16.3127	13.00	17.00
4	8	14.0000	.00000	.00000	14.0000	14.0000	14.00	14.00
Total	147	15.6735	2.15865	.17804	15.3216	16.0253	12.00	22.00

ANOVA						
TL						
	Sum of Squares	Df	Mean Square	F	Sig.	
Between Groups	55.336	3	18.445	4.220	.007	
Within Groups	624.991	143	4.371			
Total	680.327	146				

The above Anova table shows the sig value 0.007. Hence it can be said that there is a significant difference between the age and tax literacy of salaried individuals.

Effect of Education: The degree of schooling correlates with tax literacy. The more educated a person is, the more tax-literate they are.

H0₃: There is no significant difference between the educational qualification and tax literacy of salaried individuals

Descriptives								
TL								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1	41	15.4146	1.97453	.30837	14.7914	16.0379	12.00	20.00
2	101	15.8317	2.26305	.22518	15.3849	16.2784	12.00	22.00
3	5	14.6000	.54772	.24495	13.9199	15.2801	14.00	15.00
Total	147	15.6735	2.15865	.17804	15.3216	16.0253	12.00	22.00

ANOVA					
TL					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	11.037	2	5.518	1.187	.308
Within Groups	669.290	144	4.648		
Total	680.327	146			

The above Anova table shows the sig value 0.308. Hence it can be said that there is no significant difference between educational qualification and tax literacy of salaried individuals.

Results and Discussion

Tax literacy: -

The majority of the respondents were literate on tax assessment year, tax slab and various deductions of taxes also they were aware of tax return filling date and tax refund procedure. A major source of information regarding taxation for salaried individuals were different media verticals and friends & relatives. Respondents were not much aware of the tax penalties. Respondents were of the view that more training facilities should be given to them at the organizational level, so that they would not face difficulty while filing their tax returns.

Gender and Tax Literacy

The influence of Tax knowledge and significant changes in attitude toward Tax related issues needs different comprehension. Female do contribute significantly and have no barriers to comprehending tax-related knowledge. Female often balanced their career-related work, domestic chores, and their other responsibilities equally (Thogaram Umasankar & R Mahajan, 2022). They contributed equally to the exchequer through paying taxes and were found equally at par with men in respect of tax-related literacy. In this study, 74% were male respondents and female respondents were 26%. The mean value for males is 16.21 and for female is 16.48. From the statistical test, we can infer that both the male and female were at same par regarding the tax literacy as the significant value found after the ANOVA test was 0.075. No difference is found

between them in tax literacy. Both genders have knowledge about tax assessments and tax implications.

Age and Tax Literacy

In this study, the respondents belonging to age criterion 18-30 yrs were 35%, 31-45 yrs were 50%, 51-60 yrs were 9% and 60 & above yrs were 6%. The mean value for age 18-30 yrs is 16.39, for age 31-45 yrs is 15.37, for age 46-60 yrs is 15.57 and for age 60 & above the mean value is 14.0. From the statistical test, we can infer that there is a difference found in tax literacy among salaried individuals on age criterion as the statistical value we receive is 0.007. Individuals belonging to the age 18-30yrs are more literate on tax implication as compared to the other age criterion individuals while the respondents who belong to the age category of 60 & above years are having less knowledge about tax implications and they require more training on taxation.

Educational qualification and Tax Literacy

Respondents belongs varied educational qualification, 41% of the respondents were UG, 69% were PG and others belongs to 3%. Mean value of UG qualified respondents is 15.41; PG qualified respondents is 15.83 and the respondents of others is 14.60. From the statistical test we can infer that irrespective of any educational qualification the salaried individuals have they all are found to be equally literate on tax related aspects as the significant value found after anova test 0.308. No difference is found between them in tax literacy.

Conclusion

According to the findings of the preceding analysis, the overall level of tax literacy is satisfactory. Most taxpayers have a basic understanding of income tax rules, ideas, and so on. Planning for taxes is done using the Taxpayers can learn about taxes from the media, friends and family, a tax professional, and other sources as well. Furthermore, the findings suggest that the level of tax literacy among respondents does not vary significantly based on demographic factors like gender and educational qualification of salaried individuals and age have an impact on tax literacy. The government should take the necessary steps to raise awareness about tax literacy and its related issues.

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