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Impact of Tax Saving Instruments Under Income Tax Act 1961 On Saving Habits of Salaried Employees in Navi Mumbai

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Abstract

Statutory tax-deductible investment avenues available under the Income Tax Act, 1961 have emerged as significant components of personal financial management among salaried individuals. As awareness regarding taxation and long-term financial security has improved, employees increasingly allocate funds to instruments such as the Public Provident Fund, life insurance policies, Equity Linked Savings Schemes, the National Pension System, and tax-saving fixed deposits. The present study investigates the extent of awareness, investment preference, and perception of salaried employees toward these tax-oriented financial products and evaluates their influence on saving patterns. Primary data were collected through a structured survey capturing information related to investment awareness, decision-making factors, and the role of tax incentives in promoting systematic savings. Statistical techniques including the independent sample t-test and one-way ANOVA were applied to examine associations between demographic variables and saving behaviour. The analysis indicates that tax-linked investment options significantly encourage disciplined saving practices. Tax concessions function as a strong stimulus in shaping investment choices, while financial literacy, income bracket, perceived risk, and return expectations influence selection among alternatives. The study, confined to salaried professionals in Navi Mumbai, assesses their familiarity with available schemes and examines the perceived impact of such instruments on overall financial planning behaviour.

Keywords: *Tax-Deductible Investments, Income Tax Act 1961, Saving Behaviour, Salaried Workforce, Investment Preference, Financial Management*

Introduction

1.1 Tax-Deductible Investments and Saving Behaviour

Government-recognized tax-saving avenues constitute an important interface between fiscal policy and household financial planning. For salaried earners, these provisions serve a dual purpose: reducing taxable income and fostering structured savings. By offering deductions and exemptions on specified investments, the taxation framework indirectly encourages individuals to adopt systematic allocation of income toward future-oriented financial goals. In the current economic landscape, organized saving has become essential to address long-term commitments such as retirement, education funding, and unforeseen contingencies. A substantial portion of urban taxpayers comprises salaried professionals who rely on approved savings instruments to balance immediate tax liabilities with long-term financial objectives. Consequently, tax incentives influence not only tax outflows but also broader saving behaviour and portfolio choices.

1.2 Structure of Tax-Saving Provisions in India

The Indian taxation system incorporates multiple statutory provisions designed to promote household savings and capital formation. Specific sections of the Income Tax Act, including 80C, 80D, and 80CCD, provide deductions for investments made in designated financial products. These measures aim to channel disposable income into productive and long-term avenues while simultaneously supporting national savings. Over time, tax-linked instruments have evolved from being mere compliance tools to becoming integral components of personal financial strategies. Investors today can choose between capital-protected options and market-linked schemes, depending on income capacity, risk appetite, and future financial goals. Thus, tax concessions act as a policy mechanism that shapes both individual investment allocation and broader economic participation.

1.3 Growing Relevance of Tax-Oriented Investments

In recent years, structured tax planning has gained greater attention among salaried professionals. Rising income levels, expanding financial markets, and increased dissemination of financial information have contributed to this shift.

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Beyond minimizing tax burden, individuals increasingly view such instruments as vehicles for retirement security, wealth accumulation, and risk coverage. Public policy also encourages participation in these schemes to strengthen long-term savings within the economy. Banks, financial advisors, and investment platforms further facilitate access and awareness, leading to wider acceptance of tax-efficient investment products. As a result, these instruments now occupy a central position in personal financial decision-making.

1.4 Major Tax-Efficient Investment Options

Salaried individuals select among various approved schemes depending on personal objectives and financial capacity.

Public Provident Fund (PPF): A long-term, government-backed savings scheme offering tax deductions along with tax-exempt interest and maturity benefits. It is generally preferred by risk-averse investors seeking stable returns.

Life Insurance Policies: Insurance premiums qualify for tax deductions while simultaneously providing financial protection to dependents. Such policies combine security with savings components.

Equity Linked Savings Schemes (ELSS): These are diversified mutual fund investments eligible for tax deduction and linked to market performance. They appeal to investors willing to accept moderate market fluctuations for potentially higher returns.

National Pension System (NPS): A retirement-focused scheme that allows additional tax benefits and promotes systematic pension accumulation over the long term.

Health Insurance (Mediclaim): Premium payments qualify for deductions under relevant provisions, encouraging individuals to secure medical protection while optimizing tax planning.

Tax-Saving Fixed Deposits: Five-year deposits offered by banks provide fixed returns and deduction benefits, making them suitable for conservative investors.

The selection among these alternatives is influenced by income level, awareness, risk tolerance, and individual financial priorities. Collectively, these instruments contribute to structured savings while reducing immediate tax liability.

Review Of Literature

Existing research on tax planning and saving behaviour highlights the interaction between fiscal incentives and individual investment choices. Empirical evidence suggests that tax deductions significantly shape portfolio allocation among salaried taxpayers. Studies examining urban investment patterns indicate a pronounced preference for capital-protected avenues, particularly among middle-income earners, where stability and guaranteed returns are prioritized.

Research on taxpayer awareness reveals that although many salaried individuals utilize eligible investment options, decisions are often driven by year-end tax considerations rather than long-term planning strategies. This reactive investment behaviour is frequently associated with limited financial literacy and inadequate advisory support.

Income distribution has been identified as a determinant of investment diversification. Higher-income groups demonstrate greater inclination toward market-linked schemes, including mutual fund–based tax-saving products and pension-oriented instruments, whereas lower-income earners typically favor fixed-income and insurance-based alternatives.

Scholarly work focusing on financial knowledge underscores its role in strengthening saving discipline. Individuals with greater familiarity with taxation provisions and investment mechanisms tend to exhibit structured saving patterns and more balanced risk-return decisions. Behavioural research further indicates that tax incentives serve as a primary motivational driver, often overshadowing broader wealth accumulation objectives.

Urban-based analyses also emphasize demographic influences such as age, earning capacity, and future financial commitments in shaping investment preference. Collectively, prior studies affirm that statutory tax-saving instruments exert measurable influence on saving behaviour, though awareness levels and financial capability remain critical in determining effective tax planning outcomes.

Research Methodology

3.1 Statement of the Problem

Tax-deductible investment avenues introduced under the Income Tax Act, 1961 are intended to encourage structured savings among taxpayers. Despite the availability of multiple options, variations exist in the extent to which salaried individuals understand, prefer, and utilize these schemes. The present investigation addresses the need to evaluate how such instruments influence the saving practices of salaried professionals in Navi Mumbai. Specifically, the study explores the degree of awareness, patterns of preference, and actual usage of different tax-oriented investment alternatives, while examining their effect on regular saving behaviour and financial planning decisions.

3.2 Significance of the Study

Understanding the interaction between tax policy and individual saving behaviour is essential in assessing the effectiveness of fiscal incentives. This research contributes by examining how tax-saving provisions shape investment decisions among salaried earners. The findings offer insight into the awareness levels and investment inclinations of working professionals toward approved financial products. The study may assist financial advisors and institutions in designing better awareness initiatives and structured advisory services. Additionally, the outcomes may be useful for policymakers and researchers seeking to evaluate behavioural responses to tax incentives within an urban salaried population.

3.3 Objectives of the Study

The study is guided by the following objectives:

1. To examine the range of tax saving instruments available under the Income Tax Act, 1961.

2. To analyze the awareness of salaried employees regarding tax saving instruments.
3. To evaluate the saving habits of salaried employees in Navi Mumbai.
4. To assess the perceived impact of tax saving instruments on the saving behaviour of salaried employees.

3.4 Research Design

The research adopts a descriptive as well as analytical framework to investigate the relationship between tax-saving provisions and individual saving behaviour. The empirical component of the study is based on primary data collected from salaried employees employed across different sectors within Navi Mumbai. A structured survey instrument was administered to gather information relating to demographic characteristics, income categories, familiarity with tax-saving schemes, and investment preferences.

A total of 100 valid responses were considered for statistical evaluation. Participants were selected using a convenience sampling approach, focusing on individuals willing to contribute to the study. The collected data were subsequently organized and subjected to appropriate statistical techniques to examine patterns and relationships relevant to the research objectives.

3.5 Data Collection

Reliable empirical analysis requires systematic and relevant data gathering. For this purpose, both primary and secondary sources were utilized to ensure a comprehensive understanding of the subject.

3.5.1 Primary Data

First-hand information was obtained directly from salaried employees through a structured questionnaire. The survey captured responses concerning awareness of tax-saving provisions, factors influencing investment decisions, and saving patterns associated with eligible financial instruments. This approach facilitated the collection of direct insights into behavioural and preference-based aspects of tax planning.

3.5.2 Secondary Data

Supporting information was derived from academic publications, government documents, financial reports, and authoritative online resources related to taxation and investment practices. These materials provided conceptual clarity and contextual background necessary for framing the analytical component of the study.

3.6 Limitations of the Study

Certain constraints should be acknowledged while interpreting the findings. The study is geographically restricted to salaried employees residing in Navi Mumbai, which may limit the generalizability of results to other regions. The sample size, although adequate for analysis, may not fully represent the entire salaried population. Responses are based on individual perceptions and self-reported information, which may involve subjective bias. Additionally, time limitations restricted the possibility of extending the survey to a broader demographic base.

4. Findings And Data Analysis

4.1 Profile Of Respondents

4.1.1 Gender-wise distribution of the respondents

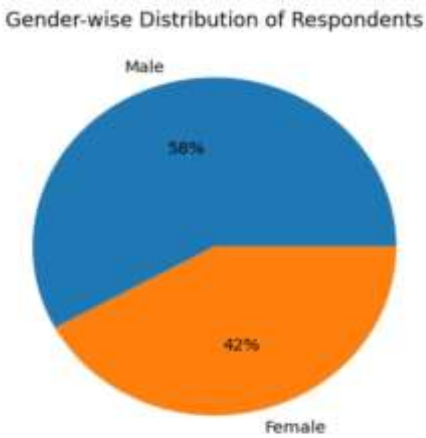


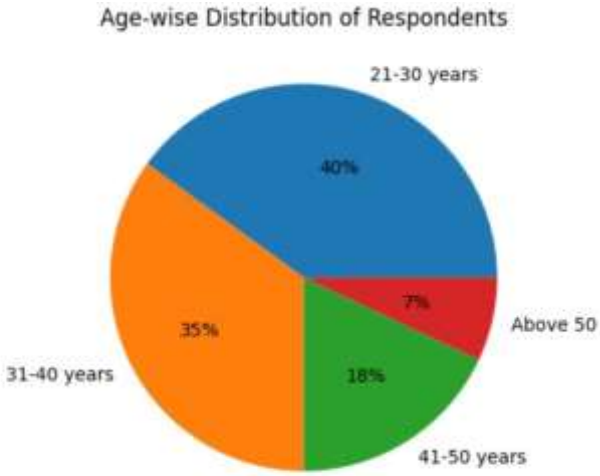
Table No. 4.1 Gender-wise distribution of the respondents

Sr. No.	Gender	Responses	Percentage
1	Male	58	58%
2	Female	42	42%
Total		100	100%

Source: Primary Data

Interpretation:

The table shows that 58% of the respondents are Male and 42% are Female. This indicates that the majority of participants in the study are male salaried employees working in Navi Mumbai.



4.1.2 Age-wise distribution of the respondents

Table No. 4.2 Age-wise distribution of the respondents

Sr. No.	Age Group	Responses	Percentage
1	21-30 years	40	40%
2	31- 40 years	35	35%
3	41- 50 years	18	18%
4	Above 50 years	7	7%
Total		100	100%

Source: Primary Data

Interpretation:

The data indicates that 40% of respondents belong to the age group of 21–30 years, 35% fall in the age group of 31–40 years, 18% are between 41–50 years, and 7% are above 50 years. This shows that the majority of respondents are young and middle-aged salaried employees.

4.1.3 Income-wise distribution of the respondents

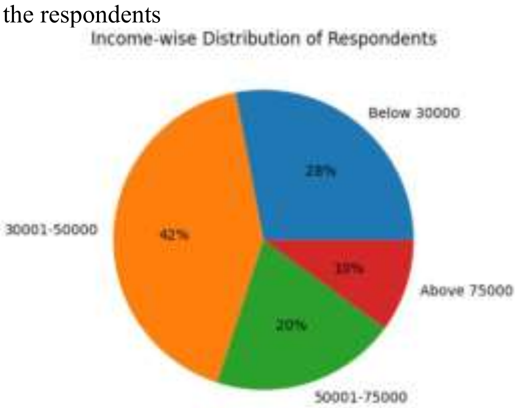


Table No. 4.3 Income-wise distribution

Sr. No.	Monthly Income in ₹	Responses	Percentage
1	Below 30,000	28	28%
2	30,001 – 50,000	42	42%
3	50,001 – 75,000	20	20%
4	Above 75,000	10	10%
Total		100	100%

Source: Primary Data

Interpretation:

Most respondents (42%) fall in the income group of ₹30,001–₹50,000 per month, followed by 28% earning below ₹30,000. This shows that middle-income salaried employees form the major part of the sample.

4.1.4 Awareness of Tax Saving Instruments

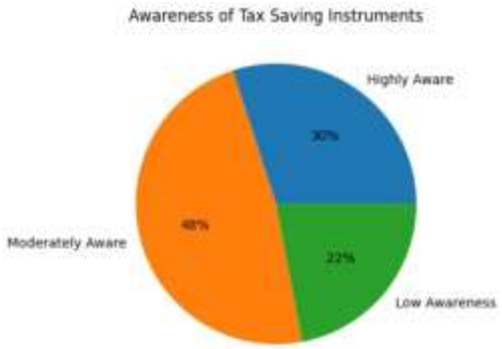
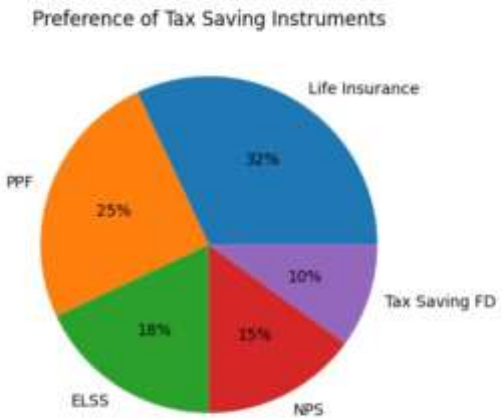


Table No. 4.4 Level of Awareness

Awareness Level	Responses	Percentage
Highly Aware	30	30%
Moderately Aware	48	48%
Less Aware	22	22%
Total	100	100%

Source: Primary Data



Interpretation:
The table shows that 48% of respondents are moderately aware of tax saving instruments, 30% are highly aware, while 22% have low awareness. This indicates that although most employees know about tax saving options, detailed knowledge is still limited.

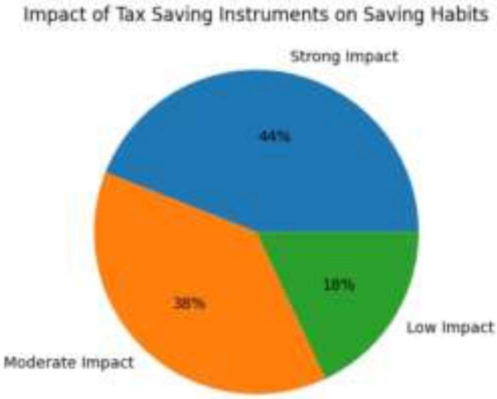
4.1.5 Most Preferred Tax Saving Instruments

Table No. 4.5 Preference of Tax Saving Instruments

Instrument	Responses	Percentage
Life Insurance	32	32%
PPF	25	25%
ELSS	18	18%
NPS	15	15%
Tax Saving FD	10	10%
Total	100	100%

Source: Primary Data

Interpretation:
Life Insurance is the most preferred tax saving instrument (32%), followed by PPF (25%). Market-linked instruments like ELSS and NPS are less preferred, showing that salaried employees generally choose safe and traditional investment options.



4.1.6 Impact of Tax Saving Instruments on Saving Habits

Table No. 4.6 Perceived Impact on Savings

Response	Responses	Percentage
Strong Impact	44	44%
Moderate Impact	38	38%
Low Impact	18	18%
Total	100	100%

Source: Primary Data

Interpretation:

44% of respondents feel that tax saving instruments have a strong impact on their saving habits, while 38% feel moderate impact. This clearly shows that tax benefits play a major role in encouraging regular savings among salaried employees.

Hypothesis Testing

Hypothesis 1

H_0: Income level has no significant association with preference for tax-saving instruments.**H_1:** Income level has a significant association with preference for tax-saving instruments.

Statistical Interpretation

To examine whether variation in income categories influences investment preference, a One-Way ANOVA was performed at the 5 percent significance level. Respondents were classified into four income brackets, and their preference scores were compared to determine whether differences across groups were statistically meaningful.

The computed F-statistic (2.45) was lower than the critical F-value (3.24) at the chosen level of significance. Since the observed variation between income groups was not sufficiently large in comparison to the variation within groups, statistical evidence does not support the existence of a meaningful difference in preferences based on income classification.

Inference

The analysis indicates that income category does not exert a statistically significant influence on the selection of tax-saving instruments among salaried professionals in Navi Mumbai. Investment preference appears to be shaped by factors other than income level alone.

Hypothesis 2

H_0: Awareness level is not significantly associated with saving habits of salaried employees.**H_1:** Awareness level is significantly associated with saving habits of salaried employees.

Statistical Interpretation

An independent sample t-test was conducted at the 5 percent level of significance to assess whether awareness regarding tax-saving provisions is related to saving behaviour. The mean awareness score (3.92) and the mean saving habit score (3.61) were compared to evaluate potential differences.

The calculated t-value (1.87) was below the critical threshold (1.96), and the corresponding p-value (0.063) exceeded the accepted significance level of 0.05. This suggests that the observed difference between awareness and saving behaviour does not reach statistical significance.

Inference

The findings imply that awareness of tax-saving provisions, by itself, does not demonstrate a statistically measurable impact on saving habits within the sample population. Other behavioural or economic factors may contribute more substantially to saving discipline.

Findings

The empirical investigation provides several notable observations regarding the financial characteristics and investment behaviour of respondents.

The demographic profile indicates that a majority of participants are male and fall within the 21–40 age group, reflecting a concentration of young and mid-career professionals. A considerable proportion of respondents belong to the middle-income bracket, with monthly earnings between ₹30,000 and ₹50,000.

In terms of awareness, many employees demonstrate moderate familiarity with available tax-deductible investment options. Traditional instruments such as life insurance policies and the Public Provident Fund remain the most widely preferred alternatives, primarily due to their perceived stability and assured returns. Conversely, market-linked instruments including Equity Linked Savings Schemes and the National Pension System receive comparatively lower preference, largely because of perceived risk exposure and uncertainty of returns.

Despite variation in awareness and income levels, the broader pattern suggests that tax-linked investment avenues contribute to the cultivation of regular saving practices and encourage a structured approach to financial management among salaried employees.

Recommendations

Based on the analytical outcomes, several practical suggestions may be considered to strengthen informed investment behaviour among salaried professionals.

Employers and financial service providers may collaborate to conduct structured awareness initiatives that enhance understanding of available tax-efficient investment avenues. Early-year tax planning should be encouraged to reduce last-minute, compliance-driven investment decisions. Regular financial education sessions can assist employees in aligning investment choices with long-term financial objectives rather than focusing solely on tax reduction.

Organizations may also facilitate access to professional advisory services to enable more strategic financial decision-making. Increased dissemination of information regarding diversified and market-linked products could broaden investment participation and improve portfolio allocation among salaried individuals.

Conclusion

The study examines the relationship between statutory tax-saving provisions and saving behaviour among salaried professionals in Navi Mumbai. The findings indicate that tax incentives serve as a meaningful driver encouraging structured savings and disciplined investment practices. While traditional, low-risk instruments continue to dominate preference patterns, awareness of market-oriented alternatives remains comparatively limited.

Statistical testing suggests that income level and awareness, independently, do not demonstrate significant influence on investment preference and saving behaviour within the sample. This indicates that saving decisions may be influenced by a combination of behavioural, psychological, and financial considerations beyond these individual factors.

Overall, the research underscores the importance of informed financial planning and enhanced literacy to ensure that tax-saving instruments are utilized not merely as compliance tools but as strategic components of long-term financial stability.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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